**INTERNSHIP REPORT**

**ON**

#### An Investment Mechanism Analysis of Al-Arafah Islami Bank Ltd

**Submitted To**

**Controller of Examinations**

**National University**

**Gazipur -1704**

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**Session-2010-2011**



National University, Bangladesh

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**Letter of Transmittal**

Date: 09th April, 2016

Controller of Examinations

National University

Gazipur, Dhaka.

#### Subject: Submission of Internship report

Dear Sir,

It’s my great pleasure to submit internship report on the project titled **Investment Mechanism of Al-Arafah Islami Bank Ltd.**, which is a partial fulfillment of the requirement of BBA program. As an intern of Al-Arafah Islami Bank Ltd I’ve gone Investment department of the branch and report is prepared focusing on the Investment banking function and procedure of this branch. A careful attention has been taken regarding data collection, relevance of data and preparation of this report. The information provide in this report is very authentic and effort has been provided to make this a comprehensive one.

For better understanding and reliability, this is being segmented various chapters and this will provide an extensive source of information.

I convey my sincerest thanks and gratitude for giving me the scope and I believe that this report will certainly help you in evaluating my course work.

I shall be pleased to answer any query as and when needed.

Thank you.

Sincerely yours,

……………….

KULSUMARA SHAPNA

Bachelor of Business Administration

Major in Finance

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Roll No-1172455

Session-2010-2011

**Student’s Declaration**

I am, KULSUMARA SHAPNA, student of BBA, Roll No-1172455 at **Daffodil Institute of IT**, hereby declare that the internship report on **Investment Mechanism** of **Al-Arafah Islami Bank Limited** is prepared by me after the completion of my internship at Al-Arafah Islami Bank Limited. Under the extensive supervision and guidance of principal Officer (investment Department) - Al-Arafah Islami Bank Limited.

I also declare that the internship report is prepared for an academic purpose, alone.

Signature

……………………..

KULSUMARA SHAPNA

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Session-2010-2011

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**Acknowledgement**

First of all I would like to acknowledge “**The Almighty**”, the supreme authority of the universe.

This report is a product of hard study; query involves many people’s considerate attention to it. Without their assistance, suggestion, direction and co-operation preparation of this report would have been impossible. So, I want to pay my gratitude to them.

I want to express my gratitude mainly to my supervisor AMINUL HAQUE RUSSEL. Lecturer,

BBA Program, Daffodil Institution of IT, who helped me from the very beginning of my internship search for attachment. My honorable supervisor from time to time give me appointment and suggest me to prepare this report that finally made me possible to complete this report which is a partial requirement of BBA program.

I also want to acknowledge S. M. ZABIDUL HEQUE branch manager mirpur-10of Al-Arafah Islami Bank Ltd. who helped me to manage attachment in this bank. Then I would like to thank to Principal Officer of Investment Department **Abdur Rob sheikh** , **Md. Aminur Rahman Khan,** And officers **Kamrunnahar,** who provide me all the required information to make this report successful and also foreign exchange. I sincerely thanks to the executives of mirpur-10 of Al-Arafah Islami Bank Ltd. who helped me very much in composition of my internship paper.

Overall, I also grateful to all staffs and officers of Al-Arafah Islami Bank Ltd. mirpur-10 for their co-operation and help at the time of my work with them in that branch and to collect information to prepare this report.

**Executive Summary**

The report attempts to show the summarized picture of Investment Department of Al-Arafah Islami Bank LTD. The aim of the study was to see investment Mechanism also to see how Islamic banks may contribute to render financial services towards small and rural sector. I have done the report of investment Mechanism of Al-Arafah Islami Bank Limited.

It has mainly highlighted the business strategies and various Mechanism of investment which have been observed during the in chapter onediscussed about introduction, origin, and objective, sources of report data, scope and limitation of AIBL. In chapter twodiscussed about Company overview, products & services of AIBL. Investment section is the main part of the report. Objective & principles of investment, sources of fund is internship program. For that I have divided the whole report into six chapters. Discussed here. This part mainly focused on mechanism of investment of AIBL and then findings are made from the analysis. In chapter I focused all investment Products of AIBL and described their definition, Features, steps of contract in chapter Four. I focused all investment mechanism of AIBL and described this mode in this part. In this part I focused investment Assessment &investment procedure, investment growth, sector chapter five discussed about SWOT analysis of AIBL. That is including with strength, weakness, wise investment growth of AIBL. I also show some table and graph and analysis on that. In **chapter five** opportunity, and threats.

Finally, findings recommendationsand conclusion are made in **the last chapter.**

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**Acronyms**

|  |  |
| --- | --- |
| AIBL | Al-Arafah Islami Bank Limited. |
| CRM | Credit Risk Management |
| C&F | Clearing and Forwarding |
| DD | Demand Draft |
| EPB | Export Promotion Bureau |
| FDR | Fixed Deposit Receipt |
| IFDD | Issuance of Foreign Demand Draft |
| IBCA | Inter Branch Credit Advice |
| IBDA | Inter Branch Debit Advice |
| LCA | Latter of Credit Authorization |
| L/C | Letter of Credit |
| OBC | Outward Bill Collection |
| OD | Over Draft |
| PO | Payment Order |
| STD | Short Term Deposit |
| SWOT | Strength Weakness Opportunity and Threat.  |
| TT | Telegraphic Transfer |
| SWIFT | Society for Worldwide Inter Bank Financial Telecommunication. |
| RDS | Rural Development Scheme.  |
| SME | Small and Medium Enterprises. |

Chapter-01

**Introduction**

**1.1 Introduction**

The **“Al-Arafah Islami Bank Limited”** was incorporated as a public limited company as on 18 day of June 1995 under the Companies Act. 1994. The Bank started its commercial operation on 27.09.1995. The Bank has made a significant progress within a very short period of its existence and occupied an enviable position among its competitors after achieving remarkable success in all areas of business operation.

**1.2 Origin of the Report**

The prime objectives of this report are to fulfil the partial requirement for the degree of BBA. Since, it’s compulsory for all students of BBA program of Business faculty, Daffodil Institute of IT Bangladesh to undergo three months long internship program to explore real life business situation.

Al-Arafa Islami Bank Limited is a place where I could learn the business dealings. This organization has created a positive image to the customer mind by providing better service. This Bank has introduced some Modern Islamic Banking Scheme that has high market demand. As it maintain the pace with the competitive business world, its activities, culture, philosophy and style leads an intern student to be the best at any field of working life. With this view, during my internship I was assigned to mirpur-10 branch, Al-Arafah Islami Bank Ltd, with other activities I specially tried to observe the Investment banking procedure and function of this branch.

**1.3 Background of the Study**

The internship program is full credit subject of the BBA program of the Daffodil Institute of IT which constructs a relation between the real life state of affairs and theoretical concepts.

I am a student of Bachelor of Business Administration of BBA program prefers to prepare a report on banking sector rather than other financial institution. I am assigned an internship report by the Al-Arafah Islami Bank Ltd dated January 10, 2015. This internship report is a part of my BBA program that performed by me as students of Daffodil Institute of IT of finance Studies. In a formal way, I select the banking sector and my supervisor offered me prepare the report on title as **Investment Mechanism of Al- Arafah Islami Bank Ltd.**

Investment is done under different modes of investment and before investment some objective and principles are to follow. Investment practice consists of some stage Selection of the client, Application stage, Processing and appraisal, Sanctioning stage, Documentation stage, Disbursement stage, Monitoring & Recovery stage

**1.4Objectives of the Study**

The main objective of this report is to show the Analysis of Investment Mechanism of Al-Arafah Islami Bank Ltd. The others objectives can be stated as under:

* To present an overview on investment mechanism of Al-Arafah Islami Bank Ltd.
* To show the concept of shariah based investment.
* To identify the investment performance of AIBL.
* To fulfilling the partial requirements of the BBA program.
* To suggest some possible recommendations to overcome the problems.

**1.5 Methodology of the Study**

To complete this report I’ve followed a systematic study which include working, inspecting and talking to the executives at different levels of the organization.In general this report is qualitative in nature. To facilitate make the report more meaningful and presentable two sources of data have been used.

**The primary sources:**we are collect primary data from many source which are given below.

* Face to face conversation with the Executives and officers of Bank.
* Unceremonious conversation with the client.
* Realistic work exposures from the different desks of the various departments of the Branch covered.
* Relevant file study as provided by the officer’s concerned.

**The Secondary Sources**: we are collect secondary data from different source which are as follows-

* Annual Report of Al-Arafah Islami Bank Ltd.
* Periodicals report published by Bangladesh Bank.
* AIBL’s websiet.
* Internet.

**1.6 Scope of the Study**

This report has been prepared on the basis of experience gathered during the period of internship. This report will be dealing with the overview of Al-Arafah Islami Bank Ltd. & mainly with **Investment Mechanism** of this Bank. But the report will try to cover overview of Al-Arafah Islami Bank’s objectives, functions, management, business policy and other activities. This report will also mention some problems of Al-Arafah Islami Bank’s Operating systems and its solutions.

