

FULL-FLEDGED CONVERSION EFFECTS ON OPERATIONAL AREAS OF BANKS: THE CASE OF BANGLADESH

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***Abstract:** The study evaluates the effects on operational areas of those banks, which have converted themselves into full-fledged Islamic banks from conventional banks. Organizational structure, operational areas, reaction of the employees and clients of the banks after conversion are considered as the research areas. General banking activities, investment activities and foreign exchange activities of 16 years data have been used to evaluate the effects of conversion. Study finds that banks innovate new products and services after conversion. Positive effects are seen in investment and foreign exchange activities of the banks after conversion. Study also observed that the banks introduce new committee and new heads of expenses like Zakat expenses and allowances for the members of Shariah supervisor committee after conversion. Banks also modified their mission, vision and objectives after conversion. Study found that conversion helps them to build a strong banker customer relationship. Study concluded that the overall effects of conversion are positive.*

***Keywords:** bank conversion, general banking activities, investment activities, foreign exchange activities, bank products, conventional banks, Islamic banks*
***JEL Classification:** G2 Financial Institutions and Services*

Introduction

Bank conversion is a process of converting one type of bank into another type. In the banking industry of Bangladesh, conversion indicates the transformation of conventional bank into Islamic bank. Among eight (08) full-fledged Islamic banks in Bangladesh, six (6) banks are by born Islamic banks. However, two banks, EXIM and First Security Islami Bank (previously known as ‘First Security Bank Limited) are converted Islamic banks. These two banks started their operation as interest based conventional bank. After passing few years, they have converted themselves as full-fledged Islamic bank. This study attempted to analyze the pre-conversion period (conventional) activities and after-conversion period (Islamic) activities of the banks. Bangladesh Bank guidelines (2012) for Islamic Banks narrated that Islamic Banking has experienced a phenomenal growth and expansion in Bangladesh in the backdrop of strong public demand and support for the system along with its gradually increasing popularity across the world. As a result, a number of full-fledged Islamic banks have been established, while a good number of conventional banks have come forward to offer services compliant with Islamic Shariah through opening of Islamic branches along with conventional ones. There is also a trend

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of conversion of conventional banks into Islamic bank. This article evaluates the effects on operational areas of banks after conversion. Some operational areas are general banking activities, investment activities cash flow from investment activities, foreign exchange activities, online banking activities etc. Banking industry in Bangladesh can be benefited by observing the findings of the study.

Literature Review

Few works have been done regarding bank conversion. Farooq and Yaccob (2012) argued that the increasing awareness on Islamic banking and finance has created a huge demand for Shari'ah based or Shari'ah compliant products. Banks, especially are trying to capture this huge market by either converting themselves into a full fledge Islamic banks or opening a window for the Islamic based transactions. This study highlights the reasons why traditional banks turned towards Islamic model. Ahmed (2015) mentioned some points of conversion of conventional bank into Islamic bank in their research articles. These are: Setup necessary procedures and required tools of conversion; Changing operating license according to Sharia; Restructure organizational structure to fit conversion process; Changing employing procedures to fit conversion process; Formation of a Sharia supervisory board; Formation the Sharia auditing department in the bank; Reformatting contracts to comply with Sharia standards; Open local and international Islamic banks accounts; Revamping accounts that are maintained with conventional banks. Johari (2015) found positive effect on the success of the experience in converting into Islamic banks. Overall, the effect of the factors represented (74%) of the total number of factors affecting the success of the experience in converting into Islamic banks. Fatma (2016) in her article provides an important opportunity to advance the understanding of the Sharia requirement to conversion process. She also discussed the requirements of the conversion in to Islamic bank. In addition, it discusses the jurisprudential and financial reasons for why traditional banks turned towards Islamic banking. Moreover, it discusses the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) conversion standard. This paper, hence, provides a step further in understanding the conventional banks conversion issue by highlighting four main areas (1) the main Jurisprudence reasons of conversion (2) the economic motives of conversion (3) explore the main conversion forms from jurisprudential point of view (4) AAOIFI conventional banks conversion to Islamic bank standard overview.

