

## **GROWTH TREND OF ISLAMIC BANKS IN BANGLADESH**

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### **ABSTRACT**

The Islamic Banks in Bangladesh (IBBs) are committed to run all their activities as per Islamic Shariah under the control of Shariah Council. This special featured banking system has been playing a vital role in the economic growth of Bangladesh since 1983. The popular notion is that, our banking sector has been facing serious problems due to non-performing bank loan. For this, most of the Commercial Banks' (Nationalized Commercial Banks and some Private Sector Banks) growth trends have been declining. On the other hand, the IBBs growth trends have been increasing day by day. It is not, however, clear to what extent they have really been increasing and what policies and activities are required to continue this trend. In this study a modest attempt is made to find out the growth trends of IBBs in the economic development of Bangladesh.

*Key Words: Growth, trend, islamic bank*

### **INTRODUCTION**

Credit circulation of a country is considered as the blood circulation of its economy. It keeps good environment for production, trade and consumption. The banking sector is the main force in the development process of Bangladesh as it is in the most developing nations. To keep a healthy condition of economic growth and move forward the wheels of production, trade and consumption in our country, bank credits are must. But it is widely recognized that our banking sector has been facing grave problem due to non-performing bank loans. However, in the case of Islamic banks in Bangladesh, the scenario is completely different. These special featured banks have been playing a vital role in the economic growth of Bangladesh. Concurrently, their increasing contributions to our economy, in a very short time, are also outstanding. A study in this regard, conducted by Hosain (1993) observed that the fund invested by Islamic Bank Bangladesh Ltd. in 1983, increased in more than 75 times over the period of 8 years to 1991.

Islamic Banking system was first introduced in Bangladesh in 1983. Islamic Bank Bangladesh Ltd. is the first Islamic Commercial bank which runs on the dogmas of Islamic Shariah and offers interest free service to its clients. After that in 1987, Al-Baraka Bank Bangladesh Ltd. (now The Oriental Bank Ltd.) and in 1995, Al Arafah Islami Bank Ltd. started their banking activities. The fourth Islami Bank, Social Investment Bank Ltd. started its banking activities from 22 November, 1995. Shahjalal Islamic Bank Ltd. has started its banking activities in 2001. As we have mentioned earlier, IBBs are committed to run all their activities as per Islamic principles under the control of Shariah Councils. The members of the Shariah Council are the prominent Lawyers, Muslim Intellectuals, Economists and Bankers. From the very beginning, IBBs have been doing remarkably well and their growth trends have been increasing notably. In many recent studies and discussions in seminars and symposiums, many scholars, economists, reporters argue that almost the whole banking system of Bangladesh have been facing serious crises mostly due to mismanagement and improper handling of the sector. Consequently, most of the commercial

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banks' growth trends have been declining. On the contrary, the role of IBBs has been increasing further in the economy of Bangladesh every year for their special features and mode of actions. It is not, however, clear to what extent they have really been increasing and what policies and activities are required to continue this trend. So, a modest attempt is made in this study to find out the exact growth trend of IBBs in the economy of Bangladesh. At the same time, some recommendations are offered to the respective authorities for their consideration which might be helpful for their further growth and expansion. The objectives of the study are as follows: i) to measure the extent and level of economic activities of Islamic Banks of Bangladesh (IBBs); To show the recent trend of growth rate compared to other commercial banks; iii) to identify the problems to the growth of IBBs and iv) to suggest some remedial measures for steadying the growth trend of IBBs in the economy of Bangladesh.

## MATERIALS AND METHODS

Standard statistical methods including rates, Mean, SD, CV, AGR, EGR, AAGR, Max. Level, Min. Level, percentage and tabular forms have been used in this study for analyzing the data to come to conclusions out of them. The growth rates and the components of income and expenditure of the banks are expressed in term of percentages. The sources of data are mostly secondary in nature. These data were collected and compiled from the Annual Reports of different Islamic banks in different years. In this study *Bangladesh Bank Bulletin, Economic Trend, Schedule Banks Statistics*, bank and other financial institutions' activities were also used as source of materials.

### Scope of the Study:

Five local along with one foreign Islamic Banks are active in Bangladesh at present. This study covers only local Islamic Banks in Bangladesh— Islamic Bank Bangladesh Ltd., Al-Baraka Bank (presently The Oriental Bank Ltd.), Al-Arafah Bank, Social Investment Bank and Shahjalal Islamic Bank Ltd. The data were collected for a period of 10 years from 1995 to 2005.