**1.7 Limitations of the Study**

There were some problems while I have undergone the internship program. A wholehearted effort was applied to conduct the internship program and to bring a reliable and fruitful result. In spite of having the wholehearted effort, there exits some limitations, which acted as barrier. The following limitations are apparent in the report:

* Access to data regarding different performance indicators of Al-Alarafah Islami bank Ltd.
* The report is mainly based on the secondary data which published by different organization as annually, half-yearly, monthly, weekly and daily.
* Time constraints are additional limitations of this report.
* Getting relevant papers and documents may be strictly prohibited for an intern
* Due to some legal obligation and business secrecy banks are reluctant to provide data. For this reason, the study limits only on the available published data and certain degree of informal interview.
* The bankers are very busy with their jobs which lead a little time to consult with.
* Finally, some recent data which were needed to enrich this report but the unwillingness of the executives of the bank due to confidentiality was made my report limited to data content.

Chapter-02



Organizational overview of Al-ArafahIslami Bank Ltd.

**2.1 Background of the Organization**

With the objective of achieving success here & hereafter by pursuing the way directed by Allah and the path shown by His Rasul (SM), Islam provides us a complete lifestyle. Main objective of Islamic lifestyle is to be successful both in our mortal and immortal life. Therefore in every aspect of our life we should follow the doctrine of Al-Qur’an and lifestyle of **Hazrat Muhammad (Sm.)** for our supreme success. **Al-Arafah Islami Bank** started its journey in 18th June, **1995** with the said principles in mind and to introduce a modern banking system based on Al-Quran and Sunnah.

**Al-Arafah Islami Bank** incorporated in Bangladesh as a banking company in 1995 with limited liability by shares. It started business on 27 September of that year with an authorized capital of Tk. 10,000 million. At inception, its paid up capital was Tk. 101.20 million divided into 101,200 ordinary shares of Tk 1,000 each. The authorized capital of the Bank is Tk.15000.00 million and the paid up capital is Tk.8343.24 million as on 31.12.2013. Renowned Islamic Scholars and pious businessmen of the country are the sponsors of the Bank. 100% of paid up capital is being owned by indigenous shareholders.

The equity of the bank stood at Tk. 14,478.06 million as on 31 December 2013, the manpower was 2387 and the number of shareholders was 58466. 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.

The Bank is committed to contribute significantly to the national economy. It has made a positive contribution towards the socio economic development of the country with 119 branches of which 23 is AD throughout the country.

Wisdom of the directors, Islamic bankers and the wish of **Almighty Allah** make **Al-Arafah Islami Bank Ltd.** most modern and a leading bank in Bangladesh.

**2.2 Vision**

To be the pioneer bank in the banking arena in Bangladesh under the ***Shariah*** guidelines and contribute significantly to the national economy.

**2.3 Mission**

* To launch a welfare-oriented banking system.
* To invest through different modes that is acceptable under Islamic Shariah.
* To allow customer deposits on profit-loss sharing basis.
* To perform interest free banking.
* To found participatory banking instead of banking on debtor creditor relationship.
* To display team spirit and professionalism.
* To provide high quality financial services in export and import trade.
* To maintain corporate and business ethics.

**2.4 Goal and Objective of AIBL**

The maxim of the Al-Arafah Islami Bank Ltd (AIBL) is to discover a new horizon of innovative contemporary banking creating an automated and computerized environment providing one stop service and prepare itself to countenance the new challenges of globalization and 12th century. One of the main objectives of the bank is to be a provider of high products and services to cater to the needs of its corporate clients and provides a comprehensive range of financial services to national and multinational companies. The growing technological revaluation in the bank is not so-outlying future. Finally to achieve ultimate goal i.e. Nazat in Akhirat. It has previously introduced Swift, Online Banking.

**2.5 Special features of the AIBL**

As an Islami bank, we are singular in every positive aspect. We provide a bunch of state-of-art banking services within the wide bracket of ***shariah.*** We are unique with our products, strict with our principle and uncompromising with our honesty. Here are some special features of us that make us notable in Islami banking sector.

* All activities of AIBL are conducted under an profit/loss based system according to Islamic Shariah to get the nation rid of Usury.
* Its investment policies under different modes are fully Shariah compliant and well monitored by the board of Shariah Council.
* During the year 2007, 70% of the investment income has been distributed among the Mudaraba depositors.
* In 2008, **AIBL** has included online banking in its wide range of services. Bangladeshi software has been introduced in this feature to promote the local developers.
* **AIBL** regularly arranges its AGMs (Annual General Meeting). Whenever needed EGMs (Extraordinary General Meeting) are also arranged.
* We regularly pay dividend to our valued shareholders. For the year of 2007, we declared 20% bonus dividend to our shareholders.
* We believe in providing dedicated services to the clients imbued with Islamic spirit of brotherhood, peace and fraternity.
* The bank is committed towards establishing a welfare-oriented banking system to meet the needs of low income and underprivileged class of people.
* The Bank upholds the Islamic values of establishment of a justified economic system through social emancipation and equitable distribution of wealth.
* Following the Islamic traditions, it is assisting in the economic progress of the socially deprived people; in the creation of employment opportunities and in promotion of rural areas to ensure a balance development of the country.
* The Bank believes in social and philanthropic activities and has established **AIBL** English Medium Madrasha and AIBL Library. More endeavors will inshallah follow in future.

**2.6 Foreign exchange risk Management**

Foreign exchange risk is defined as the potential change in earnings arising due to change in market prices. International Division independently conducts the transactions and passing of their entries in books of accounts. All foreign exchange transactions are revalued at Mark-to Market rate as determined by Bangladesh Bank at the month-end. All Nostrum accounts are reconciled on monthly basis and outstanding entry beyond 30 days is reviewed by the Management for its settlement.

**2.7 Activities of *shariah* council**

Shariah council consists of 6 members specialized in Fiqhul Muamalat as guideline given by Bangladesh bank to ensure whether all banking operations are transacted in accordance with Islami*shariah* i.e. Quran, Sunnah, Ijma and Iztihad.

Shariah council has managed, by the grace of almighty Allah, to contribute a lot to run all the business activities of the bank according to shariah guidelines., honorable members of the *shariah* council sit in 7 meetings in the year 2014 to discuss the matters placed before them by the board and management of the bank to give directive and suggestions in the field of *shariah*principles, *shariah* council advised everybody concerned to comply *shariah* requirements and render all out effort to increase the standard of service rendered to the standard of service rendered to the standard of service rendered to the clients.

**Muraqibs** of the council have visited all the 78 branches of the bank over the year to observe the shariah compliance, give necessary instructions on the spot and submitted report to the council. They have also submitted corrective measures to rectify the laws in implementing *shariah*guidelines into the banking operations and placed those to the bank management for further follow up. Besides, compensation received from different branches, interest received from correspondence bank of **Nostro a/c** as well as doubtful income amounting to Tk.14052662 advised to set aside from bank total halal income.

**2.8 Products of AIBL as an Islamic bank**

The AIBL (Al-ArafahIslami Bank Ltd) offers their customers general banking facilities, which ensures the safety of their money. following are the ways through which banks collects their deposits from the clients:

* Al-WADIA CURRENT DEPOSIT (CD)
* MUDARABA SHORT NOTICE DEPOSIT (MSD)
* MUDARABA SAVINGS DEPOSIT
* MUDARABA TERM DEPOSIT (MTD)
* DEPOSIT UNDER OTHER SCHEMES
* MONTHLY PROFIT BASED TERM DEPOSIT (PTD)
* MONTHLY INSTALLMENT BASED TERM DEPOSIT (ITD)
* MONTHLY INSTALLMENT BASED HAJJ DEPOSIT (MHD)
* ONETIME HAJJ DEPOSIT (THD)
* MARRIAGE & INVESTMENT DEPOSIT (MIS)
* AL-ARAFAH SAVINGS BOND (ASB)
* FOREIGN CURRENCY DEPOSIT (FCD)
* PENSION DEPOSIT SCHEME (PDS)
* [CASH WAQFA DEPOSIT SCHEME (CWD)](http://www.al-arafahbank.com/cash_waqf_deposit_scm.htm)
* MUDARABA MILLIONAIRE DEPOSIT SCHEME
* MUDARABA DOUBLE DEPOSIT SCHEME
* MUDARABA LACPOTI DEPOSIT SCHEME
* MUDARABA KOTIPOTI DEPOSIT SCHEME
* MUDARABA STUDENT DEPOSIT SCHEME
	+ 1. **Al-WADIA CURRENT DEPOSIT (CD)**

Al-ArafahIslami bank Limited receives deposits in their *Al-Wadiah* current account. Usually business people runs *Al-Wadiah* current account. In *Al-Wadiah* current account customers can deposit and withdraw money, whenever they want. In this account, there is no restriction of withdrawing money. But in *Al-Wadiah* current account customer’s do not get any profit. Bank with take some money as service charge.

* + 1. **MUDARABA SHORT NOTICE DEPOSIT (MSD)**

Short Notice Deposit account customers can deposit and withdraw money any time whenever they want. But there is a restriction in withdrawing money. They have to inform the manager if they want to withdraw big amount. Like Mudaraba Savings Deposit account the customer’s get profit here. This profit is given every year at a predefined rate of last year.

