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BBA

A Study On Over All Activities & Performance Of Islami Bank Bangladesh Limited (IBBL)

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EAST WEST UNIVERSITY



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Letter of transmitted

*We express our thanks to **Islami Bank Training & Research Institute (IBTRA)** our course teacher, for entitle us the scope to be acquainted with the process of starting a new venture.*

This Report proved to be very effective for us since it is very much relevant with our Internship course. We tried our best to find out the valuable insight from the information provided by some managers, all bankers and etc. We also took helps from our textbooks & especially from our every desk's bankers. We also discussed about the report with some of our batch mates who are also assigned the same topics. We hope that our effort lead to any layman to become interested about the business management.

So, finally we want to pay our gratitude to our IBTRA for giving the greatest opportunity to work on such an Report, which will be very helpful in the future to build up with good carrier.

Thanking You.

Md. Nasimul Alam

Executive Summary

For an expanding economy, a developed and efficient banking system is indispensable. Among others, it helps transfer of financial resources from surplus units to deficit units and, hence, helps accelerate the pace of development by securing uninterrupted supply of financial resources to people engaged in numerous economic activities. The tremendous development that the world economy has experienced in the last few decades was contributed by several factors among which, growing institutional supply of loan able funds must have played the pivotal role. The role of banking is comparable to what an artery system does in the human body. Both commercial banks and other development financial institutions provide short-, medium-, and long-term credits to businesspersons and entrepreneurs who usually take the lead in ventures of economic development.

Institutional supply of credit has been made possible by a system of financial inter-mediation organized in a way where conventional banks collect small savings from the public by offering them a fixed rate of interest and advancing the loan able funds out of the deposited money to enterprising clients charging relatively higher rates of interest. The margin between these two rates is the bank's income. In addition, banks also provide many other services to the public for which it receives service charges.

Despite the outstanding contribution of the conventional banking system (interest-based), several ancient and modern economists are critical about its efficiency level. Some economists consider the role of interest in the conventional banking mechanism as a major negative factor that contributes to cyclical fluctuations in the economy (Minsky 1982). Specifically, the ineffectiveness of interest rate as a stabilization tool during the period of the Great Depression is a case to note. This eventually called for Keynesian prescription of government intervention (Keynes 1964). Similar concern was expressed in a story published in Newsweek regarding Henry Kissinger, the former Secretary of State of USA. To quote, "The instability has persisted and the uncertainty has continued. After going through the throes of painfully high levels of inflation, the world economy has experienced a deep recession and unprecedented rate of unemployment, complicated further by high level of real interest rates and unhealthy exchange rate fluctuations" (Newsweek 1983). More recent concern over the potential instability of the world monetary and financial system was expressed by Maurice Allais, a Nobel Laureate, who called for an urgent reform of the World Economic Order (Allais 1993, pp.13-16). Others vehemently oppose the argument for using rate of interest as a stabilizing tool in the economy (Saud 1980, p.88). This called for the emergence of a new system of banking capable of tackling new challenges that

the present world economy, particularly the financial sector, has been facing.

In response, though not exactly to that exigency but for quite a few other reasons, the second half of the twentieth century witnessed a distinctly separate line of thinking on banking. This was institutionalized at the end of third quarter and subsequently emerged as a new system of banking called **Islamic Banking** {also called Profit-Loss-Sharing Banking (PLS)}. The world has now been experiencing operation of as many as 250 Islamic banks and financial institutions in more than 50 countries. Muslim and non-Muslim.

There are religious as well as economic reasons, which have contributed to the emergence of PLS-banking as an alternative to its conventional counterpart. It is the prohibition of '*Riba*' in the Quran that, according to the proponents of the PLS-system, was the source of inspiration for establishing banks in line with Islamic *Shariah* (Muslehuddin 1987, pp.24-27). The basic intention behind establishing Islamic banks was the desire of Muslims to reorganize their financial activities in a way that do not contradict the principles of *Shariah* and enable them to conduct their financial transactions without indulging into *Riba* (Ahmad 1992). These writers consider rate of interest in the conventional banking mechanism synonymous to *Riba*, the term as used in the Quran [2:275; 30:39]. One of the reasons for this is that the outcome of the productive effort is uncertain, and so interest necessarily involves an element of *Gharar*, that is, uncertainty (Chapra 1985, p.64). On this religious ground, proponents of the PLS-system urge the Islamic community to avoid all transactions with institutions that are interest-based.

The economic reason derived from a verse of the Quran providing inspiration to devise an interest-free financial system has been substantiated in the way that interest, instead of increasing wealth, reduces it [30:34]. The primary reason of why the Quran has taken such a hard approach towards interest is that Islam stands for establishing a just economic system free from all kinds of exploitation (Chapra 1985). Further, Muslim economists consider depression and stagflation very often found in the capitalist world as an outcome of the financial system based on interest (Rahman 1976).

Thus, Islamic banking emerged as a response to both religious and economic exigencies. While religious exigency calls for avoiding any transaction based on interest, economic exigencies, on the other hand, provide a new outlook to the role of banking in promoting investment / productive activities, influencing distribution of income and adding stability to the economy. Islamic banking is thus perceived as an improved system in all dimensions



Introduction

Banks are financial institutions engaged in boosting national savings and capital formation as well as constitutes infrastructure through financing of various development projects. In performing multi-dimensional activities like borrowing and lending of money, drawing, collecting and discounting bills, transferring fund, safe deposit, vault/locker service, foreign exchange transaction etc. The worlds of banking is undergoing a transformation. Banking today has evolved into a highly competitive and sophisticated business in which technology increasingly provides the edge. Today's customers want service and information to be provided at all times and places.

All that described above express the importance and versatility of banking. From this sense of importance, banking activities evolved many years ago.

Most of the social scientists agree that the term 'bank' came from Italy. From the history of bank, we know that institutional banking started in the eleventh century. Today's banking has changed a lot from that banking because of socio-cultural changes. This change can be attributed to the social, cultural, geographical and political factors. Banking mainly got dynamism in its activity by the innovation and progress of technology. So now a days banking is not only business of dealing with money, but also patronizing people in the business and other day to day affairs.

As bank was essential component to rotate the wheel of economy, after the independence of our country, it became the duty of the Government to establish a banking system all over the country. Keeping it in the mind and according to the financial



philosophy, the Government established a banking system, which is known to us as nationalized banking system. After the independence Bangladesh Government established six banks named Sonali, Agrani, Rupali., Pubali and Uttara, which were of public ownership. As time changed, the Government philosophy also changed: especially market economy become familiar to the world. As a result, the Government thought that banks should be operated in private ownership. Because of the liberalization, in 1983, few private banks got chance to start their service in this land. From the judgement of getting indent form the Government, the City Bank Limited was actually the first ever private bank of Bangladesh. It was first generation private bank. After 1983, in our country, there were two types of banks: nationalized and private banks. With the passage of time, second generation and third generation private banks were established. Now, 52 scheduled banks are operating in our country. In the last decade, promoters tried to upgrade the banking system mainly from the manual system with the technology-based system. What were done after the independence upto late 80's, now become a matter of history. Islamic Bank Bangladesh Limited having 143 branches all over the country and one of the oldest private banking our country is always very aware of developing its banking system.

I have been posted in Islamic Bank immediately after completion of the foundation training course and have been advised by the honorable management to submit my practical learning in written form at different phases. Being stimulated by this constructive thought of the management I am submitting my paper for these phases mainly focused on the foreign trade under Islamic framework.

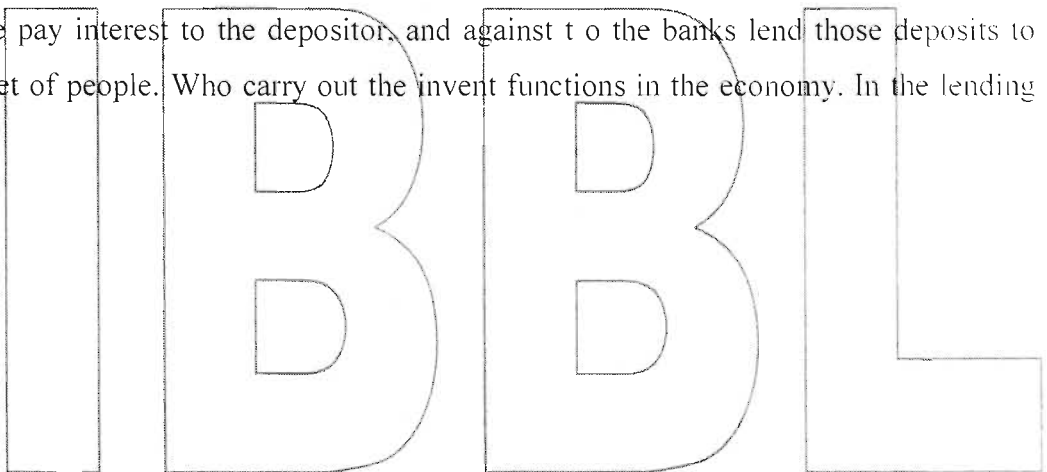


Background of the study

Marketing is the performance of business activities that directs the flow of a company's product and service to clients with a view to achieving the desired goal based on profit-concept & principle of marketing that are universally and significantly applicable in business. Business goal deals with a profit by pricing, promoting and distributing of products for which there are a market. Marketing plans are to be implemented with such an environment which determines controllable elements of marketing decisions; i.e. product, price, promotion & distribution, policies, laws, consumer behavior, level of technology and so forth.

A total business philosophy aims at improving profit performance by identifying the needs of each key customer segment and then designing and producing a product or service package that enables the company to serve selected customer segments more effectively than its competitors. The role of marketing is the management's window of the world. It is no longer market oriented rather the company must be market focused. It has to reshape its products or services to respond the observable mix and opportunities in the market place and to explore hidden market opportunities.

A bank's performance in terms of achieving its goal of profit maximization mostly depends on how its deposits and investment schemes are successfully marketed. The banks collect the saved fund of the people by offering various deposit schemes against which they pay interest to the depositor, and against to the banks lend those deposits to another set of people. Who carry out the invent functions in the economy. In the lending





process they charging interest to the borrowers. the difference between interest rates and charging interest rate is called ' spread' for the banks. Unless the banks can wisely popularize their different deposit schemes, there is a chance of being spread less. A bank offers mainly the following deposit schemes for the depositors to mobilize funds.

- ✦ Current Account
- ✦ Savings Account
- ✦ Fixed and Term Deposit Account
- ✦ Foreign Currency Deposit Account
- ✦ Savings Bond Account
- ✦ Deposit Pension Scheme Account
- ✦ Special Notice Deposit Account

A bank on the other hand, offers several investment schemes for the investors to invest its accumulated funds.

For deposit and investment purpose, banks categorize their customers into three groups: Present Clients, Potential Clients and General public. A bank provides services to all three categories. Present clients are direct customers while the potential and general public are to be classified as indirect customers.

The service that can be rendered to the customers lies within the functions of a modern bank. Now a days a bank generally renders the following services to the clients:

- ✦ Receipt of deposit from public under current, savings and fixed deposit account as a savings custodian.
- ✦ Granting loan/advance to the clients for business as well as for other purposes. Remittance facilities by issuing DD, TT, PO & MT.



- ✦ Issuance of Letter of Credit on behalf of the importer to facilitate import.
- ✦ Export facilities rendered/extended by negotiation of the export documents.

- ✦ Discounting bills and promissory notes.
- ✦ Buying and selling securities from the capital market.
- ✦ Buying and selling of foreign currency on behalf of the customers.
- ✦ Periodical payments of utility bills.
- ✦ Collecting proceeds of check, interest and dividend on security.
- ✦ Locker service for the valuable possessions of the clients.
- ✦ Electronic banking service like ATM, SWIFT and credit card services.

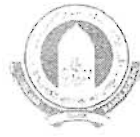
Sometimes banks act as an advisor to the client in connection with Export, Import and other financial matters. Bank can become an honorary financial partner of the customer. Customers desire to have the following facilities from a bank:

- ✦ Prompt service
- ✦ Late hour service
- ✦ Easy credit facilities
- ✦ Courtesy
- ✦ Helpful attitudes.

Banks categorize its direct customers in three categories:

1. Individual
2. Business
3. Government

Rationale of the study



In our economy, three types of scheduled commercial banks are in operation. They are:

1. Nationalized Commercial Banks
2. Local Private Commercial Bank
3. Foreign Private Commercial Banks.

Although commercial banks are involved in marketing of their services, all of them do not have organized and well functioning marketing department. They are marketing their services without advertising. All foreign banks and some local private banks in our country have organized marketing departments. Some other private banks are at the doorsteps of starting wide range marketing activities.

This study is centered with Islami Bank Bangladesh Ltd. Islami Bank Bangladesh Ltd. Is one of the best private commercial banks operating in the country. It retains the 1st position in CAMEL (Capital, Assets, Management, Earning & Liquidity) rating made by Bangladesh Bank. It holds the highest amount of liquidity among all banks and its ability to keep return on assets at 1.07% is well above the banking sector average of 0.33%. (Ref # The Financial Express, 28-6-1998). In "The Holiday" (issue 29-8-1997) commented that Islami Bank Bangladesh Ltd. Has created a unique precedence by improving its resnet and deposit positions substantially, making handsome profits and offering attractive dividends to its shareholders & depositors. As per Bankers' Almanac

Purpose

This report has been prepared as a part of my internship program. I was in Islami Bank for 11 weeks to have an experience about banking operations. The main purpose of this report is to minimize the gap of knowledge between real life and institutional. I made this report as a reflection of my internship program. I have acquired various concepts



Islami Bank Bangladesh Limited (IBBL)

WHAT IS IBBL?

Slogan of the Year 2004

PROMOTION OF QUALITY INVESTMENT AND REDUCTION OF NON-PERFORMING ASSETS.

Vision of IBBL

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

✦ The vision of the bank is to establish and maintain the modern banking techniques, to ensure the soundness and development of the financial system based on Islamic principles and to become the strong and efficient organization with highly motivated professionals, working for the people, based upon accountability, transparency and integrity in order to ensure the stability of financial system.

✦ The bank will encourage savings in the form of direct investment.

✦ It will also try to encourage investment, particularly in project which are more likely to lead to higher employment.

Mission

To establish Islami banking through the introduction of a welfare oriented banking system and also ensure equity and justice in the field of all economic activities, achieve balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less development areas of the country. To



encourage socio economic upliftment and financial services to the low-income community particularly in the rural areas.

Features of IBBL

- ✦ Perform all activities according to Islamic Shariah.
- ✦ Abolish interest from all financial transactions.
- ✦ To introduce welfare oriented banking system.
- ✦ To establish customer-banker relationship based on participation and profit.
- ✦ Follow the halal system in business.
- ✦ Invest in halal projects according to Islamic Shariah.
- ✦ Establishment of rules and insaf in business as well as in the economy.
- ✦ Perform the helping role to achieve the aim of Islamic Financial System.

Functions of IBBL

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

Objectives of IBBL

Islami Bank Bangladesh Ltd. carries out banking business and services based on Islamic Shariah & in collaboration with foreign participants and carries on all kinds of banking, financing, commercial, industrial and investment activities on interest-free and



profit-loss sharing basis with a view to attract foreign investment in Bangladesh and also introduce and undertake new areas of banking activities.

In addition to achieving the main objective of earning profit Islami Bank attempts to achieve the following objectives:

- ✦ All its activities are conducted on the interest free system according to Islamic Shariah.
- ✦ Investment is made through different modes permitted under Islamic Shariah.
- ✦ Investment-income of the bank is shared with the Mudaraba depositors according to a ratio to ensure a reasonably fair rate of return on their deposits.
- ✦ Its aims are to introduce a welfare-oriented banking system and also to establish equity and justice in the field of all economic activities.
- ✦ It extends socio-economic and financial services to poor, helpless and low – income group of the people for their economic upliftment, particularly in the rural areas.
- ✦ It plays a vital role in human resource development and employment generation, particularly for the unemployed youths.
- ✦ It's aim is to achieve balanced growth and equitable development of the country through diversified investment operations particularly in the priority sectors and in the less developed areas.
- ✦ To pave the way for Islamic economic system.
- ✦ To carry the welfare of Islamic economics to the total economy of the country.
- ✦ To make Zakat fund & ensure proper utilization of it.



Role And Contribution Of IBBL To Bangladesh Economy

Islami Bank Bangladesh Ltd. has many success stories of achievements. Some of these are:

- ✚ IBBL is the pioneer institution for introduction of Islamic Banking in Bangladesh.
- ✚ The success of IBBL has imbibed other sponsors at home and abroad to establish Islami Banks.
- ✚ IBBL has successfully mobilized from a large number of people who hither-to before did not make any deposit with interest based banks.
- ✚ The Islamic banking products, which are offered by IBBL through its 141 branches, located at important centers all over the country and spontaneous acceptance of those products by the people proves the superiority of Islamic Banking. The growth of employees and branches of the bank indicates this wide acceptance.
- ✚ IBBL's market share of deposit, investment and ancillary business is increasing steadily.
- ✚ IBBL handles more than 10% of the country's export import trade.
- ✚ Among the contemporary commercial banks, IBBL's position is first in respect of mobilization of deposit, deployment of fund and earning profit.
- ✚ Investment in industrial sector occupies nearly 33% of IBBL's investment portfolio. This is a unique example of industrial finance by a commercial bank.
- ✚ More than 115000 workers are employed in the industrial projects financed by IBBL. IBBL thus made significant contribution to solving unemployment problem of the country.

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IBBL



✚ Dhaka-the capital of Bangladesh being a Mega city has acute transport problem. IBBL has joined hands with an enterprising group to introduce a fleet of Premium Bus service, which has attracted the attention of the people of all strata and mitigated transportation problem of the city to some extent.

✚ IBBL has introduced several other welfare oriented investment schemes such as

✚ small transportation investment scheme, small business investment scheme etc.

✚ IBBL launched Rural Development Scheme for providing finance to drawn-trodden section of the population and area where no other commercial bank has extended any finance. IBBL's mission is to reach all the villages of the country as early as possible.

✚ IBBL has contributed a remarkable amount as income tax to the Government Exchequer on its net profit over the last 18 years.

✚ At the initiative and drive of IBBL, several Universities of the country have introduced courses on 'Islamic Banking & Finance'.

✚ IBBL has organized a good number of national and international seminars on 'Islamic Banking & Economics'. Importantly, IBBL sponsored a Seminar at Dhaka with a view to forming an 'Islamic Common Market'.

✚ Due to constant persuasion of IBBL the Government has granted license for establishment of an Islamic Insurance Company.

✚ IBBL has earned reputation in the country as a corruption free institution.

✚ IBBL is held in high esteem in the banking circle as a good managed bank.



↓ Under the leadership of IBBL, Bangladesh Association of Banks (BAB) has formed. This is a platform to ventilate the stand-points on banking issues of the private sector banks.

↓ IBBL has taken initiative to form an Association of Islamic Banks in Bangladesh for furtherance of the causes of Islamic Banking.

↓ IBBL has established a foundation called 'Islami Bank Foundation' for carrying out social welfare activities. The foundation has taken up a number of schemes covering the whole of Bangladesh.

Overall Performance Of IBBL at Every Division

Particulars	1999	2000	2001	2002	2003	2004
Authorized Capital	500.00	1,000.00	1,000.00	1000.00	3000.00	3000.00
Paid-up Capital	320.00	320.00	640.00	640.00	1920.00	2304.00
Reserves Fund	1,115.61	1,759.65	1,998.04	2852.07	3280.37	4329.92
Total Equity	1,659.26	2,671.06	2,993.24	3540.51	5266.47	6691.12
Total Deposits (Including bills payable) Gross	25,190.65	32,112.81	41,640.94	56,246.37	70,552.65	88,452.18
Total Investments (Including Inv in Share) Gross	22,198.26	29,563.20	37,648.75	49,185.92	62,755.90	83,893.63
Import Business	20,396.00	25,327.00	25907.00	33,788.00	46,237.00	59,804.00
Export Business	14,798.00	16,889.00	16082.00	16,673.00	21,738.00	29,192.00
Remittance	8,415.00	7,644.00	9879.00	14,670.00	16,668.00	23,669.00
Total Foreign Exchange Business	43,609.00	49,860.00	51868.00	65,131.00	84,643.00	112,665.00

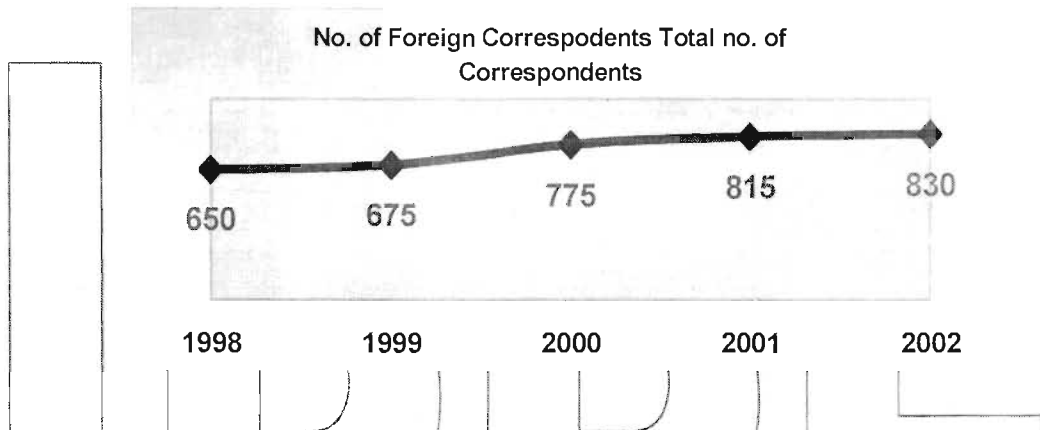


Total Income	1966.24	3,207.81	4,259.55	5,234.07.	6,841.29	8024.62
Total Expenditure	1,787.93	2,877.57	3,683.43	4,240.02	6039.28	5218.20
Net Profit before Tax	178.31	330.24	576.12	994.05	802.01	1842.99
Payment to Government (Income Tax)	92.79	184.62	275.52	450.55	373.25	146.53
Dividend	21%	25%	25%	25%	20% (Stock)	20% (Stock)
Total Assets (including Contra)	39,133.40	49,250.36	58,644.46	77,463.12	98,046.85	125,776.94
Total Assets (Excluding Contra)	31,314.82	39,362.27	49,551.87	65,080.12	81,704.74	102149.28
Fixed Assets	498.90	1,121.15	1,276.89	1725.53	2036.65	2552.70
No. of deposit account holder	922,232	1,116,006	1,355,053	16,51122	19,94266	22,91269
No. of investment account holder	92,003	139,738	176,138	1,96295	22,3954	26,4863
Cumulative amount of disbursement from RDS	326.75	714.93	1323.87	2,029.67	2923.60	4216.77
Outstanding Investment of RDS	140.3	272.6	371.1	432.1	570.9	789.97
RDS no. of A / C holder	41,115	74,315	100,470	107,225	130,465	163,465
RDS no. of village	1,062	1,365	2,214	2875	3700	4230
Number of Foreign Correspondents	675	775	815	830	840	850
Number of Shareholders	7,185	7,549	9,917	10,747	14,196	15,892
Number of Employees	2,302	2,685	3,060	3,297	3,752	4,261
Number of Branches	110	116	121	128	141	151
Book value per Share (Taka)	4781	6278	3519	4205	2181	2257



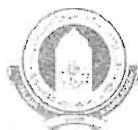
To give its clients the best services IBBL has increased its foreign correspondents with the passage of time. The growth of the number of foreign correspondents has increased in a steady manner. At the end of year 2003 the bank now has 840 foreign correspondent with 230 banks of 72 countries. The following graph depicts the scenario.