From the literature reviews, the study finds that some efforts have been made to study on some aspects of conversion of conventional banks into Islamic banks. But until now, there is a research gap as no comprehensive study has been done in this selected research field. Previous research did not attempt to evaluate the full-fledged conversion effects on the operational areas of the bank after conversion. The study attempted to minimize the research gap to evaluate the effects on full-fledged conversion.

Objectives of the Study

The objectives of the study are:

- To findout the changes in organizational structure of the converted banks
- To identify the effects on operational areas of the converted banks
- To evaluate the reaction of the employees and clients to the bank conversion

Methodology

This is a case study based research. Two full-fledged converted banks of Bangladesh are selected as sample banks. These are First Security Islami Bank Limited (FSIBL) and Export Import Bank of Bangladesh Limited (EXIM). Total 16 years data (2000-2015) are used to observe the effects of conversion. Websites and annual reports of the selected banks, internal documents and interview schedules are used as secondary and primary data sources.

Bank Conversion Scenario in Bangladesh

Conversion indicates the bank conversion from conventional bank (interest based bank) to Islamic bank (Profit-Loss sharing based). In Bangladesh, three kinds of bank conversions are seen. These are:

- Opening an Islamic Banking window/corner in a conventional banking branch. Total eight commercial banks have the Islamic Banking windows.
- Introducing a full-fledged Islamic banking branch by a conventional Bank.Nine conventional banks have the full-fledged Islamic Banking branches.
- Conversion of the whole banking system from conventional banking into Islamic Banking. In Bangladesh only 02 banks, i.e. EXIM Bank Limited and First Security Islami Bank (FSIBL) Limited are the converted Islamic Banks.

Table 1: Number of Bank Branches of Islamic Banks (upto March 2015)

SL	Name of the Bank	Urban	Rural	Total
A)	Full-fledged Islamic Banks	559	331	890
1	Islami Bank Bangladesh Limited*	212	82	294
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited	54	46	100
4	Al-Arafah Islami Bank Limited	71	48	119
5	EXIM Bank Limited	50	37	87
6	Shahjalal Islami Bank Limited	59	34	93
7	First Security Islami Bank Limited	71	66	137
8	Union Bank Limited	14	13	27
B)	Islamic Banking Branches of Conventional Banks	18	1	19
1	The City Bank Limited	1	0	1
2	AB Bank Limited	1	0	1
3	Dhaka Bank Limited	2	0	2

4	Premier Bank Limited	2	0	2
5	Prime Bank Limited	5	0	5
6	Southeast Bank Limited	4	1	5
7	Jamuna Bank Limited	2	0	2
8	Bank Alfalah Limited	1	0	1
9	HSBC Limited	0	0	0
C)	Islamic Banking windows of Conventional banks	25	0	25
1	Sonali Bank Limited	5	0	5
2	Janata Bank Limited **	0	0	0
3	Agrani Bank Limited	5	0	5
4	Pubali Bank Limited	2	0	2
5	Trust Bank Limited	5	0	5
6	Standard Bank Limited	2	0	2
7	Bank Asia Limited	5	0	5
8	Standard Chartered Bank	1	0	1
D)	Total = A+B+C	602	332	934
* Including SME				
** Has taken permission for starting Islamic Banking Window from Bangladesh Bank, but not started yet				

Source: Bangladesh Bank Report on Islamic Banking in Bangladesh

Comparison of Changes in Organizational Structure of Banks Before and After Conversion

A bank organizational structure defines how activities such as task allocation, coordination and supervision are directed toward the achievement of bank's mission and vision (Rose, 2013). It can also be considered as the viewing glass or perspective through which bankers-customers see their bank and its environment. Present study observed that the banks under study maintain almost identical organization structure after conversion. Only few areas the banks changed or revised some positions. Before conversion, FSIBL did not introduce Additional managing director post, but after conversion, the bank introduces this position. Number of sponsor director also reduced by both banks after conversion. Both banks create a new committee after conversion and the name of this committee is Shariah Supervisory Committee. After conversion, banks also separated subsidiaries companies. Before conversion, incomes from subsidiaries companies are shown with the financial statements of the banks. The selected banks under study did not change the employees hierarchy after conversion.

