

Conversion of Conventional Banks into Islamic Banks: The Case of Bangladesh

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Abstract

The study aims at examining the rules, policies, effects and causes of conventional banks conversion into Islamic banks in Bangladesh. The study highlights the bank conversion case of two conventional banks who have converted themselves as a whole into Islamic Banks. Study identified the causes of conversion and its impact on operational activities of banks. Study observed that there are significant changes in bank activities after conversion. Some new committees like Shariah Committee are formed, new operating expenses like Zakat, Shariah Committee fees etc. are introduced after islamization of the Banks. Lots of changes are found in their fund collection and investment techniques. Religious values and expectation of high earnings are the main motives of conversion of the two banks. After conversion, net income, ROA, ROE etc. are found higher than in conventional period. Investment as a %age of total deposit goes higher after conversion which indicates to improve the efficiency of the management. Finally the study recommends some policies.

Key Words: *Bank Conversion, Conventional Bank, Islamic Bank, Bank Performance Indicators, Conventional Banking period, Islamic Banking Period.*

1. Introduction

Bangladesh is a small country in terms of Land, but it is one of the largest nations in terms of population. Bangladesh has 56 scheduled banks out of which 06 banks are state owned commercial banks (SOCBs), 02 specialized Banks (SBs), 39 private commercial banks (PCBs) and 09 are foreign commercial banks (FCBs). Out of 39 private commercial banks, 31 are conventional banks and 08 banks are operating their business under Islamic Shari'ah (BB Websites). Beside these 08 full fledged Islamic Banks, 17 conventional banks (BB Guidelines

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2012) have the Islamic banking windows or branches. Out of 08 domestic commercial banks, six banks are by born Islamic banks and only two banks EXIM and First Security Islami Bank are converted Islamic banks.

The history of Islamic banking is not new in the banking industry of Bangladesh. Bangladesh Bank guidelines (2012) for Islamic Banks narrated that Islamic Banking has experienced a phenomenal growth and expansion in Bangladesh in the backdrop of strong public demand and support for the system along with its gradually increasing popularity across the world. As a result, a good number of full-fledged Islamic Banks had been established, while a good number of conventional banks have come forward to offer services compliant with Islamic Shari'ah through opening of Islamic branches along with conventional ones. There is also a trend of conversion of conventional banks into Islamic bank.

The study mainly focuses on the rules, regulations, process and effects on their conversion into Islamic banks from conventional banks.

2. Objectives of the Study

Followings are the objectives of the study:

- a. To examine the rules, policies of bank conversion in Bangladesh
- b. To find out the reasons of conversion of conventional banks into Islamic banks
- c. To find out the changes in operational and reporting activities of banks after conversion into Islamic banks

3. Methodology

It is a case study research. Lots of secondary data had been examined and studied in this research paper. To gather the primary data, Central Bank's Islamic Banking Division and other conventional banks' Islamic banking branches and windows have been visited by the authors. Telephonic conversation also used by the authors to collect primary data. Two converted Islamic banks FSIBL and EXIM bank limited were taken to evaluate the pre-conversion and post-conversion financial banking performances. Return on Assets, Return on Equity, Cost of Fund, and Investment as a % age of Total Deposit, Internal Growth Rate and Sustainable Growth rate etc. are compared to find out the effects after conversion. 16 Years (2000-2015) financial statements of before conversion and after conversion were examined in this study.

4. Rationale of this Study

The practices of Islamic banking are not new in the banking industry of Bangladesh. With more than one-fifth market share of the country, one-third share of the global Islamic banking

customers and fifty percent share of the global Islamic micro credit, Bangladesh has the potentials to be an important center of Islamic banking on the global map with the help of competent leadership, incentives and appropriate branding (Mannan 2012).

With eight full fledged Islamic banks; others 17 conventional commercial banks are also operating Islamic banking functions by opening Islamic banking branches in Bangladesh. It indicates that Islamic banking seems to be the lucrative banking system. The acceptability of Islamic banking has been growing day by day.

But frequently questions are asked from different classes of people:

- a) Are the Islamic banks really doing well after conversion?
- b) Should the converted Islamic commercial banks follow the Islamic banking system and so on?
- c) Why did the conventional banks convert from its own shape?
- d) What is the effect of conversion on the banking sector?

This study will attempt to answer the questions.