* + 1. **MUDARABA SAVINGS DEPOSIT**

Al-ArafahIslami bank Limited also receives deposits by Mudaraba Savings Deposit. General people run this accounts. In Mudaraba Savings Deposit account customers can deposit money any time whenever they want. But they cannot withdraw money whenever they want, there is some restriction. Customers can withdraw money two times in a week and ten times in a month. But if they want to withdraw any big amount they have to give notice to the manager. If bank earn any profits the depositors will get at a predetermined percentage and the bank retains the residual amount as its profit.

* + 1. **MUDARABA TERM DEPOSIT (MTD)**

Interest-based banks receive different kinds of Term Deposits from the depositors. The deposits are generally for 3 months, 6 months, 9 months, one year, 2 years, or 3 years, and the bank pays a stated interest rate on each of these deposits, which varies depending on the term.   In general, the bank pays a higher rate of interest the longer the term of the deposit and lower rates for shorter time periods. In addition, a higher rate of interest is generally paid on term deposits than on saving deposits. Depositors are not generally allowed to withdraw money from a term deposit until the term matures. Premature withdrawal may result in penalties in excess of the interest earned, resulting in a negative return. Once a time deposit matures, the depositor may wish to reinvest for a new term.

**AIBL Special Savings Scheme**

This scheme is well known in the market as a well named Deposit Pension Scheme in other banks. If a client deposit an amount of fixed on the monthly basis often a few years i.e. 5 and 10 years he gets amount at a time. The bank offers approx 12% interest for this scheme particulars of which as follows:

**Table: AIBL Special Saving Scheme**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sl. NO** | **Amount to be Deported** | **Total Amount After 5 Years** | **Total Amount After 5 Years** | **Rate of Interest** |
| 01 | 500.00 | 40,500.00 | 1,14,000.00 | 11% |
| 02 | 1000.00 | 81,000.00 | 2,28,000.00 | 12% |
| 03 | 2000.00 | 1,62,000.00 | 4,56,000.00 | -do- |
| 04 | 5000.00 | Cumulative Basic |  | -do- |

 **Source: Officials website of AL-Arafah Islami Bank Ltd.**

* + 1. **Monthly Profit Based Term Deposit (PTD)**

Under the above scheme, deposit of tk.1.00 lac and multiple thereof are accepted for a term of 5 (five) years and the bank gave profit thereon tk. 885 per month per lac and proportionately on the rest amount of deposit under the category during the year under review. The aforesaid rate shall, however, be adjustable at the close of calendar year on finalization of accounts.

**Monthly Hajj Deposit**

Hajj deposit at monthly installment from 1 (one) year to 20 (twenty) years are accepted under the above scheme to enable the account holder to perform hajj out of the accumulated saving with profit.

**Savings Investment Deposit (MHD)**

Deposit under the scheme is accepted by monthly installment and after expiry of the term; double amount of such savings is given as investment in feasible sectors by the bank as per choice of the depositors without any collateral security. Any one by saving under the scheme can take business venture on utilization the amount saved under the scheme as well as availing bankinvestment.

**Al-Arafah Savings Bond**

Under this scheme, the bank has introduced saving bonds for tk. 10,000/-, tk. 25,000/- and tk. 100,000/- for 3, 5 and 8 years. After the completion of the tenure the deposited money may increase by 1.5 or even double.

**AIBL Regular Deposit Program**

RDP is a special services plan that follows to save a monthly basic and get a handsome amount at maturity. RDP account gives you the convenience of saving regularly in time with cherished dream RDP in the right solution

To open RDP account all you need is to be over 18 Years of age and a Bangladesh citizen you can open a RDP account within 10 days of the month by filling up a prescribed account opening form at any branch of AIBL.

**Term of AIBL Regular Deposit Program**

You need to open a RDP account for 3 or 5 Years i.e. 36 and 60 equal monthly deposits respectively.

**Minimum and Maximum Monthly Deposit Amount**

Under the RDP you can chose between a minimum monthly deposit amount of TK.300 and maximum amount of TK.1000

**Table: Monthly Deposit Amount and Receivable after 3/5 Years:**

|  |  |  |  |
| --- | --- | --- | --- |
| **SL NO** | **Installment Amount** | **Matured Value****3 Years** | **Matured Value****5 Years** |
| 01 | 300.00 | 12,500.00 | 22,800.00 |
| 02 | 500.00 | 20,900.00 | 38,000.00 |
| 03 | 1,000.00 | 41,800.00 | 76,000.00 |
| 04 | 2,000.00 | 83,600.00 | 1,52,000.00 |
| 05 | 2,500.00 | 1,04,500.00 | 1,90,000.00 |
| 06 | 5,000.00 | 2,09,000.00 | 3,80,000.00 |
| 07 | 10,000.00 | 4,18,000.00 | 7,60,000.00 |

 **Source: Officials website of AL-Arafah Islami Bank Ltd.**

**2.8.6 Mudaraba Lakhopati Savings Scheme**

In this scheme if a parson Deposit an amount for a period of 3 Years, 5 Years, 8 Years, and 12 Years he will get interest for the Deposit on the monthly basis in the following rate:

**Table: Mudaraba Lakhpoti Savings Scheme**

|  |  |  |
| --- | --- | --- |
| **Year of Account** | **Monthly Installment Amount** | **Total Taka** |
| 3 Years | 2325.00 | 1,00,000.00 |
| 5 Years | 1275.00 | 1,00,000.00 |
| 8 Years | 645.00 | 1,00,000.00 |
| 10 Years | 450.00 | 1,00.000.00 |
| 12 Years | 330.00 | 1,00,000.00 |

 **Source: Officials website of AL-Arafah Islami Bank Ltd.**

* + 1. **Mudaraba Millennium Savings Scheme**

**Table: Mudaraba Millennium Savings Scheme**

|  |  |  |
| --- | --- | --- |
| **Year of Account** | **Monthly Installment Amount** | **Total Taka** |
| 3 Years | 23,200.00 | 10.00 Lack  |
| 4 Years | 16,400.00 | 10.00 Lack  |
| 5 Years | 12,700.00 | 10.00 Lack  |
| 6 Years | 10,020.00 | 10.00 Lack  |
| 7 Years | 7,820.00 | 10.00 Lack  |
| 10 Years | 4500.00 | 10.00 Lack  |
| 12 Years | 3330.00 | 10.00 Lack  |
| 15 Years | 2190.00 | 10.00 Lack  |
| 20 Years | 11,75.00 | 10.00 Lack  |

 **Source: Officials website of AL-Arafah Islami Bank Ltd.**

**2.8.7 Mudaraba Kotipoti Savings Scheme**

**Table: Mudaraba Katipoti Savings Scheme**

|  |  |  |
| --- | --- | --- |
| **Year of Account** | **Monthly Installment Amount** | **Total Taka** |
| 3 Years | 2,32,000.00 | 1.00 Kati |
| 4 Years | 164,000.00 | 1.00 Kati |
| 5 Years | 127,000.00 | 1.00 Kati |
| 6 Years | 100,000.00 | 1.00 Kati |
| 7 Years | 78,200.00 | 1.00 Kati |
| 10 Years | 45,400.00 | 1.00 Kati |
| 12 Years | 33,250.00 | 1.00 Kati |
| 15 Years | 21,850.00 | 1.00 Kati |
| 18 Years | 15,800.00 | 1.00 Kati |
| 20 Years | 11,670.00 | 1.00 Kati |

 **Source: Officials website of AL-Arafah Islami Bank Ltd.**

**Grameen& Small Investment Scheme**

AIBL has introduced a new investment project as grameen and small investment. The objective of this project is to introduced Shariah based banking system in rural and village area, creating employment through financing in low income group, build up savings attitude, improvement of living standard of rural low income mass people, creating opportunity to carry out Islamic lifestyle by way of alleviating poverty and at the same time financially establish career men/women by investing in small investment projects. Initially, this scheme is introduced in two branches of AIBL i.e. Gallai, Comilla and Ruposhpur, Srimongol. There is a plan to expand gradually this project in other rural branches. Thus, within the scope of grameen and small investment scheme, the following sectors have been invested:

**Table: Grameen& Small Investment Scheme**

|  |  |
| --- | --- |
| 1. Fisheries | l0. Vegetables business |
| 2. Poultry | 11. Cultivation of battle leaf |
| 3. Cattle | 12. Tailoring business |
| 4. Goat | 13. Work of bamboo and cane |
| 5. Cow | 14. Cultivation of pineapple |
| 6. Poultry Farm | 15. Earthen ware |
| 7. Preparing Muree | 16.Purchasing rickshaw |
| 8. Preparing sweets | 17.Cultivation of lemon |
| 9. Cosmetics items |  |

* Under this method, after getting the demand and the giving assurance of credit payment by the customer, bank takes the authority to purchase the specific goods on behalf of its customer and after that sells them to that customer.
* In this case bank obviously has to purchase the goods from a third party and has to keep them under its authority for an instance. After that, a sale agreement is accomplished between the bank and the customer
* Here, goods are firstly delivered to the customer and payment is made on a specific future time. It is clear that in this method, goods are reached under the authority before payment is done.
* In this method, bank is not liable to inform about the buying price and the amount of profit respectively to the customer. The only tiling mat is mentioned to that client is the selling price of those goods.
* If the customer fails to pay the payment of the goods on a specific time and therefore if that customer takes some extra time to pay it fully, then in that sort of case, bank cannot charge any more profit due to that overtime period.