Comparison of General Banking Activities of Banks Before and After Conversion

General banking activities are the first step to establish the relationship between banker and customers of any commercial bank. In operating sense, both EXIM and FSIBL deal the same general banking activities in both periods. However, the principles are somehow different in some activities after conversion into Islamic banking.

- a. Banks under study usually collect deposits from the customers by opening bank accounts. The process of opening bank account and process of deposit collection

is identical during conventional period and during Islamic period. Before conversion, the bank collected deposits by paying fixed rate of interest. But after conversion into Islamic banking system, banks collect deposit by sharing profit and loss (PLS) principles.

- b. Before conversion, the strategy was to increase the deposit through maintaining competitive interest rates and having low cost of funds that would ensure a better spread with a moderate lending rate (EXIM, 2003). But after conversion into Islamic banking, the main strategy of increasing deposit is through maintaining competitive rates of profit and satisfactory customer services (EXIM, 2009).
- c. Numbers of deposit products are increased after conversion into Islamic banking. Before conversion, average number of deposit products of both banks was nine, but after conversion into Islamic banking, average number of deposit products stood at twenty three. Services qualities are improved after conversion. Bank has used new Islamic terms in their deposit products. In case of deposit products under scheme (DPS), bank introduced new and innovative products during Islamic period.
- d. Before conversion, bank used Cheques for cash withdrawal by clients. But that was not machine readable. But after conversion, Magnetic Ink Character Recognition Code (MICR) cheque is issued and used by the banks. After conversion, banks had given emphasize on more security issues on cheque payment.
- e. For clearing a cross cheque, or account payee cheque, after conversion into Islamic banking system, banks use automated clearing system with the central bank. Before conversion, banks took on an average 3-15 days to clear an account payee cheque. After conversion, banks under study take only one day to maximum 3 days to clear a cheque.
- f. Before conversion, banks distributed the deposited money of a deceased account holder to the nominees. However, after conversion, banks distribute the deposited money of a deceased account holder on the basis of Islamic law of inheritance.
- g. Reasons for dishonoring a cheque is similar in both periods of EXIM and FSIBL.
- h. Same instruments like Pay Order (P.O.), Demand Draft (DD), Traveller Cheque, Telephonic Transfer etc. are used in both periods.

Comparison of the Investment Activities of Banks Before and After Conversion

The banks under study followed interest based banking system before conversion and follow Islamic banking system after conversion. This Islamic system prohibits the taking or giving interest in their banking activities. Islamic bank cannot earn interest by lending the money; therefore, the Islamic banks have to undertake investment to earn profit not only for the bank itself but also for the depositors in the investment account (islamicbanker 2016). As the principles of banking in two periods are different, so the

banks under study has different investment policies, scopes and areas. After conversion into Islamic bank, both banks under study follow some modes of Islamic investments. These are: Murabaha; Murabaha; Bai-Muajjal; Ijara Bil Baiya; Wazirat Bil Wakala; Lease/Ijara; Quard; Musharaka Documentary Bills and Bai-as-Sarf. However, Bank is always vigilant and active to reshape the investment port-folio with the changed socio-economic scenario of the country.