5. Review of Related Literatures

Some research papers are reviewed for this study. Some of those are stated below:

Ahmed (2015) mentioned some points of conversion of conventional bank into Islamic bank in their research articles. These are: Setup necessary procedures and required tools of conversion; Changing operating license according to Sharia; Restructure organizational structure to fit conversion process; Changing employing procedures to fit conversion process; Formation of a Sharia supervisory board; Formation the Sharia auditing department in the bank; Reformatting contracts to comply with Sharia standards; Open local and international Islamic banks accounts; Revamping accounts that are maintained with conventional banks.

Johari (2015) found positive effect on the success of the experience in converting into Islamic banks. Overall, the effect of the factors represented (74%) of the total number of factors affecting the success of the experience in converting into Islamic banks.

Hanif, M. (2014) argued that Islamic finance and Islamic financial institutions growing fast and will be the major global force. This enormous growth has attracted conventional banks to capture the huge market by creating a new Islamic window or converted themselves into fully-fledged Islamic banks or even just offering Islamic products.

Bangladesh Bank guidelines (2012) for Islamic Banks narrated that Islamic Banking has experienced a phenomenal growth and expansion in Bangladesh in the backdrop of strong public demand and support for the system along with its gradually increasing popularity across the world. As a result, a number of full-fledged Islamic Banks has been established,

while a good number of conventional banks have come forward to offer services compliant with Islamic Shariah through opening of Islamic branches along with conventional ones. There is also a trend of conversion of conventional banks into Islamic bank.

Farooq and Yaccob (2012) argued that the increasing awareness on Islamic banking and finance has created a huge demand for shari'ah based or shari'ah compliant products. Banks, especially are trying to capture this huge market by either converting themselves into a full fledged Islamic banks or opening a window for the Islamic based transactions. This study highlights the reasons why traditional banks turned towards Islamic model. The phenomenon of traditional banks turning into Islamic form was reinforced by the success of these banks averting the recent world economic crises. This study examined this phenomenon through four axes, first is the law, second is the risk and profit rates, third is about the customer needs for Islamic products, final one the lessons of successful conversions the region. This study concludes that there is a statistical significance between the trend towards the switching to Islamic banks and the low risk nature with high levels of profits that characterized Islamic banks.

Yakuby (2012) mentions about the conversion of conventional bank into Islamic bank, "Many conventional banks and financial institutions are increasingly becoming interested in Islamic finance and investment. How can these conventional banks and institutions enter this market? Is it possible or not? This paper is an initial attempt to lay down the conditions necessary for conventional institutions to comply with and implement when doing so. The most important of these required conditions are: complete segregation of funds; the existence of a Sharia supervisory board; management committed to Islamic financial concepts; safeguarding Muslim investors' funds from negligence, trespass, and fraud; and compliance with the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Sole (2007) in his working paper "*Introducing Islamic Banks into Conventional Banking Systems*" prepared for IMF mentioned that despite this rapid expansion, in most conventional banking systems, Islamic finance is still uncharted territory for most practitioners and policymakers. Since current trends indicate that Islamic banking will continue to increase its penetration of conventional systems, policymakers and practitioners need to become acquainted with this process and its implications for financial supervision.

Ahmed (2000) presented a paper entitled "Islamic versus Conventional Banking: A Study of Apparent Similarities" at a seminar held in Dhaka (IERB). He found that the similarities are less important argument against the Islamic banking. The author also found that since the

Islamic banks are working side by side with the interest-bearing banking, so there remains a scope to compare between interest-bearing banking and profit-loss sharing banking. The researcher viewed that Islamic banking demands a pure Islamic environment in the society where anti-Islamic activities are absent.

From the above review it is observed that some efforts have been made to study on some aspects of conversion of conventional banks into Islamic banks. Maximum research works made comparative study between the performance of Conventional and Islamic banks. But till now no directly related and comprehensive study has been undertaken on the proposed topic entitled "Conversion of Conventional Banks into Islamic Banks in Bangladesh". Thus the researcher is hopeful enough that the present study will contribute to fulfill the existing knowledge gap in this field.

