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A REPORT ON BOARD SIZE, INDEPENDENT DIRECTORS AND PERFORMANCE OF SHAHJALAL ISLAMI BANK LIMITED, FOREIGN EXCHANGE BRANCH

Khanom, Shahana

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A REPORT ON BOARD SIZE, INDEPENDENT DIRECTORS AND PERFORMANCE OF SHAHJALAL ISLAMI BANK LIMITED, FOREIGN EXCHANGE BRANCH

By

Shahana Khanom

ID: 0820035

An Internship Report Presented in Partial Fulfillment

Of the Requirements for the Degree

Bachelor of Business Administration

Independent University, Bangladesh

April 29, 2012

A REPORT ON BOARD SIZE, INDEPENDENT DIRECTORS AND PERFORMANCE

OF

SHAHJALAL ISLAMI BANK LIMITED, FOREIGN EXCHANGE BRANCH

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ID: 0820035

Has been approved,

April 29, 2012

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Shawgat. S . Kutubi

Lecturer, School of Business
Independent University, Bangladesh (IUB)

Letter of Transmittal

22th April, 2012

Shawgat .S. Kutubi

Supervisor,

School of business

Independent University, Bangladesh

Subject: Submission of Internship Report.

Dear Madam,

This is my pleasure to submit my internship report on **"Board Size, Independent Directors and Performance: An Analysis of Shahjalal Islami Bank ".** It was a great opportunity for me to acquire knowledge of Shahjalal Islami Bank Limited Foreign Exchange Branch, Motijheel, Dhaka.

I have concentrated my best efforts to achieve the objectives of the study and hope that my endeavor will serve the purpose. I will be highly grateful & oblige if you kindly accept my work & evaluate it with your sagacious judgment.

Thank you,

Sincerely Yours

……

Shahana Khanom

ID #0820035

Acknowledgement:

First, it is my **Almighty ALLAH** who gives me the sense to understand what I am doing and for everything.

I would like to take this opportunity to express my gratitude to my internship supervisor, Shawgat S. kutubi, Lecturer, School of Business, at Independent University of Bangladesh for continuous inspiration, supervision and patience. Without his guidance and support it would not have been possible to come this far.

I would like to express my deepest gratitude to Mr. Md. Abdul Aziz Zumma, Excecutive Vice President & Branch Manager of Shahjalal Islami Bank Limited for giving me the opportunity to complete my internship in such a reputed organization. I also want to thank, Mr. Shaifuddin Al Shad , First Executive Officer, for his intimate guidance & encouragement that helped me a lot to accomplish the project.

I also want to remember Mr. Md.Wahidur Rahman , Deputy Manager, who's support inspire me from beginning to end of my period in Shahjalal Islami Bank Ltd. And I also would like to thank Mr. S.M Mashiuz Zaman, Head of Investment Division for providing valuable information and suggestion to carry out the project in a right way.

I'm also like to thanks to all my colleagues of Shahjalal Islami Bank Ltd. (SJIBL), Foreign Exchange Branch for sharing their experience and knowledge with me.

My sincerest thanks go to the all others who were involved and helped directly and indirectly in preparing this report.

Although I face some difficulties while preparing this report but I enjoyed each and every moment of working in Shahjalal Islami Bank Ltd. (SJIBL) as an intern.

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Board Size, Independent Directors and Performance: An Analysis of Shahjalal Islami Bank

Abstract:

This study examines the impact of board size and independent directors on the performance of Shahjalal Islami Bank ltd. An individual regression model is used to examine this relationship over the years 2006-2010. The results showed a statistically significant relation between the banks' board size and their performances. In addition, the proportion of independent directors on the board should be positively related to bank's performance in the Shahjalal Islami Bank.

Key words: Board size, Independent directors, performance.

1. Introduction:

The board of directors' role in effective corporate governance has become especially important to banks and their regulators following the Asian financial crisis in 1997. This study examines the relationship between bank board size, independent directors and performance in the Shahjalal Islami Bank.