**2.9 Management of AIBL**

Management is the process of planning, leading and controlling the work of organizations members and of using all available organizational resources to reach stated organizational goals.

The strength of a bank depends on the strength of its management team. *Al-Arafah Islami Bank Ltd*. is proud to have a team of highly motivated, well-educated and experienced executives who have been contributing substantially to the continued progress of the bank. The management is ably supported and assisted by well-motivated and experienced officers and members of staff.

**2.10 Human Resource Department of AIBL**

In today’s aggressive business environment, only the quality of human recourses makes the difference. The bank’s assurance to attract the best persons to work for it and the adoption of the latest information technologies is reflected in the efforts of the bank in the in the development of its human resources. In the faces of today’s global competition Bank envisages to develop highly motivated workforce and to equip them with latest skills and technologies. A good working environment promotes a high level of faithfulness and assurance, devotion and dedication on the part of the employees.

Al-Arafah Islami Bank has a training centre to develop its employees. Al-Arafah Islami Bank sent number of officers to Bangladesh institute of Bank Management and other training institutes for specialized training on various aspects of banking. The bank has set up a Training institute for providing training facilities of its executive’s officers. The training institute has already conducted a number of courses. A number of officers have been sent for foreign training. Al-Arafah Islami Bank believes in professional excellence and considers its working force as its most valuable assets and the basis of its competence and power.

Table: Manpower position of Al-Arafah Islami Bank Ltd.

|  |
| --- |
| **Manpower Position of AIBL** |

|  |
| --- |
| **Tea Boy** |

|  |
| --- |
| **Managing Director** |

|  |
| --- |
| **Deputy Managing Director** |

|  |
| --- |
| **MCG** |

|  |
| --- |
| **Executive Vice President** |

|  |
| --- |
| **Assistant Officer** |

|  |
| --- |
| **Senior Vice President** |

|  |
| --- |
| **Junior Officer** |

|  |
| --- |
|  **Vice President** |

|  |
| --- |
| **Probationary Officer** |

|  |
| --- |
| **Assistant Vice President** |

|  |
| --- |
|  **Officer** |

|  |
| --- |
| **Principle Officer** |

|  |
| --- |
| **Senior Principle Officer** |

|  |
| --- |
| **Senior Officer** |

 **Source - Service Rule of AIBL**

**2.11 Managements Organogram**

Management organogram of AIBL is given below-

Managing Director

Deputy Managing Director

Executive Managing Director

Senior Vice President

Vice President

Assistant Vice President

**Source – Official website of AIBL**

**2.12 Organogram of mirpur-10 branch**

Manager (PO)

Second Officer (SO)

Officer (seo)

Provisionary Officer

Provisionary Officer

J. Officer

J. Officer

J. Officer

J. Officer

J. Officer

J. Officer

Officer

Officer

J. Officer

J. Officer

**Source – Official website of AIBL**

Chapter-03

Investment Products of Al-Arafah Islami Bank Ltd.

**3.0 Introduction**

AIBL is a joint venture multinational Bank with 58.03% of equity being contributed by the Islamic Development Bank and financial institutions. The total number of branches in 2013 stood at 286. Now the authorized capital of the bank isTk. 20,000 million and Paid-up capital is Tk. 14,636.28 million. Islami Bank Bangladesh Limited (IBBL) is considered to be the first interest free bank in Southeast Asia. It was incorporated on **13-03-1983** as a Public Company with limited liability under the companies Act 1913. The bank began operations on March 30, 1983, with major share by the foreign entrepreneurs.

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. 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.

**3.1 Investment Modes of AIBL**

Credit department of AIBL actually invests its money in various sectors of the economy through different modes permitted by shariah and approved by Bangladesh Bank. The modes of investment are as follows:

1. Bi-Mechanism
2. Share Mechanism
3. Ijara Mechanism

**Table : Investment Modes of AIBL**

Share Mechanism

Ijara Mechanism

Bi-Mechanism

* Mudarab
* Musharaka
* Bai-Murabaha
* Bai-Muazzal
* Bai-Salam
* Bai-Istishna
* Hire Purchase under ShirkatulMeelk
* Ijara
* Sale

 **Source – Official website of AIBL**

**3.2 Investment Procedure of AIBL**

Generally a bank takes certain steps to deliver its proposed investment to the client. But the process takes deep analysis. Because banks invest depositors fund, not banks‟ own fund. If the bank fails to meet depositors demand, then it must collapse. So, each bank should take strong concentration on investment proposal. However, Islami Bank Bangladesh Limited (IBBL) makes its investment decision through successfully passing the following crucial steps:

* Selection of the client
* Application stage
* Appraisal stage
* Sanctioning stage
* Documentation stage
* Disbursement stage
* Monitoring and Recovery stage

**3.3 Investment Products of AIBL**

**Fig: Investment Products of AIBL.**

 **Source – Official website of AIBL**

a) Bai-Muajjal

b)Bai-Murabaha

c) Bai-Salam

d) Istishna’a

a) Mudaraba

b) Musharaka

a) Hire Purchase

b) Hire Purchase Under shirkatulMelk

Bai Mechanism

Share (Partnership) Mechanism.

IjarahMechanism.

 Investment

***A .*BAI-MUAJJAL**

**Meaning of Bai-Muajjal**

*Bai*-*Muajjal* means credit sale of goods by the bank to the customer. Such contracts provide for a margin of profit or mark-up to the bank as mutually agreed upon by the buyer (client) and the seller (bank). Goods are kept at the disposal of the customer/buyer and the sale price can be paid either in lump sum or in installments.

  The *Bai-Muajjal*may be defined as a contract between a buyer and a seller under which the seller sells certain specific goods, permissible under Shariah and law of the country, to the buyer at an agreed fixed price payable at a certain fixed future date in lump sum or in fixed installments.

**Important Features of Bai-Muajjal**

* 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 to make the promise binding upon the client to purchase the goods from the bank. In other words, the client is required to either satisfy the promise or to indemnify the bank for damages caused by breaking the promise without excuse.
* It is permissible to take cash/collateral security to guarantee the implementation of the promise or to indemnify the bank for damages caused by non-payment.
* It is also permissible to document the debt resulting from *Bai-Muajjal*by a Guarantor, or a mortgage or both, like any other debt. Mortgage/Guarantee/Cash security may be obtained prior to the signing of the Agreement or at the time of signing the Agreement.
* Stock and availability of goods is a basic condition for signing a *Bai-Muajjal*Agreement. Therefore, the bank must purchase the goods in accordance with the specifications of the client, prior to signing the*Bai-Muajjal*Agreement with the client.
* All goods purchased on behalf of a *Bai-Muajjal*agreement are the responsibility of the bank until they are delivered to the client.
* The bank must deliver the goods to the client at the time and place specified in the contract. 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 to disclose the profit made on the transaction.

**Some Observations:**

This type of financing by the bank is considered more risky than the other Islamic modes of investment previously discussed.  Therefore, the application/proposal for *Bai-Muajjal* investment must be reviewed very carefully to ensure the client can ultimately make payment. .

The following steps may be taken to ensure the Bai-MuajjalInvestment is a good proposition for the bank:

* The bank may meet with the prospective client regarding his investment needs and business experience prior to an application /proposal is submitted.
* The bank may review the client’s past performance and other financing arrangements he may have had with the bank in the past.
* The bank may review its current investment policy regarding this type of financing arrangement to ensure the proposal meets bank guidelines.

**B. BAI-MURABAHA**

**Meaning of Murabaha**

The terms *“Bai-Murabaha"* means sale for an agreed upon profit. *Bai-Murabaha* may be defined as a contract between a buyer and a seller under which the seller sells certain specific goods permissible under Islamic*Shariah* and the Law of the land to the buyer at a cost plus an agreed upon profit payable today or on some date in the future in lump-sum or by installments. The profit either may be a fixed sum or based on a percentage of the price of the goods.

**Types of Murabaha**

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

* + - Ordinary*Bai-Murabaha* and
		- *Bai-Murabaha*Order on and Promise.

**Ordinary *Bai-Murabaha*** is a direct transaction between a buyer and a seller. Here, the seller is an ordinary trader who purchases goods from the market in the hope of selling these goods to another party for a profit.  In this case, the seller undertakes the entire risk of his capital investment in the goods purchased. Whether or not he earns a profit depends on his ability to find a buyer for the merchandise he has acquired.

 ***Bai-Murabaha***Order on and Promiseinvolvesthree parties - the buyer, the seller and the bank. Under this arrangement, the bank acts as an intermediary trader between the buyer and the seller. In other words, upon receipt of an order and agreement to purchase acertain productfrom the buyer, the bank will purchase the product from the seller to fulfill the order.

