



Daffodil International University



Internship Report on:

An Evaluation of Modes of Investment of Al-Arafah Islami Bank Limited.

Date of Submission: 8th June 2014.



An Internship Report
On
**An Evaluation of Modes of Investment of Al-Arafah
Islami Bank Limited.**

Prepared under the Supervision of

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Date of Submission: 8th June, 2014





Letter of Transmittal

8th June, 2014

Professor Dr. Zakir Hossain

Dean,
Faculty of Business & Economics
& Director of studies.
Department of Business Administration
Daffodil International University.

Subject: Submission of Internship Report on “An Evaluation of Modes of Investment of Al-Arafah Islami Bank Limited.”

Dear Sir

In accordance to your advice to prepare a report on “**An Evaluation of Modes of Investment of Al-Arafah Islami Bank Limited**”. I have done my internship and prepare the internship report with the best. I have followed all of the standard methodology and your advice given in the instruction to prepare an internship report. I have also taken help from different sources to prepare an internship report properly and accurately. Your acceptance and appreciation would surely inspire me. For any further explanations about the report, I will be gladly available to clarify all the things.

Would you please kindly accept my paper and oblige thereby.

Sincerely yours

.....

Mohammad Mahfuzur Rahman
ID: 083-11-673
Program: BBA
Department of Business Administration
Daffodil International University.



Certificate of Approval

I am pleased to certify that the internship report on “**An Evaluation of Modes of Investment of Al-Arafah Islami Bank Limited**” has been successfully completed by Mohammad Mahfuzur Rahman, his bearing ID: 083-11-673, Department of Business Administration has been approved for presentation and viva voce. Under my supervision Mohammad Mahfuzur Rahman worked with **Al-Arafah Islami Bank Limited at Panthapath Branch**.

I am pleased to hereby certify that data and findings presented are the authentic work of Mohammad Mahfuzur Rahman. I strongly recommend the report presented for further academic commendation and viva voce.

It has indeed been a great pleasure working with him. I wish him all success in life.

Internship supervisor

.....

Professor Dr. Zakir Hossain

Dean,

Faculty of Business & Economics

& Director of studies.

Department of Business Administration

Daffodil International University.



Acknowledgements

The successful accomplishment of this report is the outcome of the contribution of a number of people to whom I am grateful and thanked them from the very deep of my heart. At the beginning, I would like to express my sincere gratefulness to Almighty God for enabling me to prepare this term report in complete form.

I am very grateful to my supervisor **Professor Dr. Zakir Hossain** for all his kinds of cooperation and guidance in preparing this report. His professional and practical experience enriched me to a great extent at the time of preparing this report.

I am also indebted to Mr. Fazlur Rahman Ashrafi (Senior Vice President and Manager), Arif Billah Mithu (First Assistant Vice President), Md. Lutfur Kabir (senior principal Officer), Md Moin Akter (principal officer) and Md Hasibur Rahman (Officer), Al-Arafah Islami Bank Ltd, Panthapath Branch, who kindly spared for me much of their precious time in giving me support and priceless information. No words of appreciation can sufficiently compensate for the immense gratitude that I owe from them.

Last of all grateful acknowledgement is due to the authority of Al-Arafah Islami Bank Limited for giving me the opportunity to complete my Internship in their reputed bank. Equally I would also like to record my sincere gratitude and indebtedness to the authority of Daffodil International University for their kind cooperation.



Executive Summary

The report attempts to show the summarized picture of Investment Department of Al-Arafah Islami Bank Limited. The aim of the study was to see evaluation of modes of investment also to see how Islamic banks may contribute to render financial services towards small and rural sector. Due to lack of research and deviating from Islam to golden history of the Muslims is dominated day by day secular and materialistic managerial concept. I have done the report of investment activities of Al-Arafah Islami Bank Limited.

It has mainly highlighted the business strategies and different modes of investment which have been observed during the internship program. For that I have divided the whole report into 8 (Seven) chapters.

The Introduction part of the report contains the information about the contains the origin of the report, scope of the study, rationale of the study, objectives of the study, methodology, and limitations. The second part is over view of Islamic banking and its includes Definition, features, and compare the Conventional Banking Vs Islamic Banking. The profile of the branch contains about the history of AIBL, organizational structure, nature of the organization, vision, mission, objectives, commitments, various modes of business & the branches of AIBL. The overview of the branch includes about the brief history of AIBL at Panthapath branch, Panthapath branch at a glance, workforce of the branch, general banking, credit department, department of the Panthapath branch, hierarchy of Panthapath branch. The duties & Responsibilities part contains the experience about my first day at work, job rotation activities, working in teams & learning experience in AIBL at Panthapath branch are focused.

Investment section is the main part of the report. Objective & principles of investment, sources of fund are discussed here. This part mainly focused on mechanism & different modes of investment of AIBL and to evaluate its effectiveness.

SWOT analysis is the key to understand about the organization & its position. So, I also prepare the SWOT analysis under Strength, Weakness, Opportunities & Threats on AIBL.

Finally, conclusion and recommendations are made in the last chapter.



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Chapter 1

INTRODUCTION





1.1 Introduction:

“Islamic financing can no longer be seen as just a low-risk, ethical or religious alternative,” **Hussain Al Qemzi**, CEO of Noor Islamic Bank told INSEAD Knowledge on the sidelines of an International Summit on Islamic Corporate Finance in Abu Dhabi recently. “I believe the growth that’s happening today is about competition.”

Islamic Banking has grown in a large number of countries in the world. In Iran, Sudan and Pakistan all financial institutions have fully adopted to the Shariah laws. Other countries such as Egypt, Saudi Arabia, Jordan, UAE, Kuwait, Malaysia, Indonesia, Brunei and etc Islamic Banks operate alongside with conventional banks. This is done either through the opening of Islamic windows in conventional institutions or the establishment of separate banks or branches under the Islamic law that specialized in Islamic financial operations.

Banks, however, remain the core of financial services in many Islamic countries. The proper goals for the banks are profit maximization and shareholder’s wealth maximization. The fundamental nature of credit is that an element of trust exists between buyer and seller whether of good or money. The main use of bank fund is to collect money from surplus unit and lend it to deficit economic unit.

The Al-Arafah Islami Bank Ltd was established (registered) on 1994. Towards attainment of its goals and objectives, the bank pursues diversified investment (credit) policies and strategic planning in investment management. To name a few, the bank has extended micro finance, bai-muajjal, higher purchase investment etc, to cater to the needs of the individuals. The bank also extends investment in the form of trade finance, industrial finance, and project finance, export & import finance etc. The branch (Panthapath) also extends investment in the form of bai-muajjal, murabaha, quard etc. The bank’s as well as branch’s investment policies aimed at balanced growth and harmonious development of all the sectors of the country’s economy with top most priority to ensure quality of lending.



1.2 Origin of the Report:

Internship Program of Daffodil International University is a Post-Graduation requirement for the BBA students. This study is a partial requirement of the Internship program of BBA curriculum at the Daffodil International University. The main purpose of internship is to get the student exposed to the job world. Being an intern the main challenge was to translate the theoretical concepts into real life experience.

The internship program and the study have following purposes:

- ✚ To get and organize detail knowledge on the job responsibility.
- ✚ To experience the real business world.
- ✚ To compare the real scenario with the lessons learned in Daffodil International University.
- ✚ To fulfill the requirement of BBA Program.

The report has been prepared as an academic requirement of achieving BBA degree through three month internship program by Mohammad Mahfuzur Rahman BBA student major in Human Resource Management from the faculty of Business Administration, joined AIBL for the completion of my internship program and requested our honorable course teacher **Professor Dr. Zakir Hossain** to supervise me during my internship program. He kindly accepted my request and asked me to prepare a report on “**An Evaluation of Modes of Investment of Al-Arafah Islami Bank Limited**” after my internship period there on. The bank scheduled my place of posting at the Panthapath Branch for three month. During this internship I worked different department especially in Investment division of Panthapath Branch to come to know about the different functions of the bank. And at long last after getting practical knowledge I managed to prepare my report on “**An Evaluation of Modes of investment of Al-Arafah Islami Bank Limited**” and submitted my honorable supervisor.



1.3 Scope of the Study:

The AIBL is one of the leading Banks in Bangladesh. The scope of the study is quiet wide as this report has covered the banking activities that Panthapath Branch performs such as account opening, cash, clearing or transfer transaction, advance or loan, export and import and so on. Moreover some emphasis is given is on investment activities of Panthapath Branch. After getting knowledge about these activities an analysis is made on the findings.

1.4 Rationale of the Study:

All business concern earns a profit through selling either a product or a service. A bank does not produce any tangible product to sell but does offer a variety of financial services to its customers. In the modern society commercial Banks occupy a position of economic importance. They play a significant role to meet the needs of the society such as capital formation, large-scale production, industrialization, growth of trade and economy etc. Out of 50 banking institutions, 7 banks are backed by Islamic mechanism and worldwide accepted Islamic morality and established code of conduct. This paper, however attempts to appraise performance and dictate the Investment sector of Al-Arafah Islami Bank Limited performing beneath the umbrella of Islamic shariah and approved welfare oriented principles.

Investment is the main part of a bank and has an important role to play in the financial sector of Bangladesh. So, I choose this topic to get practical knowledge and to check whether the theoretical knowledge competence with practical knowledge.



1.5 Objectives of the Study:

The objective of the report can be viewed in two forms:

- ✚ General Objective
- ✚ Specific Objective

General Objective:

The general objective of this report is to analyze **Modes of Investment of Al-Arafah Islami Bank Ltd (AIBL)**.

Specific Objective:

- ✚ To analyze the investment activities of AIBL.
- ✚ To identify overall investment proposal, appraisal procedures, documentation system of AIBL and Conventional Banks.
- ✚ To evaluate different modes of investment.
- ✚ To analyze Strengths, Weaknesses, Opportunities and Threats (SWOT) of the bank.

1.6 Methodology:

To make the report more meaningful and presentable, two sources of data and information have been used widely these are Primary Data and Secondary Data. Both primary and secondary data sources were used to generate the report. But Most of the information collected in secondary sources.

Primary Sources of Data:

- ✚ Personal observation.
- ✚ Face to face conversation with the officers.
- ✚ Face to face conversation with the clients.



Secondary Sources of Data:

- ✚ File study.
- ✚ Bank Rate sheet.
- ✚ Progress report of the Bank.
- ✚ Annual report of Al-Arafah Islami Bank Ltd.
- ✚ Different publications regarding general banking function.

1.7 Limitations:

Although I have tried to find out the relationship between theoretical knowledge and practical implication I found some difference between what I learn in the theory and what are practical.

The report was completed under certain constraints which were:

- ✚ Difficulty in gaining accesses to accounts of the bank.
- ✚ Difficulty in obtaining relevant data even with the help of the bank employees.
- ✚ Only 90 days were not sufficient to visit all the desks of the branch.
- ✚ Unavailability of necessary documents.
- ✚ In collecting information, there is some problem because of the excessive nature of confidentiality maintained by the officials.
- ✚ Sometimes data could not be verified. In most case, there is not any of study was option but assume data without verification.



Chapter 2

Overview of Islamic Banking





2.1 Definition of Islamic Banking:

Islamic banking refers to a system of banking or banking activity that is consistent with the principles of Islamic law (Shariah) and its practical application through the development of Islamic economics. Shariah prohibits the payment of fees for the renting of money (Riba, usury) for specific terms, as well as investing in businesses that provide goods or services considered contrary to its principles (Haraam, forbidden). While these principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th century that a number of Islamic banks were formed to apply these principles to private or semi-private commercial institutions within the Muslim community.

The World Islamic Banking Conference held annually in Bahrain since 1994 is the unique platform internationally recognized as the largest and most significant gathering of Islamic banking and finance leaders in the world.