Year	1998	1999	2000	2001	2002
No. of Foreign Correspondents	650	675	775	815	830



As the bank's business volume increases and so the number of branches increases the number of employees of the bank is also growing. The human resource situation of the bank is as follows:

Year	1998	1999	2000	2001	2002	2003
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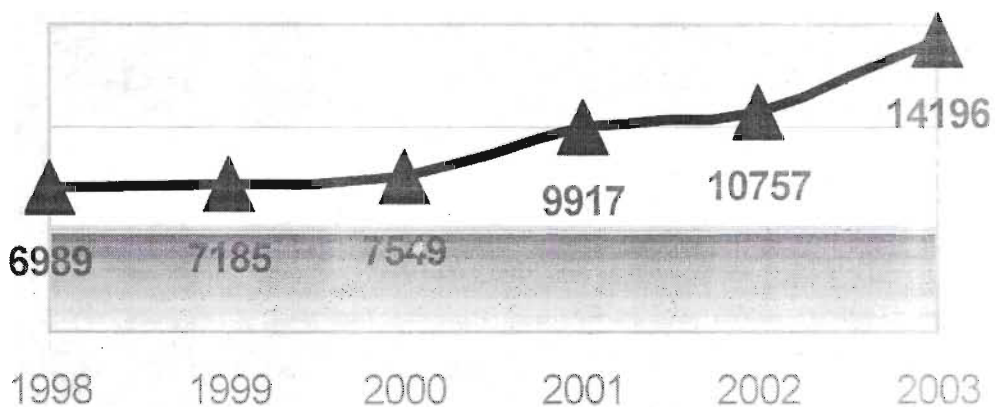


Total No. of Employees 2171 2302 2685 3060 3297 3752



Year	1998	1999	2000	2001	2002	2003
Total No. of Shareholders	2171	2302	2685	3060	3297	14196

Total no. of Shareholders

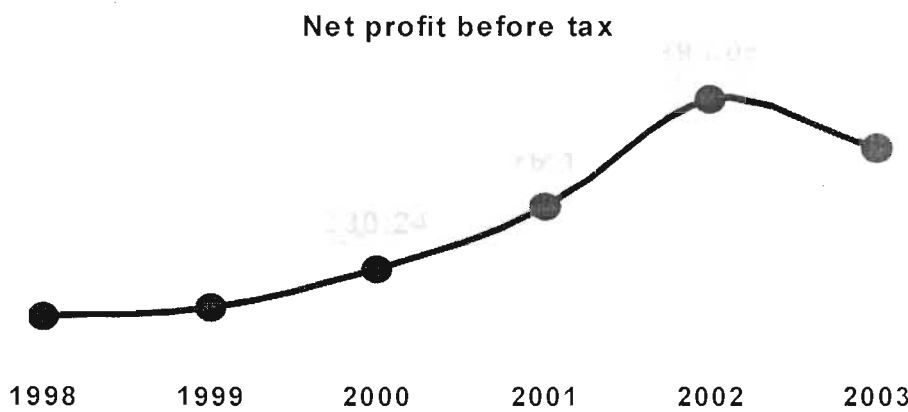




The success of a business is primarily measured by its profitability. In this respect IBBL has achieved a remarkable success. From the very beginning of its operation it is one of the most profitable banks of the country.

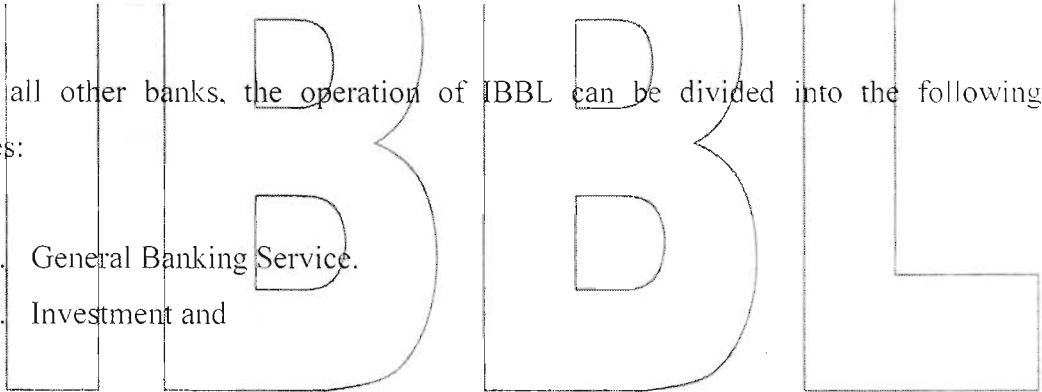
Year	1998	1999	2000	2001	2002	2003
Net Profit Before Tax	148.39	178.31	330.24	576.12	994.05	802.01

**In Million Taka



Like all other banks, the operation of IBBL can be divided into the following categories:

1. General Banking Service.
2. Investment and





General Banking

IBBL gives special importance on savings. It mobilizes deposits or savings through the operation of the following accounts:

- Al Wadia*
- Current account is conducted under this system.
- ✦ Any company, business enterprise, Government body, organization and trust or some persons can open this account.
 - ✦ By depositing only Tk. 500.00 this account can be opened.
 - ✦ Any amount of money can be deposited without any condition or regulation.
 - ✦ Checkbook is issued for this account.
 - ✦ Any amount of money can be withdrawn by check during banking hours.
 - ✦ No profit is distributed for this account; and the client is not liable to bear the loss.

Mudaraba Mode

Client- Saheb Al Mall Bank – Mudarib.

Under this arrangement, profit distribution is based on agreed ratio and loss (if any) will be borne by Saheb Al Mall.

Under Mudaraba mode there are many accounts:

- ✦ **MSA** - Mudaraba Savings Account.



- ✦ **MHSA** – Mudaraba Hajj Savings Account. A special account to facilitate performance of Hajj by low and middle income groups. 1 year to 25 years long.
- ✦ **MSB** – Mudaraba Savings Bond: % and 8 years term.
- ✦ **MSS** – Mudaraba Special Scheme.
- ✦ **MTDR** – Mudaraba Term Deposit Receipt: 3/6/12/24/36 months term.
- ✦ **MMPDS** – Mudaraba Monthly profit Distribution Scheme.
- ✦ **MMS** – Mudaraba Mahor Savings Account.
- ✦ **MSNA** – Mudaraba Short Notice Account.

Deposits are received through cash or by instruments and payment is done by instrument or document. General Banking operations are done by various sections of the bank. Their names and jobs are given briefly below –

Functions of cash section are –

- ✦ Procedure of Cash Receipt
- ✦ Procedure of Cash Payment
- ✦ Issuance of Check Book
- ✦ Passing, cancellation and payment of check.

Bills and Remittance section

Functions of this section are Issuance, payment and collection of :-

- ✦ Demand Draft (DD)
- ✦ Telegraphic Transfer (TT).



- ↓ Pay Order (PO)
- ↓ Outward Bill of Collection(OBC) &
- ↓ Inward Bill of Collection (IBC)

Clearinghouse Section

Functions of this section are –

Clearing and collection of instruments of different banks through central bank or its representatives.

Accounts Section

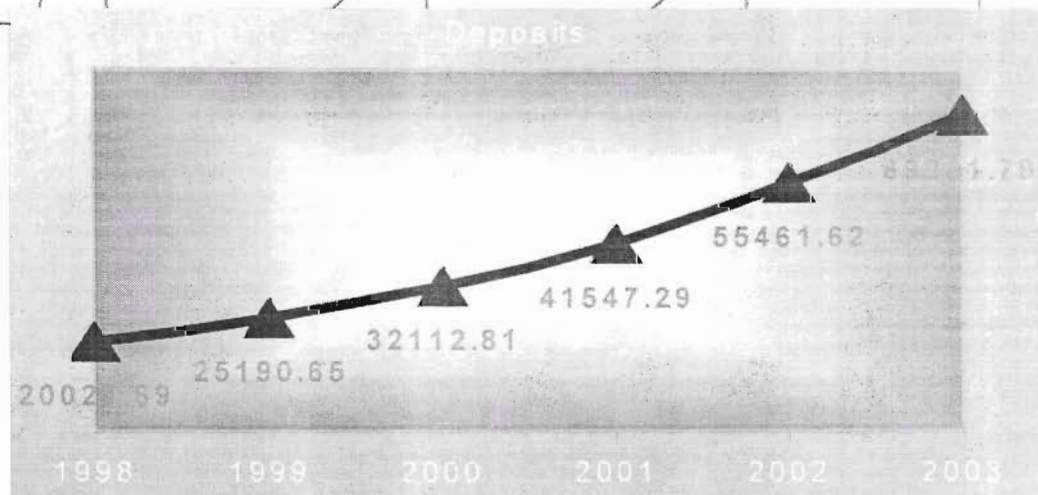
Functions of this section are –

- ↓ Book Keeping
- ↓ Maintenance of vouchers, sundry, suspense etc.
- ↓ Preparation of General Ledger & clean cashbook.

The amount of deposit is one of the main strength of a bank. And in this respect IBBL can claim its superiority over the other private commercial banks of the country. The amount of deposit is increasing day by day in a steady manner, which reflects the faith of the depositors to the bank and also the supremacy and popularity of the Islamic Banking system.

Total Deposits (including bills payable) in million Taka

Year	1998	1999	2000	2001	2002	2003
Deposits	20021.69	25190.65	32112.81	41547.29	55461.62	69941.79





investment

The special feature of the investment policy of the bank is to invest on the basis of profit-loss sharing system in accordance with the tenets and principles of Islamic Shariah. Earning profit is not the only motive and objective of the bank's investment policy rather emphasis is given attaining social good and in creating employment opportunities.

Different Modes of Investment

The bank conducts investment portfolio under three mechanisms:

Bai Mechanism (Trading Mode)

It includes the following-

Bai- Mudarabaha: it can be defined as a contract between a buyer and a seller under which the seller sells certain goods (permissible in Islamic Shariah and the law of the land) to the buyer at a cost plus agreed profit payable in cash or on any fixed future date in lump sum or by installment.

Bai-Muajjal: It can be defined as a contract between a buyer and a seller under which the seller sells certain goods (permissible in Islamic Shariah and the law of the land) to the



buyer at an agreed fixed price payable at a certain fixed future date in lump sum or within a fixed period by fixed installments.

Bai-Salam: It can be defined as a contract between a buyer and a seller under which the seller sells in advance certain commodity/product (permissible in Islamic Shariah and the law of the land) to the buyer at an agreed price payable on execution of the said contract to the buyer at a future date in exchange of an advanced price fully paid on the spot.

Bai-Istishna: It is a contract between a manufacturer/seller and a buyer under which the manufacturer/seller sells specific products after having manufactured, at an agreed price payable in advance or by installments within a fixed period.

Ijara Mechanism(Leasing Mode)

It includes the followings –

Hire Purchase/Ijarah: The term Ijara has been derived from the Arabic word Ajr & Ujrat, which means consideration, return, wages or rent. Ijara has been defined as a contract between two parties, the Hiree and Hirer under which the Hiree to a Hirer against fixed rent or rentals hires out a certain asset for a specific period.

Hire Purchase under Shirkatul Melk: It is a special type of contract. Actually it is a synthesis of three contracts – shirkat, ijara and sale. Shirkat means partnership. Shirkatul Melk means share an ownership. Under this arrangement the Hiree and the Hirer becomes co-owner of the asset under transaction proportion to their respective equity participation.

IBBL



Diagram : Different modes of investment of IBBL

Investment Under Special Schemes of IBBL

IBBL being welfare oriented banking institution has now designed and implemented thirteen investment schemes keeping in view the needs of different sectors and various sections of people for their socio-economic upliftment and to improve the quality of their life. All these schemes so far introduced have gained popularity and received a good response of the general masses and is also being appreciated by the intellectual classes of the society.

Pursuant to the investment policy adopted by the bank a 7-year perspective investment plan has been drawn-up and put in to implementation. The plan aims at diversification of the investment portfolio by size, sector, geographical area, economic purpose and securities to bring in all the sectors of economy and all types of economic groups of the society within the fold of bank's investment operations.

Accordingly the plan envisages composition of the investment portfolio with

- ✦ 2.50% for agriculture and rural investment.
- ✦ 18% for industrial term investment.
- ✦ 13% for industrial working capital.
- ✦ 10% for housing and real estate.
- ✦ 4% for transport and communication.
- ✦ 0.50% for electricity, gas, water and sanitation services.



↓ 2% for storage.

↓ 43% for import, export, local trade and trade related activities.

↓ 1% for poultry and dairy.

↓ 2% for rural development scheme

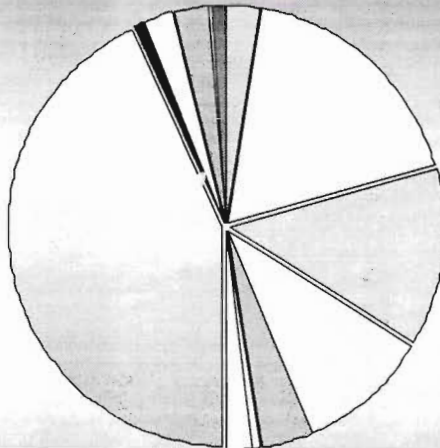
↓ 2.50% for other special schemes

↓ 0.50% for micro industry.

↓ 1.00% for other productive purposes.

IBBL

Investment Portfolios of IBBL in 2002

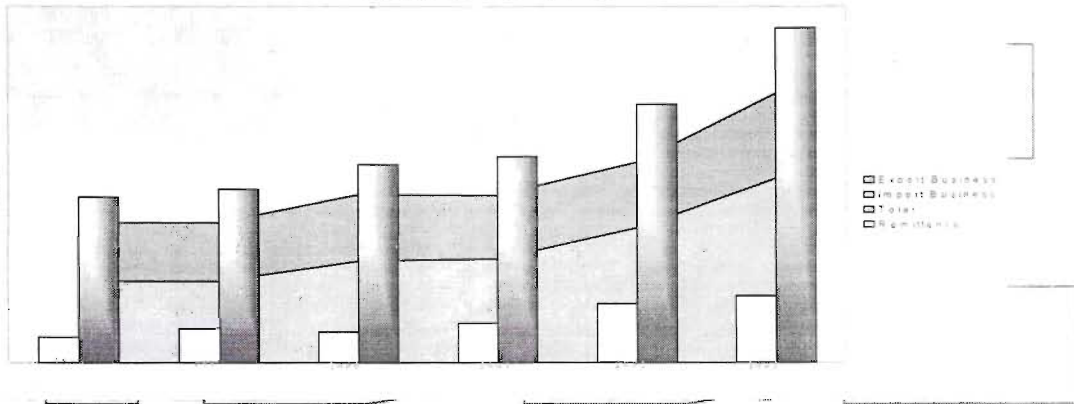


- | | | |
|---|---|---|
| <input type="checkbox"/> Agriculture & rural investment | <input type="checkbox"/> Industrial term investment | <input type="checkbox"/> Industrial working capital |
| <input type="checkbox"/> Housing & real estate | <input type="checkbox"/> Transport & communication | <input type="checkbox"/> Utility services |
| <input type="checkbox"/> Storage | <input type="checkbox"/> Import, export & trade | <input checked="" type="checkbox"/> Poultry & dairy |
| <input type="checkbox"/> Rural development scheme | <input type="checkbox"/> Other special Schemes | <input type="checkbox"/> Micro industry |
| <input checked="" type="checkbox"/> Others | | |



Foreign Exchange Business of IBBL At a Glance:

Total Foreign Exchange Business				
Year	Import Business	Export Business	Remittance	Total
1998	20238.30	14894.30	6360.60	41493.20
1999	20396.00	14798.00	8415.00	43609.00
2000	25327.00	16889.00	7644.00	49860.00
2001	25907.00	16082.00	9879.00	51868.00
2002	33788.00	16673.00	14670.00	65131.00
2003	46237.00	21738.00	16668.00	84643.00



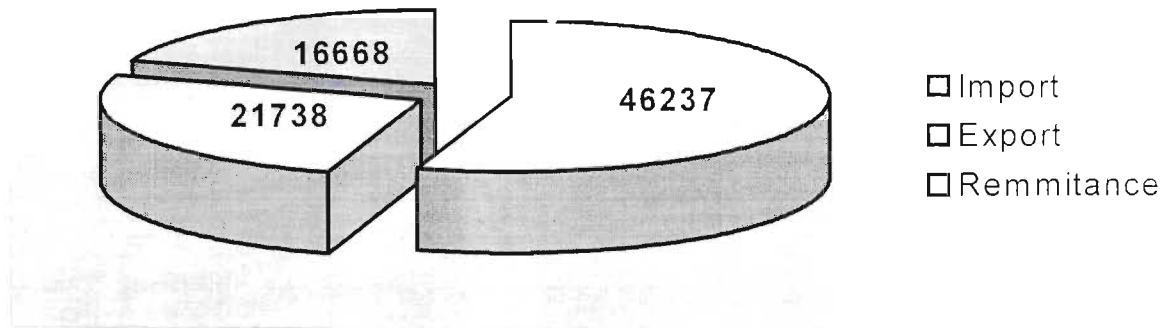
** In million Taka

Foreign Exchange Business of IBBL in the year 2003

Import	46237
Export	21738



Foreign Exchange Business of IBBL in the year 2003



Problems and Prospects of Foreign Trade

In the following paragraphs, I will discuss the relevant problems and prospects regarding foreign trade operations in Bangladesh.

Problems of Foreign Trade:

- Since foreign trade indicates exchange of goods and services between two countries, so it should occur in a smooth and balanced way. Otherwise, the balance of trade position of a country will be hampered. Again, if the amount of import exceeds the amount of export then this particular country will be converted in to a trading nation. Bangladesh is now standing in front of such a problem. If we don't move to industrialization we will not be able to overcome the problem of unemployment. An



industrialized nation can utilize its total manpower effectively while a trading nation can not, because it acts only as a middle man, not involves in the total production process. Industrialization will help us to promote our export base and to earn foreign currency.

- When an importer imports certain commodities from another country, he has to undergo various sequential steps; otherwise, he would not be able to import the desired goods from the particular country. It's a time consuming as well as cost oriented matter. The importer adds this value of time and cost into his production cost, so the product price increases. While on the other hand, if a person can import the same goods illegally from another country it would easier for him to market those products. No doubt cheaper products will create a demand in the market than the legally imported products.
- Bangladesh is a densely populated country, so we have an abundant supply of manpower. In this age of automation, not only manpower but skilled manpower is needed who are able to cope with. The productivity of age-old machines are not enough compared with the automated ones. If our industry base were capital oriented instead of labor oriented we would be able to produce more quality product within a short period of time. Sufficient supply of capital will ensure the setup of industrialization, which is very much needed now a day to compete. While others are using automated machinery how long can we expect to go only with our manpower?
- If the foreign exchange earnings yield from diversified fields then it would be easier to minimize risk resulting from one uncertain field. But in Bangladesh we are earning foreign exchange only from a limited number of sectors. Only RMG contributes almost 75% of the total foreign exchange earnings though in this sector also we are



not involved from the root of production process, we are just performing the task of tailoring. Therefore, the foreign export base should be decorated in such a way so that all sectors of the economy can contribute significantly.

- In this sector, Bangladesh has the limitation of skilled manpower, who can understand and handle the foreign exchange dealings well. Performing the foreign exchange activities is a very tough job because it involves proper communication with the client, various banks of the country as well as abroad. A single error may cost thousands of dollars. This is a unique field in banking sector. The banker has to well aware of the various trades, import & export policies of the Government. He also has to aware of the existing foreign currency exchange rate and the bilateral relationship between Bangladesh and other relevant countries. So the banker should be well trained and groomed to cope with this situation.
- We have a very limited export base. Above all we don't have the sufficient supply of raw materials we use in the production process. If we had the local raw materials, we would be able to use them in the production process. But unfortunately we have to import the raw materials required in various production process. As a result, production cost increases and consumers have to spend more to avail that particular product. On the other hand, we can think in another way, if the local raw materials were available, we would be able to export goods at a lower price than the competitors. Then certainly or exported goods would have a higher demand in the international market and consequently we would be able to earn foreign currencies.
- Policy and structure are an integral part of any kind of operation. It will suggest us how to perform the operation. But if the policy continues to change frequently it is not easy to plan and perform also. This is the main problem of our country. With the

IBBL



changes of Government new policies are formed, which is very difficult to cope with. It is hard for the business organizations and businessmen to settle themselves. They are always deviated from the old track, and have to run after the new track. So keeping in mind the interest of the country, there should be such a steady policy that is helpful for all.

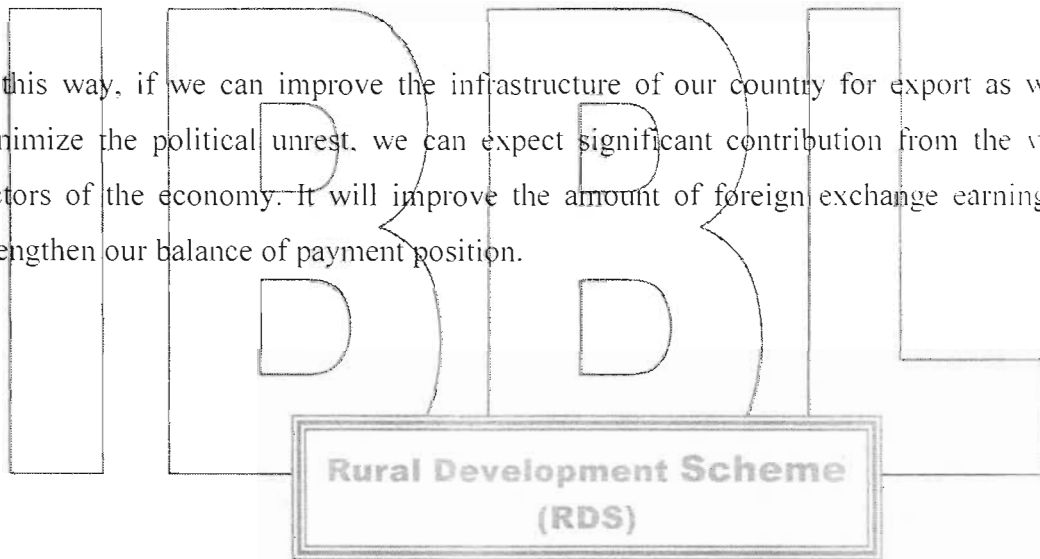
- Whenever an importer comes to the bank to issue a L/C in his favor, he has to deposit a certain amount, known as “L/C margin”. After receiving of the export documents from the exporter the importer pays the rest amount. But up to this time this L/C margin amount is kept by the bank without giving any return to the importer, so it is a loss for the client. He could invest this money anywhere else and could earn some return. The importer adds this loss with his production cost so the product price goes up that has to borne by the ultimate customers.
- After 2005, there will be no quota facility for RMG. Bangladesh have to then produce quality goods (fabrics & other accessories) at a lower price in the local market to survive. So we have to plan and work hard to improve our backward linkage facilities from now on, otherwise it would be too difficult to compete with our competitors.
- From the geographical viewpoint, Bangladesh is not located in such a place to trade vigorously. We have encompassed by India from three sides. And India enjoys a strong industrial base compared to us. Due to economy of scale India can produce the same quality products at a cheaper price. In the open market economy, the Indian products will cover our market. People will prefer the Indian products because of the lower price, and consequently the demand for our local product will diminish. Entrepreneurs will loss their interest in establishing local industries because of the



But we lag behind in packaging. Due to lack of proper packaging facilities we are losing the international market.