**Important Features of Murabaha**

* A client can make an offer to purchase particular goods from the bank for a specified agreed upon price, including the cost of the goods plus a profit.
* A client can make the promise to purchase from the bank, that is, he is either to satisfy the promise or to indemnify any losses incurred from the breaking the promise without excuse.
* It is permissible to take cash/collateral security to guarantee the implementation of the promise or to indemnify any losses that may result.
* Documentation of the debt resulting from *Bai-Murabaha* by a Guarantor, or a mortgage, or both like any other debt is permissible. Mortgage/Guarantee/Cash Security may be obtained prior to the signing of the Agreement or at the time of signing the Agreement.
* Stock and availability of goods is a basic condition for signing a *Bai-Murabaha* Agreement. Therefore, the bank must purchase the goods in accordance with the specifications of the client, thereby taking ownership of the goods before signing the *Bai-Murabaha* agreement with the client.
* Upon acquiring the goods, the bank assumes the risk of ownership. In other words, the bank is responsible for damages, defects, and /or spoilage to the merchandise until such time that it is actually delivered to the buyer.
* The bank must deliver the goods to the client at the date, time, and place specified in the contract.
* The bank sells the goods at a price above the cost to obtain a profit.  The sale price that is charged by the bank is agreed upon in the Bai-Murabaha.  The profit can be stated in terms of a flat dollar amount or on a percentage of the purchase price.  If a percentage is used, the percentage shall never be expressed in terms of time, in order to avoid confusion that the price is a form of interest (Riba), which is not allowed.
* The price agreed to in the agreement is binding on both parties.
* It is permissible for the bank to contract with a third party to buy and receive the goods on its behalf. This agreement must be a separate contract.

**Steps in 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 bank informs the client (ultimate buyer) 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 Bank authorizes the client or its nominee to receive the commodity. And the seller   sends the commodity to the place of delivery agreed upon. The client undertakes the receipt of the commodity in its capacity as legal representative and notifies the bank of the execution of the proxy.

**Application of Bai-Murabaha**

*Murabaha* is the most frequently used form of finance in Islamic banking throughout the world. It is suitable for financing the different investment activities of customers with regard to the manufacturing of finished goods, procurement of raw materials, machinery, and other required plant and equipment purchases.

1. **BAI-SALAM**

**Meaning of Bai-Salam**

*Bai-Salam* is a term used to define a sale in which the buyer makes advance payment, but the delivery is delayed until some time in the future. Usually the seller is an individual or business and the buyer is the bank.

 The *Bai-Salam* sales serve the interests o*f both* parties:

* The seller receives advance payment in exchange for the obligation to deliver the commodity at some later date. He benefits from the *Bai-Salam* sale by locking in a price for his commodity, thereby allowing him to cover his financial needs whether they are personal expenses, family expenses or business expenses.
* The purchaser benefits because he receives delivery of the commodity when it is needed to fulfill some other agreement, without incurring storage costs. Second, a *Bai-Salam* sale is usually less expensive than a cash sale. Finally a *Bai-Salam* agreement allows the purchase to lock in a price, thus protecting him from price fluctuation.

**Steps in Bai-Salam**

**One-Cash sale or Sale on Credit :** The bank pays the agreed upon price at the time of the contracts inception. The seller agrees to the delivery of the commodity some specified date in the future.

**Two-Delivery and Receipt of the Commodity on the Specific due Date:** There are several options for delivery available to the bank

1. The bank may receive the commodity and resell it to another party for cash or credit.
2. The bank may authorize the seller to find another buyer for the commodity.
3. The bank may direct the seller to deliver the commodity directly to a third party with whom the bank has entered into another agreement.

**Three-The Sale Contract:** The bank agrees to sell the commodity for cash or a deferred price, which is higher than the *Bai-Salam* purchase price.  The buyer agrees to purchase and to pay the price according to the agreement.

**Application of Bai-Salam:**

*Bai-Salam* sales are frequently used to finance the agricultural industry. Banks advance cash to farmers today for delivery of the crop during the harvest season. Thus banks provide farmers with the capital necessary to finance the cost of producing a crop.

*Bai-Salam* sale are also used to finance commercial and industrial activities. Once again the bank advances cash to businesses necessary to finance the cost of production, operations and expenses in exchange for future delivery of the end product. In the meantime, the bank is able to market the product to other customers at lucrative prices.

In addition, the *Bai-Salam* sale is used by banks to finance craftsmen and small producers, by supplying them with the capital necessary to finance the inputs to production in exchange for the future delivery of products at some future date.

 Thus as has been demonstrated, the *Bai-Salam* sale is useful in providing financing for a variety of clients, including farmers, industrialists, contractors and traders. The proceeds in a *Bai-Salam* sale may be used to cover the finance of operation costs and capital costs.

 **Concluding Remark:**

The *Bai-Salam* agreement is a combination of debt and trading. The capital provider has no control over the management of capital provided. However the capital provider takes all of the risk as profits cannot be determined until the commodity is delivered and the final sale price is determined. In addition the capital provider incurs the opportunity cost associated with the capital outlay. Like the other three previously discussed modes of finance there is no certain rate of return. In addition the cost of capital is uncertain ex-ante. Also, there is no correlation in the relationship of cost of capital and rate of return on capital.

1. **MUSHARAKA**

**Meaning of Musharaka:**

The word Musharaka is derived from the Arabic word Sharikah meaning partnership. In Al-ArafahIslami Bank, a typical Musharaka transaction may be conducted in the following manner.

One, two or more entrepreneurs approach an Islamic bank to request the financing required for a project.  The bank, along with other partners, provides the necessary capital for the project. All partners, including the bank, have the right to participate in the project. They can also waive this right. The profits are to be distributed according to an agreed ratio, which need not be the same as the capital proportion. However, losses are shared in exactly the same proportion in which the different partners have provided the finance for the project.

**Types of Musharaka:**

In respect of dealing parties *Musharaka* may take two forms

* + - Permanent *Musharaka*and
		- Diminishing *Musharaka*.

**Permanent Musharaka :**

In this case, the bank participates in the equity of a company and receives an annual share of the profits on a pre-rate basis. The period of termination of the contract is not specified. This financing technique is also referred to as continued *Musharaka.*

The contributions of the partners under this mode may be equal or unequal percentages of capital for the purpose of establishing a new income-generating project or to participate in an existing one. In this arrangement, each participant owns a permanent share in the capital structure and receives his share of the profits accordingly. This type of a partnership is intended to continue until the company is dissolved.  However, one can exit the partnership by selling his share of the capital to another investor.

**Diminishing Musharaka:**

Diminishing or Digressive *Musharaka* is a special form of *Musharaka*, which ultimately culminates in the ownership of the asset or the project by the client. It operates in the following manner.

 The Bank participates as a financial partner, in full or in part, in a project with a given income forecast. An agreement is signed by the partner and the bank, which stipulates each party's share of the profits.

However, the agreement also provides payment of a portion of the net income of the project as repayment of the principal financed by the bank. The partner is entitled to keep the rest. In this way, the bank's share of the equity is progressively reduced and the partner eventually becomes the full owner.

When the bank enters into a Diminishing *Musharaka* its intention is not to stay in the partnership until the company is dissolved. In this type of partnership, the bank agrees to accept payment on an installment basis or in one lump sum, an amount necessary to buy the bank’s partnership interest.In this way, as the bank receives payments over and above its share in partnership profits, it’s partnership interest reduces until it is completely bought out of the partnership.

**Concluding Remark:**

Financing through a Musharaka partnership is investment-based. The capital provider has full control in the management of the business. In addition, he shares proportionately in both the profits and losses of the business. Therefore, the rate of return is uncertain and can be either positive or negative. The cost of capital is also uncertain and there exists perfect correlation between the relationship of cost of capital and rate of return on capital.

1. **MUDARABA**

**Definition of Mudaraba:**

The term *Mudaraba* refers to a contract between two parties in which one party supplies capital to the other party for the purpose of engaging in a business activity with the understanding that any profits will be shared in a mutually agreed upon. Losses, on the other hand, are the sole responsibility of the provider of the capital.

*Mudaraba* is a contract of those who have capital with those who have expertise, where the first party provides capital and the other party provides the expertise with the purpose of earning Halal (lawful) profit which will be shared in a mutually agreed upon proportion.  This type of business venture serves the interest of the capital owner and the Mudarib (agent).

 The capital owner may not have the ability or the experience to run a profitable business. On the other hand, the agent (the Mudarib) may not have adequate capital to invest in a business or project.  Therefore, by entering into a contract of *Mudaraba* each party compliments one another, allowing a business venture to be financed. The following are the steps of the *Mudaraba* contract.

**Steps in Mudaraba:**

The bank provides the capital as a capital owner. The Mudarib provides the effort and expertise for the investment of capital in exchange for a share in profit that is agreed upon by both parties.  **One-The Results of *Mudaraba*:** The two parties calculate the earnings and divide the profits at the end of *Mudaraba*. This can be done periodically in accordance with the terms of the agreement, subject to the legal rules that apply.

**Two-Payment of*Mudaraba* Capital:** The bank recovers the *Mudaraba* capital it contributed before dividing the profits between the two parties because the profit is considered collateral for the capital.

**Three-Distribution of wealth resulting from *Mudaraba*:** In the event a loss occurs, the capital owner (the bank) is responsible for the entire loss.  In the event of profits, they are divided between the two parties in accordance with the agreement between them, subject to the capital being recovered first.

**Concluding Remark:**

It is an investment-based form of financing. The provider of capital in *Mudaraba* has no role in the management of the capital. However, he has to bear the risk of capital loss as well as the opportunity cost of capital for the entire period of the contract. The rate of return is quite uncertain and the cost of capital is also uncertain. Hence, there is a perfect correlation between cost of capital and rate of return on capital.