After the collapse of Enron in 2001, the literature of banking governance has exploded. Using the database *Econ Lit from American Economic Association*, Morey et al. (2009) found that approximately 53% of academic papers, about corporate governance, were published since the Enron crisis in 2001, while only 47% of the listings were published between 1969 through 2001. The theory of corporate governance treats the whole of the internal and external mechanisms in solving agency conflicts and reducing costs which result from it. Among internal governance mechanism, we find the board of directors. According to Lefort and Urzúa (2008), board of directors is a central institution in the internal governance of a firm. Referring to Smith (1776), board of directors is defined as: "The directors of companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance (as owners)…negligence and profusion, therefore, must always prevail, more of less, in the management of the affairs of such accompany". Jenson (1993) affirms that the characteristics of board of directors (size, composition, ownership structure) are as many instruments which reflect the effectiveness of the board in his activity of the control of managers. Mixed findings, both theoretical and empirical, have been provided on this issue by the academic research.

Most governance research has found no significant relationship between the presence of independent directors and firm performance (Bhagat and Black, 1999; Hermalin and Weisbach, 1991). Nevertheless, Rosenstein and Wyatt (1990) indicate that there is a statistically significant positive stock price response when firms include an independent director on their board. In order to avoid the conflict of interest (agency problem) between the directors and the CEO, their role and responsibilities should be clearly explained. For selecting board members, independent directors/depositor directors, chief executive officers, and advisors Bangladesh Bank developed *'Fit and Proper Test'* criteria.

On the basis of the above argument, It will be interesting to examine empirically whether Shahjalal Islami Bank board size and independent directors relates to its performance.

This study makes contributions to the existing bank board literature. Firstly, to the best of our knowledge, it is the first to explore the relationship between bank board size, independent directors and performance of Shahjalal Islami Bank.

The remainder of this paper is divided into a further eight sections. The next section will explain the Islamic banking and corporate governance (CG) in Bangladesh. Section three describes the Corporate Governance and Shariah Council in Shahjalal Islami Bank. Section four reviews the

literature on board size, independent directors and performance and then formulates our hypotheses. Then Data Collection. Section six presents the methodology. Section seven presents the results and finally, section eight concludes the paper. The further information of Shahjalal Islami Bank will be shown in Appendix.

2. Islamic banking and corporate governance (CG) in Bangladesh:

Islamic banking is banking or banking activity that is consistent with the principles of Islamic law (*Sharia*) and its practical application through the development of Islamic economics. Sharia prohibits the fixed or floating payment or acceptance of specific interest or fees (known as riba or usury) for loans of money. Investing in businesses that provide goods or services considered contrary to Islamic principles is also haraam (forbidden). While these principles have been applied in varying degrees by historical Islamic economies, it is only in the late 20th century that a number of Islamic banks were formed to apply these principles to private or semi-private commercial institutions within the Muslim community. In Bangladesh Islamic banking started its journey in 1983 with the opening of Islamic Bank Bangladesh Limited. The number of Islamic banks as of 2007 stood at 6. Compared to the conventional banks, Islamic banks in Bangladesh have shown relatively better performance in the areas of loan recovery and various other financial measures (Ahmed, Rahman, & Ahmed, 2006; Ahmad & Hassan, 2007).

After its independence in 1971, Bangladesh inherited a private sector dominated economy. The new government was committed to socialism. This, along with the ownership vacuum created by the then West Pakistani owners of the industries, who fled the country during the liberation war resulted in nationalisation of almost all the major industries. However, owing to inefficiency in the public sector, and pressures from the donor agencies such as the World Bank, the Bangladesh government opened its economy. As the donor agencies started sanctioning loans against conditions of privatisation, the government took initiatives to quickly privatise a number of industries. Uddin and Hopper (2003) report that although few numbers of privatised firms were large, it was the small firms that got privatised as these were easier to privatise. Not surprisingly, most of these privatised firms were actually purchased by a single owner or a family. Most of the privatised companies as reported by Uddin and Hopper (2003), were in the jute and textile sectors was actually purchased by single families.