Prime Areas of Investment After Conversion

Before conversion, the banks treated their investment as “Loans and Advances” based on fixed interest. After conversion into Islamic banking, it is treated only as ‘investment’. The elements of investment in two periods are as follows:

Table 2: Comparison of Areas of Investments of EXIM and FSIBL in before conversion and after conversion

Before Conversion	After Conversion
a. Loans	a. Ready Made Garments
b. Advances	b. Hospitals & Clinics
c. Working Capital Support	c. IT Related business
d. Commercial and Trade Financing	d. Agricultural and Agricultural developments items
e. Term Lending etc.	e. Fishing and fishing business promotion
f. Loan General	f. Telecommunication
g. Secured Overdraft	g. Transportation and communication
h. Cash Credit (Hypo)	h. Forestry and furniture
i. Lease Finance	i. Construction business and housing development
j. Hire Purchase	j. Leather and leather goods
k. Consumer Credit Scheme	k. Plastic and other synthetics
l. Packing Loan	l. Entertainment
m. Payment Against Document	m. Photography
n. Loan Against Trust Receipt	n. Ceramic
o. Loan Import Merchandise	o. Hotel & tourism
	p. Warehouse and container services
	q. Printing and packaging Gunning and Bailing
	r. Pathological Laboratories
	s. Cold Storages
	t. Horticulture- Flower growing and marketing
	u. Food and oil processing plants
	v. Other admissible trading and intermediaries

Source: Author own findings

After conversion, the bank has spread out the areas of investments. During Islamic period, banks do not lend cash directly to the borrower. Bank also introduced “Islamic Investment Card after conversion. Bank claimed that the card is designed through cent percent compliance of Islami Shariah guidelines under the principles of ‘Bai-Murabaha’. No investment card was issued before conversion.

Head of cash flow from investing activities of two periods

Cash flow from investing activities of EXIM and FSIBL during conventional period and Islamic period are as flows:

Table 3: Head of cash flow from investing activities of two periods

Before Conversion Heads of cash flows from investing activities		After Conversion Heads of cash flows from investing activities	
i.	Receipts from sale of securities	i.	Receipts from sale of securities
ii.	Payment for purchase of securities	ii.	Payment for purchase of securities
iii.	Purchase of fixed assets	iii.	Purchase of fixed assets
iv.	Sale proceeds of fixed assets	iv.	Sale proceeds of fixed assets
v.	Gain on Sale of investment in Shares	v.	Placement of fund to Bangladesh Bank (Central Bank)
vi.	Net cash from investing activities	vi.	Purchase of Subsidiaries
		vii.	Net cash from investing activities

Source: Elements are taken from Annual Report 2003 (Before conversion) and Annual Report 2014 (After conversion) of the selected banks.

It is evident from Table 3 that the items of cash flows from investing activities are similar in conventional period and that of Islamic period. After conversion, banks add a new head of investing activities named placement of fund to Bangladesh Bank (Central Bank). Besides this, before conversion, bank has no cash outflow to purchase of subsidiaries. However, after conversion bank spends cash money to purchase of subsidiaries.

Investment Trend of EXIM and FSIBL Before and After Conversion

Investment of a bank means utilization of funds to earn profit in future. A comparative analysis of bank investment of before conversion and after conversion is given below:

Table 4: Investment comparison between before conversion and after conversion

Year	Investments EXIM (BDT)	Investments FSIBL (BDT)
2000	2170534855	868272366
2001	5131547403	2539794699
2002	7954562036	4102607964
2003	12289120176	6476837485
2004	19332436072	8500274994
2005	26046341111	10722329293
2006	32641270316	13646387225
2007	40195239222	18616225315
2008	53637677103	25094658077

2009	68609907470	38725874774
2010	93296648855	52123903164
2011	99699627656	69467328284
2012	119360067265	96304228588
2013	143847380143	114601798177
2014	177936835122	152792319038
2015	197536570342	187680007932
Average investment before conversion	9375640108	10063043046
Average investment after conversion	88515267059	90219812875
More in Islamic Period = AC-BC	79139626951	80156769829

Source: Annual Reports 2000-2015 of Export Import Bank of Bangladesh Limited and First Security Islami Bank Bangladesh Limited

Table 5: Paired Samples Test of Investment Before and after conversion

		Paired Differences (mm)					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	BC Investment–AT Investment	-59435.89	60700.13	10730.40	-81320.63	-37551.16	-5.539	31	.000