1. **IJARAH**

 **Meaning of Ijarah :**

According to Islamic Shariah, Ijarah is a contract between two parties – the lessor and the lessee, where the lessees (Hirer or Mustajir) have the right to enjoy/reap a specific benefit against a specified consideration/rent/wages from the lessor – the owner (Muajjir).

 **Elements of Ijarah:** According the majority of Fuqaha, there are three general and six detailed elements of Ijarah:

* The Wording: This includes offer and acceptance
* Contracting Parties: This includes a lessor, the owner of the property, and a lessee, the party that benefits from the use of the property.
* Subject Matter of the Contract: This includes the rent and the benefit.
* The Lessor (Mujjir): The individual or organization who leases out/rents out the property or service is called the lessor.
* The Lessee: (Mustajir): The individual or organization who hires/takes the lease of the property or service against the consideration rent/wages/remuneration is called the lessee (Mustajir).
* The Benefit (Maajur): The benefit that is leased/rented out is called the benefit (Maajur).
* The rent (Ujrat): The consideration either in monetary terms or in quantity of goods fixed to be paid against the benefit of the goods or service is called the rent or Ujrat or Aj’r.
1. **HIRE-PURCHASE**

Hire-Purchase under ShirkatulMelk has been developed through practice. Actually, it is a synthesis of three contracts:

* + - **Shirkat**
		- **Ijarah and**
		- **Sale.**

**Definition of Shirkatul Melk**

‘Shirkat’ means partnership. ShirkatulMelk means share in ownership. When two or more persons supply equity, purchase an asset and own the same jointly and share the benefit as per agreement and loss in proportion to their respective equity, the contact is called ShirkatulMelk. In the case of Hire Purchase under ShirkatulMelk, Islamic banks purchase assets to be leased out, jointly with client under equity participation, own the same and share benefit jointly until the full ownership is transferred to the client.

**Definition of Ijara**

The term ‘Ijara’ has been defined as a contract between two parties, the lessor and the lessee, where the lessee enjoys or reaps a specific service or benefit against a specified consideration or rent from the asset owned by the lessor. It is a lease agreement under which a certain asset is leased out by the lessor or to a lessee against specific rent or rental for a fixed period.

**Definition of Sale Contract**

This is a contract between a buyer and a seller under which the ownership of certain goods or asset is transferred by the seller to the buyer against agreed upon price paid by the buyer. In the case of Hire Purchase under ShirkatulMelk, the lessor bank sells or transfers its title to the asset under a sale contract on payment of sale price.

**Stages of Hire Purchase under ShirkatulMelk:**

Hire Purchase under ShirkatulMelk Agreement has got three stages:

* Purchase of asset under joint ownership of the lessor and the lessee.
* Hire, and
* Sale and transfer of ownership by the lessor to the other partner - lessee.

**Important Features:**

* In case of Hire Purchase under ShirkatulMelk transaction, the asset or property involved is jointly purchased by the lessor and the lessee with specified equity participation. In which the amount of equity and share in ownership of the asset of each partner are clearly mentioned. Under this agreement, the lessor and the lessee become co-owners of the asset under transaction in proportion to their respective equity.
* In Hire Purchase under ShirkatulMelk Agreement, the exact ownership of both the lessor and lessee must be recognized.  However, if the partners wish and agree the asset purchased may be registered in the name of any one of them or in the name of any third party clearly mentioning the same in the Hire Purchase ShirkatulMelk Agreement.
* The share of the purchased asset owned by the lessor is put at the disposal possession of the lessee keeping the ownership with him for a fixed period under a hire agreement in which the amount of rent per unit of time and the benefit for which rent to be paid along with all other agreed upon stipulations are clearly stated. Under this agreement the lessee becomes the owner of the benefit of the asset not of the asset itself, in accordance with the specific provisions of the contract that entitles the lessor the rentals.

As the ownership of leased portion of asset lies with the lessor and rent is paid by the lessee against the specific benefit, the rent is not considered as price or part of price of the asset.

* In the Hire Purchase under ShirkatulMelk agreement the Lessor does not sell or the lessee does not purchase the asset but the lessor promise to sell the asset to the lessee only if the lessee pays the cost price/equity price of the asset as fixed and as per stipulations on which the lessee also gives undertakings.
* The promise to transfer legal title by the lessor and undertakings given by the lessee to purchase the ownership of leased asset upon payment part by part as per stipulations are affected only when it is actually done by a separate sale contract.
* As soon as any part of lesssor's ownership of asset is transferred to the lessee, that becomes the property of the lessee and hire contract for that share/part and entitlement for rent thereof lapses.
* ShirkatulMelk contract is effected from the day the equally of both parties deposited and the asset is purchase and continues up to the day on which the full title of lessor is transferred to the lessee.
* The hire contract becomes effective from the day on which the lessor transfers the possession of the leased asset in good order and usable condition, so that the lessee may make use of the same as per provisions of the agreement.
* Hire Purchase under ShirkatulMelk are binding contracts, and the parties to it - the bank and the client - are committed to meet their obligations in accordance with the relevant agreement.
* Under this agreement, the bank acts as a partner, as a lessor and at last as a seller; on the other hand the client acts as partner, as a lessee and lastly as purchaser.
* Under this agreement the role of lessee is one of a trustee, the leased asset being a trust in his hands: he will manage, in favor of the interest of the lessor at his own cost the exact subject of lessee, except in cases of emergencies and acts of Allah.
* The lessee is responsible for keeping the leased asset (s) in good condition throughout the whole period of lease, and if the asset is damaged or defrayed due to transgressions default or negligence of the lessee, he shall be responsible to compensate for that.
* The lessee cannot without obtaining prior written permission of the bank make changes in the exact item of lease, and or remove it from its place of installation, and transfer it to another location.
* In a hire purchase under ShirkatulMelk agreement, any stipulation may be made, provided it is not against the nature and requirements of the contract itself, nor does it violate the Lessee laws of Islam, and is also acceptable to both parties.
* Hire purchase under Shirkatul Melk facilities may be for medium-term and long-term period, which may be utilized for the expansion of production and services. as well as housing activities. The duration of hire purchase under Shirkatul Melk contract shall not exceed the useful life of the subject asset of the transaction. The bank should not normally enter into a Hire Purchase under ShirkatulMelk transaction for items with useful life of less than two years.
* Hire Purchase under Shirkatul Melk transaction facilitates the client (lessee) to get benefit from the lease asset in exchange of rental and also to become full owner of the asset by purchasing it.

Hire Purchase under ShirkatulMelk Mode is a combination of three contacts. All rules governing the lease contract should be applicable in this mode also. Moreover, the rules for Musharakah and sale contracts will also apply to this.

Chapter-04

Investment Mechanism of Al-ArafahIslami Bank Ltd.

**4.0 Definition of Investment**

Investment, transaction between two parties in which one ( the creditor or lender) supplies money, goods, services or securities in return for a  promised future payment by the other ( the debtor or borrower). Such Transaction normally includes the payment of interest to the lender. Investment may be extended by the public or private institutions to finance business activities, agricultural operation, consumer expenditures or government projects.

**4.1 Ratio Analysis for Al-Arafah Islami Bank Limited**

Ratio analysis involves the method of calculating and interpreting the financial ratios to analyze the firm’s relative financial performance. The main purpose of this analysis is to analyze and monitor the firm’s actual performance, so that the interested parties (Both the external and internal) can realize the firm’s actual performance easily and conveniently, which is so much essential for the parties.

* **Current Ratio:** This ratio is a measure of liquidity, calculated by dividing the current assets by current liabilities. It shows the level of current assets that a particular firm has against per Taka of current liabilities of that firm. So the equation becomes:

**“Current Ratio = Current Assets / Current Liabilities”**

* **The Standard: 2:1**

**Table 4.1.1: Current ratio**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2014** | **2013** | **2012** | **2011** | **2010** |
| **Current Asset** | **6,216,394,935** | **523,356,892,807**  | **467,832,726,020** | **382,265,354,646**  | **323,837,677,275**  |
| **Current Liability** | **466,851,166,195** | **380,935,202,213**  | **342,709,584,326**  | **293,594,556,111**  | **252,935,739,779**  |
| **Current Ratio** | **1.43** | **1.37**  | **1.36**  | **1.30**  | **1.28**  |

**Source: Annual Report of AIBL**

**4.1.1 Graph: Current Ratio**

****

**Source: Annual Report of AIBL**

**Interpretation**

As we know the standard for this ratio is 2:1. So, after observing the graph shown above, it can be said that the company’s current ratio is increasing every year. But bank’s current ratios are always below then standard level (2), which is not good and risky for bank. IBBL may have problems paying its bills on time. However, low values do not indicate a critical problem but should concern the management.

* **Debt Ratio: Debt Ratio** is a financial ratio that indicates the percentage of a company's assets that are provided via debt. It is the ratio of total debt (the sum of current liabilities and long-term liabilities) and total assets (the sum of current assets, fixed assets, and other assets).