- In the leather sector we are performing moderately well, but still we have a chance to contribute more in the country's foreign exchange earnings from this sector. In most of the cases, we export finished leather, but we can improve our technology and setup industry to produce high quality leather products.
- We also have a good opportunity in the jute sector. Its production cost is very low compared to its market value in the international market. Small and cottage industries should be built up to boost up the production in this sector.
- We have a great prospect in the IT sector. Due to the absence of stable Government policy and lack of infrastructure development, we are not performing as expected. Our IT experts are performing very well in the abroad but due to our lack of prudence, we have not been able to have these IT experts to facilitate the process of software exportation.

In this way, if we can improve the infrastructure of our country for export as well as minimize the political unrest, we can expect significant contribution from the various sectors of the economy. It will improve the amount of foreign exchange earnings and strengthen our balance of payment position.





Bangladesh with its 60% people living below poverty line and 30% living in absolute poverty is suffering from acute rural-urban economic disparity coupled with illiteracy, lack of proper health and sanitation facilities. The country's economy is basically an agrarian one with vast majority living in rural areas. The agricultural sector is unable to provide any further scope of employment resulting in influx of rural population towards urban areas. Rural areas are characterized by stagnant agriculture and scanty industries. Underemployment and unemployment is the regular feature particularly in rural areas. The vast human resources have remained unutilised due to lack of education and training and also concerted efforts directed towards the rural economy. This results in uneven distribution of income which causes serious set back in balanced geographical growth as well as growth of GDP. Islami Bank Bangladesh Limited has been founded with the major objective of establishing Islamic economy for balanced economic growth by ensuring reduction of rural-urban disparity and equitable distribution of income.

In view of the above, Branches of the Bank have been encouraged to invest their deposits in their respective areas and in particular for the economic upliftment of the rural people.

Accordingly, a Scheme in the name and style of 'Rural Development Scheme' has been introduced to cater to the investment needs of the agricultural and rural sector to create opportunity for generation of employment and raising income of the rural people with a view to alleviate poverty.

Objectives:

The main objectives of the Scheme are:

- ✦ To extend investment facilities to agricultural, other farming and off-farming activities in the rural areas.
- ✦ To finance self-employment and income generating activities of the rural people, particularly the rural unemployed youths and the rural poor.
- ✦ To alleviate rural poverty through integrated rural development approach.
- ✦ To extend investment facilities for hand tube-wells and rural housing, keeping in view the needs of pure drinking water and housing facilities of the rural dwellers.
- ✦ To provide education and Medicare facilities to the down trodden people



Target Area

Initially the Scheme was started as a Pilot Scheme in rural areas of certain districts under the direct supervision of the nearby Branches of Islami Bank Bangladesh Limited. The Scheme is being gradually extended to other districts/areas through different Branches of the Bank.

Command Area & Baseline Survey

Each designated Branch will select villages initially within a radius of 10 kilometres of the Branch. The criteria to be followed in selecting a village should be the following:

- ✦ Easy communication
- ✦ Availability of agriculture and other off-farm activities;
- ✦ Abundance of low-income people;
- ✦ Predominance of Islamic values and ideas.

After initial selection of the area, Branch will conduct detailed Baseline Survey to identify the various economic activities and types of people residing in the command area. Besides in selecting villages the concerned Branch should ensure that at least 250 clients are available in 5 clustered villages and the investment will be financially viable.

Target Group

- ✦ Farmers having land holding of maximum 0.50 acres.
- ✦ Sharecroppers with consent from the landowners.
- ✦ Persons engaged in off-farm activities having no land or land up-to-maximum 0.50 acres.
- ✦ Persons/farmers permanently residing in the selected villages.

Persons having derelict pond will be eligible for investment for re-excavation and fish cultivation.



↓ Destitute women and distressed people will be provided investment for mulch cows/poultry birds/ducks/goats etc. and other suitable off-farm activities for raising their supplementary income.

↓ Persons having liabilities with other banks/institutions including defaulters will not be eligible for the investment under the Scheme.

Purpose	Period	Maximum Ceiling
Production Need:		
Production of 21 types of crops	1 year	Tk.10.000.00
Pond Fishing (Maximum 3 years. But the period of investment will be decided on the basis of the nature of fish cultivated)	3 years	Tk.25.000.00
343 kinds of off- farm activities	General	Tk.20.000.00
	Special	Tk.50.000.00
Irrigation charges	1 year	Tk.5.000.00 Depending upon the requirement.
Agricultural and irrigation equipments	3 years	Tk.25.000.00 Net investment of the Bank (minimum 10% down payment to be paid by the client)
Rickshaw / Rickshaw-van and other rural transport	2 years	Actual price to maximum Tk. 5.000.00
Other Needs:		
Hand tube-well for pure drinking water	3 years	Tk. 3.000.00
Construction materials for house	3 years	Tk.15.000.00



Security Requirements

Generally, security will not be required against investment under the Scheme as entire Scheme has been drawn taking into account the social welfare objective of the Bank for upliftment of the socially down-trodden and economically backward and weaker section of the population of the society. However, Group discipline should be strictly followed and complied with so that only the right persons are selected and included as member of the Group.

In case of investment for purpose of pond fishery, special ceiling in off-farm activities and agricultural and irrigation implements, Branch should obtain after due verification, of land documents of the clients and keep their documents as collateral by way of simple deposit of title deeds through a memorandum of deposit executed by the client / owner.

Besides, in all cases, each member of the Group will give personal guarantee for the other members of the same Group and the members will be jointly and severally liable and responsible for payment of investment.

On the basis of the list submitted by the field officer, the Investment Committee of the Branch will carefully scrutinise the applications and sanction the investment at the Branch level. The members of the Committee will consist of Manager, Project Officer and the field officer. After sanction of the investment the Branch will complete documentation formalities and then disburse the amount with the help of the Investment Officer and field officers. In all the cases Branch must ensure strict adherence to the banking and Shariah norms.

Modes of Investment

The Branch will select any of the following modes depending upon the sector and purpose of investment :

A. Bai-Muajjal TR



Under this mode Branch will sell goods to the client under deferred payment basis. The payment will be made in instalment/ lump sum on predetermined future date.

B. Hire-Purchase Shirkatul Meelk (HPSM) or Leasing

Under this mode Branch may supply implements/equipments on rental basis. The ownership of the equipment will be with the Bank but the client will be authorised to possess the equipment for certain period. Under HPSM the client will have to contribute minimum 10% of the cost price of the equipment as his equity and the rest will be invested by the Bank towards payment of the purchase price to the supplier. Under leasing system 100% cost price of the equipment will be paid by the Bank while the client deposits down-payment of equipment equivalent to 2 instalments prior to availing the investment which will be kept as his equity and will be refunded at the expiry of lease term.

C. Mudaraba

Under this mode Branch will supply capital to the Mudarib (agent) for conducting business, purchase of inputs, commodities etc. to be repaid on future date. The profit is to be negotiated and will be determined so as to ensure minimum 12% rate of return.

D. Musharaka

Under this mode the Bank will extend investment on profit and loss sharing basis. In this case, Branch should receive investment proposal on a very selective basis with prior discussion with the Zonal Head. The capital sharing ratio will be maximum 80 : 20 between Bank and the client. The profit is to be negotiated and will be determined so as to ensure minimum 12% rate of return.

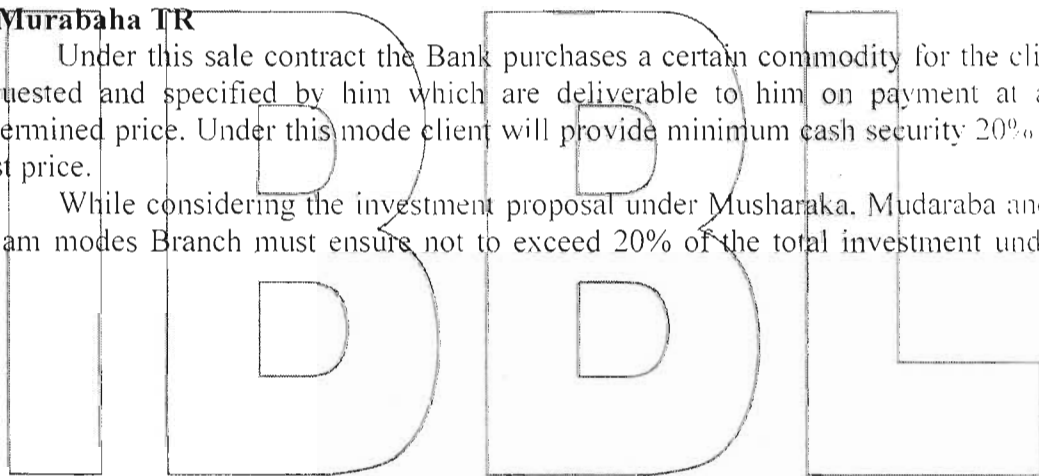
E. Bai-Salam

Under this mode Branch will execute advance purchase contract with the client and make payment against purchase of product, which is under process of production. A Bai-Salam contract will be executed before making any investment showing price, quality, quantity, time, place and mode of delivery. The profit is to be negotiated and will be determined so as to ensure minimum 12% rate of return.

F. Murabaha TR

Under this sale contract the Bank purchases a certain commodity for the client as requested and specified by him which are deliverable to him on payment at a pre-determined price. Under this mode client will provide minimum cash security 20% of the cost price.

While considering the investment proposal under Musharaka, Mudaraba and Bai-Salam modes Branch must ensure not to exceed 20% of the total investment under the





OBJECTIVES OF THE REPORT:

The purposes of this report are given below:

This is the fulfillment of the requirement of the project program.

To gather the overall knowledge about Islamic banking operation.

To acquire practical knowledge about overall activities of IBBL.

To know the performance of IBBL in every aspects.

To highlight the problems and necessary recommendations to overcome the problems.

METHODOLOGY OF THE REPORT:

The methodology of the report includes direct observation, oral communication with the employees of all departments of Local Branch and Head Office, studying files, circulars etc and practical experience. This report is basically qualitative in nature. But the report includes both quantitative as well as qualitative data. In this report no hypothesis is considered.

Sources of Data:

This report contains both primary and secondary data. The theoretical development of the report has done collecting information from various publications. Primary data are collected from the respective officers of various desk and files study. The secondary sources are given bellow:-

Annual report of Islami Bank Bangladesh Limited of 2000 to 2004

Islami Bank Bangladesh Limited, Parachuting

Periodical publication of Bangladesh Bank

Different publication regarding various activities of Islami Bank Bangladesh Limited.
Some articles Web site of IBBL.

Data Analysis:

The primary and secondary data are edited first. These data were analyzed and processed by different established methods and statistical tools. When I prepared the report I discussed with the respective personals. The necessary improvements and changes are done according to their opinion. I find that in respect of foreign exchange transaction this branch has a good image among others braches of IBBL. This branch applies always necessary developments, improvements and changes in



Limitation of the report:

Every thing has its limitation. Our report is not also out of weakness. For some certain causes, I could not effort to conduct our report properly. I have considered the following causes are the limitations of the study.

Learning overall activities and performance of a bank with in 2months is really difficult.

Bank has some policy for not disclosing some data and information for obvious reasons that could be very much essential.

Employees are so much busy with their regular activities and can not provide enough time for me.

INTRODUCTION

Bangladesh is one of the largest Muslim countries in the world. The people of this country are deeply committed to Islamic way of life as enshrined in the Holy Qur'an and the Sunnah. Naturally, it remains a deep cry in their hearts to fashion and design their economic lives in accordance with the precepts of Islam. The establishment of Islami Bank Bangladesh Limited on March 13, 1983, is the true reflection of this inner urge of its people, which started functioning with effect from March 30, 1983. This Bank is the first of its kind in Southeast Asia. It is committed to conduct all banking and investment activities on the basis of interest-free profit-loss sharing system. In doing so, it has unveiled a new horizon and ushered in a new silver lining of hope towards materializing a long cherished dream of the people of Bangladesh for doing their banking transactions in line with what is prescribed by Islam. With the active co-operation and participation of Islamic Development Bank (IDB) and some other Islamic banks, financial institutions, government bodies and eminent personalities of the Middle East and the Gulf countries, Islami Bank Bangladesh Limited has by now earned the unique position of a leading private commercial bank in Bangladesh.

What is Islamic Banking

Islamic banking has been defined in a number of ways. The definition of Islamic bank, as approved by the General Secretariat of the OIC, is stated in the following manner. "An Islamic bank is a financial institution whose status, 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” (Ali & Sarkar 1995, pp.20-25). Shawki Ismail Shehta viewing the concept from the perspective of an Islamic economy and the prospective role to be played by an Islamic bank therein opines: “It is, therefore, natural and, indeed, imperative for an Islamic bank to incorporate in its functions and practices commercial investment and social activities, as an institution designed to promote the civilized mission of an Islamic economy” (Ibid). Ziauddin Ahmed says, “Islamic banking is essentially a normative concept and could be defined as conduct of banking in consonance with the ethos of the value system of Islam” (Ibid).

It appears from the above definitions that 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, this is a banking system whose operation is based on Islamic principles of transactions of which profit and loss sharing (PLS) is a major feature, ensuring justice and equity in the economy. That is why Islamic banks are often known as PLS-banks.

Islami Bank Bangladesh Limited (IBBL)

The first interest free Islamic Shariah based bank in Bangladesh incorporated on 13 March 1983 as a public limited company under the Companies Act 1913. The bank obtained license from Bangladesh bank on 28 March 1983 and started banking operations on 30 March 1983 through its main branch at Dhaka, which was formally inaugurated later, on 12 August 1983. The bank is a joint-venture enterprise of 22 private sponsors of Bangladesh, the government of Bangladesh, Islamic Development Bank, and 13 banks and financial institutions of the oil-rich Middle Eastern Muslim Countries.

IBBL started its banking operations with an authorized and paid up capital of Tk 500 million and Tk 67.50 million respectively. The capital is divided into ordinary shares of Tk 1,000 each. The paid up capital of the bank was enhanced to Tk 640 million in 2001. Of the 79,500 ordinary shares of the bank in 1985, foreign sponsors, including the Islamic Development Bank (IDB), owned 56,000, while 23,500 shares were owned by local sponsors and the general public. investment corporation of bangladesh was allocated 20% of bank's issued capital, but the corporation subscribed shares of Tk 0.5 million only. The bank is listed with both Dhaka and Chittagong Stock Exchanges.

IBBL conducts businesses on the basis of Islamic Shariah and the modes of transaction include Mudaraba, Musharaka, Ijara, Purchase (under Shirkatul Malya)



Bai-Murabaha, Bai-Muajjal, and Bai-Salam. The bank also provides all other kinds of commercial banking services to the customers observing the provisions of the Bank Company Act 1991, Bangladesh Bank's directives and the principles of Islamic Shariah.

A 23-member board of directors oversees the aggregate business affairs of the bank. The executive president is its chief executive officer. In December 2001, the bank had 121 branches and a total of 3,060 employees including 145 executives. There is a 10-member Shariah Council for the bank to ensure the compliance of Islamic rules in all spheres of its banking and financial activities. IBBL has a training as well as a research institute in Dhaka.

The volume of deposits of the bank in December 2000 was Tk 31,536.5 million. Deposit-mix included Mudaraba savings deposits, Mudaraba special notice deposits, Mudaraba term deposits ranging from 6 months to 36 months, Mudaraba Hajj savings deposits, Mudaraba special savings (pension) deposits and Mudaraba savings bond of 5 and 8 years.

The investments (lending) of the bank are partnerships, profit sharing, capital in affiliated projects, real estates, housing, transport, agriculture, export-imports, trade and commerce and other economic activities. Such investments in December 2000 were Tk 29,529 million. In addition, the bank has investments in other income generating assets like company shares and such investments totaled Tk 34.15 million. The bank lends money to its directors and executives (insider lending) under Shariah principles. As of December 2000, investments (lending) of the bank in industrial sector covered 174 projects in garments sector, 91 in textiles, and 174 in other industries. Total investments of the bank in the industrial sector stood at Tk 9,849.80 million on 31 December 2000. With the increases in the bank's investments (lending), the amount of non-performing classified investments had also increased over time. Total classified loans amounted to Tk 2,844.3 million (9.63% of total) in December 2000. Total assets of the bank excluding off-balance-sheet items were valued at Tk 39,366.09 million on 31 December 2000, when the off-balance-sheet items accounted for Tk 8,914.24 million. The volume of foreign exchange business handled by the bank in 2000 was Tk 49,860.00 million, which comprised import financing (Tk 25,327.00 million), export servicing (Tk 16,889.00 million) and remittances (Tk 7,644.00 million). The bank has correspondent relationships with approximately 750 foreign banks and financial institutions.

The bank earned net profits of Tk 330.24 million in 2000. During the same year, it received Tk 2,530.2 million as dividends/profits from its profit-loss sharing investments (lending) and it paid Tk 1,846.9 million on its deposit holdings. Total operating incomes of the bank in the year stood at Tk 3,207.81 million and its total operating expenditures were Tk 2,530.54 million.



Highlights of IBBL

All activities of the bank are conducted on interest free system according to Islamic Sahriah principle.

Investment is made through different modes as per Islami Shariah.

Investment income of the bank is shared with the mudaraba fair rate of return on their deposits.

It's aims are to introduce welfare oriented banking system and also to establish equity and justice in the field of all economics activities.

It extends socio-economic and financial to individuals of economic background with strong commitment in rural uplift. It plays a vital role in human resources development and employment generation particularly for the unemployed youths.

It's portfolio of investment and investment policy have been specially tailored to active balanced growth equitable development through diversified investment operations particularly in the priorities sectors and in the less developed areas of the national economy.

Functions

The functions of Islami Bank Bangladesh Limited are as under:

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

Mission

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



Vision

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

Our goal is to establish and maintain the modern banking techniques, to ensure the soundness and development of the financial system based on Islamic principles and to become the strong and efficient organization with highly motivated professionals, working for the benefit of people, based upon accountability, transparency and integrity in order to ensure the stability of financial systems.

We will try to encourage savings in the form of direct investment.

We will also try to encourage Investment particularly in projects which are more likely to lead to higher employment

Aims and objectives

- To conduct interest-free banking.
- To establish participatory banking instead of banking on debtor-creditor relationship.
- To invest on profit and risk sharing basis.
- To accept deposits on Mudaraba & Al-Wadeah basis.
- To establish a welfare-oriented banking system.
- To extend co-operation to the poor, the helpless and the low-income group for their economic upliftment.
- To play a vital role in human development and employment generation.
- To contribute towards balanced growth and development of the country through investment operations particularly in the less developed areas.
- To contribute in achieving the ultimate goal of Islamic economic system.

Corporate information

As on 31st September 2004

Date of Incorporation : **13th March 1983**

Inauguration of 1st Branch : **30th March 1983**
(Local office, Dhaka)

Formal Inauguration : **12th August 1983**

Share of Capital

Local Shareholders : **40.00%**



Equity

As per new Capital Adequacy Policy prescribed by Bangladesh Bank, the Central Bank of the country, banks are to maintain 9.47(p)% capital on its Risk-Weighted Assets against which present total equity of the Bank as on December 31, 2003 stood at Taka 4807.42 million, which was 8.6% of its Risk-Weighted Assets as against Taka 3540.51 million as on 31st December 2002.

This was Taka 2,993.24 million in 2001, Taka 2,671.06 million in 2000, Taka 1,659.26 million in 1999, Taka 1,517.55 in 1998, Taka 1,429.86 million in 1997, Taka 1241.05 in 1996, Taka 813.09 million in 1995, Taka 420.06 million in 1993, Taka 537.35 million in 1994 and Taka 420.06 million in 1993.

Particulars	1999(Taka)	1998(Taka)
a) Paid-up Capital	320.00 Million	317.98 Million
b) Statutory Reserve	347.03 "	311.37 "
c) Investment Loss Off-setting Reserve	644.43m	590.93m
d) General Reserve	122.16m	109.55m
e) Share Premium	1.99m	-
f) Provision on Unclassified Investment	197.04m	165.97m
g) Exchange Equalization	26.61m	21.75m
Total	1659.26m	1517.55m



Shariah Council

Shariah Council of the Bank is playing a vital role in guiding and supervising the implementation and compliance of Islamic Shariah principles in all activities of the Bank since its very inception. The Council, which enjoys a high status in the structure of the Bank, consists of prominent ulema, reputed banker, renowned lawyer and eminent economist.

Members of the Shariah Council meet frequently and deliberate on different issues confronting the Bank on Shariah matters. They also conduct Shariah inspection of branches regularly so as to ensure that the Shariah principles are implemented and complied with meticulously by the branches of the Bank.

Members of Shariah Council

- Chairman** - **Moulana Ubaidul Huq**
Khatib, Baitul Mukarram National Mosque
- Vice Chairman** - **Mufti Sayed Ahmed**
Head Mufti, Al-Jameatus Siddiqiah Darul Ulim
Mirpur, Dhaka
- Member Secretary** - **Prof. Dr. Abu Bakr Rafique Ahmed**
Pro- Vice Chancellor
International Islami University
Chittagong
- Member Additional Secretary** - **Principal Muhammad Serajul Islam**
Ex. Principal Madrasha-E-Mesbahul Ulum,
Motijheel Dhaka
- Members** - **Moulana Delawar Hussain Sayedee**
Member of the Parliament
- **Moulana A. B. M. Kamaluddin Khan**
Rector, Raipur Alia Madrasha, Laxmipur
- **Muftee Shamsuddin (Zia)**
Mufti & Muhaddis, Al-Jameatul Islamiah,
Dhaka



- **A. S. M. Fakhrul Ahsan**
Ex Deputy Governor, Bangladesh Bank
- **Prof. Shah Muhammad Habibur Rahman**
Professor, Department of Economics
University of Rajshahi
- **Advocate Mujibur Rahman**
Senior Advocate, Bangladesh Supreme Court
- **Prof. Dr. Abu Bakar Rafique Ahmed**
Pro- Vice Chancellor
International Islami University
Chittagong
- **Muhataram Abdus Shaheed Nasim**

Dhaka

- **Dr. Hafez Moulana Moinuddin**
Asst. Prof. Head of the Department
Islamic Studies and Dawa
Darul Ihsan University ,Dhaka
- **Dr. Moulana A.S.M Toriqul Islam**
Asst. Prof. Islamic Studies and Dawa
Islamic University , Kustia

The Shariah Council of Islami Bank generally consists of experts from the following four areas of learning:-

Fuqaha: Persons representing this group must be well versed in the Islamic thought and Islamic law and jurisprudence. They must view Islam as a total way of life and living religion.

Banker: There must be a member who is fully conversant with banking laws and practices and has practical experiences in banking business including foreign trade.



Economist: A member from this group need not necessarily be an Islamic economist to start with. But if he is an Islamic Economist it is proficient in modern economics with an in-depth study of the community, which a bank is going to serve. He must have up-to-date knowledge in the development of the contemporary world.

Lawyer: A member representing this group should be a successful practitioner lawyer. He must be proficient in commercial law including company law. In consultation with the Fuqaha and economist members of the council, he should be able to draft such innovative contracts, which will have the sanction of Islamic principles and A banking laws of the land.

Objectives of Shariah Council

The functions of the council are to offer views and opinions on matters related to the bank from time to time. The council may require any paper document from the bank and examine the same to see whether it is according to Islamic principals.