Good corporate governance is a function of sound institutional framework. Some of the major legislative and regulatory requirements mandating Bangladeshi companies include:

The Companies Act 1994, Bangladesh Bank Order 1972, The Bank Companies Act 1991,The Financial Institution Act 1993, The Securities and Exchange Ordinance 1969, The Securities and Exchange Commission Act 1993, and The Bankruptcy Act 1997 (Sobhan and Werner, 2003). Presently five established institutions in Bangladesh are working for corporate governance regulations such as the Institute of Chartered Accountants of Bangladesh (ICAB), the Bangladesh Enterprise Institute (BEI), the Securities and Exchange Commission (SEC), stock

exchanges (Dhaka Stock Exchange and Chittagong Stock Exchange) and the registrar of Joint Stock Companies(RJSC).

According to SEC "Independent Director means a director who does not hold any share in the company or who holds less than one percent (1%) shares of the total paid-up shares of the company, who is not connected with the company's promoters or directors or shareholder who holds one percent (1%) or more than one percent (1%) shares of the total paid-up shares of the company on the basis of family relationship; who does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary/associated companies, who is not a member, director or officer of any stock exchange, or an intermediary of the capital market." The independent director(s) should be appointed by the elected directors.

Legal and regulatory framework and its enforcement are relatively poor in Bangladesh which critically hinders the market's potential growth. Moreover, the judicial system of Bangladesh is not competent enough to deal with corporate affairs. Unlike other common-law economies of wealthy nations, it represents poor-quality law enforcement (Farooque et al. 2007). Therefore, minority shareholders have poor protection as property rights are not well defined and/or not well protected by judicial system (Shelifer and Vishny, 1997).

The overall corporate governance system as it currently exists in Bangladesh can be described as the weak form of Anglo-American corporate governance system. Farooque et al. (2007) contend that even though Bangladesh has a market-based system like Anglo American firms, it lacks an active market for corporate control, strong incentive contract for management and outside directors. In the absence of market-based monitoring and control measures, ownership based monitoring and control has been established in Bangladesh as a core governance mechanism. They also report that in Bangladesh, private sector firms have highly concentrated ownership. Most firms are either family-owned or controlled by the substantial shareholders (corporate group or government) and managements are effectively just extensions of the dominant owners. They are closely-held small and medium-sized firms where corporate boards are owner-driven. Consequently, most of the companies have executive directors, CEO and chairman from the controlling family or government.

3.Corporate Governance and Shariah Council in Shahjalal Islami Bank:

Corporate Governance means the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community).

Corporate governance is a fundamental part of the culture and business practice of Shahjalal Islami Bank ltd and remains cornerstone of running business operations in the Bank, which is directed and controlled by the Board of Directors who are responsible for ensuring that the management maintains a system of internal control to provide assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations.The

Board of Directors of the Bank consists of successful personalities in respective area of Trade, Commerce & Industry of the country.It may be mentioned here that under the proactive guidelines, policy, direction and monitoring of the board, Management conducts its business operations smoothly.

Shariah Council of the bank is playing a vital role in guiding and supervision the implementation and compliance of Islamic Shariah principles in all business activities of the Bank scince its very inception. The council, which enjoys a high status in the structure of the Bank, consists of prominent ulema, reputed banker, renowned lawyer and eminent economist.

Members of the Shariah Council meet frequently and deliberate on different issues confronting the Bank on Shariah matters. They also conduct Shariah principles are implemented with meticulously by the branches of the Bank.

In Shahjalal Islami Bank Ltd also has a Shariah Council consisting of prominent Fuquaha,Economists,Lawyers, and Bankers to advise and guide the Board and the Management on Shariah Matters relating to the bisuness operations.The Shariah Council gave necessary instructions and guidelines to the management from time to time to operate the Banking transactions according to the principles of Islamic Shariah.Under the able guidance of the Board of Directors and the Shariah Council, the Management Team carry out the business operations of the Bank Professionally ensuring Good Governance through sound and best Corporate Governance practices.