### Growth Trends of IBBs:

The IBBs are committed to run all its activities on an interest free system and also on the basis of profit sharing and risk-bearing system. It also makes bank-client relationship instead of debtor-creditor relationship of the conventional system. IBBs have also extended co-operation to the poor, helpless and low-income group of the people for their economic upliftment, particularly in the rural areas. The IBBs are continuing their service to introduce welfare oriented banking system and to establish equality and justice in the field of all economic activities and balanced growth and development of the country. As a result, in a very competitive environment, the IBBs through their steady progress and continued success have, by now, earned the reputation of being the leading commercial banking sector of the country. In the 1990s serious banking crisis due to the continuing accumulation of non-performing and defaulted bank loans has emerged as one of the most constraints in the path of economic development of Bangladesh. But the IBBs have ushered a new era in Bangladesh and their growth trends are also steady. The Table 1.1 shows the various determinants of growth trends of the IBBs.

**Capital:** The paid-up capital of Islamic Bank Bangladesh Ltd. was Tk. 318 million in 1995-96 to 1997-98 and Tk. 320 million in 1998-99; Tk. 1000 million in 2000-01 and 3000 million in 2004-05. Table No. 1.1 shows a growth trend of paid up capital i.e. 86% in 2004-05 as compared to 1995-1995. In the case of The Oriental Bank Ltd., the paid-up capital was Tk. 260 million in 1995-96 and it remained the same in 2001-02. The paid-up capital was raised to Tk. 519 million in 2002-03 and remained the same in 2004-05. Al-Arafah Bank Ltd. as started its operation with a paid up capital of Tk. 101 million in 1995. In 1997-98 and 1998-99 it rose to Tk. 253 million and stood TK.678 million in 2004-05. The growth rate is 85% in 2004-05 as compared to 1995-96 (Table-1.1). Social Investment Bank Ltd. has started its business in November, 1995 with a paid up capital of Tk. 118 million. It rose to Tk. 149 million in 1997-98; Tk. 200 million in 1998-99 and TK.260 million in 1999-00. The amount increased by TK.585 million in 2003-04 and remained same in

2004-05. It registered an increase of 79% in 2004-05 as compared to 1995-96 (Table No. 1.1). Shahjalal Islamic Bank Ltd. was started its business in 2002-03 with a paid up capital of TK. 231 million which stood TK. 467 million in 2004-05. The IBBs paid up capital was Tk. 797 million in 1995-96 and 1996-97 it rose to Tk. 980 million in 1998-99, TK. 1093 in 2000-01; TK. 3436 million in 2002-03 and TK. 4553 million in 2004-05. It showed an increase of 82% in 2004-05 as compared to 1995-96.

**Reserve:** The reserve fund of IBBs stood at TK. 5813 million in the year 2004-05 as against TK. 1295 million in 1997-98; TK. 911 million in 1995-96. It shows an increasing trend up to 2004-05 (Table 1.1).

The increasing trend of Reserve fund of Islamic Bank Bangladesh Ltd. is apparent. It shows TK. 895 million in 1995-96 and 1996-97. But it rose to TK. 1200 million in 1997-98, TK. 1339 million in 1998-99 and TK. 4522 million in 2004-05 respectively. The growth rate of its reserve fund is 80% in 2004-05 as compared to 1995-96. Similarly The Oriental Bank Ltd. also showed an increasing trend of its reserve fund. The reserve fund of the bank was TK. 16 million from 1994-95 to 1996-97. After 1997 it was increased to TK. 33 million in 1997-98, TK. 45 million in 1998-99 and stood TK. 80 million in 2004-05. The growth rate is 80% in 2004-05 as compared to 1995-96. The growth trend of reserve fund of Al-Arafah Bank Ltd. is 90% in 2004-05 as compared to 1995-96. Social Investment Bank Ltd. and Shahjalal Islamic Bank Ltd. have also an increasing trend of reserve fund of 64% and 50% in 2004-05 as compared to 1995-96 and 2002-2003 respectively.