Note: BC= Before Conversion; AT = After Conversion

It is evident from Table 4& Table 5, Figure 1 and Figure 2, that the annual average investment amount of EXIM bank and FSIBL is higher in post-conversion period than that of pre-conversion period. Before conversion annual average investment amount of EXIM was BDT 9375640108, where as that of after conversion is BDT 88515267059. After conversion, the bank has increased an annual average of BDT 79139626951. Before conversion annual average investment amount of FSIBL was BDT 10063043046, where as that of after conversion is BDT 90219812875. After conversion, the bank has increased an annual average of BDT 80156769829. Paired Sample t-test result shows that the P-value is 0.000, which is less than 5%. It indicates that there is a significant difference in investment before conversion and after conversion of the selected banks.

Following Graphs show the investment comparison in Bar chart.

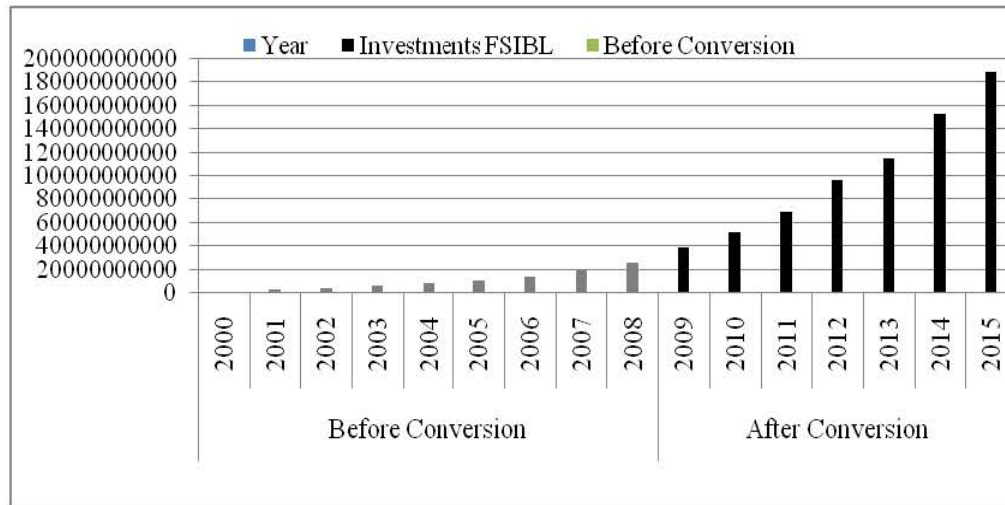


Figure 01. Historical investment growth of FSIBL before and after conversion

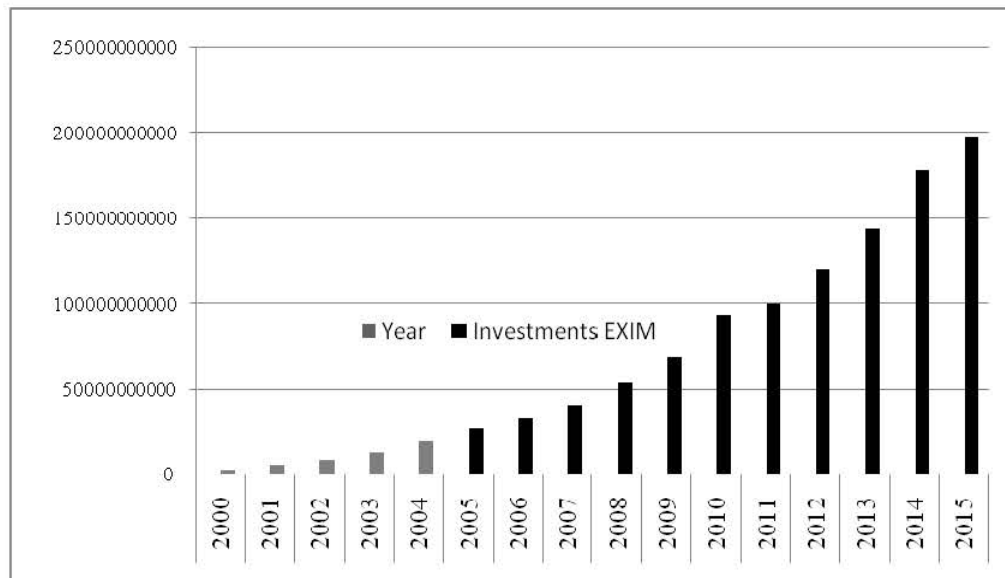


Figure 02. Historical investment amount of EXIM Bank Limited before and after conversion

Comparison of Foreign Exchange Activities

Foreign exchange operation is one of the significant functions of the bank. It plays a vital role in overall economy of the country. Bank collects information from numerous sources relating to cost and revenue from foreign exchange operation. Through export, import, and foreign remittances Foreign Exchange department of the banks earns their profit. Banks is the intermediary of all export, import, and remittance activities.