4. Literature review and hypotheses development:

There are several competing theories (for example, agency problem, stewardship theory and resource dependence theory) to explain the relationship between board size, independent directors and performances.

4. 1.Bank board size and performance:

In Shahjalal Islami Bank they have 15 board of directors they encompass a range of talents, skills and expertise to provide prudent guidance with respect to the operations of the company. Cheng et al. (2008) consider the importance of board of directors' size in the corporate governance process is well recognized. An examination of the relationship between board's size and performance highlights contradictory results. This leads to a lack of consensus regarding this relationship. Yermack (1996) concludes that there is a statistically significant relationship between board of directors' size and performance. Directors in large boards may face greater difficulties in expressing their ideas and opinions in the limited time available at board meetings (Lipton and Lorsch, 1992, p.65). Moreover, since an individual board member's incentive to acquire information and to exert effort in monitoring managers is low in large boards, CEOs may find large boards easier to control (Jensen, 1993, p.865).

In contrast, Kiel and Nicholson (2003) argue that larger boards should provide more opportunities for networking and additional skilled personnel - so contributing towards better performance. Accordingly, this may explain a positive relationship between board size and firm performance for large firms in Australia. Similarly, for the US bank-holding companies (BHCs), Belkhir (2005) and Adam and Mehran (2003) find a statistically significant positive relationship between board size and performance. These results suggest that the benefits of better monitoring by larger boards may outweigh the associated costs.

Andres and Vallelado (2008) confirm these ideas by conducting a study on 69 boards of the largest banks in Canada, USA, Spain, Britain, France and Italy over the period 1995-2005. They conclude that a small board of directors is more efficient.

Dalton et al. (1999) contend that board size is a significant determinant of effective corporate governance mechanism. Board size is important as its size is a function of the costs and benefits involved with the board functioning. While inclusion of more directors increases the boards monitoring capacity, the incremental cost of poor communication and decision making associated with larger groups may outweigh the benefits. Accordingly, Lipton and Lorsch (1992) argue that a larger board may face poor coordination due to the large number of potential interactions among group members and free riding problem. They recommend limiting the board member to a maximum of ten people, with a preferred size of eight to nine. Similarly, Jensen (1993) argues that larger boards can be less effective and are easier for the CEOs to control when board composed of more than seven to eight people. The empirical evidence supports this contention by showing an inverse relation between board size and firms performance (see for example, Yermack, 1996).

In The Shahjalal Islami Bank they the Board of directors and management of their bank should comprise of the competent and professionally skilled persons with a view to ensuring good and corporate governance in the bank management. It is also inevitable to have specific demarcation of responsibilities and authorities between these controlling bodies over bank's affairs. In absence of specific division of responsibilities and authorities, even in spite of these bodies' being formed with skilled and efficient persons, the desired goals of their institution cannot be achieved due to lack of transparency and accountability of all concerned. Such kind of situation is more undesirable in their bank as it deals with huge public money and interests of their depositors. So they have 15 Board of Directors. Which is incresae their asset and their performance.

Hypothesis 1: Bank board size is positively related to bank’s performance in Shahjalal Islami

Bank.

4. 2.Independent Directors and Performance:

Previous research on board structure has focused on the independent directors of the board and its impact on performance. (Agrawal and Knoeber, 1996; Dahya and McConnell, 2005). It is argued that a higher proportion of independent directors should lead to better firm performance since it reduces the conflict of interests between controlling shareholders and minority shareholders and makes management more effective through better monitoring (Andres et al., 2005).

Most governance research has found no significant relationship between the presence of independent directors and firm performance (Bhagat and Black, 1999; Hermalin and Weisbach, 1991). Nevertheless, Rosenstein and Wyatt (1990) indicate that there is a statistically significant positive stock price response when firms include an independent director on their board.