**Deposit:** Table 1.1 exhibits recent trends of deposits of IBBs. During the study period, the total deposit stood at TK. 169658 million as on 2004-05 as against TK. 151151 million of the preceding year registering an increase of TK. 18507 million in 2003-04; TK. 26555 million in 2002-03 and TK. 40920 million in 2001-02. So, the total deposit increased to TK. 169658 million in 2004-05 as against TK. 20826 million in 1995-96.

**Advance and Investment:** Investment and advances of IBBs demonstrated steady growth over the years. The investment of IBBs bank was TK. 20054 million in 1995-96. It stood TK. 146349 million in the year 2004-05. The growth rate of Islamic Bank Bangladesh Ltd. is 85%; Oriental Bank Ltd. is 68%; Al-Arafah Bank Ltd. is 85%; Social Investment Bank Ltd. is 97% and Shahjalal Islamic Bank Ltd. is 56% in 2004-05 as compared to 1995-96 respectively. The increase of growth rate of IBBs as a whole, the growth rate of advance and investment is 86% in 2004-05 as compared to 1995-96. The table 1.2 and 1.3 shows the increasing trends of advances and investments. The IBBs envisage bringing in phases all sectors of our economy and all types of economic activities within the fold of its investment operation. The investments of IBBs in industrial sector are also substantial. In the commercial sector their investment is the highest (63.4%) compared to NCBs and other PCBs and FCBs.

Table 1.1. Comparative Statement of growth trend of all Islamic commercial banks.

Year	Authorized capital	Paid-up-capital	Reserve	Deposits	Advance Investment	& Total assets	Foreign exchange	Total income	Total expenditure	Profit	No. branches	of No. employees	of
Islamic Bank of Bangladesh Ltd. (Tk. in million)													
1995-96	500	318	895	14330	13540	22749	11766	1248	952	296	95	1778	
1996-97	500	318	895	16216	14025	22749	7100	963	488	475	95	1850	
1997-98	500	318	1200	20385	13456	23443	14894	1629	1481	148	105	2171	
1998-99	500	320	1339	25500	18143	28820	14798	1860	1693	167	110	2302	
1999-00	500	318	2075	32113	27437	39362	49860	3208	2878	330	116	2685	
2000-01	1000	320	1998	41641	35283	49552	51868	4260	3684	576	121	3060	
2001-02	1000	640	2000	45821	37844	52680	29500	2745	1545	1200	121	3290	
2002-03	3000	1920	3243	69655	58973	81615	84623	6841	6038	804	141	3752	
2003-04	3000	2304	4522	87721	76826	102128	112624	8400	7175	1225	151	4261	
2004-05	3000	2304	4522	103361	94179	112384	54500	5426	3775	1651	151	4550	
The Oriental Bank Ltd.													
1995-96	600	260	16	5881	5515	-	255	180	454	(274)	33	637	
1996-97	600	260	16	5968	6010	-	375	152	229	(77)	33	630	
1997-98	600	260	33	7507	5966	8885	662	729	653	76	33	639	
1998-99	600	260	45	8834	6646	10318	777	841	784	57	33	636	
1999-00	600	260	60	10736	8760	11303	7965	1041	965	76	34	637	
2000-01	600	260	80	16263	9716	14798	8580	1265	1166	99	34	638	
2001-02	600	260	80	14695	10754	16111	4019	488	685	(197)	34	646	
2002-03	2000	519	80	20550	15796	19685	17316	1580	1973	(393)	34	692	
2003-04	2000	519	112	24527	17247	24191	18981	3108	3358	(250)	31	679	
2004-05	2000	519	140	24647	17667	24667	9950	1029	1153	(124)	30	705	

Contd.

Al-Arafah Bank Ltd.												
1995-96	1000	101	-	207	787	3105	158	72	57	15	10	167
1996-97	1000	101	-	1336	1360	3500	831	89	51	38	10	250
1997-98	1000	253	56	4526	2260	6771	1103	345	233	112	10	427
1998-99	1000	253	56	6561	3194	7746	2304	602	462	140	30	622
1999-00	1000	253	963	7308	3728	85849	9835	748	592	156	37	674
2000-01	1000	253	291	7891	3875	86872	8021	360	328	32	40	685
2001-02	1000	253	324	7890	5420	9526	426	500	420	80	40	814
2002-03	1000	506	350	8643	7572	10888	11076	988	681	307	40	685
2003-04	1000	587	488	10108	8150	12850	13068	1121	809	312	40	802
2004-05	1000	678	581	10800	9520	13500	7200	591	420	171	40	

  

Shahjal Islami Bank												
2002-03	800	231	155	6039	4319	6589	6745	668	479	189	10	243
2003-04	2000	467	266	9091	7149	9746	15427	841	767	74	12	283
2004-05	2000	467	299	10850	10000	12000	12300	700	480	220	12	322

Contd.