According to Islamic Banking Act of Malaysia, an Islamic bank is a “company, which carries on Islamic banking business, Islamic banking business means banking business whose aims and operations don’t involve any element which is not approved by the religion Islam.”

Dr. Ziauddin Ahmed says, “Islamic banking is essentially a normative concept and could be defined as conduct off banking in consonance with the ethos of the value system of Islam.”

It appears from the above definitions that Islamic banking is systems of financial intermediation that avoids receipts and payments of interest in its transactions and conduct 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 is major feature, ensuring justice and equity in the economy. That is why Islamic banks are often known as profit and loss sharing banks.



2.2 Theoretical Concept of Islamic Banking:

Conventional banking is essentially based on debtor-creditor relationship between depositors and the bank in the one hand and between the borrowers and the bank on the interest is considered as the price of credit, reflecting the opportunity cost of money. Islam, on the other hand, considers loan to be given or taken, free of charge, to meet contingency and that the creditor should not take any advantage of the borrower. The money is lent out on the basis of interest, more often it happens that it leads to some kind of injustice. The first Islamic principle underlying such kinds of transactions is that “deal not unjustly and ye shall not be dealt with unjustly”. Hence, commercial banking in an Islamic framework is not based on debtor-creditor relationship.

The second principle regarding financial transactions in Islam is that there should not be any reward without risk-taking. This principle is applicable both to labor and capital. As no payment is allowed to labor unless it is applied to work, no reward for capital should be allowed unless it is exposed to business risks.

Thus, financial intermediation in an Islamic framework has been visualized on the basis of the above principles. Consequently financial relationships in Islam have been participatory in nature. Several theorists suggest that commercial banking in an interest-free system should be organized on the principle of profit and loss sharing.

The institution of interest is thus replaced by a principle of participation in profit and loss. That means, a fixed rate of interest is replaced by a variable rate of return based on real economic activities. The distinct characteristics which provide Islamic banking with its main points of departure from the traditional interest-based commercial banking system are: (a) the Islamic banking system is essentially a profit and loss sharing system and not merely an interest-free (Riba) banking system; and (b) investment (loans and advances in conventional sense) under this system of banking must serve simultaneously both the interest of the investor and those of the local community. The financial relationship as pointed above is referred to in Islamic jurisprudence as Mudarabah.



2.3 Distinguishing Features of Islamic Banking:

An Islamic bank has several distinctive features as compared to its conventional counterpart. Six essential differences as below:

- ✚ **Abolition of Interest (Riba):** Since Riba is prohibited in the Holy Quran and interest in all its form being akin to Riba as, confirmed by Fukaha and Muslim economists with rare exceptions, the first distinguishing feature of an Islamic bank must be that it is interest-free, while the abolition of Riba would be the first and essential difference between the conventional interest-based commercial banks and Islamic banks, if would not the constitute the only difference between them. The nature, outlook and operations of an Islamic bank would have to undergo a complete transaction.
- ✚ **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 could not permit them to borrow short and lend long. This should tend to make them less crisis-prone compared to their capitalist counterparts. Since the overnight, call loan or very short-term inter-bank market may be available to them only to a limited extent, they may 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, considers collateral and avoids risks as far as possible. Their main concern does not go beyond ensuring the security of their principle and interest receipts. Since the Islamic bank has in built mechanism of risk-sharing, it would need to be careful more careful. 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, if fosters closer relations between banks and
- ✚ **Entrepreneurs:** It helps develop financial expertise in non-financial firms also enables the banks to assume the role technical consultants and financial advisors and act as catalysts in the process of industrialization and development. The bank would take care of all the responsible and agreed financial needs of their clients thus relieving them of the need to run around for funds to overcome their normal liquidity shortages.

2.4 Conventional Banking Vs Islamic Banking:

Conventional banking is based on the debtor-creditor relationship between the depositors and the bank on the one hand, and between the borrowers and the bank on the other. Interest is considered to be the price of credit, reflecting the opportunity cost of money.

Islamic Banking, on the other hand, considers a loan to be given or taken, free of charge, to meet any contingency. Thus in Islamic Banking, the creditor should not take advantage of the borrower. When money is lent out on the basis of interest, more often it happens that it leads to some kind of injustice. The first Islamic principle underlying such kinds of transactions is that “deal not unjustly, and he shall not be dealt with unjustly”. Hence, commercial banking in an Islamic framework is not based on the debtor-creditor relationship.

The second principle regarding financial transactions in Islam is that there should not be any reward without taking a risk. This principle is applicable to both labor and capital. As no payment is allowed for labor, unless it is applied to work, there is no reward for capital unless it is exposed to business risk.



Therefore, financial intermediation in an Islamic framework has been developed on the basis of the above two principles. Consequently financial relationships in Islam have been participatory in nature. Several theorists suggest that commercial banking in an interest-free system should be organized on the principle of profit and loss sharing. The institution of interest is thus replaced by a principle of participation in profit and loss. That means a fixed rate of interest is replaced by a variable rate of return based on real economic activities.

The distinct characteristics, which provide Islamic banking with its main points of departure from the traditional interest-based commercial banking system, are:

- ✚ The Islamic banking system is essentially a profit and loss sharing system and not merely an interest (Riba) banking system; and
- ✚ Investment (loans and advances in the Conventional sense) under this system of banking must serve simultaneously both the benefit to the investor and the benefit of the local community as well. The financial relationship as pointed out above is referred to in Islamic jurisprudence as Mudaraba.

2.5 Distinction between the Conventional & Islamic Banking:

Conventional Banking	Islamic Banking
1. The functions and operating modes of conventional banks are based on manmade principles.	1. The functions and operating modes of Islamic banks are based on the principles of Islamic <i>Shariah</i> .
2. The investor is assured of a predetermined rate of interest.	2. In contrast, it promotes risk sharing between provider of capital and the user of funds.
3. It aims at maximizing profit without any restriction.	3. It also aims at maximizing profit but subject to <i>Shariah</i> restrictions.
4. It does not deal with <i>Zakat</i> .	4. Islamic banks collect and distribute <i>Zakat</i> .



5. Leading money and getting it back with interest is the fundamental function of the conventional banks.	5. Participation in partnership business is the fundamental function of the Islamic banks.
6. Its scope of activities is narrower when compared with an Islamic bank.	6. Its scope of activities is wider when compared with a conventional bank. It is, in effect, a multi-purpose institution.
7. It can charge additional money in case of defaulters.	7. The Islamic banks have no provision to charge any extra money from the defaulters.
8. In it very often, bank's own interest becomes prominent. It makes no effort to ensure growth with equity.	8. It gives due importance to the public interest. Its ultimate aim is to ensure growth with equity.
9. For interest-based commercial banks, borrowing from the money market is relatively easier.	9. For the Islamic banks, it is comparatively difficult to borrow money from the money market.
10. Since income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations.	10. Since it shares profit and loss, the Islamic banks pay greater attention to developing project appraisal and evaluations.
11. The conventional banks give greater emphasis on credit-worthiness of the clients.	11. The Islamic banks, on the other hand, give greater emphasis on the viability of the projects.
12. The status of a conventional bank, in relation to its clients, is that of creditor and debtors.	12. The status of Islamic bank in relation to its clients is that of partners, investors and trader.
13. A conventional bank has to guarantee all its deposits.	13. Strictly speaking, and Islamic bank cannot do that.



Chapter 3

Profile of the Organization





3.1 History of the Bank:

Al-Arafah Islami Bank Limited is a Banking Company registered under the Companies Act, 1994 with its head office at Peoples Insurance building, 36, Dilkusa commercial area, Motijheel, Dhaka-1000. The Bank started its operation from 27 September, 1995. With the objective of achieving success here in this world & hereafter by pursuing the way directed by Allah and the path shown by His Rasul (SM), Al-Arafah Islami Bank Ltd. was established as a private limited company. Al-Arafah Bank is an interest-free shariah bank and its mode of operation is substantially different from those of regular commercial banks. The bank however, renders all types of commercial banking services under the regulation of the Bank Companies Act 1991. It conducts its business on the principles of musharaka, bai-murabaha, bai-muajjal and hire purchase transactions. AIBL possesses a powerful combination of skill and knowledgeable person favorable for delivering strong growth in an era of rapidly changing of banking environment like to days. The AIBL is committed to contribute significantly to the national economy. It has made positive contribution towards the Socio Economic Development of the country with 88 branches. It has achieved a continuous profit and declared a good dividend over the years. High quality customer service through the integration of modern technology and new products is the tool of the bank to achieve success. The bank has a diverse array of carefully tailored products and services to satisfy customer needs.

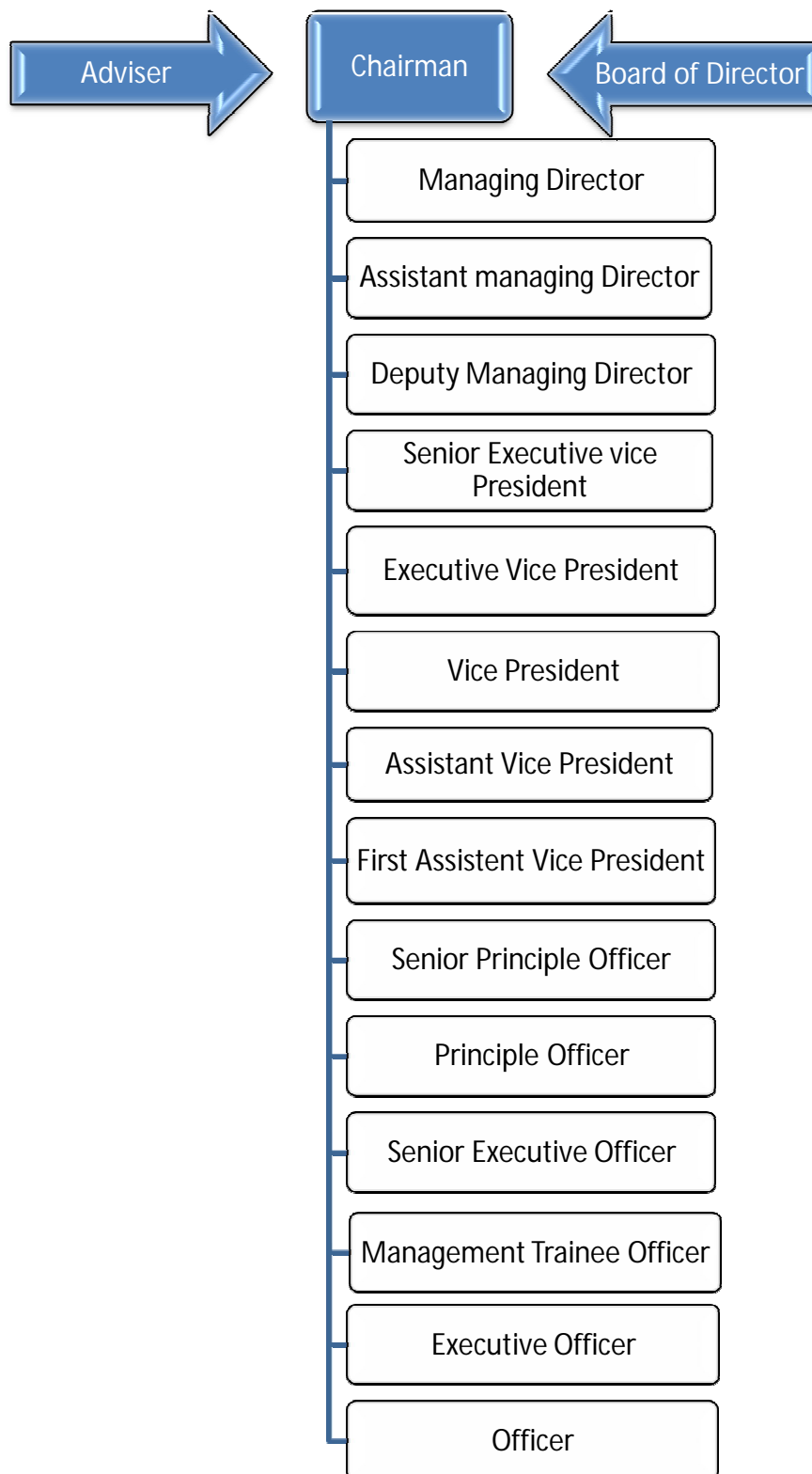
Al-Arafah Islami Bank Limited	
Registered Office	Peoples Insurance Building 36, Dilkusa Commercial Area (6 th - 9 th floor) Dhaka-1000, Bangladesh
Corporate Office	125, Motijheel Commercial Area, Dhaka-1000, Bangladesh
Incorporation	June 18, 1995
Commercial Operation	September 27, 1995
Contacts	Phone : Head Office-9567885, 9567819, 9569353, 9568007, 9560198, 7123255-7 Fax : 880-2-9569351 E-mail : aibl@al-arafahbank.com Web-site : Web : www.al-arafahbank.com Swift : ALARBDDH

Source: Annual Report, 2012. Al-Arafah Islami Bank Ltd.