5.1. Meaning of Islamic Bank in Bangladesh

"Islamic bank" means such a banking company or an Islamic banking branch(es) of a banking company licensed by Bangladesh Bank, which follows the Islamic Shariah in all its principles and modes of operations and avoids receiving and paying of interest at all levels. (Bangladesh Bank 2012)

5.2. Background of the Conversion of Conventional Banks into Islamic Banks

The cases of bank conversion of conventional banks into Islamic banks are not huge in the world especially in the private sectors. Following historical private conversion of a bank as whole are seen in the world:

1. **2004 (Bangladesh):** Export Import Bank of Bangladesh Limited (EXIM) converted itself into Islamic bank from the conventional bank.
2. **2007 (Bahrain):** Bahrain's Al Salam Bank was converted into Bahraini Saudi Bank under Islamic Shariah, which it bought in 2006.
3. **2009 (Bangladesh):** First Security Islami Bank Limited (FSIBL) converted itself into Islamic Bank from the conventional Bank. Before conversion, the bank was known as First Security Bank Limited
4. **2010 (Baharian):** Bahrain's Ithmaar Bank completed its transformation from an investment house to an Islamic retail bank in 2010.
5. **2010 (Kuwait):** Ahli United Bank converted its Kuwaiti unit into Islamic Bank. (Reuters 2010).

Besides these private sectors, some countries like Malaysia, Iran, Turkey, Pakistan etc. has converted some state owned interest based banks into Shariah based banks.

5.3. Types of Bank Conversion in Bangladesh

Conversion indicates the Bank conversion from conventional (interest based bank) to Islamic Bank (Profit-Loss sharing based).

In Bangladesh, there are three kinds of bank conversion seen. These are:

- a. Opening an Islamic Banking window/corner in a conventional banking branch. Total 08 commercial banks have the Islamic Banking windows.
- b. Introducing a full-fledged Islamic banking branch by a conventional Bank. There are 09 conventional banks have the full-fledged Islamic Banking branches.
- c. Conversion the whole banking system from conventional banking into Islamic Banking. In Bangladesh only 02 banks, i.e. EXIM Bank Limited and First Security Islami Bank (FSIBL) are the converted Islamic Banks.

Some local and foreign private commercial banks opened Islamic banking window in their traditional branches. Two or more employees are involved here to deal with Islamic banking products of the bank. South Trust Bank Limited. Standard Bank Limited; Bank Asia Limited; Standard Chartered Bank and some state owned commercial banks have Islamic banking windows.

There are 17 conventional banks have the full-fledged Islamic Banking branches. In these branches, only Islamic Shari'ah based banking are operated.

In this research works, pre-conversion period indicates the time when the selected banks operate their activities under conventional banking systems. A conventional banking system is based on interest. On the other hand, Post-conversion period indicates the time when the banks operate their business under Islamic principles. Before comparing these two dimensions, it is needed to compare the objective of conventional banks and Islamic Bank.

Table 1: Full Fledged Bank Conversion in Bangladesh

	EXIM Bank	First Security Bank
Established	1999	1999
Starts functioning from	3rd August, 1999	25 th October, 1999
Starts Shariah based Islamic banking	Since July, 2004	01 st January 2009

Source: Annual Reports of FSIBL and EXIM Bank Limited

In Bangladesh two conventional banks have migrated all of their conventional banking operations into Shariah based Islamic Banking. These are EXIM Bank Bangladesh Limited and First Security Islami Bank Bangladesh Limited.

EXIM bank has migrated all of its conventional banking operation into Shariah based Islamic banking since July, 2004 following the decision taken unanimously in the Extra Ordinary General Meeting held on December 28, 2003. Obtaining confirmation from the honorable High Court Division of Bangladesh Supreme Court, the Bank had been converted into a full-fledged Islamic Bank based on Shariah from traditional interest based banking and at the grace of Almighty Allah the Bank started functioning as an Islamic Bank with effect from July 01, 2004 with the approval of Bangladesh Bank, the central bank of Bangladesh.

Before conversion the Bank put option to all of its valued customers through news media in addition to personal contact with them to accept the decision taken by the Bank. It's a great pleasure that everybody gladly accepted the conversion with appreciation. It is something new in the history of Islamic Banking.

By following same process, First Security Islami Bank also converted itself into full-fledged Islami Bank from its conventional banking operations from 1st January, 2009. Before conversion it was known as "First Security Bank Limited".

5.4. Islamic Banking in Bangladesh

Bangladesh has three types of practices of Islamic Banking. Full-fledged Islamic Banking, Islamic banking branches of Conventional banks, Islamic banking windows of Conventional banks.