Social Investment Bank Ltd. (It started its business in November' 1995)												
1995-96	1000	118	-	408	212	608	28	26	43	(17)	5	172
1996-97	1000	118	-	514	250	564	30	19	15	4	6	121
1997-98	1000	149	6	2029	134	2267	16	174	140	34	20	207
1998-99	1000	200	16	3826	216	4753	99	441	379	62	24	258
1999-00	1000	260	32	4863	3523	6688	3547	641	405	136	14	307
2000-01	1000	260	96	10569	5499	11300	6195	915	613	302	15	361
2001-02	1000	260	96	15270	6604	13606	8027	540	317	223	19	393
2002-03	1000	260	606	19709	10059	21194	19065	3233	2732	501	24	597
2003-04	1000	585	331	19704	12888	21547	18088	3273	2850	415	24	651
2004-05	1000	585	331	20000	14983	23000	13000	1800	1500	300	24	685

Table 1.2: Comparative Statement of growth trend of commercial banks (1995-96 to 2004-05)

(Tk. in Million)

Year	Paid-up-capital	Reserve	Deposits	Advance Investment	& Total assets	Foreign exchange	Total income	Total expenditure	Net profit	No. of branches	No. of employees
<b>IBBs</b>											
1995-96	797	911	20826	20054	24462	11276	1526	1506	20	138	2754
1996-97	797	911	24034	21455	26813	12207	1223	783	440	144	2851
1997-98	980	1295	34447	21816	41366	8336	2877	2507	370	188	3444
1998-99	1033	1456	44721	28799	51637	16675	3744	3318	426	202	3818
1999-00	1091	3130	55020	43448	143202	17978	5638	4840	798	201	4303
2000-01	1093	2465	76364	54328	162522	71207	6800	5791	1009	210	4744
2001-02	1413	2500	83676	60622	91923	71664	4273	2967	1206	214	5143
2002-03	3436	4434	124596	96719	139970	41972	13310	11903	1417	249	5284
2003-04	4462	5687	151151	122260	170462	138845	16743	14967	1776	258	6676
2004-05	4553	5813	169658	146349	185551	178188	9546	7328	2218	257	7064
<b>PCBs</b>											
1995-96	3303	2189	11543	9952	26793	4760	9434	9199	764	1065	20177
1996-97	3744	2858	13492	11088	30530	6253	11322	9342	1379	1081	21144
1997-98	3794	3381	14778	12200	33057	8513	14142	11522	1997	1120	21856
1998-99	4003	7045	21379	13394	38620	10454	16964	17830	4581	1575	24108
1999-00	6828	6843	199271	197075	115879	130690	20945	17609	1784	1078	24284
2000-01	6882	7040	213864	224187	131917	83487	32676	24620	3100	1112	25975
2001-02	8485	11873	337484	294891	422209	162748	43210	31260	5149	1187	28068
2002-03	11865	14667	380305	357970	497385	205960	50216	39301	4588	1238	28336
2003-04	14033	18599	475602	453006	607589	261757	59212	45438	4756	1496	32567
2004-05	16482	21235	534144	523457	674346	153191	38654	28261	5785	1552	28190

Contd.

NCBs

1995-96	10017	1346	26949	23989	141943	2214	19821	18691	1124	3628	63803
1996-97	9952	2129	30113	25746	162098	2387	22491	22205	281	3631	63731
1997-98	9952	2386	32512	28364	187950	2412	25740	25568	167	3629	62723
1998-99	9600	2924	36041	37343	472257	2253	28152	28086	(59)	3620	62347
1999-00	9600	3176	452739	427054	522603	370500	31613	31648	(167)	3606	62419
2000-01	9600	3762	490514	441225	589366	361812	37263	35322	246	3608	62019
2001-02	9600	4310	505272	471857	607455	235630	38782	37360	382	3491	61325
2002-03	9600	4823	545829	501892	631872	420261	36655	34204	198	3398	60169
2003-04	9600	5136	592332	544655	684167	530286	41652	38607	682	3388	58629
2004-05	9600	5136	611445	567150	704537	239740	23436	21718	965	3388	56797