3.2 Organizational Structure:

A layout of Management Structure and Legitimate Hierarchy of Management of AIBL are presented as follows:





3.3 Nature of the organization:

- ✚ Overall operations of the bank are conducted according to Islamic Sharia where profit is the legal alternative to interest.
- ✚ Investment policy of bank follows different means approved by Islamic Shariah based on Quran & Sunnah.
- ✚ AIBL is committed towards establishing welfare oriented banking system, economic enlistment of the low-income group of people, create employment opportunities.
- ✚ According to the needs and demands of the society and the country as a whole the Bank invests money to different Halal business. The Bank is committed to establish an economic system through social justice and equal distribution of wealth.
- ✚ It is committed to bring about changes in the underdeveloped rural areas for ensuring balanced socio economic development of the country through Investment program. According to Mudaraba system, the depositors are the partners of the investment income of the bank. During the period under review, 70% of the investment income has been distributed among the Mudaraba distributors.
- ✚ To render improved services to the clients imbued with Islamic spirit of brotherhood, peace fraternity and by developing an institutional cohesion.
- ✚ The Bank is contributing to economic and philanthropic activities side by side. Al-Arafah English Medium Madrasha and AIBL Library are among mention worthy.

3.4 Capital Position:

Authorized capital	Tk. 10,000.00 million
Paid up capital	Tk. 7130.98 million

Source: Annual Report, 2012. Al-Arafah Islami Bank Ltd.



3.5 Vision:

To be a pioneer in Islami Banking in Bangladesh and contribute significantly to the growth of the national economy.

3.6 Mission:

- ✚ Achieving the satisfaction of Almighty Allah both here & hereafter.
- ✚ Proliferation of Shariah Based Banking Practices.
- ✚ Quality financial services adopting the latest technology.
- ✚ Fast and efficient customer service.
- ✚ Maintaining high standard of business ethics.
- ✚ Balanced growth.
- ✚ Steady & competitive return on shareholders' equity.
- ✚ Innovative banking at a competitive price.
- ✚ Attract and retain quality human resources.
- ✚ Extending competitive compensation packages to the employees.
- ✚ Firm commitment to the growth of national economy.
- ✚ Involving more in Micro and SME financing.

3.7 Commitments:

- ✚ Ours is a customer focused modern Islamic Banking making sound and steady growth in both mobilizing deposit and making quality Investment to keep our position as a leading Islami Bank in Bangladesh.
- ✚ To deliver financial services with the touch of our heart to retail, small and medium scale enterprises, as well as corporate clients through our branches across the country.
- ✚ Our business initiatives are designed to match the changing trade & industrial needs of the clients.



3.8 Objectives:

- ✚ Al-Arafah Islami Bank Ltd. believes in its uncompromising commitment to fulfill its customer needs and satisfaction and to become their first choice in banking.
- ✚ AIBL is devoted to run all its activities as per Islamic Shariah. AIBL throughout its steady progress and continued success has, by now, earned the reputation of being one of the leading Private Bank of the country. The objectives of AIBL are as under:
- ✚ All the activities of AIBL are conducted on interest-free system according to Islamic Shariah.
- ✚ Investment is made through different mode permitted under Islamic Shariah.
- ✚ Investment income of bank is shared with the Mudaraba depositors according to a ratio to ensure a reasonably fair rate of return on their depositors.
- ✚ Its aims are to introduce a welfare-oriented banking system and also to establish equity and justifies in the field of all economic activities.
- ✚ It extends co-operative to the poor, helpless, and low-income group of the people for their economic enlistment particularly in the rural areas.
- ✚ It plays a vital role in human resource development and employment-generation, particularly for the unemployed youths.
- ✚ Its aims are to achieve balanced growth & development of the country through investment operations, particularly in the less development areas.

3.9 Various mode of Business:

- ✚ Investment banking (capital market operation in DSE & CSE)
- ✚ International Foreign Trade Finance (Import & Export)
- ✚ Foreign Exchange dealing (Currency dealing & Remittance)
- ✚ Corporate finance
- ✚ SME banking
- ✚ Personal banking/Retail banking
- ✚ Transport Investments



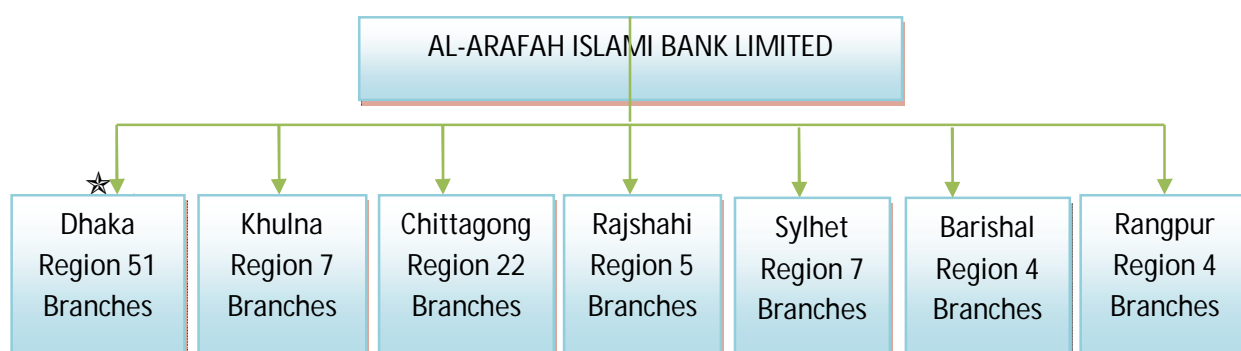
3.10 Branches of AIBL:

Since its incorporation on 27th September, 1995 at Motijheel it extended its operation throughout the country by establishing new branches and AD Branches. The Head Office of the Bank was situated at the same holding of Motijheel Branch since its establishment but from 11 January, 2007 it has started its working at its own building 36, Dilkusha (6th, 7th, 8th & 9th floor), Dhaka-1000. It has completed its journey for last 16 years and during this period of time the Bank has established total 88 Branches over the country.

Division	No. of Branches
Dhaka Division	51
Khulna Division	07
Chittagong Division	22
Rajshahi Division	05
Sylhet Division	07
Barisal Division	04
Rangpur Division	04
Total	100

To fulfill the commitment of serving the valuable customers at present, AIBL has been carrying business through its 100 branches all over the country.

These branches can be categorized under seven major regions. These are followings:





Chapter 4

Overview of the Panthapath Branch





4.1 About the Panthapath Branch of AIBL:

Al-Arafah Islami bank limited, Panthapath Branch started its operation on 27th November 2010. From the begging of the branch it shows its potentiality to grow swiftly. Within very short time it is established as one of the commanding positions among all the branches in terms of profit. Basic reasons for its sound growth are location, Premises, Interior design, effective & efficient management team, and most importantly providing the best service to their customers. Al-Arafah Islami Bank Limited branch is situated in a potential commercial business area which is an opportunity for the bank. So, the branch has a great opportunity to become a most contributed branch of AIBL.

4.2 Panthapath Branch at a glance:

Branch Code	148
Address	8/C, Shukrabad, Panthapath, Dhaka-1207, Bangladesh.
Phone	02-9138682, 9138572
Fax	+88-02-9134237
Website	www.al-arafahbank.com
District	Dhaka

4.3 Workforce of the branch:

The branch has a total number of 14 employees (12 officer & 2 staffs) including Branch manager & operations manager. All other employees work under several departments. The departments are as follows:



4.3.1 General Banking:

- ✚ Dispatch Department
- ✚ Account opening section
- ✚ Deposit section
- ✚ Cash section
- ✚ Local Remittance section
- ✚ Money Gram Transfer
- ✚ Clearing section
- ✚ Accounts section

4.3.2 Credit department:

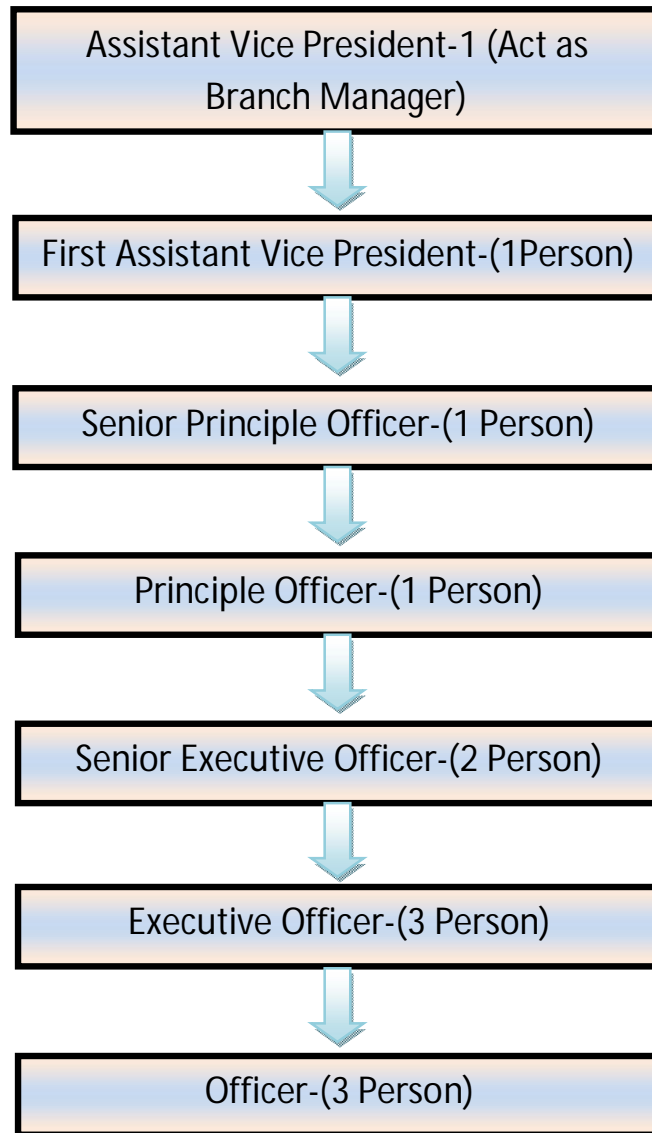
Branch manager and operations manager looks after the activities of each division and take major decisions.

4.4 Department of the Panthapath Branch:

- ✚ Account Opening Department
- ✚ Cash Department
- ✚ Account Department
- ✚ Investment Department
- ✚ Clearing Department
- ✚ Local Remittance Department



4.5 Hierarchy of Panthapath Branch:





Chapter 5

Duties and Responsibilities





5.1 Introduction:

I have done my internship program in AIBL at Panthapath Branch. It is one of the leading commercial private banks in our country. Their vision is strived to achieve superior financial performance and be considered a leading Islamic bank by reputation and performance.