Table 2: Islamic Banking in Bangladesh

Full-fledged Islamic Banks	Islamic banking branches of Conventional banks	Islamic banking windows of Conventional banks
1. Islami Bank Bangladesh Limited	1. The City bank Limited	1. Sonali Bank Limited
2. ICB Islamic Bank Limited	2. AB Bank Limited	2. Janata Bank Limited*
3. Social Islami Bank Limited	3. Dhaka Bank Limited	3. Agrani Bank Limited
4. Al-Arafah Islami Bank Limited	4. Premier Bank Limited	4. Pubali Bank Limited
5. EXIM Bank Limited	5. Prime Bank Limited	5. Trust Bank Limited
6. Shahjalal Islami Bank Limited	6. Southeast Bank Limited	6. Standard Bank Limited
7. First Security Islami Bank Limited	7. Jamuna Bank Limited	7. Bank Asia Limited
8. Union Bank Limited	8. Bank Alfalah Limited	8. Standard Chartered Bank
	9. HSBC Limited	

* Has taken permission for starting Islamic Banking Window from Bangladesh Bank, but not started yet.

Source: Report on "Developments of Islamic Banking Industry in Bangladesh during January-March, 2015". Prepared by Research Department, Bangladesh Bank.

5.6. Changes in Bank Objectives after Conversion

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

Table 3: Effects on the objectives on the Banks after conversion

Objectives Before Conversion	Objectives after conversion
a. Bank will made Substantial Business headway in terms of business growth	a) To be the most caring and customer friendly and service oriented bank
b. High rate of profit will be achieved	b) To conduct interest-free banking;
c. Bank will render all kinds of Commercial Banking operations under company act 1991	c) To establish participatory banking instead of banking on debtor-creditor relationship;
d. To establish its image as one of the leading banks in private sectors	d) To invest on profit and risk sharing basis;
e. With the business community, bank will be starting its business with small to big merchant	e) To accept deposits on profit-loss sharing basis;
	f) To establish a welfare-oriented banking system;
	g) To extend co-operation to the poor, the helpless and the low-income group for their economic upliftment;
	h) To play a vital role in human development and employment generation;
	i) To contribute towards balanced growth and development of the country through investment operations particularly in the less developed areas; and
	j) To contribute in achieving the ultimate goal of Islamic economic system.

Sources: Annual Reports of FSIBL and EXIM Bank Limited 2001-2015

5.7. Introducing Shari'ah Board

Shariah Board is committee for Islamic Scholars who examine the similarity of banking activities with the rules and regulations of Islamic Laws known as "Shari'ah". Before conversion, the conventional bank did not have any Shari'ah Council. But after conversion the bank introduced Shariah Board along with other committees. The members of this committee arranged meetings in every quarter in the accounting year of the Bank. A minimum remuneration is given of each member of the committee.

5.8. Changes in the Bank Products Name and Terms

Conventional Banks use traditional banking name for their products. But after conversion, the converted Islamic banks are using Islamic terminology of the Banking Products.

Following table shows the comparative deposit schemes of the bank before conversion and after conversion.

Table 4: Deposit Products Before and After Conversion

Deposit Products Before Conversion	Deposit Products after conversion
a. Current Account	a. Al-Wadiah Current Deposit Account
b. Short Term Deposit	b. Mudaraba Savings Deposit Account
c. Savings Bank Account	c. Mudarabaha Term Deposit Receipt
d. Fixed Deposit	d. Mudaraba Special Notice Deposit
e. Non-Resident Foreign Currency Deposit	e. Mudarabah Monthly Deposit Scheme
f. Resident Foreign Currency Deposit	f. Mudarabah Monthly Double Scheme
g. Monthly Savings Schemes	g. Mudarabah Monthly Profit Savings Scheme
h. Monthly Profit Based Savings Schemes	h. Foreign Currency Deposit
i. Double Deposit Schemes	i. Others: Bandhan, Probin, Tribble Benefit, Abosor, Ankur, Unnaati, Cash Waqfa, Hajj etc.

Source: *Annual Reports of FSIBL and EXIM Bank Limited 2000-2015*

It is observed that to suit the needs of clients of different strata in the society, the banks introduced some innovative products after conversion. They have also renamed the product to make them identical to the Islamic Shari'ah.

5.9. Changes in the Items of Operating Expenses

After conversion, the converted Islamic Banks like EXIM and FSIBL introduced two new heads in their operating expenses. These are: (a) Shari'ah Supervisory Committee's Fees & Expenses and (b) Zakat Expenses. First one includes the meeting expenses, allowances and refreshments. These expenses are seen in minimum amount comparing to other expenses given in the income statement. Conventional periods operating expenses heads are still followed by this bank after conversion.