The Shariah council assists the Board of Directors by advising them on matters related to Shariah.

The Opinion of the majority of members is taken as the opinion of the council provided that the said opinion is supported by at least three/Muftis of the council.

The council maintains its secretariat and a well-equipped library at the Head Office of the Bank where it keeps proper records of all of its proceedings and decisions.

The council elects a Chairman and a Secretary from amongst them. The Chairman wil normally preside over the meeting. In his absence the members present elect one of them to preside to preside over the meeting. The member Secretary of the council calls the meetings of the same as and when required in consultation with the Chairman.

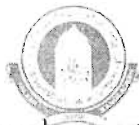
The council, May whenever it thinks necessary, constitutes a sub-committee to help the council.

The council issues Shariah Certificate in the Annual Report of the Bank.

Objectives of Islamic Banking

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 specifically, the objectives of Islamic banking when viewed in the context of its role in the economy are listed as following:

To offer contemporary financial services in conformity with Islamic Shariah:



To contribute towards economic development and prosperity within the principles of Islamic justice;

Optimum allocation of scarce financial resources; and To help ensure equitable distribution of income.

These objectives are discussed below:

Offer Financial Services: Interest-based banking, which is considered a practice of Riba in financial transactions, is unanimously identified as anti-Islamic. That means all transactions made under conventional banking are unlawful according to Islamic Shariah. Thus, the emergence of Islamic banking is clearly intended to provide for Shariah approved financial transactions.

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 bank's return on investment and the successful operation of the business by the entrepreneurs.

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 promotes the investment of financial resources into those projects that are considered to be the most profitable and beneficial to the economy.

Islamic Banking for Equitable Distribution of Resources: Perhaps the most 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.

Distinguishing features of Islamic Banking

An Islamic bank has several distinctive features as compared to its conventional counterpart. Chapra (1985, PP.154-57) has outlined six essential differences as below:

Abolition of interest (Riba): Since Riba is prohibited in the Quran and interest in all its forms is akin to Riba, as confirmed by Fuqaha and Muslim economists with rare



exceptions, the first distinguishing feature of an Islamic bank must be that it is interest-free.

Adherence to public interest: Activity of commercial banks being primarily based on the use of public funds, public interest rather than 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.

Multi-purpose bank: Another substantial distinguishing feature is that Islamic banks will be universal or multi-purpose banks and not purely commercial banks. These banks are conceived to be a crossbreed of commercial and investment 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 capitalist counterparts, since they would have to make a greater effort to match the maturity of their liabilities with the maturity of their assets.

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 oriented 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 lending business and eliminates a whole range of undesirable lending practices.

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.



Operational Techniques of Islamic Banks

SOURCES OF FUNDS

The financial resources of the Islamic banks consist of ordinary capital resources comprising paid-up capital and reserves, and funds raised through borrowings from the central bank and other banks (inter-bank borrowing), and issue of Islamic financial instruments. The major part of their operational funds is, however, derived from the different categories of deposits accepted on the Islamic principles of Al-Wadiah (safe custodianship) and Mudaraba (trust financing). For the sake of ease of understanding we call these two sources as 'Primary' and 'Secondary'. These are discussed as under.

PRIMARY SOURCES

Paid-Up Capital

Islamic banks are public limited companies incorporated under the companies Act, which are listed on the Stock Exchange. Individuals and institutions, local and foreign, have subscribed their capital. For example, the First Islamic bank of Bangladesh - Islami Bank Bangladesh Limited (IBBL)- is a joint venture of Bangladesh and overseas capital in the ratio of 38:62. Its local capital is owned by the Government of Bangladesh and private individuals and institutions. The overseas capital (62%) of the bank is owned by the institutions and individuals as follows.

- i) Islamic Development Bank, Jeddah, Saudi Arabia
- ii) Kuwait Finance House, Kuwait
- iii) Bahrain Islamic Bank, Bahrain
- iv) Jordan Islamic Bank, Jordan
- v) Al-Rajhi Company for Currency Exchange and Commerce, Saudi Arabia
- vi) Dubai Islami Bank, UAE
- vii) Islamid Investment and Exchange Corporation, Qatar
- viii) Ministry of Awqaf and Islamic Affairs, Kuwait
- ix) The Public Authority for Minor Affairs, Ministry of Justice, Kuwait
- x) Public Institution for Social Security, Kuwait
- xi) Ahmed Salah Jamjoom, Saudi Arabia
- xii) Fouad Abdul Hameed Al-Khateeb, Saudi Arabia
- xiii) Islamic Banking System International holding S. A. Luxemburg



Similarly, joint-venture Islamic banks have been established in quite a few other Islamic countries like Egypt, Sudan, Senegal and Turkey. The Islamic Development Bank has also participated in the share capital (and represented in the Management Board) of a number of Islamic Banks set up in the OIC member countries in order to promote Islamic financial institutions.

The capital resources of the Islamic banks are mobilized through the issue of shares for which negotiable share certificate are used. With prior permission from the Government, shares are issued from time to time. Laws governing the shares correspond to the Musharaka laws of Shariah. The holders of shares have management (voting) right and participate in the profit/loss of the bank. The shares are transferable. In the case of the IBBL, its entire capital is denominated in the local currency - i.e. Taka, though the foreign shareholders had to pay for their shares in US Dollars.

The central bank requires the Islamic banks to have and maintain capital funds, unimpaired by losses or otherwise, in such proportion to such assets of their branches and offices as may be prescribed from time to time by the central bank by notice in writing.

Reserves

The central bank also requires that every Islamic bank shall maintain a reserve fund. Before any dividend is declared, an Islamic bank shall transfer to the reserve fund out of the net profits of each year, after due provision has been made for Zakat and taxation, a certain percentage of the net profits in order to build up adequate reserves. If the central bank is satisfied that the aggregate reserve fund of an Islamic bank is adequate for its business, it may by order in writing exempt the bank from this requirement for a period of one year. In Bangladesh, the IBBL besides maintaining the statutory reserve, has built up an Investment Loss Offsetting Reserve (ILOR) by appropriating 10 (ten) percent of the bank's annual investment profits.

Liquid Assets

Every Islamic bank is further required to keep at all times minimum amount of liquid assets against its deposit liabilities expressed as certain percentage of the deposits, as may be prescribed from time to time by notice in writing by the central bank. For this purpose, liquid assets mean (i) cash in bank, (ii) balances with the central bank/other designated banks, (iii) Government Investment Certificates, and (iv) such



other assets as may be approved by the central bank. Failure to keep the minimum liquid assets invokes penalty for each day of deficiency.

Borrowing From Central Bank

To tide over temporary liquidity shortages Islamic banks, as member banks, are entitled to borrow from the central bank, as the lender of last resort. In such cases, IBBL does not pay interest like the conventional banks. Such borrowing from the central bank is treated as a PLS deposit with the Islamic banks and profit is paid at the rate payable on corresponding PLS deposit of the bank.

Inter-Bank Borrowing

The Islamic banks have established interest-free fund arrangements with local and foreign banks on the basis of reciprocity. Normally, under prior arrangement, the Islamic banks keep surplus funds with selected banks. When needed, these banks also place interest-free compensating balance with the Islamic bank. If balances are not equal, then periods for which funds placed are adjusted.

SECONDARY SOURCES

MOBILIZATION OF DEPOSITS:

Like interest-based conventional banks, the main function of Islamic banks is to mobilize savings and provide financial support to the entrepreneurs. Yet there are differences in techniques applied in the process of savings mobilization and financing investment by the two banking systems. Depositors receive interest in a predetermined rate for their deposits made with an interest-based bank. Similarly, the investors are to pay a predetermined rate of interest to the bank. The technique, thus, involves each and every partner in the transaction process (i.e. the depositor, the investor and the bank) with the element of interest. Islamic bank, on the other hand, neither pays nor receives interest from any of its transactions thereby saving everybody from the curse of interest.

Islam disapproves hoarding of savings and encourages its productive investment (Chapra 1985). It puts emphasis on savings and the productive use of savings. Thus, the bank assembles the small deposits and savings of individuals into a common pool and makes these deposits available for large investment opportunities, ensuring the productive use of society's savings.

Islamic banking is a response to such exigencies. It mobilizes savings of the common people in line with Islamic Shariah. Techniques employed by Islamic banks for saving mobilization are as follows.



Al-Wadiah Account:

Islamic banks receive deposits in their Al-Wadiah account. This account is similar to the demand deposit account of interest-based banks. Conventional interest-based banks do not pay interest on this type of deposit account. In addition, depositors may withdraw all or a part of the funds deposited in this account without restriction. The term Al-Wadiah means deposit of money allowing somebody to claim the funds in the account. The bank as trustee preserves and safe keeps the funds deposited. Thus, depositors feel safe keeping their money with the bank because the bank provides assurance of returning their money on demand.

When an individual opens an Al-Wadiah account, he agrees to allow the bank to lend these funds to entrepreneurs seeking financing for their products or activities. In addition, the depositor understands that the bank may earn a profit from its lending activity. However, any losses incurred from this investment activity are totally borne by the bank. The depositor is not liable for any losses incurred from this lending activity.

As the depositors do not take the risk of losses with Al-Wadiah accounts, they are not entitled to any profit from the use of their deposits by investors. On the other hand, the bank is entitled to all of the profits, if any, as the bank bears all of the risk.

General Mudaraba Account:

Interest-based banks receive deposits from clients in return for being paid a fixed interest rate. These deposits are considered to be a loan from the depositors and, thus banks must pay a predetermined rate of interest based upon the daily average balance. So, under the interest-based banking system, the relationship between the bank and its depositors is essentially that of a debtor and creditor. In the case of checking deposits, depositors are provided with a checkbook. In most cases, a depositor may withdraw all or part of the funds on deposit at any time. In some instances, depending on the type of account, notice may need to be provided to the bank for a withdrawal of money exceeding a specified amount.

Term Mudaraba Account:

Interest-based banks receive different kinds of Term Deposits from the depositors. The deposits are generally for 3 months, 6 months, 9 months, one year, 2 years, or 3 years, and the bank pays a stated interest rate on each of these deposits, which varies depending on the term. In general, the bank pays a higher rate of interest the longer the term of the deposit and lower rates for shorter time periods. In addition, a



higher rate of interest is generally paid on term deposits than on saving deposits. Depositors are not generally allowed to withdraw money from a term deposit until the term matures. Premature withdrawal may result in penalties in excess of the interest earned, resulting in a negative return. Once a time deposit matures, the depositor may wish to reinvest for a new term. Term deposit arrangements under conventional banks result in a debtor-creditor relation as in the case of saving deposits. The bank receives deposits in exchange for a fixed rate of interest for a specific period of time. The depositors are not provided with checkbooks on term deposit accounts, but they are given term deposit certificates and as mentioned above, are paid a higher interest rate.

Islamic banks also receive term deposit from their clients. The term deposit is, of course, altogether different from that of the interest-based banks. Fixed term deposits received by Islamic banks are called "Term Mudaraba Deposits". Generally an Islamic bank receives these types of deposits for a minimum period of 3 months to 3 years at the maximum. The bank invests the money, and shares any profits with the depositor based upon a percentage agreed upon at the time of contract.

Special Mudaraba Account

When an Islamic bank receives a Mudaraba deposit for investment in some specific business, sector, or project, the deposit is called a "Special Mudaraba Deposit". In this case, an Islamic bank, while receiving deposits, comes to an agreement with the depositors that the money to be received will be invested in some specific business such as the fertilizer or salt business; or in some specific sector like the industrial sector, textile sector, export-import sector; or in some specific investment sector of the bank such as real estate, shipping or a special project. Profits earned from these types of specific projects are distributed between the bank and the Special Mudaraba depositors based a previously agreed to percentage. As before, in the event of a loss, the depositors share the loss in an amount proportional to their deposits in the account.

Special Mudaraba depositors will share only in the profit and loss of those particular businesses, sectors or projects for which they have deposited their money. They are not impacted by profits or losses from the other operations or projects in the general Mudaraba accounts.

In summary, there are three types of Mudaraba accounts. First, is the General Mudaraba account, which does not have a specified term and is not restricted to being invested in specific project. In addition, deposits may be taken out of the General Mudaraba account on relatively short notice. A second type of account is the Term Mudaraba account



ACCOUNTING SYSTEM AND MIS

Is accounting a mere technical matter or is there any question of ideology or value judgment? In other words, is an accounting system followed by the conventional bank compatible to Islamic Shariah or is it necessary for Islamic banks to design their own accounting system? As we know Islam is a way of life where ends does not justify means rather both ends and means should be justified. Islam has its own objectives and the ways and means to achieve those objectives. Like all others spheres of life in the banking sector Islamic scholars have developed their own banking system that differs from conventional banking system both in terms of philosophy and operational mechanism. Undoubtedly the accounting system is a very technical matter but not without any principle or philosophy. So, the principles and philosophy of the accounting system of an interest-free bank should not be as that of a conventional bank.

1. Objectives of Financial Accounting for Islamic Banks

There are two approaches in developing objectives and concepts of financial accounting for Islamic banks:

- a) The first approach is to deduce such objectives and concepts from the Shariah. In this way we can establish the objectives of Islamic accounting based on the principles of Islam and then consider these established objectives in relation to contemporary accounting thought.
- b) The second approach is to start with objectives established in contemporary accounting thought, test them against Islamic Shariah, accept those that are consistent with the Shariah and reject those objected by the Shariah.

From among these two mutually exclusive alternative approaches of establishing objectives for Accounting and Auditing Organization for Islamic Financial Institutions have decided to adopt the second approach.

Although there is a large degree of similarity between the proposed objectives for financial accounting for Islamic banks and those developed by Western accounting professional bodies, the former require the provision of additional information regarding the compliance of Islamic banks and financial institutions with the Shariah doctrines in their business transactions. Furthermore, it is proposed that financial accounting for Islamic banks should provide information to assist in separating prohibited earnings which occur advertently or inadvertently, if any, and to verify that such earnings have been utilized for charitable causes.



The objectives of financial accounting for Islamic banks may be described as follows:

- a) To determine the rights and obligations of all interested parties, including those rights and obligations resulting from incomplete transactions and other events, in accordance with the principles of the Islamic Shariah and its concepts of fairness, charity and compliance with Islamic business values;
- b) To contribute to the safeguarding of the Islamic bank's assets, its rights and the rights of others in an adequate manner;
- c) To contribute to the enhancement of the managerial and productive capabilities of the Islamic bank, encourage compliance with its established goals and policies and, above all, compliance with Islamic Shariah in all transactions and events; and
- d) To provide, through financial reports, useful information to users of these reports, to enable them to make legitimate decisions in their dealings with Islamic banks.

2. VARIOUS CONCEPTS OF ISLAMIC ACCOUNTING

2.1 The Accounting Unit:

The Islamic Fiqh states that Waqf (trust foundation), mosque and Dar -al-maal (treasury) are units of accountability. The recent Fiqh thinkers extend the application of this concept to companies including an Islamic bank. It requires the identification of those economic activities that are associated with the Islamic bank and can be expressed as the bank's assets, liabilities, revenues, expenses, gains and losses. In other words there will be a separation of entity between Islamic banks and owners in terms of assets and liabilities as resolved by the Council of the Islamic Fiqh Academy. "There is no objection in Shariah to setting up a company whose liability is limited to its capital for that is known to the company clientele and such awareness on their part precludes deception." However, some activities with which the Islamic bank is associated are the activities of other accounting units.

2.2 The Going Concern:

The Mudaraba and Musharaka contracts are for specific periods. However, these are assumed to continue until and unless one or all of the parties to the contract decide to terminate the contract. Islamic banks are based on the Mudaraba contract and are, therefore, assumed to continue unless there is evidence to the contrary. Wealth is divided by Islamic Fiqh into money and goods. Again, goods are divided into



two categories, those that are available for sale and those that are not available for sale. Examples of the second category of goods are equipment and building, which are used for longer periods implying that the entity would continue in operation. Financial accounting assumes the continuation of such an entity as a going concern. This means that in preparing the entity's financial statements it is assumed that there is no intention or necessity to liquidate the entity. The major implication of this concept is that the Islamic bank's activities, under this assumption, are assumed to represent continuous streams and the task of financial accounting is to make the most significant measurements possible of the continuous flow of the entity activities.

2.3 The Periodicity:

The periodicity concept means that the life of the Islamic bank should be broken into reporting periods to prepare financial reports that provide interested parties with information or directions by which they can evaluate the performances of the accounting units.

Islam assigns certain rights to money and wealth and associates those rights with periods of time to assure that those rights are fulfilled on a timely basis. Zakat is an example of this periodicity. Because, according to Islamic Shariah, Zakat is payable on money and wealth after one year of its reaching the 'Nisab'. As prophet (peace be upon him) has said, "No Zakah on wealth until a year passes" (Daraqutni, Baihaqui). Keeping this concept in mind it is believed that there is an obligation on Islamic banks to present periodic reports reflecting their financial positions as of a given date and the results of their operations during a specific period so that rights and obligations of Islamic banks and those of interested parties could be focused.

3.Accounting Practices:

3.1 Cash Accounting vs Accrual Accounting:

There are two types of accounting, namely the cash method and the accrual method. Conventional banks follow the accrual method of accounting. The cash accounting implies that only the incomes and expenditure items that involves inflows and outflows of cash will be given consideration. Accrual accounting, on the other hand implies any income or expenditure accrued will be accounted for accordingly. One example may help to understand the concept. In our country, conventional banks show in their income statement all the interest accrued on their total investment as their income. Experience indicates that only a part of the interest accrued is realized



In this context one can easily raise the question of whether or not it is a misrepresentation on the part of a conventional bank to treat the interest accrued as income knowing fully well that only a part of it could be realized in the end. Is it not fair to show only the part of the interest accrued as income that could be realized? Islam is against any kind of misrepresentation of fact, which is called window dressing in modern accounting. So, Islamic jurists are in favor of cash accounting rather than accrual accounting. But as a matter of fact Islamic banks all over the world do not follow the same accounting system. Even one single bank practices both cash and accrual accounting for different purposes, which is apparently contradictory. Islamic banks use different profit recognition methods for the investment mechanisms, which they use in their application of funds. For example, some Islamic banks recognize the profit generated from Murabaha transactions as soon as the deals are concluded, while other Islamic banks only recognize it either when the installment is due or received in cash or when the full amount due is paid. This suggests that some Islamic banks use cash accounting while others use accrual accounting for the same type of transaction.

3.2 Treatment of Investment Accounts:

The treatment of investment accounts (and fund under management) is another issue on which Islamic banks differ. Some banks treat these accounts as an on-balance-sheet item. The classification of investment accounts as a liability reveals the contractual relationship of these accounts with the bank. Given that these accounts are based on Mudaraba contracts and, hence, bear their own risk in the event of loss, it is incorrect to classify them as a liability. Rather, each of these accounts should be classified as a separate category by itself on the balance sheet, as will be explained below.

There is no uniformity among those Islamic banks that treat investment accounts as an on-balance-sheet item. Some treat the returns on investment accounts as an expense deducted from the bank's reserves, while in other Islamic banks they are treated as an appropriation of income.

3.3 Reporting of Social Services:

Islamic banks are also divided on the manner of reporting their social services. Some banks issue a statement of the Qard fund (for good faith loans) and /or a statement of the zakah fund showing the amounts that the bank allocated to, or received from, the public to be spent on social services and how these funds were utilized. Other Islamic banks disclose in their annual report a lump sum that they have allocated to these activities, while others do not disclose information on these activities at all.



On the other hand, not all the accounting policies used by some Islamic banks in the preparation of their financial reports match with those advocated by generally accepted Western accounting principles. For example, the Statement of Financial Accounting Standards No. 115, Accounting for Certain Investment in Debt and Equity Securities issued by the Financial Accounting Standards Board in the USA (May, 1993) requires that equity securities classified as trading securities should be reported at fair value, with unrealized gains and losses included in earnings. Islamic banks tend to measure financial assets at cost or the lower of cost or market value and ignore unrealized gains. This is because if unrealized gains are included in earnings, unrestricted investment accounts would be entitled to receive their share in these gains when earnings from mixed investments are distributed between owners of these accounts and shareholders. Furthermore, while financial accounting and reporting in the West is based mainly on accrual accounting, the accounting practices of some Islamic banks tend to rely mainly on a cash basis.

4. Accounting System of Islamic Banks:

In regard to the accounting system of the Islamic bank, it is worth pointing out that the articles which govern this system, as stated in the Bank's Law, are explained and /or detailed by the bank's Board and Management, and that these explanations are subject to the approval of the bank's Shariah Consultant, who must, in turn, elaborate the Shariah standpoint on these explanations. Some contracts from the bank's law are stated below:

4.1 Profits Realized From Investments:

a) Profits and losses relating to financing and joint investment activities shall be separated in the accounts from the other income and expenditure relating to other activities and services offered by the bank. The same applies to the income and expenditure of investments for specific purposes, in respect of which a separate account must be kept for each particular project.

b) In regards to the profit income connected with its financing and investment activities, the bank may not adopt a method of accounting which takes into account estimated or expected profits, but it must confine itself to the profits realized in accordance with the nature of the operations which the bank finances, and in accordance with the following rules:



- i) In the case of individual Mudaraba, the profits shall be realized on the basis of a final settlement of accounts carried out between the bank and the party utilizing the funds, such settlement should be based on actual receipt of the cash and realization of the income and should be duly approved and accepted. The profits of each year shall be entered in the accounts of the year in which such settlement is carried out, whether in respect of the complete project or a part of it.
- ii) In the case of decreasing participation, the profit or income shall be realized on the basis of the net income derived from the project concerned until the end of the financial year, even if such income is not in fact received in cash, as in such event, the income realized shall be treated as money due but not received.
- iii) In the case of purchasing for others on a pre-agreed profit basis, the profit shall be realized upon the conclusion of the subsequent contract and on the basis of the difference between the actual cost and the price agreed upon with the party who ordered the purchase.
- iv) The various financing operations shall be charged with all the direct expenses and costs arising there from, and should not be charged with any part of the general overhead expenses of the bank.

5.2 Apportionment of Joint Investments

- a) In order to replenish the special account for meeting investment risks, the bank shall deduct annually deducts an amount equal to 10% of the net profits realized from various investment operations during that year.
- b) The amounts so deducted annually are kept in a special account to meet any losses exceeding the total profits derived from investment in that year.
- c) The deduction of such percentage should be stopped as soon as the accumulative balance of this account reaches twice the paid-up capital of the Bank.

5.3 Distribution of Profit Between Shareholders and Investment Account Holders

There are two differing aspects regarding the distribution of profits and losses between shareholders and investment account holders of an Islamic bank:

- a) Should investment accounts share in all types of revenues and expenses of the bank, or
- b) Should they only participate in the revenues and expenses pertaining to their investments?

The latter expenses do not include the administrative expenses of the bank, the external auditor fees or the remuneration of the Board of Directors. Islamic banks



tend to differ on the revenues and expenses that determine the return of investment accounts. These include, among other items, gains from foreign currency transactions, provisions for bad and doubtful debts and depreciation charges.

4.4 Distribution of Profits between the Bank and the Investors:

a) The Board shall announce by public notice the general percentage of profit to be allocated to the general funds participating in joint investments. This announcement is to be made at the beginning of the same financial year and not later than the end of the first month of each year.

b) The bank, as joint investor, is entitled to the remaining percentage after the deduction of the amount allocated to the investors. The bank shall also be entitled to participate in the profits of joint investments in proportion to the amount of its own funds or the funds, which it is authorized to risk in joint investments.

c) In determining the funds participating in joint investment, priority shall be given to joint investment deposits and to the holders of Joint Muqarada bonds. The bank may not consider itself as a participant in financing from its own funds in excess of the amounts utilized in financing over the total balances of the investors.