**“Debt Ratio = Total Liability / Total Assets”**

 **Table 3.1.2: Debt Ratio**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2014** | **2013** | **2012** | **2011** | **2010** |
| **Total Liability** | **793,843,451,665** | **506,190,441,939** | **442,963,289,827** | **361,391,909,405**  | **307,091,862,514**  |
| **Total Assets** | **610,439,006,204** | **549,979,115,808** | **482,664,851,223** | **389,192,122,778**  | **330,586,118,276**  |
| **Debt Ratio** | **93.21%** | **92.04%** | **91.77%** | **92.86%** | **92.89%** |

**Source: Annual Report of AIBL**

**Graph 4.1.2: Debt Ratio**

**Source: Annual Report of AIBL**

**Interpretation:** This ratio indicates how many total assets is provided by the creditors. IBBL‟s debt ratio in average is 92.39%. This ratio is high because usually bank makes business with client’s money.

* **Investment to Deposit ratio:** It shows the operating efficiency of a particular bank & promoting its investment product by measuring the percentage of the total deposit described by the bank as loan & advance or as investment. The ratio is calculated as follows:

**“Investment to Deposit Ratio: Total General Investment / Total deposit” Taka (InMillion)**

**Table 4.1.3: Investment to Deposit Ratio**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2014** | **2013** | **2012** | **2011** | **2010** |
| **Total Investment** | **146,740** | **406,805** | **372,921** | **322,771**  | **275,494**  |
| **Total Deposit** | **166,851.17** | **473,141** | **417,844** | **341,854**  | **291,935**  |
| **Ratio** | **91.13%** | **85.98%** | **89.25%** | **94.42%** | **94.37%** |

**Source: Annual Report of AIBL**

**Graph 4.1.3: Investment to Deposit Ratio**

**Source: Annual Report of AIBL**

**Interpretation:** From the Graph it’s clear that the investment to deposit ratio fluctuate every year. In 2013 bank disbursed almost 85.98% of its deposit. That mean bank invest its last few years idle money in this year that’s why the invest amount is higher than deposit amount. The average of last four years of ratio is 91.01%. From the graph it’s easy to say that IBBL always use the maximum of its deposit every year. But there is a problem if the ratio is high. That bank might not have enough liquidity to cover any unforeseen fund requirements. So management should concern about that.

**Return on Total Assets (ROA):** It is also called Return on Total Investment (ROI).It measures the overall effectiveness of management in generating profit with its available assets. It is calculated as follows:

**“ROA=Net Profit after tax/Total assets”**

**Table 4.1.4: Return on Asset Ratio**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2014** | **2013** | **2012** | **2011** | **2010** |
| **Net profit after tax** | **2,161,636,341** | **50553621131** | **5433929023** | **4,841,446,291** | **4,485,479,878** |
| **Total Assets** | **210,439,006,204** | **549,979,115,808** | **482,664,851,223** | **389,376,604,220** | **330,785,171,734** |
| **Ratio** | **11.33%** | **9.19%** | **1.13** | **1.24%** | **1.35%** |

**Source: Annual Report of AIBL**

**Interpretation:** From the graph it’s clear that IBBL’s effective to generate return by using its available assets is decreasing year to year. It is not good for any organization. Bank has generated maximum amount of ROA in 2013 and lower amount of ROA is the year 2012.So bank should give special concern about management’s performance to increase the ROA ratio.

* **Earnings per Share (EPS):** It represents the amount earned during a specific period on behalf of each outstanding share of common stock. It is calculated by :

**EPS=Earnings for common stockholders/Number of Share Outstanding”**

**Table 4.1.5: Earnings per Share**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **2014** | **2013** | **2012** | **2011** |
| **Earnings Per Share (EPS)** | **2.20** | **3.40** | **4.42** | **4.84** |

**Source: Annual Report of AIBL**

**Graph 4.1.5: Earnings per Share**

 **Source: Annual Report of AIBL**

**Interpretation:** EPS indicates the earning generated by per share. In the graph the higher amount is in 2011 and the lower amount is in 2013.Higer amount EPS attract investor to invest in the organization. That’s why IBBL should maintain its increasing level every year.

* **Price-earning (P/E) Ratio:** It measures the amount that investors are willing to pay for per taka of firm’s return. It is calculated as follows:

**“P/E Ratio: Market Price of per Share/Earning per Share”**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | 2014 | 2013 | 2012 | 2011 |
| Ratio (Times) | 12.73 | 11.17 | 12.21 | 11.27 |

**Table 4.1.6: Price Earnings Ratio**

**Graph 4.1.6:Price Earnings Ratio**

**Interpretation:** From the Graph above, the price-earnings ratio of the bank is more or less fluctuate every year. The investors has paid maximum amount of price for per unit of earnings which is 13.29 in the year 2007.And from the amount it reflects that IBBL has been successful to regain the investors’ attraction to invest in this bank.

**4.2 Analysis of the achievement level of investment**

**4.2.1 AIBL’s Mode wise investment**

**Table 4.2.1: Mode wise investment 2011 to 2013**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Bai-Mudaraba** | **Musaraka** | **Bai-Muajjal** | **Hire Purchase under ShirkatulMelk** | **Purchase & Negotiation** | **Others** | **Total** |
| 2014 | 228,682 | 18,965 | 28,964 | 96,573 | 30,532 | 21,746 | 449863 |
| 2013 | 225,876 | 13,838 | 24,053 | 95,481 | 29,686 | 17870 | 406804 |
| **2012** | 221,632 | 13,719 | 18,295 | 96,056 | 9,156 | 13,688 | 372,921 |
| **2011** | 177,136 | 9,571 | 15,912 | 89,070 | 2,744 | 11,408 | 305,841 |

**Source: Annual Report of AIBL**

 **Graph 4.2.1: Mode wise investment 2011 to 2013**

**Graph 4.2.1: Total Investment Year by Year**

Islami Bank Bangladesh Limited invests in different sector by different modes of investment.From the Graph the volume of investment is increasing every year. It is a good sign for any bank that maximize use of its deposit.

From the above Graph it can be said that, the main two modes of investment of IBBL are Bai-Mudaraba& HPSM. The investment amount is higher in these two modes then the others.

**4.2.2 Division wise Investment Performance of IBBL**

**Table 4.2.2: Division wise Investment Performance of AIB**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of Division** | **2014** | **2013** | **2012** | **2011** |
| **Dhaka Division** | 24,543.53 | 221,525.57 | 213,608.99 | 182,456.54 |
| **Chittagong Division** | 1,004.45 | 97,152.87 | 81,072.97 | 61,255.40 |
| **Khulna Division** | 38542.21 | 35135.531 | 31,511.80 | 26,656.48 |
| **Rajshahi Division** | 33,6514.54 | 30,544.54 | 28,304.68 | 12,989.78 |
| **Barishal Division** | 5,854.32 | 4461.21 | 3,729.20 | 2,774.65 |
| **Sylhet Division** | 10,458.11 | 8,625,.10 | 7,160.08 | 5,867.11 |
| **RangpurDivision** | 9,482.24 | 8,425.5 | 7,533.00 | 12,840.60 |
| **Total** | 4,811.11 | 432,524.54 | 372,920.72 | 305,840.56 |

**Source: Annual Report of AIBL**

**4.2.3Sector wise Investment of AIBL**

**Table 4.2.3: Sector wise Investment of AIBL(Taka In Million)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Investment Sector** | **2014** | **2013** | **2012** | **2011** |
| **Industrial** | 150,545 | 121,531 | 108,930 | 122,270 |
| **Commercial** | 42,455 | 39,135 | 44,488 | 38,234 |
| **Agriculture** | 19.32  | 20,306 | 20,992 | 20,923 |
| **Real estate** | 29,424 | 27,057 | 23,231 | 16,966 |
| **Transport** | 6,545 | 6,687 | 6,887 | 6,457 |
| **Other** | 20,854 | 18,429 | 23,023 | 11,397 |
| **Total** | **212,745** | **233,1456** | **227,551** | **216,247** |

**Source: Annual Report of AIBL**

**Graph 4.2.3: Sector wise Investment 2011 to 2013**

**Interpretation:** From the above Graph, it is clear that IBBL concentrates mostly in industrial sector for investment. It has also a very good level of investment in commercial sector and agriculture sector.Bank gives less concern in transport and real estate sector because these sectors are risky than that of industrial and commercial sector.

* + 1. **Sub Sector wise investment (2014) of IBBL**

IBBL always encourage its officials to provide its amount in the suitable sector to invest. The sub sectors of Industrial investments are:

|  |  |  |
| --- | --- | --- |
| **Industrial Investment** | **Amount (Million)** | **Percentage** |
| Textile-Spinning, Weaving & Dyeing | 71,761.06 | 37.93% |
| Steel, Re-Rolling & Engineering | 21,946.44 | 11.60% |
| Agro-based Industry | 17,613.90 | 9.30% |
| Garments & Garments Accessories | 13,092.18 | 6.91% |
| Food & Beverage | 7,635.53 | 4.03% |
| Power (Electricity) | 4,162.26 | 2.20% |
| Health care ( Hospital & Others) | 2,079.08 | 1.09% |
| Other Industries | 50,902.97 | 26.91% |
| **Total** | **189,193.42** | **100%** |

**Table 4.2.4: Sub Sector wise investment (2013) of AIBL**

**Graph 4.2.4: Sub Sector wise investment (Industrial)**

So, IBBL has a very wide coverage in textile sector for making investment. The bank has the highest investment sectors are steel, re-rolling and engineering and agro based industry.