5.10. Effects on Sources of Funds: Changes in Deposits and Other Accounts

Being an Islamic Bank, pattern of mobilizing the fund are somehow different than the conventional period. But the ways are same. By opening different kinds of deposit accounts, after converting into Islamic Bank, they are collecting the funds from the clients. This process is identical with the conventional periods. Only the difference is that, before conversion, banks gave interest to the depositor, after conversion banks share profit (or loss) to the depositor. It is well known that interest-based banks accept deposits of different maturities, paying different rates of interest on different kinds of deposits. Islamic banks do not pay interest on deposits (Islamicbanker, 2016).

Besides these, after converting into Islamic bank, they are using some investment accounts which were not common in traditional periods. Under these types of account banks are collecting fund through profit loss sharing basis. A portion of investment money is supplied by the investors (clients) and other portion is provided by the bank. Before conversion, total fund is provided by the bank only by taking fixed interest on the amount. After conversion, bank also used Islamic bond as the sources of financing. The can also collect fund from Islamic call money market. Raising fund through issuing equities are similar in both banking periods.

5.11. Impact on Uses of Funds

After islamization of the conventional banks, significant differences are seen in utilization of fund. Asset backed and profit-loss sharing utilization (investments) are followed by the bank. Before conversion, EXIM and FSIBL supplied loan to the individuals and organizations in terms of fixed interest. They do not follow the rules of Islamic Shariah. Before conversion they used the bank fund in prohibited sectors too (i.e. financing to import chiggerates, alcoholic products etc). But after islamization, they are not investing in these prohibited sectors. Interestingly in Islamic period they also give loans with zero cost which are known in Islamic Term as Quard-e-hasanah.

5.12. Comparison of Before and After Conversion Performance of FSIBL & EXIM Bank Limited

ROE is calculated by dividing net profit after tax by share capital. The equity capital denotes the issued capital alone of a Bank and does not include any reserves, etc. It establishes the relationship between profit after tax and share capital. It may be observed from the analysis that after conversion into Islamic system, the banks possess higher ROE compared to

conventional banking system (before conversion). The average of ROE on Islamic period (after conversion) is 11.37%, however the average ROE in conventional period is only 6.68% during the observed research period.

Table 5: Before and After Conversion Performance Comparison of FSIBL & EXIM Bank Limited

S.L	Performance Indicator	Bank Name	Mean			Comments
			After Conversion	Before Conversion	Difference	
01	ROE	FSIBL	11.37	7.15	4.22	Islamic Period is higher
		EXIM	6.90%	6.54%	0.36%	Islamic Period is Better
02	ROA	FSIBL	0.93	0.63	0.30	Islamic Period is higher
		EXIM	1.69	1.56	0.13	Islamic Period is higher
03	Investment as a %age of Total Deposit	FSIBL	86.01%	78.29%	7.72%	Islamic Period is better
		EXIM	91.25%	77.24%	14.01%	Islamic Period is better
04	Cost of Fund	FSIBL	10.71%	7.87%	2.84%	Somehow low after conversion
		EXIM	8.92%	9.35%	-0.43%	Islamic Period is efficient
05	IGR	FSIBL	0.64%	0.45%	0.19%	Islamic Period is Better
		EXIM	1.11%	0.17%	0.93%	Islamic Period is Better
06	SGR	FSIBL	8.47%	8.30%	0.17%	Islamic Period is Better
		EXIM	14.25%	4.58%	9.67%	Islamic Period is Better

Source: Calculated value from the 16 years financial performance 2000-20015, Annual Reports of EXIM and FSIBL

6. Performance Analysis

ROA indicates Return on Assets which is calculated by dividing total profit by total asset. The ratio is widely used as a proxy for profitability. Peterson (2008) interpreted ROA as an important tool indicating operational efficiency of the bank. It may be observed from the analysis that after conversion into Islamic banking system, the selected banks enjoy higher ROA than before conversion i.e. in conventional period.

Same results are found in case of Return on Equity (ROE), Investment as a %age of Total Deposit, Internal Growth Rate (IGR) and Sustainable Growth Rate (SGR). Mixed results are found in case of cost of fund. After conversion, cost of fund of First Security Islami Bank Limited found slightly higher than the conventional period. It is because of providing higher profit on deposit amount of the clients.

After conversion, Islamic banks depend on the external sources mainly as their Sustainable growth rate is significantly higher than the internal growth rate. But both IGR and SGR of FSIBL and EXIM Bank Limited are better in Islamic Period than these were in conventional period.

Fund utilization capacities are found more efficient during Islamic period. Before conversion, average Investment as a %age of Total Deposit of FSIBL was 78.29%, but in Islamic period it is found 86.01% which is 7.72% higher than conventional period. Average Investment as a %age of Total Deposit of EXIM Bank also found 14.01% higher than conventional period.