The bank, as a joint investor, shall bear any losses resulting from any cause for which it is legally liable, including any cases where authority is exceeded or insufficient care or caution is exercised by the members of the Board of Directors, the managers, employees or workers of the bank. Insufficient exercise of care for which the bank is answerable shall include any cases of fraud, abuse of trust, collusion and similar forms of misconduct which fall short of the standards of honesty expected in the management of a joint venture operated by the bank.

Losses incurred which are not attributable to misconduct involving the exceeding of authority or failure to exercise care or caution shall be deducted from the total profits realized for the year in which such losses are incurred. Any excess of losses over the profits that were actually realized during that year shall be deducted from the reserve account opened for covering the risks of investment.

4.5 Final Accounts, Balance Sheet, Profit & Loss Accounts:

The accounts of the Bank are maintained in accordance with banking accountancy methods. The Final accounts shall be closed annually on the thirty-first day of December of every year.

The auditors who are elected in accordance with the provisions of the Articles of Association audit the Annual balance Sheet and Profit-and-Loss Accounts annually, prior to their presentation to the general meeting.



The Investment profits are distributed to investment depositors and holders of Muqarada bonds during the month of January of the following financial year.

The net profits accruing to the bank which are not realized until the end of the financing year shall be apportioned as follows:

a) 10% to the compulsory reserve account, until the balance accumulated in this account becomes equal to the capital of the Bank.

b) 5% to the remuneration of the members of the Board of Directors accounts, to be distributed among them in proportion to the number of meetings attended within the limit prescribed in the Company's Law.

c) Any percentage the Board may deem necessary to provide a suitable reserve to meet the various liabilities, within a maximum limit of twenty percent of the net profits of that year.

d) The balance of the profits is distributed to the shareholders in proportion to the number of shares which each of them holds.

5. THE MIS SYSTEM AND THE ELECTRONIC BANKING:

Banking services are probably the fastest growing services of the modern world. The industrial revolution was a milestone for the development of the banking industry. With the acceleration of the pace of industrialization throughout the world the growing need for financial intermediation was a reality. However, until World War-II there was no real development in this sector. After the World War was over, the banking industry played a vital role to rebuild the war-damaged countries. Japan, in particular became a unique example in this regard. The banking industry in Japan took the initiative to erect the modern industrialized Japan. But still no significant innovation was found until 1960. By February 1961, a key banking innovation occurred - the introduction of the first effective negotiable certificate of deposit (CD). The instrument was introduced by First National City Bank of New York (the present day Citicorp). The term "Liability Management" came into the banking arena after this innovation, because it permitted banks to purchase funds and thereby manage their liabilities. Since then, numerous financial and technological innovations have been introduced on an ongoing basis. While the 1960s and 1970s were a time of growth in the banking industry, the greatest number of innovations and changes (e.g. mergers, consolidations and failures) occurred over the past two decades.



5.1 Innovations of Financial Services and Emergence of Electronic Banking:

Technological innovation in the banking sector has been manifested primarily in the form of electronic funds transfer system (EFTS or EFT systems). The basic components of EFTS are automated teller machine (ATMs), point of sale (POS) terminals and the automated clearinghouse (ACHs). Less visible than EFT, but more important to a bank's ability to operate efficiently is the bank's "back office technology" (i.e. its computer operating systems). Banking has come a long way from the times of barter trading. Modern banking uses three forms of transferring value: physical currency, checks, and in an age of technology, electronic fund transfers. However, checks are by far a dominant means of payment, but that may change in the years ahead.

5.2 Structures and Classification of Electronic Banking:

The concept of electronic banking system is a computer-based technology for rendering banking services. Electronic banking systems can be broadly divided into two categories, namely back-office electronic banking and front-office electronic banking services. Since inception of electronic banking, it has gone through a comprehensive evolution process. The evolution of electronic banking, both front and back office systems can be grouped into three categories; first, second and third generation electronic banking.

First Generation electronic banking rendered back office services like ledger keeping, cash management and so called Management Information Systems. The front office services were cash dispensers or ATMs.

The Second Generation of electronic banking got some extended back-office services like transaction, processing (off-line), ACHs, record keeping and fund transfer systems. The front-office services that evolved during this phase were telephone bill payment, point-of-sale (POS) systems, check verification, ATMs and authorization.

The present status of the electronic banking system could be termed

The Third Generation of electronic banking. This era of electronic banking enjoys back office services like on-line transaction processing, centralized processing at country level, internet banking, and inter bank transaction processing to name a few. The front-office services of this era are automatic fund transfer, on-line banking, electronic home banking, and direct deposit, check truncation, lock box check



truncation, electronic fund transfer, electronic check representation and internet banking.

Banks to provide higher quality financial services to their customers are using information technology.

5.4 Need for Using Modern Technology and Appliance by an Islamic Bank:

In today's advanced society it is obvious that technology is needed to render better service to bank customers. Islamic banking is no exception. Like any other bank an Islamic bank can also enjoy the following advantages by introducing modern machines and appliances in its accounting and other systems.

a) By introducing a modern system in accounting, Islamic banks can improve their customer service. In a traditional accounting system a manager has to apply a time consuming process, which involves a number of employees to supply the required information to a valued customer. In contrast, the same customer could be served with a modern system simply with the touch of a button. Cashing a check would be an easier transaction for customers of the bank.

b) By introducing an electronic banking system an Islamic bank can be more competitive. It should not be forgotten that this is the age of electronic service. In this context, the sooner the Islamic banks adopt modern technology, the better for the sustainability and development of Islamic banking as an alternative banking system.

c) Presence of a well-designed MIS with fully electronic banking system will enrich the research department of Islamic banks. Research information on various banking operations will be much easier to generate.

d) A well-constructed MIS will be able to provide management with updated information on a timelier basis. Top management will be in a position to evaluate the performance of the bank both at micro and macro level without depending on the manual systems.

e) Electronic banking will save time for both bank management and the clients. Initially it may increase the transaction cost but with the passage of time the cost of transaction will go down.

f) A full MIS supported by electronic banking will uphold the image of Islamic banks. The bank will be more attractive to the modern clients.



LIQUIDITY

Short Term Liquidity: The fundamental objective in managing a legal reserve position is to meet the minimum requirement at the lowest cost. Because vault cash needs are determined by customer preferences, they vary largely with the payments patterns of the bank's customers and local businesses. They also exhibit well-defined seasonal patterns that are easily forecasted. When a bank needs additional vault cash, it simply requests a cash delivery from its Central Bank or a correspondent bank. It similarly ships any excess cash when appropriate.

Long-term Liquidity: The long-term liquidity planning involves projecting funds needs over the coming year and beyond if necessary. Projections can be separated into four categories viz., base trend, short-term, seasonal, and cyclical values. The analysis may assess a bank's liquidity gap, measured as the difference between potential uses of funds and anticipated sources of funds, over monthly intervals.

5. RISK INVOLVED IN MAKING WORKING CAPITAL INVESTMENTS

5.1 Risk of Selecting the Right Project

While investing in working capital the bank professionals should be careful in evaluating the projects to be financed. Before selecting a firm for investment the short-term solvency and long term solvency should be measured with appropriate techniques. Short-term solvency of a firm is usually measured by working capital ratios while long-term solvency of a firm is measured by equity ratios. Firms with high debt ratios should be avoided while firms with low debt ratios in its capital structure should be accepted for working capital financing.

Selection of Appropriate Entrepreneur:

Character of an entrepreneur is an important consideration for investment in working capital of a firm. Character, like reputation, refers to the borrower's honesty, responsibility, integrity and ability to manage the business. Investment worthiness is a combination of financial soundness and integrity of the entrepreneur. A capable, efficient and experienced, as well as honest, entrepreneur with a relatively weak financial background should be preferred to a dishonest entrepreneur with a strong financial background.



Mode of Investment:

The type of financing to be used to fund a working capital request should be given careful consideration. The investment may be made in cash or in kind. Investments made in kind are less risky, but most Islamic banks choose to invest with cash. Cash investments involve the risk of the funds being used for a different purpose than was given to the bank. Thus, when cash is provided, the bank needs to ensure it is used for the purposes intended in the request.

Risk of Over- and under-Investment:

The bank needs to give careful consideration to the amount of working capital being requested by the firm. If a firm borrows more than they actually need, the excess sits idle and carries with it the opportunity cost of other foregone investment opportunities. On the other hand, if the firm does not borrow enough, the business becomes unprofitable they are still unable to meet their operating needs. In either case, the banks anticipated return on the investment is less than it originally calculated. Thus, banks must verify that the amount of financing being requested meets the firm's needs.

CLASSIFICATION OF MORTGAGES:

Floating Lien:

All inventory of the borrowing firm is automatically brought under this mortgage. Goods remain in the hands of the borrower. The borrower can produce by using raw inventories and can sell finished inventory, but the proceeds of the sale should be paid to the lender. Any new purchase of the borrowing firm comes automatically under the fold of the present mortgage.

Advantages of Floating Lien:

The borrower can obtain more credit/investment by mortgaging all its inventory.

The Mortgagor could sell the mortgaged goods. In other words, this type of mortgage does not interrupt normal business activities.

Disadvantage of Floating Lien:

The lender usually only extends a loan up to 60% of the value of the inventory.



Trust Receipts:

In this case a particular item (not all inventory) is mortgaged to the bank. The lender takes title of the product as a lien and releases the same after full recovery of the loan. The borrower can sell the product but he has to pay the lender out of the sale proceeds. For example, suppose Progati Industries of Bangladesh has a sale contract for 10 vehicles with a dealer that is financed by Sonali Bank. The dealer is allowed to sell the cars, but the title of these cars remains with the bank. The bank will release the title in favor of the buyer only after receiving the full payment on the loan.

Chattel Mortgage:

Under a chattel mortgage personal, tangible and clearly identifiable assets of the borrower are mortgaged. The lender holds title of the property as a lien, which is not released until the loan is paid in full. Generally the most valued items are chosen for this type of mortgage. It is customary to register the mortgage.

GENERAL BANKING PORT-FOLIO:

Receiving deposit: Bank receive deposit mainly by two accounts:

AL-WADIA: Current account is conducted under al wadia system.

MUDARABA: Under this arrangement client is called sahib-al-mall and bank is called Mudarib. Here profit distribution will be under agreed ratio and loss (if any) will be born by Shaheb-al-mall.

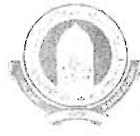
Under Mudaraba mode there are many accounts such as:

MSA- Mudaraba Saving Account

MHSA- Mudaraba Hajj Saving account

MSB- Mudaraba Saving Bond (5 & 8 years)

MSS- Mudaraba Special Scheme (5 & 8 years)



MTDR-	Mudaraba Term Deposit Receipt
MMPDS-	Mudaraba Monthly Profit Distribution Scheme
MMSA-	Mudaraba Mohor Saving Account
MSNA-	Mudaraba Short Notice Account

Who can open account?

- **Persons over 18(eighteen) years (except some restricted persons)**
- **Club**
- **Association**
- **Agent**
- **Government**
- **Semi-Government**
- **Liquidator**
- **Organization**
- **Minor**
- **Married woman**
- **pordansin woman**
- **Illiterate person,etc**

Way of receiving:

- **Cash**
- **Instrument**
-

Way of payment:

- **Cash**
- **Instrument**



General banking operations are done by various sections:

- Cash section: Functions of cash section are:-
 - Cash receipt
 - Cash payment
 - Issuance of cheque book
 - Passing, Cancellation and payment of cheque.

- Bills & Remittance section: Functions are:-
 - Issuance of DD, TT, PO, OBC, IBC etc.
 - Payments of DD, TT, PO, OBC, IBC etc.
 - Cancellation of DD, TT, PO, OBC, IBC etc.

- Clearing and collection department:

Clearing and collection of instruments of different banks through central bank or its representative.

- Account section:

Book keeping, maintenance of vouchers preparation of general ledger & clean cash book. Maintenance of sundry, suspense etc.

- Reconciliation of IBG A/Cs:

IBDA-Inter Branch Debit Advice

IBCA-Inter Branch Credit Advice

- Custody and maintenance:

Custody and maintenance of AOF SS Cards, Cheque Books, Ledgers Statement of A/Cs voucher and secrecy of Accounts.

- Locker service:

- Volt & Maintenance of strong room: Cash & vouchers are kept under lock and key under joint custody. Cash is covered by insurance. Transaction hour is guarded by armed security guard.



Conclusion: We can say that general banking activities of Islami bank is very much analogous to the other commercial banks.

Different Types of Account

Deposit modes

- ✓ **Al-Wadeeah Current Account**
- ✓ **Mudaraba Savings Account**
- ✓ **Mudaraba Term Deposit Receipt**
- ✓ **Mudaraba Special Notice Account**
- ✓ **Mudaraba Special Savings (Pension) Account**
- ✓ **Mudaraba Hajj Savings Account**
- ✓ **Mudaraba Savings Bond Scheme**
- ✓ **Mudaraba Foreign Currency Deposit Scheme (Savings)**
- ✓ **Mudaraba Monthly Profit Deposit Scheme**
- ✓ **Mudaraba Muhor Savings Deposit Scheme**

Al-Wadeeah:(Current Account)

Rules for opening

The deposit is accepted in the AWCA under Al-wadeeah principle of Islamic Shariah. The deposited money is invested along with other deposits by the Bank according to Islamic Shariah. Here, the customer does not have any share in the profit. The transaction can be made more than once during the banking hour.



The account can only be opened with the introduction of any acceptable client/ current account holder of the Bank. In order to open Al-wadeah Current Account, a minimum amount of Tk.500/= is to be deposited and the minimum balance with minimum amount of Govt. tax is to be maintained in the account. The Bank reserves the authority to return cheque, if otherwise.

Withdrawal may be made through the cheques supplied by the Bank. In that case all articles of Negotiable Instrument Act are applied.

Incidental charge @ Tk.50.00 half yearly basis is deducted from the account where minimum balance is not maintained. Closing charge @Tk.50.00 will be realized while closing the account

For the first cheque book, the customer has to apply in a specified form (F-6) and then for new cheque book the customer shall have to apply through the requisition slip supplied with the previous cheque book.

The customer has to count the pages of the cheque book at the time of receiving the same. The book should be maintained safely so that no cheque may be misused or stolen or destroyed. The Bank will not be responsible for any forgery if occurred by the stolen cheque (s).

The account holder shall have to use the specimen signature put in the Bank while withdraw money and in case of other correspondence with the Bank. In order to change the specimen signature put earlier the operator shall have to apply in writing before well in time.

The bank usually allots separate A/c. Nos. to different A/c. holders. The depositors have to mention name and No. of the account while fill-up the deposit slips for depositing the cash/cheque and obtain receipt duly signed by the authorized bank officials. The cheque to be deposited should be marked 'Crossed' i.e. A/c. Payee/ & co. etc. in the proper place of the cheque. If the deposited cheque(s) etc. is/are returned unpaid to the bank, charge/commission will be realized as per norms.

The Bank records the instruction of 'Stop Payment' with care. But the Bank will not be held responsible if any fraudulent withdrawal is/are made through stopped cheque (s).

The Bank supplies statement of account every month.

The bank has right to deduct any account to realize necessary expenditure/postal charge. Moreover, any tax imposed by the Govt. will be deducted from the account.



In case of death of the account holder, the nominee's) has to submit the following papers/documents in support of his/their nomination to receive the balance of the concerned account:

- a) **Death Certificate regarding death of the account holder.**
- b) **Certificate from 2 (two) valued clients of the Bank or 2 (two) officers of the Bank or the Chairman/Ward Commissioner of the Union Parishad/Municipality in support of the identification of the nominee's).**
- c) **Attested Passport size photographs of the nominee's).**
- d) **Indemnity Bond (C.F.-12) duly executed by the nominee's) under sureties of 2 (two) valued clients each good for the amount and acceptable to the Bank.**

Mudaraba Savings Account

- **Mudaraba Term Deposit Receipt**
- **Mudaraba Special Notice Account**
- **Mudaraba Special Savings (Pension) Scheme**

Islami Bank Bangladesh Limited, in keeping with its welfare-oriented ideals based on Shariah Principles, has developed a deposit pension scheme named "Mudaraba Special Savings (Pension) Scheme", in order to mobilize and encourage the middle and lower middle class professional and service holders to save as per their capacity for their old age when they will normally retire from their active service life who otherwise do not like to keep and invest their savings and funds in interest bearing deposit pension schemes. Due to lack of or limited scope for savings and investment in non-interest bearing schemes, most of these individuals either consume their savings/funds or spend the same in unproductive expenditures. Thus a substantial amount of Savings/funds remain out of the production cycle.

The savings/funds of these people can play a vital role in capital formation and as a source of invisible fund for generation of income and increase of wealth of the individuals and of the nation. The scheme developed by Islami Bank Bangladesh Ltd. has already been accepted cordially by the lower and middle income group of people and thus it is expected to have great prospect in mobilization of small savings



and funds for deployment in income and employment generating activities and business. In view of the above the Bank has introduced "Mudaraba Special Savings (Pension) Scheme".

Amount of deposit installments:

Accounts under this scheme may be opened for monthly deposits of Tk. 100/-, Tk. 200/-, Tk. 300/-, Tk. 400/-, Tk. 500/-, Tk. 1000/-, Tk. 1500/-, Tk. 2500/- and Tk. 5000/- only. The deposit will be received on Mudaraba Principle.

Opening of Account

Any citizen of Bangladesh of eighteen years or above with sound mind may open account in his name under this scheme by application in Bank's printed application form designed for this purpose.

The applicant shall have to be introduced by a benefice account holder of the Branch where he intends to open account or any client of any Branch of IBBL or any respectable person known to the Bank and shall have to give two passport size photographs at the time of opening the account.

This account can be opened in the name of minor by his/her father/mother/legal guardian giving necessary instruction for the operation of the account.

Account may be transferred from one branch to another branch of the Bank at the written request of the account holder.

Separate account number shall be allotted for each account.

At the time of Opening of the account the client has to give his specimen signature in a separate card.

Account may be also opened by thumb impression in case of illiterate person. In such a case the introducer has to submit a suitable declaration to the effect in a form prescribed for this purpose.

No cheque book shall be issued against this account.

Deposit of installment:

Under this scheme the depositor has to deposit fixed installment at the rate of his choice from the options as mentioned above (i.e. Tk. 100, Tk. 200, Tk. 300, Tk. 400, Tk. 500, Tk. 1000, Tk. 1500, Tk. 2500 and Tk. 5000) each month regularly.



Installment must be deposited within 6th to 25th of each month. If the 25th of any month is a Govt. holiday then installment may be deposited on following working day.

Installment may be also deposited by cheque. In such case proceeds against the cheque must be collected within the 10th day of the month. If the cheque is dishonored then the cheque shall be returned to the depositor observing due formalities and the installment shall be treated as overdue.

Advance Installments may be allowed to be deposited with proper arrangement between the Bank and the client in this regard.

Profit Sharing and Weight age:

The Mudaraba Special Savings (Pension) Scheme account holders shall share income derived from investment i.e., income from the use of the Mudaraba funds in economic activities permitted by Islamic Shariah. This includes profit, dividend, capital gains, rent and any other income derived from investment.

The account holders under this scheme along with other Mudaraba depositors shall get minimum 65% of the income derived from the deployment of Mudaraba Fund in the investment during any accounting year according to their proportion in the total investment on daily product basis applying the following weight age:

05 years Mudaraba Special Savings (Pension) Scheme: 1.10

10 years Mudaraba Special Savings (Pension) Scheme: 1.30

Benefits of full weight age with yearly cumulating of profit shall become payable if withdrawn on maturity. No profit shall accrue if the account is closed within one year. In cases of premature withdrawal after one year profit shall be payable at the rate applicable for Mudaraba Savings Deposit. In case of 10 year term MSS Account encased after 5 years but before 10 years, profit shall be payable at the rate applicable to 5 year term MSS Account for 5 (five) years and at the rate of Mudaraba Savings deposit for the subsequent period.



Payment of Pension:

The pension is payable at the maturity of the term for which the account is opened either in lump sum or on monthly basis at a fixed amount as per written option of the depositor. The depositor may change his/her option in writing during the currency of the term. In case of option for receiving monthly pension the depositor shall get profit at the rate payable to Mudaraba Savings Deposits after the maturity of the account and pension will be paid until such time there remains sufficient balance in the account.

Pension amount shall be paid to the account holder as per contract and in case of his/her death to his/her nominee as per instruction given. In case of payments to the nominee/ nominees rules described below shall be applicable.

The lump sum amount of pension payable at the end of a particular term may vary due to variable rate of profit given on the yearly deposit. This will mean that the pension amount may ultimately vary and may be more-or-less than the figure mentioned in the table. If the actual amount payable becomes more than the amount shown in the table, the account holder or beneficiary will get a higher amount and contrarily if the actual amount payable ultimately becomes less than the amount shown in the table, the beneficiary will get less amount than what is shown in the table.

Nomination:

The depositor may nominate one or more persons as his nominee of the account. In case of more than one nominee, he should fix their respective share in the nomination.

Minors also may be named as nominee. In such a case he may also give written instruction as to who is to receive the amount in the event of his death before the attaining of maturity of the nominee (s). Otherwise payment will be made to the legal guardian approved by the court.

The depositor may at any time nominate a new nominee canceling the previous nominee in writing.

In the event of the death of the nominee during the lifetime of the depositor and before the withdrawal of the balance of the account, the nomination shall be treated cancelled.

The nominee (s) shall be entitled to receive the money of the account according to apportionment only after the death of the depositor. In such case there shall be no need for Succession Certificate and the matter shall be settled at the branch level.



The nominee has to submit the under mentioned papers to receive the balance of the account:

Application of the nominee /nominees/nominated guardian.

Death Certificate regarding the deceased depositor.

Identification Certificate in favor of the nominee, nominees by two valued account holders or two officers of the Bank or from the Chairman or Commissioner of local Municipality.

Duly attested Passport - size photograph of the nominee/nominees or nominated guardian.

Indemnity bond jointly executed by the nominee/nominees/nominated guardian along with two valued clients of the branch.

Pre-mature closing of account:

The client may, at anytime close the account by written application. In such cases a charge of Tk. 25/- shall be recoverable for each account closed and the following terms shall be applicable:

If the account is closed within 1(one) year of the opening, the client shall receive only the principal amount of deposit.

In case of 5(five) year term account if the account is closed after 1(one) year but before maturity of the term the depositor shall be entitled to the principal amount along with profit at the rate applicable for Mudaraba Savings Deposit.

In case of 10(ten) year term account, if it is closed after 5(five) years but before maturity of the term the depositor shall be entitled to the principal amount along with profit at the rate applicable to 5(five) year term MSS account for 5(five) years and at the rate of Mudaraba Savings deposit for the subsequent period.

Special Facilities for the holder of MSS Account

National Board of Revenue (NBR) may be approached for exemption of excise duty and tax on the profits earned in the account and to treat the deposit under the scheme as investment allowance as provided under income tax rules since similar schemes of NCB's enjoy such exemptions.