5.2 Job Rotation:

This report has been prepared on the basis of experience gathered during the period of internship from 3rd June, 2013 to 3rd September 2013. Within this period I visited two departments namely General Banking, and Investment department. Firstly total duration was divided into total working days that came to a total working day of 3 months. But most of the time I will spend in Investment department.

I worked 3 (three) months in this branch. In this branch, there were 12 employees. This branch is very busiest compare to other Branches. They were very pleased for me. All of them were very cooperative with me. I was working under several sections which are explained below:

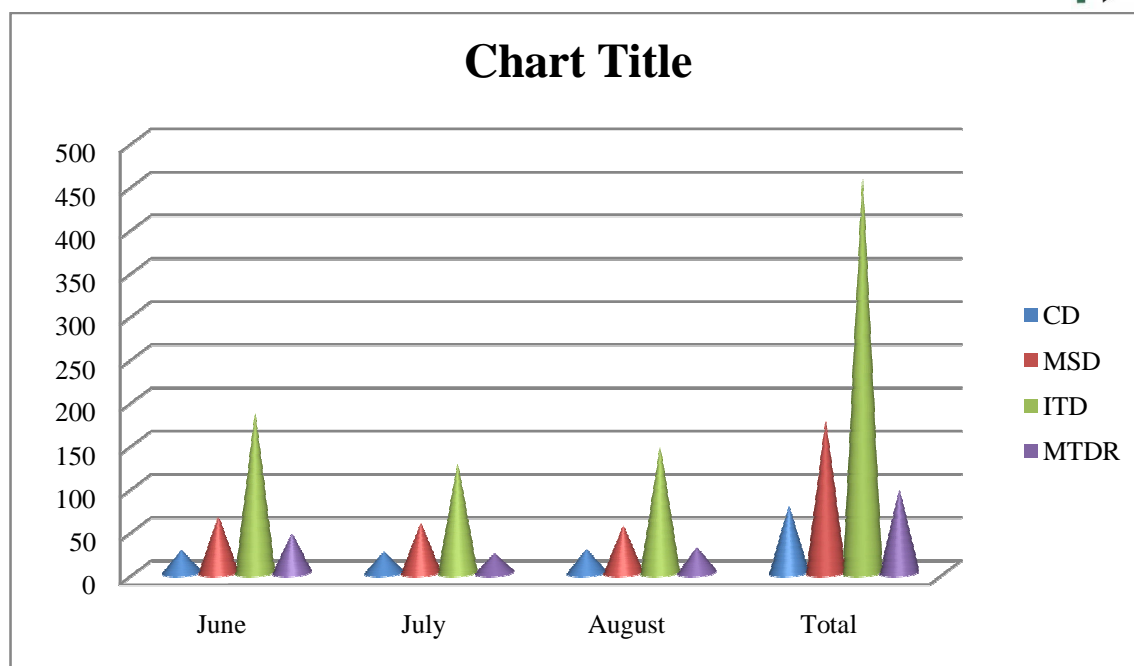
5.2.1 Account opening section:

Account opening was one of my task, where my jobs was to giving the information regarding new account opening, help the customer to fill up the account opening form, and input the information into the account opening software. The different types of accounts are: CD, MSD, ITD, MTDR etc.

Table 1: Account opening Scenario of AIBL, Panthapath Branch

Month	June	July	August	Total
CD	26	24	27	77
MSD	65	57	54	176
ITD	185	126	145	456
MTDR	45	22	29	96

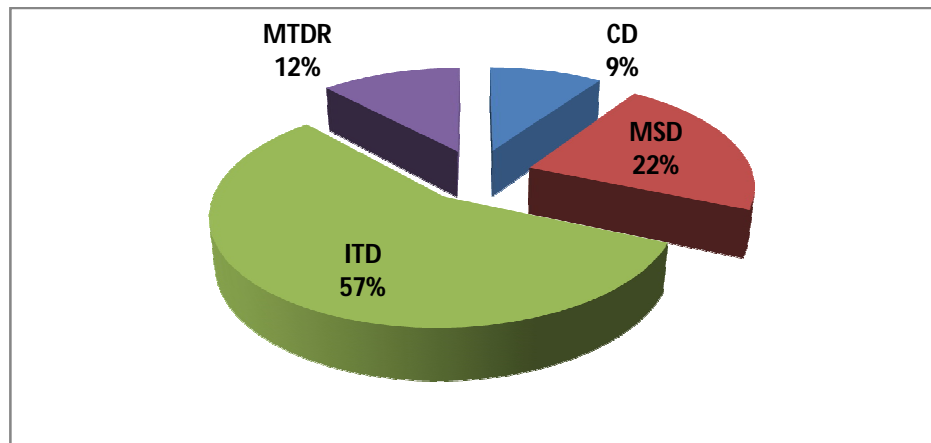
Source: Monthly Statement of Panthapath Branch



Graph 1: Last three month positions of the no. of account opening

The following chart shown that the total account amount of ITD of June is higher than other month.

The contributions of each type of accounts are presented here with the following pie chart:



From the above pie chart we can see that the proportion of ITD is maximum which is 57% and the minimum proportion is Current Deposit (CD) that is only 9%. Here, MSD hold the second position and MTDR is in the third position. So, it can be said that ITD account is most popular compare with others.

5.2.2 Account Closing:

For account closing first a customer has to submit an application with his/her signature mentioning that he/she wants to close his/her account. There have a printed application from in the bank. Then the signature will be verified by the officer. Customer has to certify by different department of bank that he/she has no liabilities to the bank. After that the customer's A/C is debited and then the bank issues a pay order or cash in the name of A/C holder.

5.2.3 Check Book:

Check book is issued to the new customer after seven days of opening account or when the customer withdraws money from his account. Two separate check books are given for current and saving accounts.



5.2.4 Investment Section:

Investment division is the most important for all banks. In investment division I mainly see which sector these branch invests and I analyze the trend of these investment sector position which sector investment is high and low.

Fields of investment of Al-Arafa Islamic Bank is very wide. It touches almost all vital sectors of the country. Broad heads are pointed out here:

-  Agriculture
-  Industry
-  Business
-  Foreign Trade
-  Construction and Housing
-  Transportation
-  Hire Purchase
-  Mosque and Madrasa
-  Village
-  Small Enterprise
-  Consumer

Attending all the above sectors the bank contributes in national economy through its investment and guidance whatever is felt necessary by the clients.



5.3 Learning Points:

There are many things that I learned in the AIBL in Panthapath Branch. These are given below:

- ✚ How to open their several account in their bank.
- ✚ What are the requirement for opening their account
- ✚ How to provide information to their clients
- ✚ How clients can gather their account statement and know to balance.
- ✚ Issuing the Cheque.
- ✚ How do to collect the cash in cash section.
- ✚ How to collect electricity bill
- ✚ About their investment procedures
- ✚ The requirements for talking loan
- ✚ How to collect their loan
- ✚ How to collect their deposits
- ✚ Learned several types of investment modes of AIBL
- ✚ Finally I learned how to prepare an internship report.

5.4 Working in teams:

When I was attending my internship at AIBL at Panthapath Branch, two other students from other universities were doing their internship. They were continuing their internship for their BBA program. So I got an opportunity to work in a team. Various clients are asked different types of questions during the time of doing important work. Before working in this bank I was no job experience and I was no concept how an organization follows time management. After working in this I have a clear concept about this organization.



Chapter 6

Learning Part





6.1 Investment Activities of AIBL:

Investment is the action of deploying funds with the intention and expectation that they will earn a positive return for the owner. Funds may be invested in either real assets or financial assets. When resources are used for purchasing fixed and current assets in a production process or for a trading purpose, then it can be termed as real investment. Specific examples of financial investments are: deposits of money in a bank account, the purchase of Mudaraba Savings Bonds or stock in a company. Since Islam condemns hoarding savings and a 2.5 percent annual tax (Zakat) is imposed on savings, the owner of excess savings, if he is unable to invest in real assets, has no option but to invest his savings in financial assets. Investment is one of the important functions of AIBL. AIBL collect Deposits on Al-wdia and Mudaraba principles and deploy the collected fund using sharia-based Mechanism & Modes of Investment.

6.2 Objective and Principles of Investment:

The principles of investment operations of the bank are:

- ✚ To invest fund strictly in accordance with the principals of Shariah.
- ✚ To ensure mutual benefit both for the bank and the investment client by professional appraisal of investment proposals, judicious sanction of investment, close and constant supervision and monitoring thereof.
- ✚ To make investment keeping the social-economic requirement of the country in view.
- ✚ To increase the number of potential investor by main participatory and productive investment.
- ✚ To finance various development schemes for poverty alleviation, income and employment generation with a view to an accelerating sustainable social-economic growth of the society.
- ✚ To invest in the form of goods and commodities rather than giving out cash money to the investment clients.
- ✚ To avoid even high profitable investment in field forbidden under Islamic Shariah and are harmful for the society.



6.3 Source of Fund:

Al-Arafah Islami Bank Limited, Panthapath Branch collect fund from reserves, and funds rose through borrowings from IBG account. The main 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). AIBL, Panthapath Branch has opportunity to collect fund in two ways such as 'Primary' and 'Secondary' source. These are discussed as under:

❖ Primary Source:

Reserves: The central bank also requires that every Islamic bank shall maintain 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.

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, preserved from time to time by notice in writing by the central bank.

Borrowing from IBG: 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.

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: The main function of Islamic banks is to mobilize savings and provide financial support to the entrepreneurs. 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 on demand. 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.

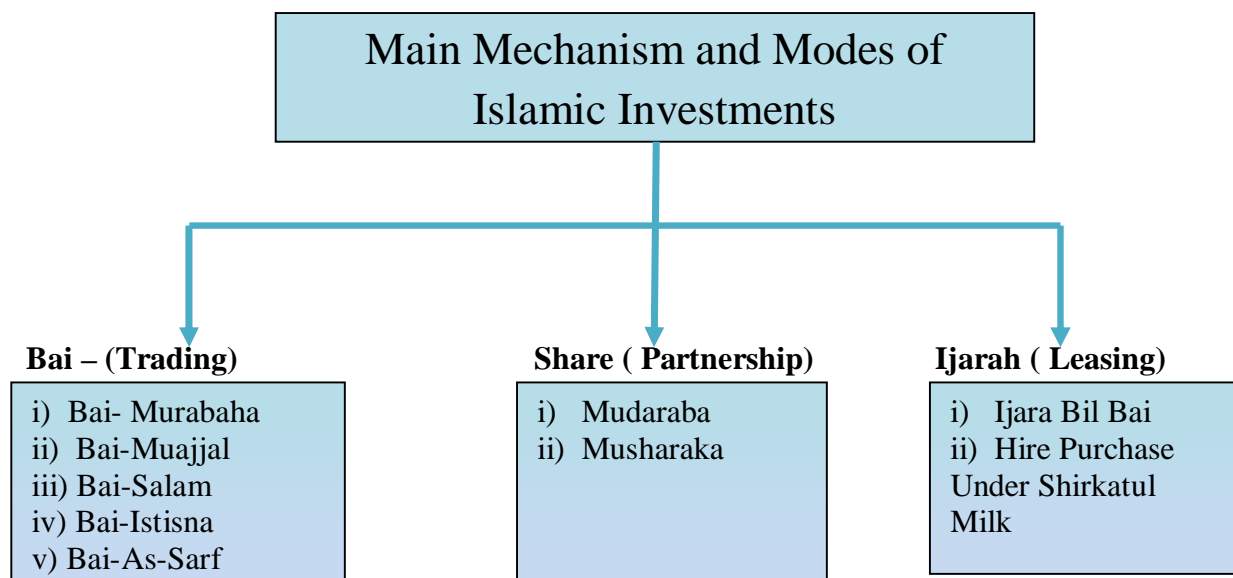
General Mudaraba Account: The account of Islamic banks is different from the checking account of an interest-based bank. Mudaraba is a form of business contract where one party supplies money and the other manages the business by investing labor and time. Profits generated from the venture are shared by both in a proportion agreed upon at the time of contract. However, in this arrangement, the financier is solely responsible for any loss that may be incurred. The financier of the business is known as Sahib al Mal., Rabbul Mal or owner of the capital and the manager of the business is called Mudarib or entrepreneur.