Both FSIBL and EXIM Bank Limited are engaged in foreign exchange activities from the very beginning of their commencement of business. Volumes of transactions increased after conversion of the banks. Numbers of foreign correspondents increased after conversion than that of before conversion. It is found that before conversion, number of money transfer channels for foreign remittance was poorly used by the banks. But after conversion, the banks used 11 of money transfer channels for foreign remittance of the clients. Some of these are Western Union, X-Press Money, MoneyGram, RIA, Koinstar, Trevellex etc.

Table 6: Comparison of FX income of FSIBL and EXIM Bank Limited

Year	Taka in Million	
	FSIBL	EXIM
2000	2898	6997
2001	3798	15962
2002	5800	23241
2003	8536	34620
2004	11097	49314
2005	9524	72940
2006	10161	96175
2007	18323	117900
2008	14018	156435
2009	20209	162605
2010	35104	227967
2011	40807	254407
2012	36067	270082
2013	25805	268653
2014	60910	284985
2015	62390	302266
Before conversion (BC) annual average of FX	9350	26027
After conversion (AC) annual average of FX	40185	201310
More in Islamic Period = AC-BC	30834	175284

Source: Annual Reports 2000-2015 of First Security Islami Bank Limited and EXIM Bank Limited

It is evident from Table 6 and Figure 3, that the annual average Foreign exchange income of EXIM bank and FSIBL is higher in post-conversion period than that of pre-conversion period. Before conversion, annual average Foreign exchange income of EXIMbank was BDT 26027 million, whereas that of after conversion is BDT 201310 million. After conversion, the bank has increased an annual average of BDT 175284. Before conversion annual average Foreign exchange income of FSIBL was BDT 9350 million, where as that of after conversion is BDT 40185 million. After conversion, the bank has increased an annual average of BDT 30834 million.