**Source:** Economic Trends, Bangladesh Bank, 2005 and Financial Statements of IBBs during 1995-2005.



**Total assets:** The total asset of IBBs was TK. 26462 million in 1995-96 and it stood TK. 18551 million in 2004-05 (Table 1.1). So, the total assets are registering a rise 85% over the period of ten years (1995-05). The growth trend of total assets is 79% of Islamic Bangladesh Bank Ltd.; 63% of Oriental Bank Ltd.; 79% of Al-Arafah Bank Ltd.; 81% of Social Investment Bank Ltd. and 45% of Shahjalal Islamic Bank Ltd. in the period under study.

**Trend of Total Income & Expenditure:** Table 1.2 and 2.1 show an increasing trend of total income and expenditure of IBBs. The total income and expenditure were Tk.154 million and tk.1506 respectively in 1995-96 and rose to Tk.955 and Tk.733 respectively in 2004-05. Table 2.1 shows the comparative Average, SD, CV, and AGR., EGR., AAGR, MAX. Level and MIN Level of total income and expenditure of all commercial Banks. Total income's average is 5652; SD is 4917, CV is 86.98, AGR is 23.50, EGR is .39, AAGR is 37.42, MAX. Level is 167 and MIN. level is 826.56 of IBBs. The average of total expenditure of IBBs is 4887, SD is 4606, CV is 94.12, AGR is 59.95, EGR is .37, AAGR is 39.15, MAX. Level is 159 and MIN. level is 604 of IBBs.

**Profitability Trend:** Table 1.2 shows an increasing trend of total profit was TK. 20 million in 1995-96 and stood TK. 2218 million in 2004-05. Due to political instability all over the country during 1995-96, the economic activities slowed down which affected the business and the volume of profit decreased in 1995-96. But after that year the IBBs registered an increasing trend of profit and the growth rate of profit rose to 98% in 2004-05 as compared to 1995-96.

The table no.1.1 shows the profit trends of Islamic Bank Bangladesh Ltd. under the study period that earned the highest amount of profit in 2004-05 (TK. 2218 million). In 1997-98 the amount of profit decreased by TK.70 million (18%). But in 1998-99 the profit trend again started increasing and rose to TK. 372 million (46%). Table 2.1 shows the comparative position of profit of IBBs with NCBs, PCBs and FCBs. The Average profit of IBBs is 821, SD is 307, CV is 37.39, AGR is 56.07, EGR is .27 and AAGR is 18.62, MAX. Level is 221 and MIN. level is 20 of IBBs.

This trend depicts that the utilization of funds have been made with augmented efficiency and from then on a steady increase proves that the efficiency earlier achieved which has now to be continued. The profitability at this level is considered to be quite satisfactory under present economic context.

The profitability trend of Oriental Bank Ltd. has not been that much satisfactory (Table 1.1). This Bank earned a profit of TK. 76 million in 1997-98 and TK. 57 million in 1998-99, TK. 76 million in 1999-00 and TK. 99 million in 2000-01. After that it could not earn any profit up to 2004-05.

Al-Arafah Bank Ltd. has an increasing profit earning trend after its commencement of business. The profitability growth rate is 90% in 2004-05 as compared to 1995-96.

Social Investment Bank Ltd. could not invest its deposit properly for understandable reasons. The initial period of organized and entry into the financial sector was a mixed experience for the bank. After overcoming the initial difficulties, the bank started earning profit and continued its trend of earning profit. Thus the growth rate stood at 95% in 2004-05 as compared to 1996-97.

Shahjalal Islamic Bank Ltd. has also an increasing profitability trend. Its growth rate of earning profit is 14% during the period of its operation till 2004-05.

**Growth of Employees:** Table 1.2 shows the increasing trend of manpower of the IBBs. The number of employee was 2754 in 1995-96 and stood 7064 in 2004-05. Table 2.1 shows the comparative position of manpower of IBBs with NCBs, PCBs and FCBs. The average Total manpower of IBBs is 4072, SD is 1756, CV is 43.12, AGR is 106.71, EGR is .38, and AAGR is 15.72, MAX. Level is 7064 and MIN. level is 1166 of IBBs.