Fama (1980) and Fama and Jensen (1983) argue that independent directors have more incentives to protect shareholders interest because they consider that maintaining their 'reputation' in the market for independent directorships to be important. This reputation argument is also supported by Farrell and Whidbee (2000). However, the empirical findings on independent directors and firm performance have been mixed. Others find no relationship or even a negative relationship between independent directors and firm performance (Hermalin and Weisbach, 1991; Bhagat and Black, 1999; Kiel and Nicholson, 2003; Agrawal and Knoeber, 1996).

Adopting a market-based approach, Rosenstein and Wyatt (1990) offer a statistically significant positive stock price reaction after the announcement of the inclusion of an independent director on the board. Moreover, Skully (2002) recommends that a majority of independent directors is necessary for better bank governance. Corporate Governance In Bangladesh "The Bangladesh bank" said about the Independent Director. They also said about the Independent Directors stability in our countries are important. Shahjalal Islami Bank have One Independent director averagely from 2006-2010 because it increase their reputation in the market, asset and performance. So, for creating a harmonization between the owners and shareholders banks adopt an Independent Director.

Hypothesis 2: The proportion of independent directors on the board is positively related to bank's performance in the Shahjalal Islami Bank.

5. Data Collection: Data have been collected from two sources:

- Primary Sources
- Secondary Sources

Primary Sources are as follows:

- Face-to-face conversation with the respective officers and staffs of the Branch.
- Relevant file study as provided by the officers concerned.

- Secondary Sources of data and information are:
- Annual Report of Shahjalal Islami Bank Limited From 2006-2011.
- Web site of Shahjalal Islami Bank Limited.
- Many Research Paper from lots of Webisite.

6. Methodology:

The following structural model is used to study the relationship analysis of bank board size, independent directors and performance.

Dependent Variable:

We measure bank performance by calculating ROA as the income after taxes and provision, divided by the total assets. ROE is calculated as the ratio of profit after taxes and provision divided by the total shareholders equity. BS is the board size measured as the total number of directors on the board as at the end of each year. ID board independence measured as the ratio of the number of independent directors or depositor directors on the board size. In order to understand the behavior of directors on the performance the banking firm the study used the effect of size, NPL, Assets and performance as control variable. SIZE is bank size computed as the natural logarithm of the bank's average total assets. LEVERAGE is measured as the ratio of total debt to total bank assets. Therefore, the study has included NPL as the bank's non-performing loan, which is the ratio of non-performing loans to gross loans. In our view, the inclusion of NPL as an independent variable to identify the effect on bank performance is relatively important variable.

7.Results:

Table 1: Descriptive Statistics

Performance measures	
Return on Equity (ROE)	Ratio of net profit after tax and provision to the total equity as at the end of each year.
Return on Asset (ROA)	Ratio of net profit after tax and provision to the total asset at the end of each year.
Board Characteristics	
Board Size (BS)	Total number of directors on the board as at the end of each year.
Ratio of Independent Directors(RID)	Ratio of the number of independent directors to the board size as at the end of each year.
Control Variables	
ASSETS	The average total assets at the end of each year.
LEVERAGE	Ratio of total debt plus equity to the total assets at the end of each year.
NPL	The ratio of non-performing loan to total loans as at the end of each year.

Table 2:

Descriptive Statistics

Table 2: Descriptions of Variables

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	5	.01	.03	.0202	.00549
ROE	5	.22	.38	.2735	.07156
BS	5	9.00	15.00	11.8000	2.94958
RID	5	6.67	11.11	8.8900	2.07662
ASSET	5	21342554938.00	78800401984.00	46525563474.2000	23246860512.77992
LVR	5	1.00	1.94	1.1880	.42038
NPL	5	.00	.02	.0082	.00665
Valid N (listwise)	5				

Table 2 presents some descriptive statistics for the variables used in this study. The mean ROE is 0.2735, the minimum is 0.22 and maximum is 0.38. Similarly the mean of ROA is 0.0202, the minimum is 0.01 and maximum is 0.03.. On average the BS of the bank is 11.8000 i.e. 12 and min and max is 9 and 15 respectively. Regarding ratio of independent director‟s average is 8.8900 and min and max are 6.67 and 11.11. The mean of Shahjalal Islami Bank total asset or size is Tk 465255634, minimum is Tk. 21312554938 and maximum is Tk. 78800401984. The mean NPL is 0.0082, the min is 0.00 and the maximum is 0.02. The mean leverage is 1.1880, min is 1 and the maximum is 1.