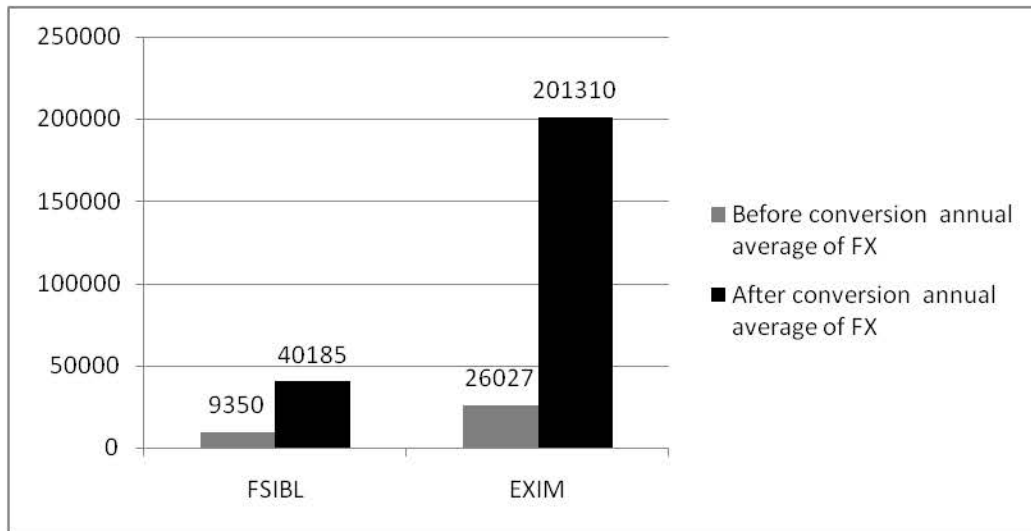


Figure 3: Comparison of before conversion and after conversion average income of Foreign Exchange of FSIBL and EXIM Bank Limited

Banks use similar kind of instruments in their foreign exchange activities before conversion and after conversion period.

Presentation in Annual Reports

Elements of annual reports and presentation style are identical of both EXIM and FSIBL after conversion. But there are few differences with the presentation in annual reports of the selected banks of before conversion and after conversion.

- Before conversion, few elements of annual reports were shown. However, after conversion, more elements are shown in the annual report.
- Before conversion, message from the Chairman were not published in annual report. After conversion, a message from the Chairman is published in annual report. This is a speech given by the Chairman during annual general meeting in front of the shareholders and investors.
- Before conversion, bank did not disclose the details profile of the members of Board of directors. However, after conversion into Islamic Bank, banks under study disclosed the details profile of the members of Board of directors.
- It is also seen that, name of the committees including the name of the members were not disclosed during conventional period's annual report. But after conversion into Islamic Banks, these information are published in the annual reports.
- Before conversion, only limited notes and explanations are given. On the other hand, after conversion details notes and explanations of every items of Financial Statements are given in annual reports.

Effects on the objectives of EXIM and FSIBL after conversion

Both EXIM Bank and First Security Islami bank Limited have made significant changes in their objectives after conversion into Islamic Bank. To clarify it, the study mentions the objectives of selected banks on before conversion and after conversion.

Effects on the Objectives of EXIM after Conversion

Both banks had changed their operational objectives after conversion. Table 7 shows the effects on objectives after conversion.

Table 7: Effects on the Objectives of EXIM after Conversion

Before Conversion objectives of EXIM Bank Limited	After Conversion objectives of EXIM Bank Limited
a. Bank will made Substantial Business headway in terms of business growth b. High rate of profit will be achieved c. Bank will render all kinds of Commercial Banking operations under company act 1991 d. To establish its image as one of the leading banks in private sectors e. With the business community, bank will be starting its business with small to big merchant	a. To be the most caring and customer friendly and service oriented bank b. To create technology based most efficient banking environment for its customers c. To ensure ethics and transparency at all levels d. To ensure sustainable growth and establish full value to the honorable stakeholders e. To add effective contribution to the national economy

Note:

- The Chairman of EXIM Bank Limited Mr. Nazrul Islam mentioned the pre-conversion objectives in a speech at the AGM of 2002*
- After conversion objectives of EXIM is seen in the annual reports of EXIM and its websites since 2005 and onward*

Eventually after conversion, the bank also emphasizes on providing high quality financial services in Export and Import trade; providing efficient customer service; maintaining corporate and business ethics; being trusted repository of customers' money and their financial adviser; making its products superior and rewarding to the customers; display team spirit and professionalism; sound capital base enhancement of shareholders' wealth and to fulfill its social commitments by expanding its charitable and humanitarian activities.

Objectives before conversion and objectives after conversion of FSIBL

The objectives of FSIBL are somehow different under both banking systems and it implies that, conversion into Islamic banking system has an influence on the bank objectives.