Table 1.3: Sector-wise Investment of all commercial banks for the year 2004-05

Economic Sector	(Figure in %)			
	NBCs	PCBs	FCBs	IBBs
Agriculture	12.87	2.07	0.13	0.51
Industries	45.58	39.10	36.30	27.53
Commercial	25.37	21.57	5.94	63.40
Real Estate	5.76	9.10	1.18	2.57
Transport	1.50	4.15	1.59	2.44
Other	8.92	24.01	45.14	3.55
Total	100	100	100	100

**Sources:** Compiled from Activities of Banks & Financial Institutions 2004-05, Ministry of Finance, Govt. of Bangladesh.

**Growth of Branches:** Table 1.2 shows the increasing trend of branches of the IBBs. The number of branches was 138 in 1995-96 and stood 257 in 2004-05. The growth rate of branches was 27% of Islamic Bank of Bangladesh Ltd., 74% of Al-Arafah Bank Ltd., 79% of Social Investment Bank Ltd. and Shajalal Islamic Bank Ltd. in 1998-99 as compared to 1994-95 respectively. The branches of Al-Baraka Bank Ltd. remained the same. Table 1.4 shows the profit per Branch of all commercial banks. Profit Per branch of IBBs was Tk.0.15 Million in 1995 and stood 6.83 Million in 2004-05. The growth rate of number of branches is 97.89% in 1994-95 compared to 2004-05. Table shows the increasing trend of branches of the IBBs. The increasing trend of number of branches and profit per branch of IBBs has been much healthier than other commercial banks.

Table 1.4: Comparative position of profit per branch of commercial banks

Year	(Tk. in million)			
	NCBs	PCBs	FCBs	IBBs
1995-96	5.2	14.8	359.47	0.144
1996-97	30.9	53.1	394.34	3.05
1997-98	7.7	121.6	394.80	1.968
1998-99	4.6	129.3	482.14	2.10
1999-00	-1.6	100.5	832.50	3.97
2000-01	-4.6	165.4	427.71	4.80
2001-02	6.8	278.7	612.50	5.64
2002-03	10.9	433.7	764.11	5.69
2003-04	5.8	370.3	622.22	6.88
2004-05	20.1	317.9	727.36	6.83

**Source:** *Economic Trends*, 2004-2005, Bangladesh Bank & Annual Reports of IBBs, 1994 to 2005

**Growth of Foreign Exchange Business:** The political situation in Bangladesh during 1996-97 was unstable. As a result the economic activities have slowed down which affected the business as a whole and the import business in particular. The volume of import of the banks decreased significantly. Despite increase in export and remittance business, the total foreign exchange business handled by the IBBs in 1996-97 was less than 31.70% compared to that of 1995-96. After that it showed an increasing trend. The rate was 87% in 2004-05 as compared to 1995-96.

**Welfare Oriented Investment:** Since their inception the IBBs have been working for the upliftment and emancipation of the under-privileged, downtrodden and neglected sections of the population and have taken up various schemes for their well being. The objectives of these schemes have been to raise the standard of living of low income groups, development of human resource and creation of avenues for self-employment. These schemes were (a) Small Transport

Investment, (b) Doctors Investment Scheme, (c) Small Business Investment Scheme, (d) Agriculture Implement Investment Scheme, (e) Poultry Investment Scheme, (f) Household Durables Investment, (g) Housing Investment Scheme and (h) Education Scheme.

Above analysis indicates the comparative overall performance of IBBs with other commercial banks regard to total income, total expenditure, net profit, number of branches and employees much better. The growth trends of IBBs in the economic development of Bangladesh are increasing.

#### **Comparison of IBBs with Other Commercial Banks:**

Interest based NCBs and PCBs have been compared with IBBs for certain related phenomenon. Though the two operational concepts do not call for a comparison, it is only for an understanding as to how the IBBs are poised with the interest based banking environment in the country that it is being attempted here. Selected aspects for comparison are- paid up capital, deposits, reserves, investment and advances, total assets, profit, number of employees, number of branches and foreign exchange. Table-I.5 presents the comparative figures of NCBs, PCBs and IBBs.