Mudaraba Hajj Saving Scheme

Hajj is one of the fundamental worship (Ibadah) of Islam. However, because of the prevailing socio-economic situation in the country, the people interested to perform Hajj cannot arrange the required amount of money at a time to perform Hajj. The desire of many to perform Hajj is thus never fulfilled. Over twenty five thousand devoted Muslims from Bangladesh perform holy Hajj every year. Financial solvency and physical fitness are the pre-requisites of performing Hajj. The majority of the people, however, reach the fag end of their life in arranging the required amount of money for Hajj. Islami Bank Bangladesh Limited has, therefore, introduced "Hajj Savings Scheme" so that persons eager to perform holy Hajj may build-up savings through 'Mudaraba Hajj Savings Account'.

Salient Features

Mudaraba Hajj Savings Account can be opened in the name of the individual only.

Deposits in this account are received on the basis of Mudaraba principle of Islamic Shariah.

No photography is required to open this account.

The Bank issues pass-book against this account. After the deposit of each instalment, the depositor must ensure that such deposit is recorded in the pass-book. If the pass-book is lost, the Bank shall charge Taka 10/- for issuance of new pass-book.

The account holder must immediately communicate to the Bank of any change of the address.

Persons eager to perform Hajj within the period of one to twenty five years may build-up savings to perform Hajj by depositing monthly instalment.

The under mentioned chart indicates the year-wise monthly installments of persons intend to perform Hajj in 2001, 2002 and 2003. The monthly instalment shall be applicable on the basis of opening year of the account.



2001 2002 2003 2004

Monthly Installment

25	205	210	215	
24	220	225	230	
23	240	245	250	
22	260	265	270	
21	280	285	295	
20	305	310	315	
19	330	335	345	
18	355	365	375	
17	385	395	410	
16	420	435	445	
15	460	475	490	
14	505	520	535	
13	555	570	590	
12	610	630	650	
11	680	700	725	
10	760	785	810	
9	855	885	920	
8	975	1010	1050	
7	1125	1170	1210	
6	1325	1375	1430	
5	1600	1665	1730	
4	2000	2100	2175	
	3	2675	2800	2920
2	4000	4200	4400	
1	7950	8350	8750	

Profit shall be disbursed over the deposit on the basis of daily balance by giving 1.10 weight age, which is more than that of 3 year term deposit.

If any depositor intends to perform Hajj before the maturity of deposit, then he can do so by depositing the balance amount fixed for the year along with his savings in the Mudaraba Hajj Savings Account.

If any depositor, for some reasons, is unable to perform Hajj and wants to withdraw the deposited money, he shall get profit over the deposit at the rate of profit applicable for Mudaraba Savings Account.

Mudaraba Hajj Savings Account can be transferred from one Branch to another upon application from the depositor on genuine ground.



Money can not be withdrawn from Mudaraba Hajj Savings Account and as such no cheque-book is issued.

In a year there shall be 12 installments, 60 installments in 5 years and 300 installments in 25 years.

Mudaraba Savings Bond Scheme

Savings play an important role in capital formation, income-generation and creation of employment opportunities and contribute towards the increase in wealth of the individual and nation through profitable investment.

The people generally try to save a portion of their income with a view to protecting themselves from future financial hardship and also to enhance their earnings for their own benefit and the benefit of their family and the nation as a whole. Bangladeshi wage earners living abroad and the retired service holders desire to invest their earnings and retirement benefits in safe and profitable investment schemes. Many a people, however, cannot deploy their fund in business for various reasons. The people of Bangladesh are deeply religious and committed to Islamic way of life and determined to conduct their economic activities in accordance with the tenets of Islamic Shariah. Naturally they want to avoid interest in transaction and business which is forbidden by Islam.

Islam encourages savings, which is the prerequisite for any sustainable economic development. The saying of Holy Prophet (PBUH) is that poverty leads to unbelief and therefore, people have been encouraged to save a portion of their earnings to protect them from future financial setback. Islam emphasizes in the cycling of surplus capital by investing such funds in productive economic activities that will pave the way for employment, development and progress.

The people of Bangladesh reluctantly invest in interest bearing schemes. The religious Muslims, however, avoid such investments and the idle funds are mostly being consumed to meet the avoidable family demands. Thus the major portion of savings remain out of the production process. Islami Bank Bangladesh Limited, has therefore, introduced the savings deposit accounts viz. Mudaraba Savings Account, Mudaraba Term Deposit Account, Mudaraba Hajj Savings Account, Mudaraba Special Notice Account and Mudaraba Special Savings (Pension) Scheme as per Islamic Shariah. Mudarabah Special Savings (Pension) Account has also been introduced recently. Islami Bank Bangladesh Limited, being encouraged by the success of the Mudaraba deposit accounts has, therefore, introduced yet another savings scheme namely "Mudaraba Savings Bond Scheme".



Objectives:

- To offer investment opportunity to the people and institutions who do not like to keep their savings and funds in interest bearing deposit accounts or invest in interest bearing schemes.
- To facilitate deposit and investment of funds of the wage earners and retirement benefits of the service holders.
- To encourage savings by offering a safe and profitable investment outlet through sharing of a portion of the profit out of investment of their deposited money as per Islamic Shariah.

Eligibility:

Person(s) aged 18 years and above shall be eligible to purchase Mudaraba Savings Bond(s) in single name or in joint names.

Educational Institutions, Clubs, Associations and other non-trading and non-profit Socio-economic Institutions shall also be eligible to purchase Bond(s) in the name of the Institutions.

Guardian(s) shall be allowed to purchase Bond(s) jointly with a minor mentioning the age of the minor. Payment against such Bond(s) shall be made on the basis of joint signature after the minor attains majority.

Father/Mother/Legal Guardian shall be eligible to purchase these Bonds on behalf of one or two minors mentioning the name and age of the minor(s) and also instructions regarding payment encashment.

Denomination

Mudaraba Savings Bond shall be available in Tk. **1,000.00, Tk. 5,000.00, Tk. 10,000.00, Tk. 25,000.00, Tk. 50,000.00, Tk. 1,00,000.00, Tk. 5,00,000.00 and Tk. 10,00,000.00 denominations.**

Purchase Ceiling

Purchase ceiling of Mudaraba Savings Bond is minimum Tk. 1,000.00. Any amount of Bonds can be purchased subject to availability.

Purchase Procedure



Eligible purchaser(s) shall be entitled to purchase Mudaraba Savings Bonds in single or in joint names or in the name of Institutions from the Branch of the Bank. The purchaser(s) shall have to apply in prescribed form of the Bank and

Bank. The purchaser(s) shall have to apply in prescribed form of the Bank and fulfill the terms and conditions in this respect.

Period of Maturity:

- 5 (five) years
- 8 (eight) years.

Profit Sharing & Weight age:

The Bondholders shall share income derived from investment i.e. income from the use of the funds in economic activities permitted by Islamic Shariah. This includes profit, dividend, capital gains, rent and any other income derived from investment.

Bondholders shall get minimum 65% of the income derived from the deployment of Mudaraba fund in the investment during any accounting year according to their proportion in the total investment applying the following weight ages:

Type of Bonds

Weight age

8 years Mudaraba Savings Bond : 1.25

5 years Mudaraba Savings Bond : 1.10

Benefits of full weight age shall be given if encashed on maturity. In cases of premature encashment weight age shall be relatively lower as below:



Weight age

<u>Bond</u>	<u>5 years Bond</u>	<u>8 years</u>
Encashment within 01 year	00.00	00.00
Encashment after 02 years but within 03 years	00.85	00.85
Encashment after 03 years but within 04 years	00.90	00.90
Encashment after 04 years but within 05 years	1.00	1.00
Encashment after 05 years but within 06 years	1.10	1.10
Encashment after 06 years but within 07 years	-	1.15
Encashment after 07 years but within 08 years	-	1.20
Encashment after 08 years	-	1.25



For encashment of Mudaraba Savings Bonds, the Bondholder(s) or their nominee(s) [in case of death of the purchaser(s)] shall have to present the Bond(s) and the related papers in original duly discharged as per rules, to the Branch of the Bank where from the Bonds were purchased. The concerned Branch shall verify the signatures and other particulars and if found in order, then make payment with profit to be calculated on the basis of period covered at the time of encashment.

Other Benefits:

Mudaraba Savings Bonds can be purchased in single name or joint names and there shall be provisions for nominating nominee(s).

Photographs shall not be required with application for purchase of the Bonds.

Mudaraba Savings Bond shall be acceptable as security.

If original Bonds are lost or damaged due to theft, fire etc. there shall be arrangement for issuance of duplicate Bonds after due verification.

Mudaraba Savings Bond holders along with other Mudaraba depositors shall get preference in the matter of investment of their deposits over the Bank's equity and other cost free funds.

Income derived from the investments during the accounting year shall at first be allocated to the Mudaraba deposits and cost free funds (including Bank's equity) according to their proportion in the total investment as per principles of distribution of profit to Mudaraba depositors.

Other Terms & Conditions:

Mudaraba Savings Bond holders shall not share any income derived from different services of the Bank where the use of fund is not involved. Similarly, the Bondholders shall also not share any income derived from the investment of Bank's equity and cost-free fund.

Profits of any accounting year shall be declared after certifying the accounts of the Bank by the auditors appointed by the shareholders in the Annual General Meeting.

If the Bonds are encased before finalization of the annual accounts of the Bank, profits shall be paid on the basis of provisional rate. Afterwards if it is found on finalization of accounts that the profits are more or less than the provisional rate, neither the Bank nor the concerned depositors shall have any claim.



No profit shall be paid if any Mudaraba Savings Bond is encashed before expiry of one year. If any Bond is encashed after one year but before the maturity date, profit shall be paid at reduced rates applicable to the period covered.

No profit shall be paid for the period after maturity of the Bond, if not encashed on maturity.

Mudaraba Foreign Currency Deposit (Savings) Scheme:

Islami Bank Bangladesh Limited has introduced a new deposit product titled 'Mudaraba Foreign Currency Deposit Scheme (Savings)' under Mudaraba principle and endeavoring to invest the foreign currency funds in profitable way through its Foreign Correspondent Banks under Shariah Principle so as to enable the Bank to pay profit to its FC/PFC depositors, who will intend to open/maintain Mudaraba Foreign Currency Deposit (MFCD) Account particularly in US Dollar. This Scheme offers investment opportunities to wage earners and other private Foreign Currency Account holders who do not like to keep their funds in interest bearing deposit accounts or invest in interest bearing schemes. To encourage savings in Foreign Currency by offering a safe and profitable opportunity to the savers/investors by way of sharing a portion of the profit out of the investment of their funds as per principles of Shariah and to extend the Banks Deposit Scheme for mobilizations of remittance of Bangladeshi expatriates to increase the opportunity for their income generation and increase in the wealth of individuals and of the nation through profitable investment as per Shariah principles are the special features of the Scheme.

Eligibility of the Persons/Firms for opening MFCD A/c(s):

Bangladeshi nationals residing, working and earning abroad.

Foreign nationals residing in Bangladesh and also Foreign Firms registered abroad and operating in Bangladesh.

Foreign missions and their expatriate employees.

Opening of the Account:

(Currency, Type and withdrawal)

Account may be opened in US Dollar, Pound Sterling or other eligible currencies at the option of the account-holder (However, at the moment Deposit in such account will be accepted only in US. Dollar).



Types of account will be "**Mudaraba Foreign Currency Deposit Account**".

Payment of Profit

Initial Deposit must be USD=1000/-

In case the balance falls below USD=1000/-, no profit will be paid.

Withdrawal is allowable twice in a month and each withdrawal must not exceed $\frac{1}{4}$ of the credit balance. Withdrawal exceeding the said limit will require 7 days notice.

Balance will carry profit only if it remains for one month or above.

Profit will be on average monthly balance.

Islami Bank Bangladesh Limited will try to invest such funds profitably in Foreign Investment as per Islami Shariah through their Foreign Correspondent Banks.

Minimum 65% of the gross investment income derived from Mudaraba Foreign Currency Deposit (MFCD) funds shall be distributed to these account-holders on half yearly basis.

If there will be no available opportunity for Foreign Investment as per Shariah, Profit will not be given to the account holders.

Procedure/Requirement for opening of MFCD A/c:

Foreign Currency (Current) Account may be opened with any Authorized Dealer (AD) Branch of the Bank. But for availing the facility of profit, the MFCD Account should be maintained with under-mentioned A/D branches of the Bank.

Service contract/selection letter/Appointment letter/VISA and other relevant papers regarding occupation.

Mudaraba Monthly Profit Deposit Scheme

There is a substantial demand of monthly profit paying long term deposit schemes among the retired service holders and wage earners residing abroad who want to help their dependants and relatives by contributing a certain amount of money on monthly basis from the profits of their one-time deposit with the bank. Again there are persons who want to meet the day to day expenses of their families out of the monthly profits that may be received on their long-term deposits. Trusts and Foundations who desire to offer monthly scholarship and stipends to the students



from the monthly generated profits of their funds deposited on long term basis with banks and parents who want to bear the educational expenses of children from the monthly profits of their savings are also very much interested for such a monthly profit paying deposit scheme.

Islami Bank Bangladesh Limited, as a pioneer of welfare banking, is receiving demands from the vast majority of our clientele and many other Shariah abiding people for introduction of attractive monthly profit based deposit schemes on the basis of Islamic Shariah so as to encourage them to meet their above needs out of the earnings of their deposits.

Considering the above aspects and prospects Islami Bank Bangladesh limited has launched a new deposit product under the name and style "Mudaraba Monthly Profit Deposit Scheme" in accordance with the principles of Islamic Shariah.

Term:

The Deposit shall be for a period of 5(five) years. The amount is refundable on maturity as per Mudaraba principle.

Ceiling of Deposit:

Under this Scheme Deposits shall be received on Mudaraba principles in the amounts of Tk.100, 000/- and multiples thereof. Specially designed Monthly Mudaraba Profit Deposit Receipt will be issued there-against.

Payment of Profit:

The deposits shall receive estimated monthly profit out of the share of investment income calculated on the basis of the weight age determined for such deposits and to be adjusted on completion of each accounting year and declaration of final rate of profit.

Opening of Account:

Any bonafide adult citizen of Bangladesh with sound mind may open this account in his/her name or in the name of his/her dependants in any of the Branches of the



Bank by application in Bank's printed Account Opening Form designed for this purpose. The depositor will be issued a specially designed Receipt for the deposit under the Scheme in the same manner as is issued in case of MTDR. This receipt shall not be transferable.

The depositor shall have to maintain a separate Mudaraba Savings/Al-Wadeeah Current Account at the concerned branch where the monthly profits on his deposit shall be credited as per his written request. No separate introducer and photograph shall be required to open account under the scheme.

Profit Sharing & Weight age:

The depositor of Mudaraba Monthly Profit Deposit Scheme shall share income derived from investment i.e. income from the use of the funds in economic activities permitted by Islamic Shariah. This includes profit, dividend, capital gains, rent and any other income derived from investment.

The depositor under this scheme along with other Mudaraba depositors shall get the share of minimum 65% of the income derived from the deployment of all Categories of Mudaraba Fund in the investment during any accounting year according to their proportion applying the weight age of 1.05.

Benefits of full weight age shall become payable if withdrawn on maturity. In case of premature withdrawal before 1(one) year, no profit shall be payable.

In case of pre-mature withdrawal after 1(one) year profit shall be payable at the rate applicable for Mudaraba Savings Deposit. In such cases excess monthly profits so far paid shall be adjusted.

Estimated profit calculated on the basis of weight age fixed for deposits under this scheme shall be payable on monthly basis.

The payment of monthly profit shall start from the subsequent month after a clear minimum gap of 30(thirty) days from the date of deposit. The monthly profit shall be credited each month to a separate Mudaraba Savings/Al-Wadeeah Current Account of the depositor to be opened at the concerned branch for this purpose if not maintained earlier.



Pre-mature encashment:

Normally, the deposit will not be encashable before 5(five) years. But if any depositor intends to withdraw his deposit before maturity due to certain unavoidable reasons, he would be allowed to do so, on the basis of written application.

Nomination:

The depositor may nominate one or more persons as his nominee of the account. In case of more than one nominee, he should fix their respective share in the nomination.

Minors may also be named as nominee. In such a case he may also give written instruction as to who is to receive the amount in the event of his death before the attaining of maturity of the nominee(s). Otherwise payment will be made to the legal guardian approved by the court.

The depositor may at any time nominate a new nominee canceling the previous nominee in writing.

In the event of the death of the nominee during the life time of the depositor and before the withdrawal of the balance of the account, the nomination shall be treated cancelled.

The nominee(s) shall be entitled to receive the money of the account according to apportionment only after the death of the depositor. In such case there shall be no need for Succession Certificate and the matter shall be settled at the branch level. The nominee (s) shall be responsible to distribute the portion of other heirs, if any, as per rule of Islamic Shariah.

Special Benefits:

Mudaraba Monthly Profit Deposit Account may be opened in single name or in joint name and there will be provision for nominating nominee(s).

Separate photographs will not be needed to apply for opening this account.

Monthly Mudaraba Profit Deposit receipts will be acceptable as security.



Monthly Mudaraba Profit Deposit account holders along with other Mudaraba depositors shall get preference in the matter of investment of their deposits over the Bank Equity and other cost-free funds.

Gross investment income derived from deployment of mudaraba fund during the accounting year, will at first be allocated to the Mudaraba depositors according to their proportion in the total investment as per principle of distribution of profit to Mudaraba Depositors.

Other Terms & Conditions:

Deposits under Mudaraba Monthly Profit Deposit Scheme shall be accepted strictly on Mudaraba principles of Islamic Shariah and accordingly the deposits so received shall also be invested as per Shariah principles.

The depositors must preserve the Receipts properly and carefully. In case of loss or damage of the Receipts, the depositor must inform the Bank immediately for taking necessary precautions. Duplicate receipt may be issued after observing necessary formalities in that regard as per Bank's existing rules.

Profits of any accounting year will be declared after certifying the Accounts of the Bank by the auditors appointed by the shareholders in the Annual General Meeting.

If the deposit is withdrawn on maturity of the account but before finalisation of the Annual accounts of the Bank, profit will be paid as per provisional rates. However, on declaration of final rates of profit for that year, the difference amount between the provisional and final rates, if any payable, will be allowed to the account holder on submission of written claim there against.

Profits will be calculated on the basis of weightage pertaining to the particular deposit.

The Bank reserves the right to change, amend, modify or cancel any rules, terms and conditions and the client shall have to abide by the same.

Mudaraba Muhor Savings Deposit Scheme

Savings play an important role in capital formation, income-generation and creation of employment opportunities and contribute towards the increase in wealth of the individual and nation through profitable investment. The people generally try to save



a portion of their income with a view to protecting themselves from future financial hardship and also to enhance their earnings for their own benefit and the benefit of their family and the nation as a whole.

The people of Bangladesh are deeply religious and committed to Islamic way of life and determined to conduct their economic activities in accordance with the tenets of Islamic Shariah. Islami Bank Bangladesh Limited, has therefore, introduced the savings deposit accounts viz. Mudaraba Savings Account, Mudaraba Term Deposit Account, Mudaraba Hajj Savings Account, Mudaraba Savings Bond, Mudaraba Special Savings (Pension) Scheme Mudaraba Monthly Profit Deposit Account, Mudaraba Foreign Currency Deposit (Savings) Account, Mudaraba Special Notice Account and Mudaraba Special Notice Account as per Islamic Shariah.

Mudaraba Muhor Savings Scheme.

Muhor is wealth, which a husband is to pay his wife, upon marriage. As per Islamic shariah, it is compulsory for husband to pay this to his wife. But there is a good number of married men from all walks of life in our society who did not pay total Muhor to their wives. Many of them are not aware about the necessity of payment of the deferred amount of Muhor so that wives have been remaining deprived of their fundamental right of Muhor. The wives are to forgive even the claim of the same. Although some of them are aware about it but they are not getting much opportunity to realize it from their husbands.

Eligibility

This Scheme has been designed for all classes of people married particularly the professionals & service holders creating an opportunity for them to save in monthly installments according to their capability for rectifying their marriage life and to protect the human right of the women.

Term:

The scheme may be of 2(two) different terms:

- **5 years**
- **10 years**

Amount of Deposit Installments:



Accounts under this Scheme may be opened for monthly deposits of Tk.500/-, Tk.1,000/-, Tk.2,000/-, Tk.3,000/-, Tk.4,000/- and Tk.5,000/- only. The deposit will be received on Mudaraba principle.

Opening of Account

Any married bonafide citizen of the country with sound mind may open account in his wife's name under MMSS by application in Bank's printed application form to be designed for this purpose.

Account under the Mudaraba Muhor Savings Account shall only be opened in the name of wife.

The applicant shall have to be introduced by a bonafide account holder of the Branch where he intends to open account or any client of any Branch of the Bank or any respectable person known to the Bank

2(two) passport size photographs will be required to open this account.

Account may be transferred from one branch to another of the Bank at the written request of the account holder.

Separate account number shall be allotted for each account.

At the time of opening of the account the client has to give his specimen signature in a separate card.

Account may be also opened by thumb impression in case of illiterate woman. In such a case the introducer has to submit a suitable declaration to this effect in a form to be prescribed for this purpose.

No Cheque Book shall be issued to the account holder before full deposit of Muhor money.

If the address of account holder as well as the depositories is changed that must be informed to the Bank immediately.

Profit Sharing and Weight age:

The Mudaraba Muhor Savings Scheme account holders shall share income derived from investment made out of the Mudaraba funds in economic activities permitted by Islamic Shariah. This includes profit, dividend, capital gains, rent and any other income derived from investment.

The account holders under this scheme along with other Mudaraba depositors shall get minimum 65% of the income derived from the deployment of Mudaraba Fund in the investment during any accounting year according to their proportion in the total investment on daily product basis applying weight age of 1.10 for 5 (five) years term and 1.30 for 10 (ten) years term. Benefits of full weight age with yearly cumulating of profit shall become payable if withdrawn on maturity.



If the account is matured before declaration of annual final rate of profit for the relevant year the profit shall be paid to the concerned account as per provisional rate and then the surplus amount of profit, if any, shall be paid after declaration at the written request of the account holder (wife).

Nomination:

The account holder (wife). may nominate one or more persons as her nominee of the account. In case of more than one nominee, she should fix their respective share in the nomination.

Minor(s) also may be named as nominee. In such a case she may also give written instruction as to who is to receive the amount in the event of her death before the attaining of maturity of the nominee (s). Otherwise payment will be made to the legal heirs/guardian.

The account holder may at any time nominate new nominee(s) cancelling the previous nominee in writing.

In the event of the death of the nominee during the life time of the account holder and before the withdrawal of the balance of the account, the nomination shall be treated cancelled.

The nominee (s) shall be entitled to receive the money of the account according to apportionment only after the death of the depositor. In such case there shall be no need for Succession Certificate and the matter shall be settled at the branch level.

The nominee has to submit the under mentioned papers to receive the balance of the account:

Application of the nominee /nominees/nominated guardian.

Death Certificate regarding the deceased Account holder.

Identification Certificate in favor of the nominee, nominees by two valued account holders or two officers of the Bank or from the Chairman or Commissioner of local Union Parishad/ Municipality.

Duly attested Passport - size photograph of the nominee/nominees or nominated guardian.

Indemnity bond jointly executed by the nominee/nominees/nominated guardian along with two valued clients of the branch.

If no nominee is mentioned, the balance of the account will be paid to the heirs of the deceased account holder as per Succession Certificate.



Payment Clause

The balance of the Muhor Savings Account is payable at the maturity of the term for which the account is opened. Amount shall be paid to the Account Holder and in case of death of the account holder the same shall be paid to the nominee(s) as per instructions described at the heading 'Nomination'.