Table 8: Objectives before conversion and objectives after conversion of FSIBL

Before Conversion objectives of FSIBL	After Conversion objectives of FSIBL
<i>“To be able to provide banking products and services of high quality to a large part of the population of the country both at home and abroad at a responsible and affordable price with cutting edge technology and transparency.”</i>	a. To contribute the socio-economic development of the country. b. To attain highest level of satisfaction through extension of services by dedicated and motivated professional. c. To maintains continuous growth of market share ensuring quality. d. To ensure ethics and transparency in all levels. e. To ensure sustainable growth and establish full value of the honorable shareholders and f. Above all, to add effective contribution to the national economy.

Note:

- a. *Before conversion objectives of FSIBL is found in the bank’s annual reports and its websites before 2009 and onward*
- b. *After conversion objectives of FSIBL is seen in the bank’s annual reports and its websites since 2009 and onward*

Online Products and Services

Online banking activities are treated as the indicator of modern banking. After conversion into Islamic banks, both EXIM and FSIBL have shown their innovative power to develop and introduce huge number of online banking products. During Islamic Period, only three online products and services were offered by these banks. But after conversion into Islamic period, both banks introduced and offered almost 15 online services with the old online banking products and services.

- a. Before conversion, both banks had no own-ATM booths. They have no own ATM cards. They use the agent cards as debit card named “Ready Cash Card Services”. But now they have own ATM booths, Debit/Cash card, Credit card (Linked with VISA and Mastered) etc.
- b. Before conversion, the customers of these two banks could not encash their Cheques with other branches of the same banks. But after conversion, they can do this in any branches.
- c. Before conversion, customers were not able to check “real-time Balance Enquiry”. But after conversion, they can do it from any corner of the world.
- d. Following online banking services are available after conversion:
 - i. Utility Bill Payment
 - ii. Real-time Balance Enquiry
 - iii. Real-time Term & Scheme Deposits Balance Information

- iv. Real-time Transaction Search & Statement Download from the creation of the account
- v. Real-time Fund Transfer Between Own (Personal) Accounts of the Bank
- vi. Real-time Fund Transfer To Other Beneficiary Accounts of the Bank
- vii. Inter Bank Other than EXIM Bank Fund Transfer through EFTN
- viii. Credit Card Bill Payment (Including Other Banks)
- ix. Investment Summary
- x. Positive Pay Instruction (Real Time Integration with BACH System)
- xi. Mobile Recharge, Any Time, Any Operator (Within Bangladesh)

New Heads of Expenses

After conversion, both EXIM and FSIBL introduced new heads of expenses. These are: Allowances for the members of Shariah Supervisory Committee and Zakat expenses. Mannan (2007) stated in his article that Obligatory zakat on the bank stipulated by the Islamic Shariah will be paid to the bank's Zakat Fund. Zakat is paid by EXIM bank and FSIBL at the rate of 2.58% (instead of 2.50% as the bank maintains its account following Gregorian year) on the closing balances of statutory reserve, general reserve and exchange equalization account. Banks do not pay any Zakat on paid up capital and customers deposited amounts. It is the responsibility of the shareholders and depositor's respectively.

Conclusion

The present study analyzes the conversion effects on operational areas of First Security Islami Bank Limited and Export Import Bank of Bangladesh Limited. Organizational structure, operational areas, reaction of the employees and clients of the banks after conversion are considered as the research areas. General banking activities, investment activities and foreign exchange activities of 16 years data have been used to evaluate the effects of conversion. Study finds that banks under study innovated new products and services after conversion. Positive effects are seen in investment and foreign exchange activities of the banks after conversion. Both banks have spread out the areas of investment. Banks generate more revenue from investment and foreign exchange activities after conversion. Present study also observed that the banks introduced new committee and new heads of expenses like Zakat and allowance for the members of Shariah supervisor committee after conversion. Banks also modified their mission, vision and objectives after conversion. Study found that conversion helps them to build a strong banker customer relationship. Finally, study argued that the overall effects of conversion are positive. There is a scope for further research for those banks, which have converted themselves partially by opening Islamic banking branches or windows besides their conventional banking. Conventional banks, who wish to convert themselves into Islamic banks, can be benefited by observing the findings of the present study.

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