Term Mudaraba Account: Islami banks receive different kinds of Mudaraba Term Deposits from the depositors. The deposits are generally for 3 months, 6 months, 12 months, 24 months or 36 months.



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”.

6.4 Main Mechanism and Modes of Islamic Investments:



Bai (Trading) Mechanism:

Bia-Murabaha:

Meaning: The word Bai-Murabaha is derived from the words “Bai” & “Rebhun”. Bai means purchase & sale and Rebhun means “Increase or 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 Shari'ah 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.

Bai-Murabaha is two kinds:



Ordinary Bai-Murabah: Transaction between two parties' buyer & seller without any promise.

Bai-Murabaha on order & promise: Participation of three parties.

- + Buyer 1st party promises to buy some goods placing order to 2nd party (intermediary trader).
- + The 2nd party procures the goods from the seller/supplier the 3rd party.
- + Bank act as 2nd party (intermediary trader).

Features of Bai-Murabaha:

- + Sale is on agreed upon profit on agreement of seller & buyer.
- + Cost of the goods and profit separately is informed to buyer.
- + Purchasing of goods and selling the same to the later is a condition.
- + Existence & availability of goods is essential for signing a Murabaha contract.
- + It is not permissible to conclude a Murabaha contract on the goods against which a previous Murabaha contract was concluded with the same client.
- + Price once fixed cannot be increased due to delay inpayment.
- + It is permissible to obtain cash and or collateral security.
- + It is not permissible for the bank to include other than direct expenses for procurement of the goods.
- + Ownership of goods is a must before selling either physical or constructive.



Steps of Bai-Murabaha:

First step: the client submits a proposal regarding his requirements of the bank, the client sends a proposal with the specifications of the commodity to be acquired from the bank. The proposal also indicates details regarding the date, time and place of delivery as well as price and form of payment information. The bank responds by sending a counter proposal either accepting the buyer's price or stipulating a different price.

Second step: The client promises to buy the commodity from the bank on a *Bai-Murabaha* basis, for the stipulated price. The bank accepts the order and establishes the terms and conditions of the transaction.

Third step: The banks inform the client of its approval of the agreement to purchase. The bank may pay for the goods immediately or in accordance with the agreement. The seller expresses its approval to the sale and sends the invoice(s).

Fourth step: The two parties (the bank and the client) sign the *Bai-Murabaha* sale contract according to the agreement to purchase.

Fifth step: The bank authorizes the client or its nominee to receive the commodity. The seller sends the commodity to the place of delivery agreed upon. The client undertakes the receipt of the execution of the proxy.



Bai-Muajjal:

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 Shari'ah 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.

Features of Bai-Muajjal:

- ✚ Deferred sale, the agreed price of which is payable in some fixed future date
- ✚ Goods delivered, price deferred
- ✚ Sale must be after getting ownership by purchaser
- ✚ Goods must be visible and purchasable at the time of execution of contract
- ✚ It is permissible and in most cases. The client will approach the bank with an offer to purchase a specific good through a Bai-Muajjal agreement.
- ✚ It is permissible it make the promise vending upon the client to purchase the goods from the bank.
- ✚ It is permissible it take cash / collateral security to guarantee the implementation of the promise or to indemnify the bank for damages caucused by nine payments.
- ✚ All goods purchased on behalf of a Bai-Muajjal agreement ate the responsibility of the bank unit they are delivered to the client.
- ✚ The bank may sell the goods at a higher price than the purchase price to earn profit
- ✚ The price is fixed at the time of the agreement and cannot be altered.
- ✚ The bank is not required tip disclose the profit made on the transaction.



Bai-Salam:

Definition: Bai-Salam may be defined as a contract between a Buyer and a Seller under which the Seller sells in advance the certain commodity (ies)/product(s) [permissible under Islamic Shariah and the law of the land] to the Buyer at an agreed price payable on execution of the said contract and the commodity (ies)/product(s) is/are delivered as per specification, size, quality, quantity at a future time in a particular place.

The components of Bai-Salam contract are:

- ✚ The contracting parties i.e. Seller and Buyer
- ✚ The price and the merchandise
- ✚ The specifications of the contract

Features of Bai-Salam:

- ✚ Price paid in advance, goods deferred
- ✚ Total price be paid/fixed at the time of agreement
- ✚ Buy-sale is Halal without existence/visibility of goods in a Salam contract
- ✚ If goods are in existence/visible, there will be no Bai-Salam
- ✚ The agreement be contained name, particulars, quantity, shape, unit-price and total price of goods etc
- ✚ To meet the needs of small farmers and manufacturers like working capital, liquidity problem.
- ✚ Before delivery goods remain at the sellers risk and after delivery at the purchaser's risk.
- ✚ Agency agreement may be done with the customer subject to Salam agreement & agency agreement is separate from each other.
- ✚ Penalty for delay delivery can be incorporated in the agreement but to be spent for charity.
- ✚ Agreement cannot be revoked without consent of both the parties.
- ✚ Price must be determined in such agreement.
- ✚ Bank can sell the goods in the market.



Bai-Istisna :

Istisna'a is a sale contract by which al-sani (the seller) on the basis of the order placed by al-mustasni (the buyer) after having manufactured or otherwise acquired al masnoo' (the goods) as per specification sells the same to al-mustasni' for an agreed upon price and method of settlement whether that be in advance, by installments or deferred to a specific time. It is a condition of Istisna'a contract that al-sani should provide either the raw material or the labour.

The majority of the jurists consider Istisna'a as one of the divisions of Salam; therefore, it should be treated under the definition of Salam. But the Hanafi School of Fiqh declares Istisna'a independent and separate contract. The jurists of the Hanafi School have given various definition to Istisna'a, some of which are: "That is a contract with a manufacturer to make something" and "It is a contract on a commodity on liability with the stipulation of work." under this contract the first party agrees to construct/ manufacture a particular product and deliver it to second party against a predetermined price. The price may not be required to pay in advance. It may be paid in installments, or can even be deferred until the desired product is delivered.

Steps of Istisna'a Sale:

Istisna'a sale contract: The buyer expresses his desire to buy a commodity and brings a request to purchase the commodity to the bank. The method of payment, whether cash or 40feared is set forth in the agreement. The bank agrees to deliver the commodity to the buyer at some agreed upon time in the future.

Delivery and receipt of the commodity: The seller in the parallel Istisna'a agreement delivers the commodity to the bank on the freed upon date. The bank, in turn, delivers the product to the buyer of the original istisna'a contract. In accordance with the original agreement. In this way, all parties fulfill their obligations to the contract.



Bai-As-Sarf:

Bai sarf consists of two Arabic words, Bai and Sarf. The word Bai means buying and selling and the word sarf means increase/gain. The definition of sarf in Islamic jurisprudence: refers to a (immediate or expected monetary/ financial or other utility) gain from the exchange contract through mutual exchange of the Badal (currencies substituted as a return for currency provided by the opposite party) in a defined format. In short it is buying and selling of currency. Bai – as- sarf mode of investment is mainly applied in negotiation/purchase of Export Bill and Foreign Cheques and Drafts. It is applied when exporters come to the Bank after shipment of goods and submit their export documents /Bills with an offer of sale to the Bank. If it is found the bill is free of any discrepancy (complying presentation), the bank purchases it with a mutual agreed upon rate where the Bank pays off the value of the bills in local currency instantly to the client and receives the bills in foreign currency, which is realized from abroad at maturity.

Partnership (Share) Mechanism:

Musharaka: Musharaka is a contract of partnership between two or more individuals or bodies in which all partners contribute capital, participate in the management, share the profit as per-agreed ratio and bear the loss, if any in proportion to their capital/ equity ratio.

Kinds of Musharaka:

- ✚ Shirkat Al Inan-where capital of the partners is not necessary to be equal.
- ✚ Shirkat Al Mufabada-where capital of the partners must be equal.
- ✚ Shirkat Al Wajoo- A partnership business where business is developed depending on the goodwill of the partners. They purchase goods on deferred payment basis and sale it on spot.
- ✚ Shirkatus Sanai- A partnership business of the partners having professional skill.



Features:

- ✚ The Capital in Musharaka comes from all the partners;
- ✚ In Musharaka, all partners can participate in the management of the business and can work for it.
- ✚ Profit is distributed as per pre agreed ratio;
- ✚ Loss shared as per Capital ratio;
- ✚ The liability of the partners in Musharaka is normally unlimited. Therefore, if the liabilities of the business exceed its assets and the business goes in liquidation, all the exceeding liabilities shall be born pro rata by all the partners;

Mudaraba:

Mudaraba: It is a form of partnership in profit where by one party provides funds while the other provides expertise and management. The first party is called the Sahib-al-Maal and the later is referred to as the Mudarib. Any profit accrued is shared between two parties on a pre-agreed rate, while capital expect it is due to the breach of trust by the Mudarib.

Types of Mudaraba:

Restricted Mudaraba (Al Mudaraba Al Muqayyadah): A restricted Mudaraba is a contract in which the Shahib Al Maal impose any restrictions on the actions of the Mudarib but not in a manner that would unduly constrain the Mudarib in his operations.

Unrestricted Mudaraba (Al Mudaraba Al Mutlaqah): An unrestricted Mudaraba is a contract in which Shahib Al Maal permits the Mudarib to use the Mudaraba capital without any restrictions.



Important Features of Mudaraba:

- ✚ Capital must be specific.
- ✚ Capital must be in currency.
- ✚ Capital is not a liability debt on Mudarib;
- ✚ Shahib Al-Maal cannot take part in business directly but may supervise the business
- ✚ Mudarib is not entitled to wages/salary but may get actual expenses incurred
- ✚ Profit must be shared as per agreed ratio
- ✚ Loss must be borne by the owner of the capital
- ✚ Profit and loss is ascertained after expiry of contract period
- ✚ Shahib Al- Maal loses its capital and Mudarib loses his labour in case of actual loss incurred in the business.

Leasing/Ijarah Mechanism:

Hire-purchase under shirkatul meelk: Hire-purchase under shirkatul meelk means purchasing and acquiring ownership by one party by sharing in equity and paying rents for the rest of the equity held by the Bank/or other party. Under this mode, the Bank and the client on contract basis jointly purchase vehicles, machineries, building, apartment etc. The client uses the portion of the assets owned by the bank on rental basis and acquires the ownership of the same assets by way of paying banks portion of the equity on the assets in installments together with its rents as agreed upon.

The features of this mode are elaborated below:

- ✚ The client deposits his/her share of equity with the bank after obtaining approval and the bank pays total price of the assets/properties together with its equity.
- ✚ Before purchase of the assets/properties an agreement is executed stipulating the actual prices, monthly rents, price of the bank's portion of the assets/properties, payment schedule and installment amount and the nature of the security etc.
- ✚ The bank shall rent out its own portion of the assets/properties to the client as per terms & conditions of the agreement.



- ✚ The client (Hirer) pays off in installments bank's portion of equity on the assets together with its fixed rent as per the terms and conditions of the agreement.
- ✚ With the payment of installments by the client, the ownership of the bank in the assets/properties gradually diminishes, while that of the client increases & rent receivable by the Bank reduces gradually.
- ✚ The client may acquire the full ownership of the assets/properties before expiry of the deal by paying off the entire dues to the bank.
- ✚ The rent remains payable in proportion to Bank's ownership, if the client fails to pay the due installment(s).
- ✚ The bank can take of the assets / properties under its control, if the client fails to pay the installment(s) as per the terms and conditions of the agreement.