Univariate Analysis:

Table 3: Pearson Pair-Wise Correlation Matrix of the Variables

		ROA	ROE	BS	RID	ASSET	LVR	NPL
ROA	Pearson Correlation	1	.489	.451	-.508	.192	.157	.557
	Sig. (2-tailed)	.	.404	.445	.382	.757	.801	.329
ROE	Pearson Correlation	.489	1	-.079	.040	-.239	.866	-.067
	Sig. (2-tailed)	.404	.	.900	.949	.698	.058	.914
BS	Pearson Correlation	.451	-.079	1	-.997(**)	.819	-.341	.817
	Sig. (2-tailed)	.445	.900	.	.000	.090	.574	.092
RID	Pearson Correlation	-.508	.040	-.997(**)	1	-.778	.299	-.803
	Sig. (2-tailed)	.382	.949	.000	.	.121	.625	.102
ASSET	Pearson Correlation	.192	-.239	.819	-.778	1	-.606	.912(*)
	Sig. (2-tailed)	.757	.698	.090	.121	.	.279	.031
LVR	Pearson Correlation	.157	.866	-.341	.299	-.606	1	-.523
	Sig. (2-tailed)	.801	.058	.574	.625	.279	.	.366
NPL	Pearson Correlation	.557	-.067	.817	-.803	.912(*)	-.523	1

Sig. (2-tailed)	.329	.914	.092	.102	.031	.366	.

Result Analysis:

Table 3, presents the Pearson pair-wise correlation matrix between variables of interest along with their corresponding significance level. The matrix shows a positive and statistically significant correlation between both bank performance measures ROE and ROA. We found a positive and statistically significant correlation between the ROE and ROA with board size (BS). Moreover, both measures of performance ROE and ROA are negatively correlated with board independence measure (RID), but the relationship is not statistically significant. In case of ASSETS with independent directors measures (RID) the results show a significant correlation. Consistent with expectations, NPL is found positively correlated with both ROA and ROE and the relationship is statistically significant. Regarding. Finally, we found a statistically significant negative correlation between bank BS and the independent director (RID) measures. In order to avoid the possibility of multicollinearity bias we included the Ratio of ID to BS, instead of no of independent directors.

Multivariate Analysis:

Table 4:

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.019	.900(a)
	Residual	.020	3	.007		
	Total	.020	4			

a Predictors: (Constant), BS

b Dependent Variable: ROE

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.296	.169		1.754	.178
	BS	-.002	.014	-.079	-.137	.900

a Dependent Variable: ROE

Table:4 reports the regression analysis of ROE on board size (BS). It shows that the coefficient on BS is statistically significant. This means that the larger boards are more effective in monitoring bank managers which is consistent with the findings of Andres and Vallelado (2008). Thus our first hypothesis i.e board size is related to bank's performance is supported.

Table 5:

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.005	.949(a)
	Residual	.020	3	.007		
	Total	.020	4			

a Predictors: (Constant), RID

b Dependent Variable: ROE

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.261	.181		1.448	.244
	RID	.001	.020	.040	.069	.949

a Dependent Variable: ROE

Table: 5 report the regression analysis of ROE on ratio of independent directors (RID). It shows that the coefficient on the RID is positive and statistically significant.

Table 6:

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.182	.698(a)
	Residual	.019	3	.006		
	Total	.020	4			

a Predictors: (Constant), ASSET

b Dependent Variable: ROE

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.308	.088		3.500	.039
	ASSET	.000	.000	-.239	-.427	.698

a Dependent Variable: ROE

Table 6 : show the correlation on bank assets (size) which is not statistically significant.