* + 1. **Growth of Investment of AIBL**

Investment is the main key factor of a bank’s operation. The proper management of investment defines the success of a bank. IBBL is now one of the leading banks in our country. The investment growth of IBBL is given below:

|  |  |
| --- | --- |
| **Year** | **Investment amount** |
| **2014** | 445,798.21 |
| **2013** | 406,805.00 |
| **2012** | 372,920.72 |
| **2011** | 305,841.00 |
| **2010** | 275,493.90 |
| **2009** | 225,752.40 |

 **Table 4.2.5: Growth of Investment of IBBL**

**Graph 4.2.5: Growth of Investment 2009 to 201**

* + 1. **Investment in Special Schemes of AIBL**

**(Taka in Million)**

**Graph 4.2.6: Investment in Special Schemes 2011 to 2014**

So, IBBL has invested maximum amount of money in the field of real estate scheme and rural development scheme.

**4.3 Operation Procedure/Mechanism in Investment of AIBL**

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

**4.6.1. Selection of the client**

Al-ArafahIslami Bank Ltd. maintain their banking activity by receive money from depositor and invest it expected entrepreneur. 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, bank analyses the following five C’s of the client:

* Character;
* Capacity;
* Capital;
* Collateral; and
* Condition.

**4.6.2Application stage**

The prospective client has to apply to North South Road Branch for investment by filling up of F-167A application form. The bank will collect necessary information about the potential client. For this reason, 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 prepare by the client himself. Documents that are necessary for getting investment of AIBL are prescribed bellow:

* 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 copy 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

**4.6.3. Processing and appraisal**

After receiving the application form, North South Road 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 informed that whether the borrower has taken loan from any bank or not if ‘yes’, then whether these loans are classified or

 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-ArafahIslami Bank Limited (AIBL) provides a standard F-167B Form (Appraisal Report) to the client for gathering all the information.

**4.6.4. 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-ArafahIslami 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:
1. **Primary-** Stock of goods is the primary security.
* LC/Bills: Related Documents.
* MPI/Bai-BaiMurabaha-TR: Lien on goods to be released.
1. **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.

**4.6.5. Documentation stage**

At this stage, usually the bank analyses whether required documents are in order. In the documentation stage, Al-ArafahIslami 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

**4.6.6 Disbursement stage**

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

**4.6.7. Monitoring & Recovery stage**

At this final stage of investment processing of the Al-ArafahIslami 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.

**4.4 Investment Assessment:**

Relationship Manager(s) \ Investment Officer(s) shall conduct a thorough assessment of investment requirement before recommending any new proposal. There after all investment at least annually at the time of  renewal and enhancement. The assessment procedure shall include the following issues:

1. mode of Investment
2. investment limit
3. Purpose of investment
4. Rate of profit
5. Primary Security
6. Collateral Security- its acceptability, its coverage, its control and genuine etc
7. Margin
8. Repayment capacity and repayment schedule
9. Period of investment
10. Other terms and conditions in case of necessity

In addition the RM (Relationship Manager) \ Investment officers shall address the fallowing issues which assessing investment proposal:

**4.4.1 Customer analysis:**

Capital structure of the company

1. Authorized capital and paid up capital
2. Reserve and retained earnings
3. Share holdings of the share holders
4. Management team
5. Group and affiliate companies
6. Ability to comply investment convent
7. Security
8. Ability and integrity

**4.4.2 Industry analysis:**

* Contribution to GDP of the concern industry
* Key risk factors of the industry
* Growth of the industry
* Domestic market of the industry
* International market of the industry
* SWOT of the industry
	+ Domestic
	+ International
	+ Potentiality of the buyer or supplier
	+ Strength and weakness of the buyer or supplier

**4.4.3 Supplier \ Buyer analysis:**

BankSelectedtheSupplier \ Buyer. Always the bank own does buyer work. Sometimethebank appointment an agent for does Supplier/Buyer activity.

**4.4.4 Historical Financial analysis:**

* Minimum three years Financial Statement (FSS) analysis
* Guarantor (s) \  Corporate guarantor (s) Financial Statement analysis
* Quality and sustainability of the borrower’s
* Cash flow statement
* Strength of the borrower’s balance sheet
* Leverage
* Profitability

**4.4.5 Project Financial Performance:**

Where term investment facilities are being proposed in favor of any new industrial unit an expertise team comprising RM. Engineer in the concern field and financial analyst. The team will prepare a feasibility study as per current industrial policy.

**4.4.6 Account Conduct:**

* Trade payment
* Cheques payment
* Timely payments
* Irregular payment
* Bank’s investment payment with profit
* Excess over limit drawings
* Excess over DP drawing
* Bank’s commission and charges payment

**4.4.7 Factors to be identified in the investment assessment:**

* Margin
* Volatility
* High debt load ( Leverage\Gearing )
* Overstocking or debtor issues
* Repaid growth, acquisition or expansion
* Management changes or succession issues
* Customer or Supplier concentration
* Lack of transparency or industry issues.
* Amount of investment
* Tenors of investment
* Justification of investment
* Based on the project repayment ability installment to be determined
* Proposed investment an oust and tenor is not excessive
* Primary security should be acceptable, marketable & legal items
* Slow, perishable, obsolete, banned, expired items not to be taken as security
* current valuation of collateral security shall be obtained

**4.5 Scanior of investment of AIBL**

Investment income: The investment income was Tk. 19,725.91 million during the year 2014 which registered a growth of 9.79% over the previous year. Investment in-come is 88.81% of the total income of Tk. 22,211.79 million. Income from other than investment: The bank has earned Tk.2,485.88 million from sources other than invest-ment like commission income, exchange income, locker rent etc. in the current year which is 11.19% of the total income.

**Graph: 1: Investment Growth of AIBL.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Investment | 22906.37 | 27742.57 | 36134.08 | 53582.96 | 146,740.36 |

**Graph: 1: Investment Growth of AIBL.**

**Source: Annual Report of AIBL**

**Chart: 2: Sector wise investment 2014**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sectors** | **2014****Tk. in million** | **2013****Tk. in million** | **2012****Tk. in million** | **2011****Tk. in million** |
| Agriculture, Fishing and Forestry | 1,970.16 | 1,617.08 | 1,382,001,256 | 793,482,786 |
| Industry | 61,743.00 | 57,003.70 | 27,983,420,499 | 24,279,597,756 |
| Construction | 7,175.90 | 2,334.40 | 4,658,540,679  | 3,412,988,458 |
| Water works & Sanitary Service | 6,701.60 | 1,984.80 | 552,481,017  | 302,278,561 |
| Transport & communication | 8,411.10 | 8,262.50 | 3,894,489,667 | 3,435,774,906 |
| Storage | 1,032.50 | 831.20 | 745,100,500 | 48,035,789 |
| Trade Finance | 59,246.92 | 48,128.20 | 68,722,692,777 | 41,886,353,810 |
| Miscellaneous | 14,192.49 | 14,369.01 | 1,158,196,036 | 5,186,922,383 |
| Total (Including Profit Receivable | **160,464.67** | **134,530.88** | **109,096,922,431** | **79,345,434,449** |
| Less Unearned Profit on Investment | 13,724.37 | 8,815.49 | (7,529,887,279) | (5,911,623,621) |
| **Total** | **146,740.36** | **Total 125,715.39** | **101,567,035,152** | **73,433,810,827** |

**Source: Annual Report of AIBL**

**Graph: 2: Sector wise Investment**

**Source: Annual Report of AIBL**

Chapter-05

SWOT Analysis

**5.1 SOWT Analysis of investment**

**SWOT analysis:**

**Fig: SWOT of AIBL**

**Source: Annual report of AIBL**

**5.1.1 Strengths**

* The growth rate of investment of AIBL is significantly increasing day by day.
* The amount of investment of Rural Development Scheme (RDS) & operating range should be increased.
* AIBL is financially sound bank. Because AIBL financial position is very strong at the competitive market.
* AIBL can't invest in all economic sectors, which are prohibited by the law of Islam.
	+ 1. **Weakness**
* There are limited scopes to deal women entrepreneurs and professionals for making investment by women interpreters.
* AIBL lacks well trained human resource in some area. AIBL training system is not proper for the human resource.
	+ 1. **Opportunity**
* 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.
* 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.
* AIBL at North South Road Branch is newly established branch. For increasing the financial position and to cope with the competitive market, the bank should activate all of its service especially in investment products as soon as possible.

**5.1.4 Threats**

* Increasing number of Islamic banks as well as conventional banks.
* Liquidity crisis due to investment in stock market.
* Sometimes, the clients do not repay the loan in time

Chapter-06

Findings, Recommendations & Conclusion

**6.1 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-ArafahIslami 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.

**6.2 Recommendations**

* The amount of investment of Rural Development Scheme (RDS) & operating range should be increased. So, more people will get the facility under the scheme & they will able to increase their standard of livings.
* 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 North South Road Branch is newly established branch. For increasing the financial position and to cope with the competitive market, the bank should activate all of its service 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 Islamic Banking System loan procedure is very lengthy process. AIBL should take steps to minimize the process of loan system. Because Customers don’t like lengthy process.

**6.3 conclusions:**

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 modes of investment of Al-ArafahIslami Bank Ltd. 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.

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 markup 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-ArafahIslami Bank Ltd. Can take the initiative to make people aware about Islamic banking and let them to be AIBL’s valued client.

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