6.5 Investment under Special Schemes of AIBL:

- ✚ AIBL provides some special scheme for their client. This scheme is given bellow:
- ✚ Investment Scheme for Doctors
- ✚ House Hold Durable Scheme
- ✚ Housing Investment Scheme
- ✚ Real Estate Investment Program
- ✚ Transport Investment Scheme
- ✚ Micro Industries Investment Scheme.
- ✚ Staff House Building Investment Scheme
- ✚ Staff Household Durable Scheme



6.6 Operation Procedure in Investment of AIBL:

Investment department of Al-Arafah Islami Bank Limited generally follows the below mentioned procedures and steps for sanctioning the investment as available with the branch.

Selection of the client: Al-Arafah Islami Bank Ltd. maintains their banking activity by receiving money from depositors and investing it for expected entrepreneurs. If any client wants to take investment, they must be selected by the bank. It is to be noted that the client/customer must agree with the bank's rules & regulations before availing investment. Generally, the bank analyses the following five C's of the client:

- ✚ Character;
- ✚ Capacity;
- ✚ Capital;
- ✚ Collateral; and
- ✚ Condition.

Application stage: The prospective client has to apply to the Panthapath Branch for investment by filling up of F-167A application form. The bank will collect necessary information about the potential client. For this reason, the bank informs the potential client to provide and/or fill properly relevant information which is vital for the opening of investment proposal. Generally, here, all the required documents for taking investment have to be prepared by the client himself. Documents that are necessary for getting investment of AIBL are prescribed below:

- ✚ Application in letterhead pad with new proposition/inclusion of new item.
- ✚ Application in Bank's prescribed form (F-167A)
- ✚ Stock Report (F-163).
- ✚ Trade License (Up-to-date).
- ✚ Photograph of proprietor/partner/directors (two copies each).
- ✚ Income Tax clearance/TIN certificate.
- ✚ Declaration of liability position with other Banks (Up-to-date)
- ✚ Particulars of Assets of the proprietor/company.



- ✚ Attested copy of the Memorandum of Association (MOA) & Articles of Association (AOA) for the joint stock company;
- ✚ Attested copy of the Tax Identification Number (TIN)- including final assessment;
- ✚ Tenders of the proposed assets (in case of HPSM).
- ✚ Detailed summary of the sundry debtors and creditors (including both time & Schedule).
- ✚ Summary of the personal movable & immovable assets; and others

Processing and appraisal: After receiving the application form, Panthapath Branch sends a letter to Bangladesh Bank by the head office for obtaining a report there. This report is called CIB (Credit Information Bureau) Report. This report is essential if the loan is exceeding Tk.1, 00,000. The purpose of this report is to be being informed that whether the borrower has taken loan from any bank or not if 'yes', then whether these loans are classified or **CIB** report contains the following:

- ✚ Name of the borrower
- ✚ Fathers name
- ✚ Permanent address
- ✚ City
- ✚ Sector code
- ✚ Nature of ownership

In order to appraise the client, Al-Arafah Islami Bank Limited (AIBL) provides a standard F-167B Form (Appraisal Report) to the client for gathering all the information.

The bank maintains another formality that is given bellow:

- ✚ Examine shariah permissibility of the goods. Reject the proposal outright, if not permitted by Islamic Shariah.
- ✚ Visit the Business establishment of the Client. Talk to the business and important personalities of the locality to ascertain the Honesty, Integrity and Business dealings of the Client.



- ✚ Obtain Financial Statement/Balance Sheet of the Client for the last three consecutive years for Investment Proposals of Tk.50.00 lac or above as per Head Office Instruction.
- ✚ Inspect Land, Building, other Assets and Properties proposed to be Mortgaged or Hypothecated.
- ✚ Obtain Lawyer's Opinion.

Sanctioning stage: In case bank maintains formality, provide a proposal to the client for this client receive a letter. It's called sanction letter. Al-Arafah Islami Bank Limited (AIBL)'s sanction letter contains the following elements:

- ✚ Investment Limit in million.
- ✚ Mode & amount of investment.
- ✚ Purpose of investment.
- ✚ Period of investment.
- ✚ Rate of return.
- ✚ Securities.

Primary- Stock of goods is the primary security.

LC/Bills: Related Documents.

MPI/Bai-Bai Murabaha-TR: Lien on goods to be released.

Cash/Goods-

Bai-Murabaha: 25% cash security on cost price to be subsequently converted to goods security.

TR (Trust Receipt): Without cash security.

Collateral- Immovable properties.



Documentation stage: At this stage, usually the bank analyses whether required documents are in order. In the documentation stage, Al-Arafah Islami Bank Limited (AIBL), checks the following documents of the client:

- ✚ Sanction Advice deal-wise duly accepted by the client.
- ✚ Agreement.
- ✚ Letter of Pledge.
- ✚ Single party D.P. Not, if there is no guarantor.
- ✚ Double party D.P. Not, if there is guarantor (s) to be made by the Client in favor of the guarantor and endorsed by the later to the Bank.
- ✚ D.P. Not Delivery letter.
- ✚ Letter of Hypothecation for the asset(s) and Client's stock in Trade/work-in-process.
- ✚ Letter of Disclaimer.
- ✚ Insurance policy duly recorded in insurance register.
- ✚ Letter of guarantee.
- ✚ Letter of installments.
- ✚ Letter of Disbursement

Disbursement stage: After verifying all documents, the branch disburses the investment to the client. Here, the client gets his/her desired fund or goods.

Monitoring & Recovery stage: At this final stage of investment processing of the Al-Arafah Islami Bank Limited (AIBL), will contact with the client continually, for example- bank can obtain monthly stock report from the client in case of micro investment. Here, the bank will keep his eye on over the investment taker. If needed, bank will physically verify the client's operations. Also if bank feels that anything is going wrong then it tries to recover its investment fund from the client.



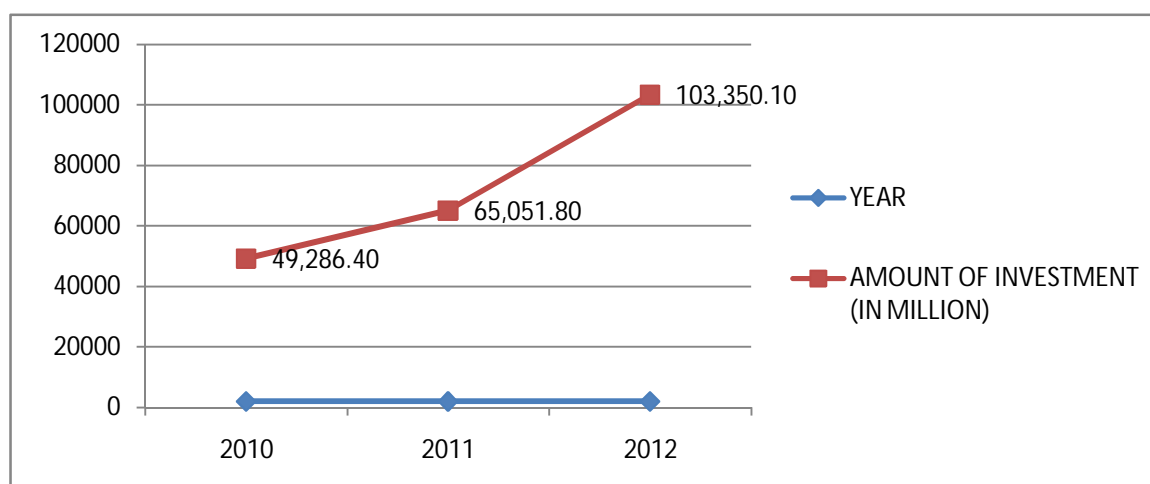
6.7 Evaluation Investment Overview of AIBL:

Table: 2 Analyzing the Year Wise Investment made by AIBL:

Year	Amount of Investment (Figures in million Tk.)
2010	49,286.40
2011	65,051.80
2012	103,350.10

Sources: Annual Report 2011&2012

Graph: 2 Analyzing the Year Wise Investment made by AIBL:



From the graph we can say that in the year 2012 the total amount of Investment is Tk. 103,350.10 million to compare with other two financial years. In the year 2011 the total amount of investment was Tk. 65,051.8 million and in the year 2010 the total amount of investment was only Tk. 49,286.4 million. So according to this graph we can easily say that the bank's total amount of Investment is gradually increasing up to 2012 from 2010.

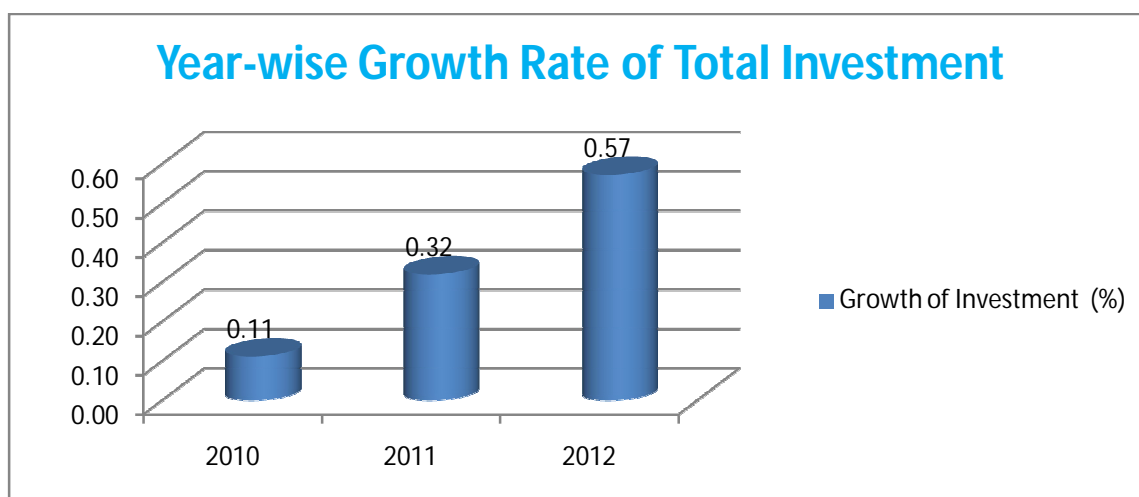


Table: 3 Year Wise Growth Rate of Total Investment:

Year	Growth of Investment
2010	11.15%
2011	31.98%
2012	58.48%

Sources: Annual Report 2011&2012

Graph: 3 Year Wise Growth Rate of Total Investment:



From the graph we can say that in the year 2012 the growth rate of total investment is 57% (Tk.103, 350.10 million) to compare with other two financial years. In the year 2011 the growth rate of total investment was 31% (Tk. 65, 051.8 million) and in the year 2010 the growth rate of total investment was only 11% (Tk. 49, 286.4 million). So according to this graph we can easily say that the bank's growth rate of total investment is gradually increasing up to 2012 from 2010. It is a positive sign for the bank. There is one thing that if we see the percentage increase by the year in 2012 is 25% and in the previous year it was 21%. So the percentage increases by 4% only. So the growth rate is gradually increasing in day by day.