6.1. Findings of the Study

Comparing the conventional period to the Islamic period of the same bank of Bangladesh, the study has the following findings:

1. Some Bangladeshi banks converted themselves into Islamic Banking as a whole (i.e. EXIM and FSIBL) and some others converted themselves by opening Islamic banking branches or windows.
2. A religious feeling (Islam) has influenced the conversion towards Islamic model.
3. New deposit products are introduced by these banks after islamization.
4. Employees were not trained enough at the time of conversion. Both of these banks hired some skilled employees from other existing full-fledged Islamic banks.
5. Upward profit trend is seen after islamization of the conventional bank
6. Instead of interest taking, banks start to receive and give profit (loss) on deposits and investments.
7. Banks also provide loans to the clients on zero-profit basis which is known as Quard-e-Hasanah. It was totally unthinkable and absent in conventional period (before conversion).

8. While visiting the branches, it is found that Islamic cultures (like giving salam to clients, following Islamic dress code etc.) are not strictly followed by the employees of the selected banks. They are following Islamic banking but not Islamic cultures.
9. A body of Islamic Scholar is introduced in the bank management to check the Shariah compliance on bank activities. This committee is known as Shari'ah Board
10. Besides the corporate income tax, bank also charges Zakat which was absent in Conventional period. Zakat is given on the equity capital of the bank.
11. Conversion rules given by Bangladesh Bank are not easy to follow.
12. Fund utilization capacities are found more efficient during Islamic period. Before conversion, average Investment as a %age of Total Deposit of FSIBL was 78.29%, but in Islamic period it is found 86.01% which is 7.72% higher than conventional period. Average Investment as a %age of Total Deposit of EXIM Bank also found 14.01% higher than conventional period.
13. Earnings capability of the converted Islamic banks is better than it was in conventional period. *After conversion, net income, ROA, ROE etc. are higher than in conventional period.*
14. Cost of Fund of Islamic period is somehow higher than conventional period of FSIBL. But it is found lower in EXIM Bank's Islamic Period. Due to provide higher rate of profit on deposit amount, the cost of fund goes higher in Islamic period of First Security Islami Bank Limited. But the difference is so narrow.

7. Recommendations

The study put forward several recommendations. Perhaps the most important call is to unite, integrate and increase interdependence between the Islamic banks. It is also important for the Islamic banks to innovate and create new products for the benefit of the consumers at large.

01. Central Bank of Bangladesh should make the conversion rules much easier to convert the conventional banks into Islamic Banks in any form, i.e. partially or full-fledged. They should setup necessary procedures and required tools of conversion.
02. Bank should create awareness among the customers about the differences between Interest based banking and Profit-loss sharing based banking.
03. After conversion, the bank should change employing procedures to fit conversion process to fit with Islamic values. Hassan (2002) pointed out that faith and morals are as important as banking experience. He indicated that this concept must be followed in the Islamic Bank employing selection.

04. Islamic banks should innovate and create new products for the benefit of the consumers at large.
05. After conversion, the bank should give emphasize on controlling the operating expenses and cost of fund, but must give reasonable profit to the clients.
06. After Islamization, banks must be careful enough to maintain satisfactory level of Investment as a %age of Total Deposit. Diversification is better to avoid the risk.
07. Internal Growth Rate must be increased by the bank. Bank should try to collect internally generated fund.
08. Practicing Islam and doing Islamic Banking is not the same thing. Bank should be serious to maintain Islamic culture in their branches.

8. Conclusions

Observation of the study revealed that after Islamization the overall performance of the converted banks are better than before conversion in Bangladesh. The study highlights the bank conversion case of two conventional banks who have converted themselves as a whole into Islamic Banks. Except the cost of fund (Islamic period has higher due to give higher profit on deposit), other indicators of bank performance is better than conventional period. Study observed that there are significant changes in bank activities after conversion. Some new committees like Shariah Committee are formed, new operating expenses like Zakat, Shariah Committee fees etc. are introduced after islamization of the Banks. Lots of changes are found in their fund collection and investment techniques. Religious values and expectation of high earnings are the main motives of conversion of the two banks. Internal Growth Rate and Sustainable Growth Rate also shows that the conversion in Islamic Banking is playing good role in Bangladeshi Banking industry.. The study recommends that in future some banks may convert themselves as a whole or partially into Islamic bank from conventional bank if the government facilitate themselves.

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