The comparison reveals that the increase in nine phenomenons during the ten year span for each of the bank was as follows:

Table 1.5: Number of times growth in nine selected items of IBBs, NCBs, and PCBs in 2004 (1995=1.000)

Selected Items	IBB's	NCB's	PCB's
1. Paid up capital	5.71	0.95	4.99
2. Deposits	8.15	22.68	46.27
3. Reserve	6.38	3.81	9.70
4. Investments & Advance	7.29	23.64	22.52
5. Total Assets	7.01	4.96	25.16
6. Profit	5.04	.60	8.4
7. Number of Employs	2.56	0.89	1.73
8. Number of Branches	1.86	0.90	1.45
9. Foreign Exchange	7.94	70.8	32.18

**Source:** Calculated from the Table 1.1 and 1.2.

It is very clear from the table above that IBBs have been able to force its way through the interest based banking environment in a dynamic way and have set its root permanently. It could mobilize in paid up capital, reserve, total assets in such rate during this period that the NCBs and PCBs interest based bank could came nowhere near to it. In terms of amount of Tk., it also stood much higher than the other two sector banks showing a clear sign that financial market has been moving in favor of IBBs. This has further substantiated by the fact that the number of branches and number of employees both have increased, in relative and absolute terms, in IBBs than NCBs and PCBs. Public sector growth has been almost static though it has got a large amount of deposits, investment and foreign exchange than the private and Islamic banking sector. In addition, profitability growth rate of IBBs over the period have been fascinating in comparison with NCBs. The growth rate of IBBs in this item has been 4.22 times more than the rate of growth in NCBs. The growth rate of total assets of IBBs has been 8.76% times more than the NCBs which have been only 2.09 times. This clearly shows that the performance of a bank established to run under Islamic principles has far exceeded the performance of an interest based bank— having almost the same financial and physical support in the common business environment for the both banking systems in Bangladesh. Public sector performance, though voluminous in Bangladesh, is generally inefficient (Hasan and Jalil 1995). Number of branches and number of employees clearly indicate operating efficiency and better utilization of personnel in IBBs.

Table 2.1. Comparative growth trend of all Commercial Banks of Bangladesh during 1993- 2004

Period	Total Income (Taka in million)				Total Exp. (Taka in million)				Net Profit (Taka in million)				Total Manpower			
	NCBs	PCBs	FCBs	IBBs	NCBs	PCBs	FCBs	IBBs	NCBs	PCBs	FCBs	IBBs	NCBs	PCBs	FCBs	IBBs
1993-94	17383.0	9389.2	1951.0	826.56	17697.0	8435.1	918.5	603.98	-319.0	32.3	543.6	84.0	64492	17276	826	1166
1994-95	17025.6	8518.9	2423.6	131.8	16832.4	8012.6	1057.4	122.1	189.2	148.0	686.2	97.0	60804	18794	888	1612
1995-96	19820.8	9438.9	3356.5	152.6	18691.1	8319.9	1513.9	150.6	1123.7	565.6	907.6	20.0	63803	20083	966	2754
1996-97	22491.1	11322.3	4084.6	122.3	22205.0	9397.5	2217.3	703	281.1	1315.0	987.2	440.0	63731	21140	1016	2851
1997-98	25740.8	14142.2	5641.0	287.7	25568.1	11800.4	3356.4	250.7	167.7	1445.0	1342.1	370.0	62723	22194	1125	3444
1998-99	28151.7	16964.6	5855.9	374.4	28086.9	14578.3	3266.2	331.8	-59.8	1584.0	1494.3	426.0	63583	22893	1262	3818
1999-00	31612.6	20945.1	7136.5	563.8	31647.9	17609.2	4473.9	484.0	-166.6	1784.0	1497.0	798.0	62419	24281	1311	4.03
2000-01	37262.7	32676.2	9675.0	680.0	35321.6	24620.9	5480.8	579.1	245.8	3100.0	2204.6	100.9	62091	25975	1280	4744
2001-02	38781.6	43210.0	10689.1	427.3	37359.6	31260.0	5881.7	296.7	382.4	5145.0	2598.1	120.6	61325	28068	1588	5143
2002-03	36655.2	50215.5	10619.0	1331.0	34203.5	39308.7	5707.9	1190.3	198.8	4588.0	2240.8	141.7	60169	28336	1305	5284
2003-04	41652.2	59212.5	7729.3	1674.3	38607.9	45438.2	2522.7	1596.7	682.1	4756.0	2764.4	177.6	58629	32576	1409	6676
2004-05	46659.8	65215.9	8751.5	954.6	41585.6	46852.9	3524.9	732.8	964.8	5785.0	3894.8	221.8	59132	32680	1450	7064