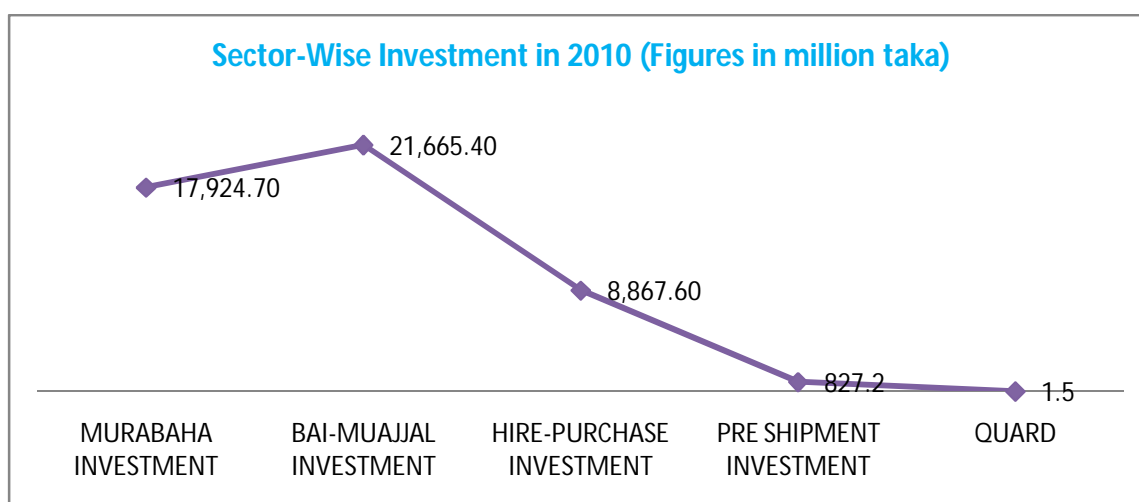


Table: 4 Analyzing the Sector-wise Investment made by AIBL (Figures in million taka).

SECTOR	2010	2011	2012
Murabah Investment	17,924.70	23,845.70	28,949.88
Bai-Muajjal Investment	21,665.40	26,252.70	50,020.08
Hire-Purchase Investment	88,67.6	12,748.70	19,774.80
Pre Shipment Investment	827.2	926.00	1,769.98
Quard	1.5	1,278.70	2,835.36
Total	49,286.40	65,051.80	103,350.10

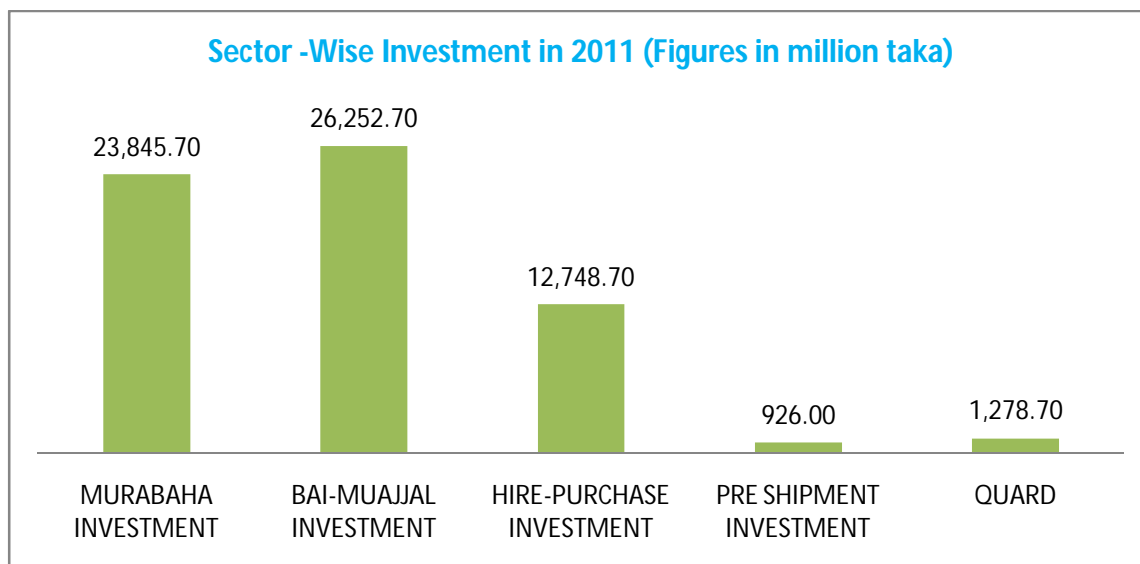
Sources: Annual Report 2011&2012

Graph: 4 Analyzing the Sector-wise Investment of AIBL in the Year of 2010.



From the graph, we can say that, AIBL was not able to maintain a good investment operation in the year 2010. The maximum portion of the investment has operated in the sector of Bai-Muajjal Investment. About Tk. 21,665.4 million of total (Tk. 49,286.4 million) has given in this sector. About Tk. 27,621 million of total (Tk. 49,286.4 million) have invested as other Investments (murabaha, hire-purchase, pre shipment & quard etc.).

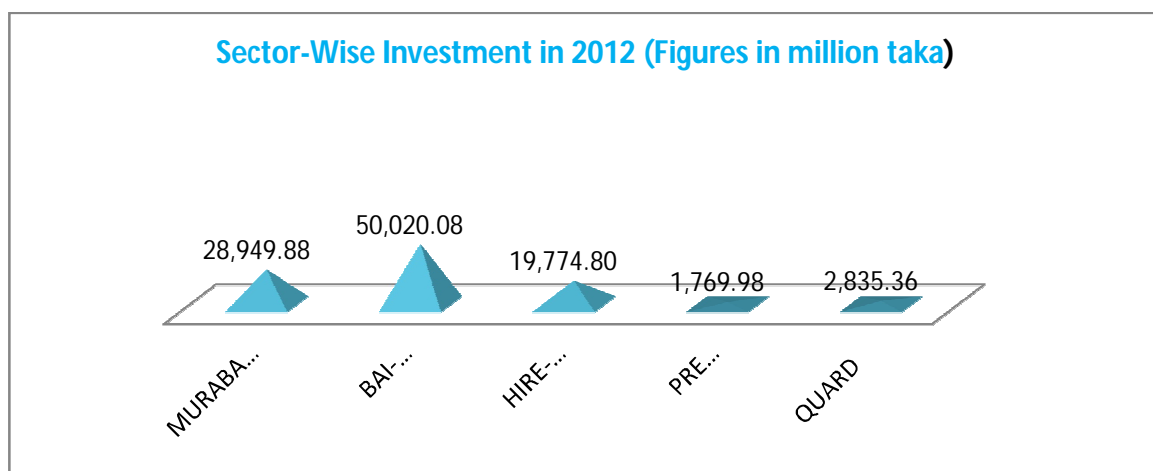
Graph: 5 analyzing the Sector-wise Investment of AIBL in the year of 2011.



In the year 2011, from the graph we can say that the maximum portion of investment has invested to the Bai-Muajjal Investment sector. The number of client in this sector was about 23000 in this year that was 18000 in the year 2010. The amount of lending was taka 26,252.70 million of the total in this sector. Murabaha has maintained the second position in investment sector by this Bank. The amount of investment was taka 23,845.70 million, which was about taka 2,407 million less rather Bai-Muajjal Investment of the total investment. In Hire-Purchase amount was so good & Pre shipment Investment amount was not so good. Quard amount was good rather the previous year.



Graph: 6 Analyzing the Sector-wise Investment of AIBL in the year of 2012.



In the year 2012, from the graph we can say that the maximum portion of investment has invested to the Bai-Muajjal sector. The total amount of investment was taka 50,020.08 million of the total in this sector. Murabaha investment has maintained the second position in investment sector made by AIBL. The amount of investment was taka 28,949.88 million which was about taka 21,070.2 million less rather Bai-Muajjal. A large amount of investment was also invested as secured over hire Purchase investment (taka 19,774.80 million). Investment has also invested as pre Shipment, Quard etc.

6.8 Types of Investment (Credit) made by the Branch (Figures in million taka).

SECTOR	2010	2011	2012
Murabaha Investment	7.93	14.32	29.33
Bai-Muajjal Investment	52.72	119.20	273.60
Hire-Purchase Investment	7.06	23.55	55.10
Quard	0.2	1.48	8.76
Total	67.91	158.55	366.79

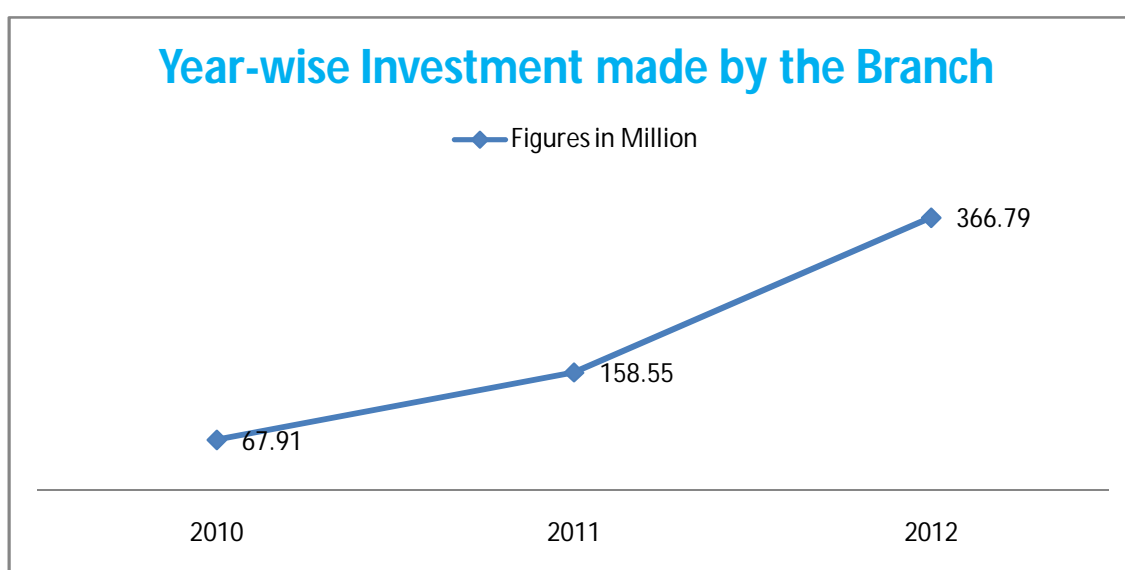


Table: 5 Year-wise total amount of investment made by the Branch

Year	Amount of Investment (In million taka)
2010	67.91
2011	158.55
2012	366.79

(Sources: Branch's annual statement of affairs)

Graph: 7 Year-wise investments made by the Branch:



Al-Arafah Islami Bank Limited, Panthapath Branch is gradually improved their total investment amount. This Branch's overall investment performance is good. In the year of 2010 the total amount of investment was TK. 67.91 million where as the total amount of investment is TK. 366.79 million in 2012. So this is the positive sign for the Branch.

Table: 6 Year-wise analyzing the total amount of investment of AIBL & Panthapath Branch.

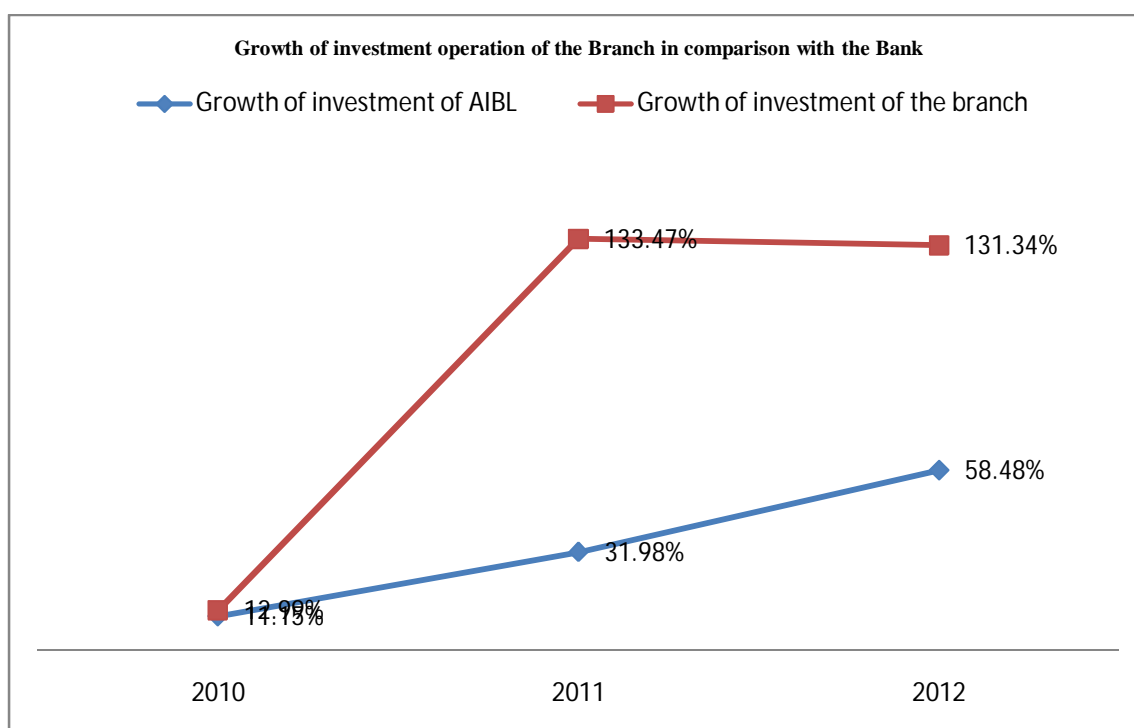
Year	Amount of investment of AIBL	Amount of Investment of Panthapath Branch
2010	49,286.40	67.91
2011	65,051.80	158.55
2012	103,350.10	366.79



Table: 7 Year-wise Analyzing the Growth Rate of AIBL & Panthapath Branch.