The deposit value - wise approximate amount payable after maturity:

<u>Amount of monthly contribution</u>	<u>Term</u>	<u>Amount expected to be paid after maturity</u>
Tk. 500.00	<u>5 (five) years</u>	Tk.38, 518.00
Tk. 1,000.00	-do-	Tk.77, 036.00
Tk. 2,000.00	-do-	Tk.1,54,072.00
Tk. 3,000.00	-do-	Tk. 2,31,108.00
Tk. 4,000.00	-do-	Tk 3,08,144.00
Tk. 5,000.00	-do-	Tk.3,85,180.00
Tk. 500.00	<u>10 (ten) years</u>	Tk.1,10,354.00
Tk.1,000.00	-do-	Tk.2,20,708.00



Tk. 2,000.00	-do-	Tk.4,41,416.00
Tk. 3,000.00	-do-	Tk.6,62,124.00
Tk. 4,000.00	-do-	Tk.8,82,832.00
Tk. 5,000.00	-do-	Tk.11,03,540.00

Automatic closure and revalidation of the account

The account shall be treated automatically closed if monthly installments are not deposited within the 25th day of each month. However;

Where a monthly installment falls in arrear within one year of the opening of the account and the depositor deposits the same within the 25th of the following month with a written application showing valid reasons for such default, the account may be revalidated for operation.

If after one year of opening of the account 3(three) consecutive installments are not deposited, the account may be revalidated subject to deposit of all arrear installments within 25th day of the 4th month with a written application showing valid reasons for such default.

The client shall get 5 (five) chances for 5 years accounts, 10 (ten) chances for 10 years accounts to revalidate the account.

Applicable as per terms described at Para no. 10 below. The balance of Pre-mature closing of account:

If the husband subsequently becomes disinterested/unable to continue the account and the wife wants to withdraw the deposit, she will be given profit in the line of MSS (Pension) Account as under:

In case of pre-mature withdrawal within 1 (one) year, no profit shall be payable.

Encashment after 1(one) year but before 5(five) years shall be entitled to profit at the rate of Mudaraba Savings deposit.



In case of 10 (ten) year term account- if encased after 5 (five) years, but before maturity of the term, profit shall be payable at the rate applicable to 5 (five) year term accounts for 5 (five) years period and for the remaining period at the rate applicable for Mudaraba Savings Account.

The account holder (wife) can withdraw the entire balance of the account before of after maturity through her single signature.

INVESTMENT

Different Investment Mode:

- Trading Mode
- Bai- Muajjal
- Bai- Murabaha
- Bai- Salam
- Partnership Mode
- Mudarabah
- Musharaka
- Ijjara/ Rent / Leasing
- Hire purchase under Shirkatul Meelk
- Equity and entrepreneurship Fund of Bangladesh Bank



Trading Mode

Bai-Muajjal

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

Meaning

The terms "Bai" and "Muajjal" have been derived from Arabic words and means purchase and sale and the word mean 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. In short, it is a sale on Credit.

Definition

Bai-Muajjal may be defined as a contract between a Buyer and a Seller under which the Seller sells certain specific goods (permissible under Shariah and Law of the Country), to the Buyer at an agreed fixed price payable at a certain fixed future date in lump sum or within a fixed period by fixed installments. The seller may also sell the goods purchased by him as per order and specification of the Buyer.

In this Bank, Bai-Muajjal is treated as a contract between the Bank and the Client under which the Bank sells to the Client certain specified goods, purchased as per order and specification of the Client at an agreed price payable within a fixed future date in lump sum or by fixed installments.

Thus it is a Credit sale of goods by which ownership of the goods is transferred by the Bank to the Client but the payment of sale price by the Client is deferred for a fixed period.

It may be noted here that in case of Bai-Muajjal and Bai-Murabaha, the Islamic Bank is a financier to the Client not in the sense that the Bank finances the purchase of goods by the Client, rather it is a financier by deferring the receipt of the sale price of goods, it sells to the Client. If the Bank does not purchase the goods or does not make any purchase agreement with seller, but only makes payment of any



goods directly purchased and received by the Client from the seller under Bai-Muajjal / Bai-Murabaha Agreement, that will be a remittance/payment of the amount on behalf of the Client, which shall be nothing but a loan to the Client and any profit on this amount shall be nothing but Interest.

Therefore, purchase of goods by the Bank should be for and on behalf of the Bank and the payment of price of goods by the Bank must be made for and on behalf of the Bank. If in any way the payment of price of goods is turned into a payment for and on behalf of the Client or it is paid to the Client any profit on it will be Riba.

Important Features:

It is permissible for the Client to offer an order to purchase by the Bank particular goods deciding its specification and committing himself to buy the same from the Bank on Bai-Muajjal i.e. deferred payment sale at fixed price.

It is permissible to make the promise binding upon the Client to purchase from the Bank, that is, he is to either satisfy the promise or to indemnify the damages caused by breaking the promise without excuse.

It is permissible to take cash / collateral security to Guarantee the implementation of the promise or to indemnify the damages.

It is also permissible to document the debt resulting from Bai-Muajjal by a Guarantor, or a mortgage, or both like any other debt. Mortgage / Guarantee / Cash security may be obtained prior to the signing of the Agreement or at the time of signing the Agreement.

Stock and availability of goods is a basic condition for signing a Bai-Muajjal Agreement, Therefore, the Bank must purchase the goods as per specification of the Client to acquire ownership of the same before signing the Bai-Muajjal Agreement with the Client.

After purchase of goods the Bank must bear the risk of goods until those are actually delivered to the Client.

The Bank must deliver the specified Goods to the Client on specified date and at specified place of delivery as per Contract.

The Bank may sell the goods at a higher price than the purchase price to earn profit.

The price once fixed as per agreement and deferred can not be further increased

The Bank may sell the goods at one agreed price which will include both the cost price and the profit. Unlike Bai-Murabaha, the Bank may not disclose the cost price and the profit mark-up separately to the Client.



Bai-Murabaha

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

Meaning

The terms "Bai-Murabaha" have been derived from Arabic words (Bai and Ribhun). The word means purchase and sale and the word means an agreed upon profit. "Bai-Murabaha" means sale on agreed upon profit.

Definition

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

Types of Murabaha

In respect of dealing parties Bai-Murabaha may be of two types.

Ordinary Bai-Murabaha

If there are only two parties, the seller and the buyer, where the seller as an ordinary trader purchases the goods from the market without depending on any order and promise to buy the same from him and sells those to a buyer for cost plus profit, then the sale is called Ordinary Bai-Murabaha.

Bai-Murabaha on Order and Promise

If there are three parties, the buyer, the seller and the Bank as an intermediary trader between the buyer and the seller, where the Bank upon receipt of order from the buyer with specification and a prior outstanding promise to buy the goods from the Bank, purchases the ordered goods and sells those to the ordering buyer at a cost plus agreed profit, the sale is called "Bai-Murabaha on Order or Promise", generally known as Murabaha.

This Murabaha upon order and promise is generally used by the Islami Banks, which undertake the purchase of commodities according to the specification requested by



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This Murabaha upon order and promise is generally used by the Islami Banks, which undertake the purchase of commodities according to the specification requested by



the Clients and sale on Bai-Murabaha to the one who ordered for the goods and promised to buy those for its cost price plus a marked-up profit agreed upon previously by the two parties, the Bank and the Client.

In this Bank, Bai-Murabaha is treated as a contract between the Bank and the Client under which the Bank purchases the specified goods as per order and specification of the Client and sells those to the ordering Client at a cost plus agreed upon profit payable within a fixed future date in lump sum or by fixed instalments.

Important Features

It is permissible for the Client to offer an order to purchase by the Bank particular goods deciding its specification and committing himself to buy the same from the Bank on Murabaha, i.e. cost plus agreed upon profit.

It is permissible to make the promise binding upon the Client to purchase from the Bank, that is, he is to either satisfy the promise or to indemnify the damages caused by breaking the promise without excuse.

It is permissible to take cash/collateral security to guarantee the implementation of the promise or to indemnify the damages.

It is also permissible to document the debt resulting from Bai-Murabaha by a Guarantor, or a mortgage, or both like any other debt. Mortgage/ Guarantee/ Cash Security may be obtained prior to the signing of the Agreement or at the time of signing the Agreement.

Stock and availability of goods is a basic condition for signing a Bai-Murabaha Agreement. Therefore, the Bank must purchase the goods as per specification of the Client to acquire ownership of the same before signing the Bai-Murabaha agreement with the Client

The Bank must deliver the specified Goods to the Client on specified date and at specified place of delivery as per Contract.

The Bank shall sell the goods at a higher price (Cost + Profit) to earn profit. The cost of goods sold and profit mark-up therewith shall separately and clearly be mentioned in the Bai-Murabaha Agreement. The profit mark-up may be mentioned in lump sum or in percentage of the purchase/cost price of the goods. But, under no circumstances, the percentage of the profit shall have any relation with time or expressed in relation with time, such as per month, per annum etc.



The price once fixed as per agreement and deferred cannot be further increased.

It is permissible for the Bank to authorize any third party to buy and receive the goods on Bank's behalf. The authorization must be in a separate contract.

Bai-salam

Under this mode Bank will execute purchase contract with the client and make payment against purchase of product, which is under process of production. Bai-Salam contract will be executed after making any investment showing price, quality, quantity, time, place and mode of delivery. The profit is to be negotiated. In this mode the payment as the price of the goods is made at the time of Agreement and the delivery of the goods is deferred.

Partnership Mode

Mudarabah

It is a form of partnership where one party provides the funds while the other provides the expertise and management. The first party is called the Sahib-Al-Maal and the latter is referred to as the Mudarib. Any profit accrued is shared between the two parties on a pre-agreed basis, while capital loss is exclusively borne by the partner providing the capital.

Musharaka

An Islamic financial technique that adopts "equity sharing" as a means of financing projects. Thus, it embraces different types of profit and loss sharing partnership. The partners (entrepreneurs, bankers, etc.) share both capital and management of a project so that profits will be distributed among them as per ratios, where loss is shared according to ratios of their equity participation.

Hire purchase under Sirkatul Meelk

Under this mode Bank may supply implements/ equipment/goods on rental basis. The ownership of the implements/equipment/goods will be with the Bank and the client jointly and the portion of the client will remain to the Bank as mortgage until the closure of the investment account, but the client will be authorized to possess the equipment for certain period. The client, after completion of the installments, will be the owner of the implements/ equipment/goods.



Meaning and Definition

Hire Purchase under Shirkatul Melk is a Special type of contract which has been developed through practice. Actually, it is a synthesis of three contracts:

Shirkat

Ijarah

Sale

These may be defined as follows:

Shirkatul Melk

Shirkat means partnership. Shirkatul Melk means share in ownership. When two or more persons supply equity, purchase an asset, own the same jointly, and share the benefit as per agreement and bear the loss in proportion to their respective equity, the contract is called Shirkatul Melk contract.

Ijarah

The term Ijarah has been derived from the Arabic words (Ajar) and (Ujrat) which means consideration, return, wages or rent. This is really the exchange value or consideration, return, wages, rent of service of an asset. Ijarah has been defined as a contract between two parties, the Hire and Hirer where the Hirer enjoys or reaps a specific service or benefit against a specified consideration or rent from the asset owned by the Hire. It is a hire agreement under which a certain asset is hired out by the Hire to a Hirer against fixed rent or rentals for a specified period.

Related Terminologies or Elements of Ijara:

According to the majority of Fuqaha, there are three general and six detailed elements of Ijarah.

The wording: This includes offer and acceptance.

Contracting parties: This includes a Hire, the owner of the property, and a Hirer, the party that benefits from the use of the property.

Subject matter of the contract: This includes the rent and the benefit.

The Hire (Muajjir)- The individual or organization hires/rents out the property of service is called the Hire (muajjir).



The Hirer (Mustajir)- The individual or organization hires/takes the hire of the property or service against the consideration rent / wages / remuneration is called the Hirer (mustajir).

The benefit / asset (Maajur) - The benefit which is hired / rented out is called the benefit (maajur).

The Rent (Ajar or Ujrat) - The consideration either in monetary terms or in kinds fixing quantity of goods / money to be paid against the benefit of the asset or service of the asset is called the rent or ujrat or ajar.

Sale

This is a sale contract between a buyer and a seller under which the ownership of certain goods or asset is transferred by seller to the buyer against agreed upon price paid / to be paid by the buyer.

Thus, in Hire Purchase under Shirkatul Melk mode 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 and bear the loss in proportion to their respective equity. The share, part or portion 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 part either gradually part by part or in lump sum within the hire period or after the expiry of the hire agreement.

Stages of Hire Purchase under Shirkatul Melk

Thus Hire Purchase under Shirkatul Melk Agreement has got three stages:

Purchase under joint ownership.

Hire and

Sale and /or transfer of ownership to the other partner Hirer.

Types of sale contract in hire purchase under shirkatul melk

As per procedure of transfer of ownership and legal title of the part owned by the Bank is transferred to the other partner, the sale contract may be of various forms, some of the major forms are mentioned below:

Hire Purchase Under Shirkatul Melk through gradually transfer(sale) of legal title/ownership of the hired asset/property.



Under this type certain 'asset / property' is purchased with equal or unequal equity participation and owned jointly by the two parties – the Bank and the Client. The Bank's share / portion of the asset is hired out to the Client partner against fixed rent/rentals per unit of time for a fixed period with a promise that the Hire Bank will sell or transfer the ownership of its portion to the Client Hirer gradually part by part in proportion to the consideration paid. So that the Hirer may acquire the full title of the Hire's portion of the asset on payment of the total price at the end of the hire period.

Under this system the total price of the hired property / asset should be determined and divided over the period of hire contract (per unit of time) so that the Hirer in addition to the payment of fixed rent / rentals may pay gradually the proportionate consideration of the total price of the hired property or asset to acquire proportionate ownership of the same part by part and become full owner of the hired asset at the end of the hire period.

It should be noted that there should be a separate sale contract for payment / acquisition of each share (per unit of time as per hire deal) / part of asset sold to the Hirer and the amount of rent should be decreased proportionately with decrease of Hire's ownership and increase of Hirer's ownership on the property/asset.

If, for any reason, the hire contract is revoked prior to the payment / transfer of full title to the Hirer, the Hirer will share that part of the title to the hired property which has been transferred to him against payment made by him and the remaining part will be shared by the Hire Bank. If any loss arises to the Bank after the sale of Bank's share to the property / asset that shall be recouped from the Client / Client's security. In our Bank, we shall be following this type of Sale Contract in Hire Purchase under Shirkatul Melk.

Hire Purchase Under Shirkatul Melk Through Transfer of legal title by gifts (for no consideration).

Under this type the portion of asset owned by the Hire partner is hired out to the Hirer partner with a prior promise that the Hire, upon settlement of all the rent / rentals / installments by the Hirer, will transfer his ownership / title to the property to the Hirer through gift without any further consideration.

After the expiry of the hire period and payment of all the rent / rentals / instalments, the title of property may be transferred by a separate gift deed executed by the Hire or, the title may be transferred by issuing a gift deed by the Hire making it conditional on the settlement of all rental installments. In the later case, the legal title is automatically transferred as soon as the hire period expires and the fixed rent installments for rent are settled. The working of the agreement would be: If the agreed upon rental installments are settled within the agreed upon period, ownership of the asset will be transferred to the Hirer as gift.



Hire Purchase under Shirkatul Melk Through transfer of legal title (sale) at the end of hire period for a token consideration.

Under this contract the possession of the asset owned by the Hire is hired out to the hire for a fixed period against fixed rent / rentals and at the end of the hire period the title to the asset is transferred to the Hirer by a separate sale contract on payment of agreed upon token consideration. The consideration may be equal to the value of the asset or not and it would be sufficient if a mutual agreement is reached on the consideration.

Hire Purchase Under Shirkatul Melk through transfer of legal title (sale) at the end of Hire period for payment of a specified amount to the hire by the hirer

This agreement includes an ijarah / hire contract and a sale contract. Under this agreement a specific asset is hired out for a fixed period against specific rent mentioning a specific consideration to be paid by the Hirer (buyer) after the expiry of the hire period and upon payment of the agreed upon consideration. The hired asset becomes sold and its title transferred to the Hirer (the buyer). Under the agreement, the hire contract becomes effective firstly and the sale contract will be effective only after the expiry of the hire contract.

Hire Purchase Under Shirkatul Melk through transfer of legal title (sale) prior to the end of the hire term for a price that is equivalent to the remaining ijarah /rental instruction.

This is an ijarah / hire agreement which includes a promise made by the Hire that he will transfer the title of the hired property to the Hirer at any time during the hire period on payment of the remaining ijarah / rental instalments, if the Hirer wishes so. Under this system first, the ijarah/hire contract becomes effective and remains so until the legal title is transferred to the Hirer. As soon as the title to the asset is transferred to the Hirer the ijarah/hire contract lapses for the remaining period, because both the benefit and the hired property become the Hirer's property. This type of sale should be executed by a separate sale contract at the time of sale.

Important features

In case of Hire Purchase under Shirkatul Melk transaction the asset / property involved is jointly purchased by the Hire (Bank) and the Hirer (Client) with specified equity participation under a Shirkatul Melk Contract in which the amount of equity and share in ownership of the asset of each partner (Hire Bank & Hirer Client) are clearly mentioned. Under this agreement, the Hire and the Hirer become co-owner of the asset under transaction in proportion to their respective equity participation.



In Hire Purchase under Shirkatul Melk Agreement, the exact ownership of both the Hire (Bank) and Hirer (Client) must be recognised. However, if the partners agree and wish that the asset purchased may be registered in the name of any one of them or in the name of any third party, clearly mentioning the same in the Hire Purchase Shirkatul Melk Agreement. However, in IBBL, no third party registration shall be allowed.

The share / part of the purchased asset owned by the Hire (Bank) is put at the disposal / possession of the Hirer (Client) keeping the ownership with him (Bank) for a fixed period under a hire agreement in which the amount of rent per unit of time and the benefit for which rent to be paid along with all other agreed upon stipulations are also to be clearly stated. Under this agreement, the Hirer (Client) becomes the owner of the benefit of the asset but not of the asset itself, in accordance with the specific provisions of the contract which entitles the Hire (Bank) is entitled for the rentals.

As the ownership of hired portion of the asset lies with the Hire (Bank) and rent is paid by the Hirer (Client) against the specific benefit, the rent is not considered as price or part of price of the asset.

In the Hire Purchase under Shirkatul Melk Agreement the Hire (Bank) does not sell or the Hirer (Client) does not purchase the asset but the Hire (Bank) promise to sell the asset to the Hirer (Client) part by part only, if the Hirer (Client) pays the cost price / equity / agreed price as fixed for the asset as per stipulations within agreed upon period on which the Hirer also gives undertakings.

The promise to transfer legal title by the Hire and undertakings given by the Hirer to purchase ownership of the hired asset upon payment part by part as per stipulations are effected only when it is actually done by a separate sale contract.

As soon as any part of Hire's (Bank's) ownership of the asset is transferred to the Hirer (Client) that becomes the property of the Hirer and hire contract for that share / part and entitlement for rent thereof lapses.

In Hire Purchase under Shirkatul Melk Agreement, the Shirkatul Melk contract is effected from the day the equity of both parties deposited and the asset is purchased and continues upto the day on which the full title of Hire (Bank) is transferred to the Hirer (Client).



The hire contract becomes effective from the day on which the Hire transfers the possession of the hired asset in good order and usable condition to the Hirer. so that the Hirer may make use of the same as per provisions of the agreement.

Effectiveness of the sale contract depends on the actual sale and transfer of ownership of the asset by the Hire to the Hirer. It is sold and transferred part by part. it will become effective part by part and with the sale and transfer of ownership of every share / part. The hire contract for that share / part will lapse and the rent will be reduced proportionately. At the end of the hire period when the full title of the asset will be sold out and transferred to the Hirer (Client), the Hirer will become the owner of both the benefit and the asset consequently the hire contract will fully end.

Hire Purchase under Shirkatul Melk is a binding contract for the parties to it - the Bank and the Client who are committed to fulfill / meet their undertakings / obligations in accordance with the relevant agreement.

Hire Purchase under Shirkatul Melk transaction facilitates the Client (Hirer) to get benefit from the hired asset in exchange of rental and also to become full owner of the asset by purchasing it part by part.

If, for any reason, the hire contract is revoked prior to the transfer of full title of the asset to the Hirer, then the title of the asset will be shared by both Hire and Hirer – the Hirer will share that part of title which has been transferred to him against payment and the Hire will share the remaining part.

The Hirer to secure the Bank (the Hire) will pledge / hypothecate / mortgage his portion / part / share in the asset (acquired / to be acquired) and or any other asset / property of his own / third party guarantor to the Bank to fulfill his all liabilities / commitments including the accrued rental, if any.



Foreign Exchange

1.1 Introduction:

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

Foreign trade can usually be justified on the principle of comparative advantage. Accounting to this economic principle, it is economical profitable for a company to specialize in the production of that commodity in which the producer country has the greater comparative advantage and to allow the other country to produce that commodity in which it has the lesser comparative advantage. It includes the spectrum of goods, services, investment, technology transfer etc.

This trade among various countries causes for close linkage between the parties dealing in trade. The bank which provides such transactions is referred to as rendering international banking operations. International trade demands a flow of goods from seller to buyer and of payment from buyer to seller. And this flow of goods and payment are done through letter of credit (L/C).

1.2 Function of foreign Exchange department:

Export:

- Pre-shipment advantages.
- Negotiating of foreign bills.
- Exports guaranties
- Purchase of foreign bills.
- Advance against bills for collection.
- Advising / conforming setters (latter of credit).
- Advance for differed payments exports.



Imports:

- Bills for collection
- Advance bills.
- Opening of letter of credit (L/C)
- Import loan & guarantees.

Remittances:

- Issue of DD, TT, MT, etc.
- Payment of DD, TT, MT etc.
- Sale and enhancement of foreign currency notes.
- Issue and enhancement of traveler's cheque.
- Non-resident accounts.

1.3 The most commonly used document in foreign exchange:

Documentary letter of credit.

- Bill of exchange
- Bill of lading
- Commercial invoice
- Certificate of origin of goods
- Inspection certificate
- Packing list
- Insurance policy
- Pro-forma invoice / indent
- Master receipt
- GSP certificate

Parties to a letter of credit (L/C):

The parties to a letter of credit are:

- Importer / buyer
- Opening bank/issuing bank
- Exporter/seller/beneficiary
- Advising bank/notifying bank
- Negotiating bank
- Confirming bank
- Paying/ reimbursing bank



Bill of lading:

A bill of lading is a document that is usually stipulated in a credit when the goods are dispatched by sea. It is evidence of a contract of carriage, is a receipt for the goods and is a document of title to the goods. It also constituted a document that is, or may be, needed to support an insurance claim.

The details on the bill of lading should include:

- Identify marks and members, if any.
- A description of the goods in general terms not inconsistent with in the credit.
- The name of the carrying vessel.
- Evidence that the goods have been loaded on board.
- The ports of shipment and discharge.
- The names of shipper, consignee and name and address of the notifying party.
- Whether freight has been paid or is payable at destination.]
- The date of issuance.
- The number of original bills of lading issued.
- A bill of lading specifically states that goods are loaded for ultimate destination specifically mentioned in the credit.