**Source:** *Economic Trends*, Statistic Department, Bangladesh Bank, Vol. XXX, No. 4, 2005 & Annual Reports of IBBs.

### **Problems for the growth of IBBs:**

There are certain general as well as specific problems of IBBs in their growth. The specific nature problems which faced by the IBBs from time to time are: conceptual problem, ideological problem, problem due to partial Islamic country, problem of late starting, structural problem, problem relating to transaction with central bank, problem relating to inter-banking transactions, problem of deposit mobilization, problem relating to loan operations, problem relating to recovery, problem relating to investment, lack of legal Islamic framework, problem relating to fund mobilization, problems in international transaction, problem in foreign currency transactions, liquidity surplus problem, lack of research findings, lack of supportive institutions, fiscal problem relating to accounting system, problem of lending to Government, and personal problem (Khan 1991). There are also a number of common problems faced by IBBs along with other interest based banks in the country. These are: problem relating to deposit mobilization, problem relating to excess/shortage of liquidity, problem relating to project identification, problem relating to reserve, lack of reliable data for appraisals of potential projects, narrow investment avenues, shortage of supply of investors, inappropriate and inadequate security of loan, problem relating to recovery, problem relating to litigation, central bank's outlook, ruinous competition, unorganized money and capital markets, problem relating to supervision, problem relating to inflation, inaccessibility to rural areas, problem relating to expansion of branches, problem relating to borrowings, problem relating to refinancing, problem relating to fraud, forgery and corruption, high rate of taxation, lack of dependable law and order situation, poor infrastructure development, problem of viability of investment proposals, lack of adequate number of motivated personnel (Khan 1991).

Problems we have mentioned above, however, do not reduce the chance of IBBs' growth in Bangladesh or that of IBBs' playing an important role in the banking sector of our economy. It is desirable that the Islamic Banks emphasize more on welfare oriented and community development objectives rather than profit (Islam, 1991). There is no instant or immediate solution to the problems the IBBs have been facing, but a continuous effort to overcome these with adequate support from concerned authorities might alleviate many of the problems.

### **CONCLUSION**

Bangladesh is one of the largest Muslim populated countries in the world. The people of this country are seriously committed to Islamic way of life as enshrined in the Holy Quran and the Sunnah. Naturally it remains a deep cry in their hearts to fashion and change their economic activities in accordance with the Precepts of Islam in order to save themselves from the hands of the exploiters. The establishment of IBBs is the true reflection of the inner urge of the people of Bangladesh. These banks are the first of its kind in South East Asia in managing its activities in a different way. A good number of people in Bangladesh religiously committed to avoid interest. This commitment of Muslims helps in the growth and development of Islamic Banking System in Bangladesh. On the other hand, most of the interest based banks in Bangladesh are losing concerns and the IBBs are growing rapidly making profit every year and earned the reputation of having a leading position in the banking sector. The overall financial picture of the IBBs for the five year period under study shows that it could positively set its root in the financial arena of Bangladesh. The figures do not tell any story of their failure. The trend has been in favor of IBBs and the experience has been invaluable. Even then, to capture the leading position in the development process of Bangladesh under the continuing banking crises, the following recommendations are offered to the respective authorities of the IBBs for their considerations:

- ⇒ Strict cost control measures are to be applied. If the IBBs minimize their expenditure head and make proper use of manpower and resource, it will be helpful for earning profit and in continuing growth;
- ⇒ The growth trend of the IBBs may be raised by better funds management and portfolio management, improving recycling of funds and developing other income earning business

activities on the banks;

- ⇒ Constant research and experiments are necessary for the IBBs for innovation of new financial instruments which may help the mobilization of loan able funds and profitable developments of those funds;
- ⇒ The system of strict discipline and accountability has to be established for continuing the growth trends of IBBs;
- ⇒ It is needed to be ensured that the maintenance of price stability, congenial external environment, favorable policy parameters which are some of the very crucial factors for improving the growth rate of the IBBs;
- ⇒ Social welfare activities of IBBs should be extended more and more;
- ⇒ Training and motivation should be extended for the purpose of imparting training to manpower of all level and conducting research programs;
- ⇒ Efforts have to be made for realizing bad, doubtful and stuck-up loans through rescheduling of repayment procedures, the use of business tactics and motivations.

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