Year	Growth of investment of AIBL	Growth of investment of the branch
2010	11.15%	12.99%
2011	31.98%	133.47%
2012	58.48%	131.34%

Graph: 8 Graphical representation of Growth Rate of AIBL& Panthapath Branch:



In this graph it is clear to see that the growth rate of investment of AIBL and Panthapath Branch are increasing over the years. The Branch is having the highest growth of investment over the last three years rather the Bank. So this is very positive sign for the Branch. Branch's growth rate of investment is gradually increasing in a higher rate which was 12.29% in the year of 2010. In 2011 the rate was 133.47% which was 11 times higher rather the previous year.

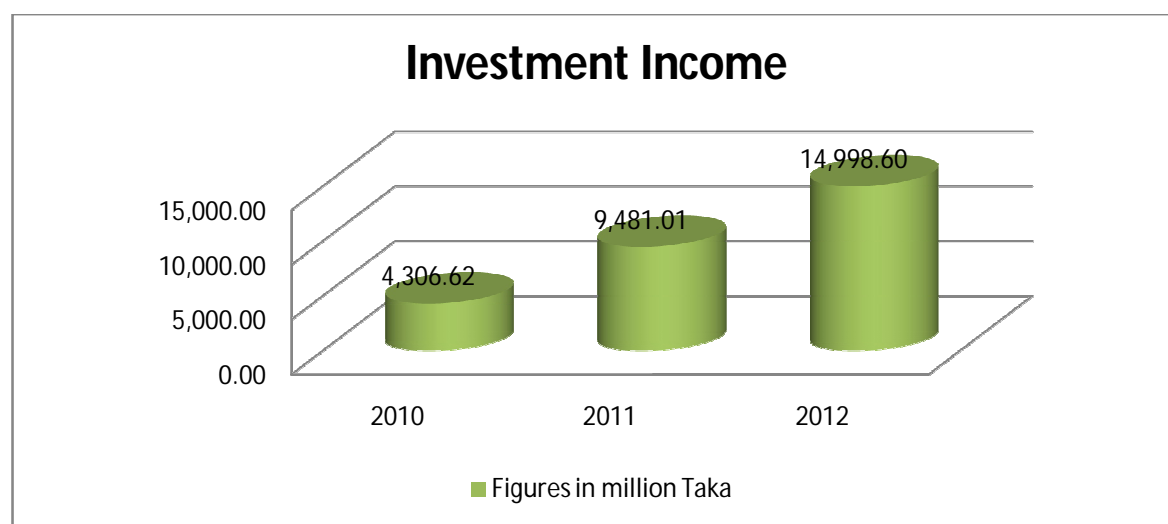


Table: 8 Investment Income:

(Figures in million taka)

Year	2010	2011	2012
Taka	4,306.62	9,481.01	14,998.60

Graph:9 Year-wise analyzing the investment income of AIBL:



In this graph it is said that the amount of investment income is gradually increased over the years. In the year of 2010 the total amount of investment income was taka 4,306.62million. In 2011 the total amount of investment income was taka 9,481.01 million which was taka 4,175.51 more in compression with previous year. In 2012 the amount of investment income is taka 14,998.60 million which is more than taka 5,517.59 in compression with previous year. This is very positive sign for the Bank.



Chapter 7

SWOT Analysis





7.1 SOWT Analysis of AIBL:

SWOT analysis is a tool for screening an organization and its environment. It is the first stage of planning and helps marketers to focus on key issues. It helps to detect the possible threats and opportunities in the market and viability. It helps recognize internal strength and overcome weaknesses. It is the scanning of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths, or weaknesses, and those external to the firm can be classified as opportunities or threats.

Every organization is composed of some internal strengths and weaknesses and also has some external opportunities and threats in its whole life cycle. And from this point we can do a SWOT analysis of The Al-Arafah Islami Bank Limited.

SWOT analysis means –

- √ S --- Strengths
- √ W --- Weakness
- √ O--- Opportunity
- √ T --- Threats

Strengths:

- ✚ AIBL is financially sound bank. Because AIBL financial position is very strong at the competitive market.
- ✚ Countrywide Branch net work. As a result, AIBL customers get modern banking service any place in country.
- ✚ Efficiency and effectiveness of the employee. AIBL employee very responsibilities to duties and to achieve customer satisfaction.
- ✚ Online banking through its smart Database known as ABIL.
- ✚ Motivated and honest human resources.
- ✚ AIBL utilizes state of the art technology to ensure consistent quality and operation.



Weakness:

- ✚ AIBL lacks well trained human resource in some area. AIBL training system is not proper for the human resource.
- ✚ The procedure of credit facility is too long compare to other banks. AIBL credit facility is not satisfactory for the customers.
- ✚ Lack of proper automation.
- ✚ AIBL lacks aggressive advertising. AIBL advertising is not sufficient to attract the customers.

Opportunity:

- ✚ AIBL can introduce more innovative and modern customer service.
- ✚ Many branches can be opened in local remote area as its high demand.
- ✚ AIBL can recruit experienced, efficient and knowledgeable officers and staffs as it offers good working environment.
- ✚ As it has on-line banking service it is capable of serving quicker.
- ✚ Focus more on corporate social responsibility to earn long term goodwill.
- ✚ Spread their service to the rural area of Bangladesh by establishing new branches.

Threats:

- ✚ Increasing number of Islamic banks as well as conventional banks.
- ✚ Liquidity crisis due to investment in stock market.
- ✚ Deposit crisis in recent period.
- ✚ Frequency taka devaluation and foreign exchange rate fluctuation is causing problem.
- ✚ Local competitors can capture huge market share by offering similar products.



Chapter 8

Findings, Recommendations & Conclusion





8.1 Major findings from the analysis:

- ✚ AIBL, as an islami bank, don't collect sources of fund from Call money market.
- ✚ AIBL can't invest in all economic sectors, which are prohibited by the law of Islam.
- ✚ There are limited scopes to deal women entrepreneurs and professionals for making investment by women interpreters.
- ✚ The AIBL has adequate finance. That's why; they need not borrow money from Bangladesh Bank or any other financial sources.
- ✚ For adequate financial ability, they can provide more investment facility to their clients compared to other banks.
- ✚ The growth rate of investment of AIBL is significantly increasing day by day.
- ✚ AIBL is investing on various sectors. Among those sectors, they invest more and more on business sectors.
- ✚ Sometimes, the clients do not repay the loan in time. However, the bank has no right to take interest for extra time, because interest is not allowed in Islamic Banking System. They just take the amount that is mentioned in contract.
- ✚ Investment ratio in respect of deposit is very low in AIBL. AIBL is not able to take the risk right now like other banks. The management of AIBL does not risk in investment.
- ✚ Advertising and promotion are the weak points of Al-Arafah Islami Bank Limited. AIBL does not have any effective marketing activities. Other banks have better marketing strategy.
- ✚ The investment secession making process of the banks is too much centralized.



8.2 Recommendations:

- ✚ The amount of investment of RDS & operating range should be increased. So, more people will get the facility under the scheme & they will be able to increase their standard of living.
- ✚ AIBL should use the latest banking technology to provide better services for the customers. It will also attract the customers of international banks.
- ✚ AIBL at Panthapath Branch is a newly established branch. For increasing the financial position and to cope with the competitive market, the bank should activate all of its services especially in investment products as soon as possible.
- ✚ AIBL should increase the ratio of investment. Now they should take risk when they give loans to their clients, because there is a lot of idle money in their every branch.
- ✚ Managers of AIBL should have the power of giving small loans to the clients. It is very important for the banks to increase the investment.
- ✚ In the Islamic Banking System, the loan procedure is a very lengthy process. AIBL should take steps to minimize the process of the loan system. Because customers don't like lengthy processes.
- ✚ AIBL, Panthapath Branch, should develop a Foreign Exchange Department. This department is now very essential for every branch.
- ✚ AIBL, Panthapath Branch, also may concentrate on small and short-term loans. Because, in these areas there are many customers of small and short-term loans.



8.3 Conclusion:

The Banking sector in any country plays an important role in economic activities. Bangladesh is no exception of that. Financial development and economic development are closely related. That's why the private commercial banks are playing significant role in this regard.

This report focused and analyzed on Investment practice of Al-Arafah Islami Bank Ltd, Panthapath Branch. Throughout its life its contribution in socioeconomic prospect of Bangladesh has the greater significance. AIBL is offering special deposit scheme with higher profit, which is a crying need for long-term position in financial market. Because of the entrance of more banks in the financial market, deposits will splits over.

As a new branch, Panthapath Branch of AIBL has been able to maintain its recovery position in sector wise credit financing is up to the satisfactory level. And it should give more emphasis in this sector to acquire more profit.

The Bank is committed to run its activities as per Islamic Shariah and thus it has different investment modes, different repayment schedules, different disbursement procedure, and different mark up system. And it has also a different Credit policy. People are getting more benefit from the dealings of Islamic banking. But it needs to mention here that Islamic Banks like AIBL incurred huge loss in case of default cases. Islamic Banks can't charge extra amount on the residual principal of the overdue accounts like other conventional banks. but some compensation is imposed on the accounts to protect huge accounts to be overdue/classified. It cannot take part in call money market. Mudaraba, Musharaka are another mode of investment in Islamic Banking. But here honesty is the only pre-requisite. For ensuring more benefit, Al-Arafah Islami Bank Ltd. Can take the initiative to make people aware about Islamic banking and let them to be AIBL's valued client.



APPENDIX:

CRM	:	Credit Risk Management
C&F	:	Clearing and Forwarding
CRF	:	Clean Report of Finding
DD	:	Demand Draft
EPB	:	Export Promotion Bureau
ERC	:	Export Registration Certificate
FDR	:	Fixed Deposit Receipt
IFDD	:	Issuance of Foreign Demand Draft
IBCA	:	Inter Branch Credit Advice
IBDA	:	Inter Branch Debit Advice
IFBC	:	Inward Foreign Bills for Collection
LCA	:	Latter of Credit Authorization
L/C	:	Letter of Credit
LBP	:	Local Bill Purchase
MBL	:	Mercantile Bank Limited
OBC	:	Outward Bill Collection
OD	:	Over Draft
PAD	:	Payment against Document
PO	:	Payment Order
STD	:	Short Term Deposit
TC	:	Travelers Cheques
TT	:	Telegraphic Transfer
BB	:	Bangladesh Bank
SWIFT	:	Society for Worldwide Inter Bank Financial Telecommunication.
RDS	:	<i>Rural Development</i> Scheme.
SME	:	Small and Medium Enterprises



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