Commercial invoice:

A commercial invoice is the accounting document by which the seller changes the goods to the buyer. A commercial invoice normally includes the following information:

- Date
- Name and address of the buyer and seller.
- Order of the contract number, quantity and description of the goods, unit price and the total price.
- Weight of the goods, number of package, shipping marks and numbers.
- Terms of delivery and payment.
- Shipment details.



Certificate of origin:

A certificate of origin is assigned statement providing evidence origin of the goods.

Insurance certificate:

The insurance certificate documents must-

Be that specified in the credit.

Cover the risks specified in the credit.

Be consistent with the other documents in its identification of the voyage and description of the goods.

1.4 Import operation:

Import is foreign goods and services purchased by customer, firm and Governments in Bangladesh. An importer must have import registration certificate (IRC). Given by chief controller of import and exports (CCI & E) to import any thing from other country. To obtain import registration certificate (IRC) the following certificates are required:

- Trade license
- Income Tax clearance certificate.
- Nationality certificate.
- Banks solvency certificate.
- Asset certificate
- Registration partnership deed (if any)
- Memorandum and article of association.
- Certificate of incorporation (in any)
- Rent receipt of the business premises.

Import procedure:

To import through Islami Bank Bangladesh (IBBL), a customer or client requires:

- Bank account
- Import restriction certificate
- Tax paying identification number
- Pro-forma invoice/indent
- Membership certificate



- L/C application form duly attested.
- One set of IMP form.
- Insurance cover note with money receipt.
- Opening of letter of credit (C/L) by bank

Opening of L/C means, at the request of the applicant (importer) issuance of a L/C in favor of the beneficiary (Exporter) by a bank. The bank which open or issue L/C is called L/C opening bank or issuing bank.

On receipt of the importer's L/C application supported by the firm contract (indent/pro-forma invoice) and insurance cover note the bank scrutinize the same thoroughly and fix up a margin on the basis of banker customer relationship.

Before opening a L/C, the issuing bank must check the following:

L/C application properly stamped, signature verified and margin approved and properly retained.

Ensure that the relevant particulars of L/C application correspond with those stipulated in indenter/ pro-forma invoice.

Validity of LCA entitlement of goods, amount etc. conforms to the L/C application.

Indent/pro-forma invoice signed by the importer and indenter / supplier.

Conversion and rate of exchange correctly applied.

Charges like commission, FCC, Postage, Telex charge, SWIFT charge, if any recovered.

Insurance cover note in the name of issuing bank –A/C importer covering required risks and voyage route.

Incorporation of instruction for Negotiating Bank as per banks existing arrangement.

Reimbursement instructions for reimbursing bank.

If foreign bank confirmation is required, necessary permission should be obtained and accordingly advising bank is advised as per banks existing arrangement.

In case of insurance L/C, mention rate of interest clearly in the letter of credit.

If add confirmation is required on account of the applicant charges should be recovered from the applicant.



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Liability of issuing bank:

As per article 9(a) of **UCPDC 500**, an irrevocable credit constitutes a definite undertaking of the issuing bank provided that the stipulated documents comply with the terms and conditions of the credit.

Advising of Letter of Credit:

Advising means forwarding of a Documentary Letter of credit received from the issuing bank to the beneficiary (Exporter).

Before advising a L/C the advising bank must see the following:

If the export L/C is intended to be an operative cable L/C Test Code on the L/C invariably be agreed.

Signature of issuing bank officials on the L/C verified with the specimen signatures book of the said bank when L/C received.

L/C scrutinized thoroughly complying with the requisites of concerned UCPDC provisions.

L/C advised to the beneficiary (Exporter) promptly and advising charges recovered.

Entry made in the L/C Advising Register.

Operational Procedure of L/C in Export & Import Business:

- ✓ **Importer.**
- ✓ **L/C opener.Or applicant.**
- ✓ **Exporter.**
- ✓ **Or**
- ✓ **Beneficiary.**
- ✓ **Proforma invoice**
- ✓ **Contract.**
- ✓ **Inventor's indent.**
- ✓ **Shipment the goods.**
- ✓ **Negotiating Bank.**



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- ✓ Or
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- ✓ Proforma invoice
- ✓ Contract.
- ✓ Inventor's indent.
- ✓ Shipment the goods.
- ✓ Negotiating Bank.

This bank negotiates with issuing bank in favor of exporter for the bill and pays the amount to the exporter.



Issuing Bank:

This bank will deal with L/C for the buyer against supplier & through the L/C advising Bank.

Reimbursement Bank:

This bank deals with payment in favor of issuing bank

Advising Bank.

This bank will deal with the exporter & inform the supplier that a L/C came from the buyer.

Adding confirmation:

Adding confirmation is done by the confirming bank. Confirming bank is a bank which adds its confirmation to the credit and it is done at the request of the issuing bank the advising usually does not do it if there is not a prior arrangement with the issuing bank. By being involved as a confirming agent the advising bank undertakes to negotiate beneficiary's bill without recourse to him.

Review the L/C terms.

Issue L/C and request to add confirmation.

Provide reimbursement.

Drafts to be drawn on L/C opening bank

Line allocation from the business and ownership units in the importer's country.

Confirm and advise L/C.

Availability of credit facilities.

What is to be done by the issuing bank before advising amendments?

The issuing bank has to –

Obtain written application from the applicant of the credit duly signed and verified by the bank.

In case of increase of value, applications for amendment are to be supported by revised Indent/Pro-format Invoice evidencing consent of the beneficiary.



In case of extension of shipment period, it should be ensured that relative LC is valid/revalidated/increased up to the period of proposed extension.

Amendment of an increase of credit amount and extension of shipment period both the cases amendment of insurance cover Note also is submitted.

Proper recording and filling of amendment is to be maintained.

Amendment charges (if an account of applicant will be recovered and necessary voucher is to be passed.)

The following clauses of L/C are generally amended:

- ✓ Increase/decrease value of L/C and increase / decrease of quality of goods.
- ✓ Extension of shipment/negotiated period.
- ✓ Terms of delivery i.e. FOB, CFR, and CIF etc.
- ✓ Mode of shipment.
- ✓ Inspection clause.
- ✓ Name of the reimbursing bank.
- ✓ Name of the shipping line etc.

Settlement of Letter of Credit:

Settlement means fulfillment of issuing bank in regard to affecting payment subject to satisfying the credit terms. Settlement may be done under three separate arrangements as stipulated in the credit.

Settlement by payment:

Here the seller presents the documents to the nominated bank and the bank scrutinizes the documents. If satisfied, the nominated bank makes payment to the beneficiary and in case this bank is other than the issuing bank then sends the documents to the issuing bank and claim reimbursement as per arrangement.

Settlement by Acceptance:

Under this arrangement, the seller submits the documents evidencing the shipment to accepting bank (nominated by the issuing bank for acceptance) accompanied by draft drawn on the bank at the specified tenor. After being satisfied with the documents, the bank accepts the documents and the draft and if it is a bank other



than issuing bank the send s the documents to the issuing bank starting that is has accepted the draft and at maturity the reimbursement will be obtained in the pri-agreed manner.

Settlement by Negotiation:

This settlement procedure starts with the submission documents and if negotiation restricted by the issuing bank, only nominated bank can negotiate the documents. After scrutinizing that the documents meet the credit requirement, the bank may negotiate the documents and give value to the beneficiary. The negotiating bank then sends the documents to the issuing bank as usual; reimbursement will be obtained in the pre-agreed manner.

Accounting Treatment:

Sundry Deposit L/C Margin A/C Dr.

PAD A/C Cr.

(Margin amount transferred to PAD A/C)

Customer A/C Dr.

PAD A/C Cr

(Customer account debited for the remaining amount)

PAD A/C Dr.

Head office A/C + Exchange Trading A/C Cr.

Income A/C interests on PAD Cr.

(Amount given to Head Office ID and interest credit)

Reversal Entries:

Banker's Liability Dr.

Customer's Liability Cr.

(When lodgment is given)



After realizing the telex charge, service charge, interest (if any), and the shipping documents is then stamped with PAD number & entered in the PAD register. Intimation is given to the customer calling on the bank's counter requesting retirement of the shipping documents. After passing the necessary vouchers, endorsement is made on the back of the bill of exchange as "receipt payment" and the bill of lading is endorsed to the effect "please deliver to the order of M/S..... under two authorized signatures bank's officer (P.A. holder). Then the documents are delivered to importer.

Payment procedure of the Import Documents:

This is the most sensitive task of the import department. The officials have to be very much careful while making payment.

Date of Payment: Usually payment is made within 7 days after the documents have been received. In the payment is become deferred, the negotiation bank may claim interest for making delay

Preparing sale Memo: A sale memo is made at BC rate to the customer. As the TT & DD rate is paid to the ID, the difference between these two rates is exchange trading. Finally, an inter Branch Exchange Trading Credit Advice is sent to ID.

Requisition for the foreign Currency: For arranging necessary fund for payment, a requisition is sent to the International Department.

Transmission of Telex: A telex is transmitted to the correspondent bank ensuring that payment is being made.

1.5 Export operation:

Practically by the term export we mean out carrying of anything from one country to another. As banker we define export as sending of visible things outside the country for sale. Export Trade Plays a vital note in the development process of an economy. With the earning we meet out import bills.

Although export trade is always encouraged, any body can not export anything to any place. Like importer the exporters are also required to get them registered



before entering into export trade. Export registration certificate (ERC) given by CCI & E is required for this purpose. The required documents to obtain ERC are also same as IRC.

When a bank (Authorized dealer) receives a L/C (cable or original) it ascertains the correctness of the next number and the authorized signature. Then the bank sends the original copy of the L/C to the beneficiary.

The exporter presents the relative documents to the negotiation bank after the shipment of the goods. The L/C issuing bank undertakes to honor its obligation only if the beneficiary fulfills the conditions stipulated in the L/C, namely, the submission of stipulated documents within the stipulated time. Even a slight deviation of the documents from those specified in the L/C may give an excuse to the negotiating bank. So the negotiating bank must be careful, prompt, systematic and bias-free while scrutinizing the tender documents after careful and thorough examination of the documents, the banker has to list out the discrepancies which may be classified as major or minor, irremovable or removable. The removable discrepancies can be corrected by the tenderer or future losses, which may arise due to non-repatriation of proceeds.

The following types of discrepancies may be noted while the negotiation bank examines the documents:

- Late shipment.
- L/C expired.
- Amount drawn in excess of the L/C.
- Bill of exchange not properly drawn.
- Descriptions of goods differ.
- Bill of lading or airway bill state.
- Bill of lading classed.
- Insurance Cover Note as per terms L/C
- Insurance Cover obtained after the bill of Lading or Airway bill date.
- Enough number of copies not submitted as required by L/C.
- Negotiation under L/C restricted.
- Packing list and certificate of analysis not as per the L/C.
- Documents not properly endorsed in favor of the bank.
- Documents inadequately stamped.
- Full shipment not effective and part shipment prohibited.
- Some of the documents required by L/C not submitted and
- Gross Weight and Net Weight shown in different documents differ.



Documents with major discrepancies, which could not be negotiated, should be sent on collection basis with the permission of the exporter.

Export procedure:

The export and Import trade in our country are regulated by imports and exports (control) Act 1950. Under the export Policy of Bangladesh the exporter has to get the valid Export Registration Certificate (ERC) from chief controller of import & Export (CCI & E). The ERC is required to renew every year. The ERC number is to be incorporated on EXP forms and other papers connected with exports.

Registration of Exporter:

For obtaining ERC indenting Bangladesh exporters are required to apply to the controller / joint controller/deputy controller / assistant controller of imports and exports, Dhaka / Chittagong / Kulna/Mymensingh /Sylhet / Comilla/ Barishal/ Bogra / Rangpur /Dinajpur in the prescribed form along with the documents:

Bank certificate.

Nationality and assets certificate.

Memorandum and Articles of Association and certificate of Incorporation in case of Limited company.

Trade license

Income tax certificate etc.

Signing the contract:

After communicating with buyer exporter has to get contracted (writing or oral) for exporting exportable item(s) from Bangladesh detailing commodity, quantity, price, shipment, insurance, and marks, inspection, arbitration etc.

Receiving the Letter of Credit:

After getting contract for sale, Exporter should ask the buyer for letter of credit clearly stating terms and conditions of export and payment.

The following are the main points to be looked into for receiving (collection export proceeds by means of documentary credit):



- The terms of the L/C are in conformity with those of the contract.
- The L/C is an irrevocable one, preferably confirmed by the advising bank.
- The L/C allows sufficient time for shipment and negotiation;

Terms and conditions should be stated in the contract clearly in case of other modes of payment:

- Cash in advance
- Open A/C
- Collection basis (document/clean).

Shipment of goods:

Then the exporter should take the preparation for export, arrange for delivery of goods as per L/C and INCOTERMS, prepare and submit shipping documents for payment / acceptance / negotiation in due time. Documents for shipments:

- L/C Copy
- EXP form
- ERC (Valid)
- Customer Duty certificate
- Shipping Instruction
- Transport Documents
- Insurance Documents
- Invoice
- Other documents
- Bill of exchange (if required)
- Certificate of origin
- Inspection certificate
- Phyto-sanitary certificate
- G.S.P. certificate
- Quality control certificate.



Final step:

After those, exporter submits all these documents along with a letter of indemnity to NCCBL for negotiation. An officer scrutinizes all the documents. If the documents are a clean one, NCCBL purchases the documents on the banks of banker- customer relationship. This is known as Foreign Documentary Bill purchases (FDBP).

Procedure for FDBP:

After purchasing the documents NCCBL gives the following entries:

FDBP A/C	Dr.
Customer A/C	Cr.

(Before realization of proceeds)

Head office A/C	Dr.
FDBP A/C	Cr.

Foreign documentary Bills for Collection:

United commercial bank limiter forwards documents for collection due to the following

Reasons:

If the documents have discrepancies.

If the exporter is a new client.

The banker is in doubt.

Foreign documentary bills for collection signify that the exporter will receive payment only when the issuing bank gives payment. The exporter submits duplicate EXP form & commercial invoice. Subsequently, the value of the bill is calculated and the following accounting entries are given:



Head office A/C	Dr.
Client's A/C	Cr.
(@ OD sight)	
Govt. Tax A/C	Cr.
(@ of invoice value)	
Postage A/C	Cr.
Income A/C profit on exchange	Cr.

United commercial bank limiter has **NOSTRO** account with its reimbursing bank. An FDBP Register is maintained, where first entry is given when the documents are forwarded to the issuing bank for collection and the second one is done after realization of the proceeds.

Export bill scrutiny sheet:

Banks scrutinizes the export bill on them following points:

General:

L/C expired

Late presentation.

Late shipment

L/C overdrawn

Partial shipment or Transshipment beyond L/C terms.

Bill of exchange:

Amount of bill differs with invoice.

Not drawn on L/C issuing bank.

Not signed.

Tenor or B/E not identical with L/C

Full set not submitted.

Invoice.

Not issued by the beneficiary

Not signed by the beneficiary.

Not made out 1 name of the applicant.

Description, price, quality, sales terms of goods not correspond to the credit.

Not marked one fold as original.

Shipping marks differ with B/A & packing list.

Packing List:

Gross weight, Net weight & Measurement, number of cartoons/ packages differ with B/L.

Not signed by the beneficiary.

Not marked one fold as original.

Bill of Lading/ Airway Bill:



Full set of bill not submitted.

B/L is not drawn or endorsed.

“B/L shipping on Board” “Frigh Prepaid” or “Freight Collect” etc. notations are not marked on the B/L

B/L not indicate the name and capacity of the party i.e. carrier or master, on whose behalf the agent is signing the B/L.

Shipped on board notation not showing name or pre-carriage vessel/intended vessel.

Shipping on board notation not showing port of loading a vessel name (incase B/L indicates a place of receipt or taking in charge different from the port of lading).

Short form B/L

Charter party B/L

Description clauses or notations expressly declaring defective condition of the goods and / or the packages.

Others:

Non-negotiable documents not forwarded to buyers or forwarded beyond L/C terms.

Inadequate number of invoice, packing list & others submitted.

Short shipment certificate not submitted.

Settlement of local Bill:

1. The settlement of local Bill is done in the following ways:
2. The customer submits the L/C to United Commercial Bank Limited along with the documents to negotiate.
3. United commercial Bank Limited official scrutinize the documents to ensure the conformity with the terms and conditions.
4. The documents are then forwarded.
5. The L/C issuing bank gives the acceptance and forwards an acceptance and forwards an acceptance letter.
6. Payment is given the customer on either by collection basis or by purchasing the documents.



Mode to payment of export bill under L/C:

The most common methods of payment under a L/C are as follows:

Sight payment credit: In a sight payment credit, the bank pays the stipulated sum immediately against the exporter's presentation of the documents.

Negotiation Credit: In negotiation credit, the exporter has to present a bill of exchange payable to him in addition to other documents that the bank negotiation'.

Acceptance Credit: in acceptance credit, the exporter presents a bill of exchange payable to himself and drawn at the agreed tenor (that is, on a specified future date event) on the bank that is accept it. The bank signs its acceptance on the bill returns it to the exporter. The exporter can then represent it for payment on maturity. Alternatively he can discount it in order to obtain immediate payment.

Back To back letter Of credit:

A back to back letter of credit is a new credit. It is different from the original credit based on which bank under takes the risk under the back to back credit. In this case, the bank's main security is original credit. Te original credit (selling credit) is separate instruments in dependent of each other and in no way legally connected, although they both form part of the same business operation.

The supplier (beneficiary of the back to back credit) ships goods to the importer and presents documents to the bank as is specified in the credit. It is intended that the exporter would substitute his own documents for negotiation under the original credit. His liability under the back to back letter of credit would be adjusted out of these proceeds. The exporter L/C is marked lien and no margin is taken.

In UCBL papers / documents required for submission for opening of back to back L/C:

Master L/C

Valid import registration certificate (IRC) & export registration certificate.

Pro- forma invoice or indent.

Insurance cover note with money receipt.

L/C application & LCA form duly filled in signed.

IMP form duly signed.



In addition to the above the following papers/ documents are also required for export oriented garments industries while requesting for opening back to back letter of credit:

Valid bonded warehouse license

Textile permission.

Quota allocation letter issued by export promotion bureau (EPB) in favor of the applicant in case of quota items

In case the factory premises is a rented one , letter of discloser duly executed by the owner of the house / premises to be submitted.

Clauses appear in the master L/C:

Issuing bank is not reputed

Advising credit by the advising bank without authentication

Inspection clause

Port of destination absent

Nomination of specific shipping /airline of nomination of specified vessel by subsequent amendment

No specific reimbursing clause

UCP clause not mentioned

Shipment /present period is not sufficient

Original document to be sent to buyer or nominated agent

FCR or HAAWB consigned to applicant of buyer

Negotiation is restricted

L/C expires in the country of the issuing bank.

Payment of back to back letter of credit:

In case of bake to back as 60-90-120-180 days of maturity period, deferred payment is made. Payment is given after realizing export proceeds from the L/C issuing bank.



Foreign exchange remittance:

Remittance means sending of fund. The word remittance we understand sending or transferring of through a bank from one place to another place which may be within the country or between two countries, one in abroad is called foreign remittance.

"Foreign remittance" means purchase and sale of freely converted foreign currencies as admissible "foreign exchange regulations act- 1947" and "guidelines for foreign exchange transaction – VOL.1&2 of the country. Purchase of foreign currencies constitutes outward foreign remittance.

So we see that there are two types of foreign remittance:

1. Foreign inward remittance
2. Foreign outward remittance.

Inward remittance:

The remittance which is received from abroad are called inward remittance.

Purpose of inward remittance:

Indenting commission

Family maintenance

Gift

Foreign investment

Donation

Export proceeds

Others.

Mode of inward remittance:

Mail transfer(MT)

Telegraphic transfer(TT)

Payment Order (PO)

Travelers Cheque (TC)

Foreign currency notes

Foreign demand draft (FDD).



Outward remittance:

Remittance which is made from our country to abroad is called outward remittance.

Mode of outward remittance:

Foreign mail transfer (FMT)

Foreign telegraphic transfer (FTT)

Travelers cheque (TC)

Foreign currency notes

Foreign demand draft (FDD).

Present limit of outward remittance fixed by Bangladesh bank:

Travel

Education

Seminar/ workshop/ conference

Medical treatment

Fees

Family maintenance

Foreign shipping lines /air lines/ courier services company

Dividend /Gain of foreign companies/ shareholders

Hajj

Remittance of salaries and saving by expertise

Expense of office opened abroad

Remittance of royalty and technical fees

Operating expense of Bangladesh shipping corporation & Bangladesh biman.

Remittance against export claims.

Subscription to foreign media services.

Advertisement of Bangladeshi products in mass media abroad.

Bank charges and sundries

Taking out/ bringing in of Bangladeshi taka.

Submission of returns to Bangladesh bank:

The ads must maintain adequate and proper records of all foreign exchange transactions including transaction on non-resident taka A/C in their book and furnish such particulars in the prescribed statements / returns for submission to the



Bangladesh bank. The purpose of submission return & statements to Bangladesh bank for keeping systematic and proper records of all dealings in foreign exchange including transactions on non-resident taka A/Cs. Submission of the returns/ statements to Bangladesh bank is very much important. Total picture of foreign exchange transaction of the country such as reserve of FC, FCs earned export, wage earners & other reference and FCs paid through import, treatment, education, traveling etc can be ascertained after completion of these returns / statements submitted to Bangladesh bank by the Ads.

Reporting of inland L/C settlements:

Payments against inland L/Cs in foreign exchange will be reported in summary statement S-1 or sales side as "payment against inland L/C" and the recipient AD will report the receipt on the purchase side of S-1 as "receipt in settlement of inland L/C".

Date of submission statements to Bangladesh Bank:

Operation on private non-resident taka of non bank clients. Quarterly with 12th day of following month.

Monthly statement of outstanding payment commitment abroad. By 15th of following month.

Commodity wise statement of imports L/Cs outstanding as on each month end. 10th of the following month.

Monthly statement of outstanding exports bills as of each month end. 15th of the following month.

Currency wise daily position statements should be kept ready for immediate submission to Bangladesh bank as and when called for.



Ending Report

Ending Summary

Despite tremendous popular support, spectacular success in terms of mobilization of deposit and distribution of profit, Islamic banking in Bangladesh yet to achieve the desired level of success due to the absence of appropriate legal framework for carrying out Islamic banking operation in the country. All the Government approved securities in Bangladesh are interest bearing. Beside 'Islamic money market' is yet to develop. As a result, the Islamic banks, which are committed to avoid interest, cannot invest the permissible part of their statutory liquidity reserve and short term liquidity reserve and short term liquidity surplus in those securities.

Despite of the present limitations, Islamic banking system has tremendous potentiality and prospect in Bangladesh. Firstly, the successful launching and operation of Islamic banks in Bangladesh has established the fact that banking without interest is feasible. Secondly, the launching of Islamic banks has shown the needs of Islamic money market in the country. Thirdly, Islamic banks have brought together many depositors and entrepreneurs under their fold and coverage. These depositors and entrepreneurs so long avoided interest-based banking on grounds of religious injunctions.

The gradual and successful globalization of Islamic banking coupled with growing awareness of the people about its financial and social benefits makes it clear that the next century is going to be the century of Islamic banking.

Recommendations



We already discussed about our report. So we have also some recommendations. If we developed our Banking side we firstly we need to spread islami economics based on holly quern and hadis over all country. Also need to understand to people what is the different between inslami banking and conventional banking. Give opportunity for rural people to get islami banking. Rich people help to our poor people for banking side. Government should to take care very highly. It we doing this job we hope we will achieve our goal.

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