Table 7:

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.015	1	.015	9.004	.058(a)
	Residual	.005	3	.002		
	Total	.020	4			

a Predictors: (Constant), Lratio

b Dependent Variable: ROE

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.098	.061		1.607	.206
	Lratio	.147	.049	.866	3.001	.058

a Dependent Variable: ROE

In Table 7 : leverage is found to be positively related with bank performance as expected but the coefficient is not statistically significant.

Table 8:

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.014	.914(a)
	Residual	.020	3	.007		
	Total	.020	4			

a Predictors: (Constant), NPL

b Dependent Variable: ROE

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.280	.063		4.446	.021
	NPL	-.726	6.194	-.067	-.117	.914

a Dependent Variable: ROE

In Table 8 : the coefficient on NPL is negative and statistically significant. This implies that increase in NPL leads to decrease in ROE of the Bank.

Table 9:

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.020	4	.005	.	.(a)
	Residual	.000	0	.		
	Total	.020	4			

a Predictors: (Constant), RID, LVR, NPL, ASSET

b Dependent Variable: ROE

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.152	.000		.	.
	NPL	9.505	.000	.884	.	.
	ASSET	.000	.000	-.039	.	.
	LVR	.204	.000	1.196	.	.
	RID	.012	.000	.362	.	.

a Dependent Variable: ROE

In table 9 multiple regression result show that the coefficient of BS, RID, Assets, Lratio , NPL effect positively on ROE. However, the relationship between the independent variables with ROE is not statistically significant.

Table 10:

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	4	.000	.	.(a)
	Residual	.000	0	.		
	Total	.000	4			

a Predictors: (Constant), ASSET, Lratio, RID, NPL

b Dependent Variable: ROA

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.029	.000		.	.
	RID	-.001	.000	-.312	.	.
	LVR	.003	.000	.250	.	.
	NPL	1.690	.000	2.047	.	.
	ASSET	.000	.000	-1.766	.	.

a Dependent Variable: ROA

Table: 10 shows the multiple regression result which explain that the coefficient of BS, Assets, Lratio, NPL effect positively on ROA. But RID only has negative effect. However, the relationship between the independent variables with ROA is not statistically significant.

8.Conclusion:

This paper examines the relationship between board size and independent directors with performance in Shahjalal Islami Bank. The study contributes to the existing literature from different perspectives. As our knowledge goes, it is the first research in Shahjalal Islami Bank where governance issues have been checked in understanding performance variables. The study covers the most recent period, the year 2006- 2010.

In, univariate' analysis we have found that there is a correlation between the board size and the performance measures of ROE and ROA. That indicates that the higher the board-size influence the behavior of investors positively. We didn't find any significant correlation between ROE and ROA with board independence (RID). This result suggests that larger boards are more effective in decision-making and managing managers from the view point of investors, but we could not suggest any relation in terms of ROE and ROA.

In testing hypothesis 2: we again have found that inclusion of independent directors does not affect the performance of the banks in terms of ROE and ROA. The indication of the study is quite important for the potential investors in bank. Although the existence of independent directors does not affect the ROA and ROE, the investors prefer to have independent directors on the board, which possibly increases their confidence regarding the board decisions. These findings explain that Shahjalal Islami bank may enhance performance by increasing board size, up to the limit defined by the regulatory authorities. At the same time increase in ratio of independent directors in the board does not necessarily show a positive result for the banking performance in terms of ROE and ROA. These findings suggest that other banks may enhance performance by incresing their board size and including more independent directors. Finally, the study implies that bank shareholders, creditors, depositors and regulators might benefit from policies that increase bank board size . Shahjalal Islami Bank follow the corporate Governance structure and its increase their performance and every bank in our country need to follow Corporate Governance rules because it gives guidelines which are designed assures rhe stakeholders that the business of the Bank are built on, and grow from the firmest foundation. The study indicates a way for further research on the impact of independent directors on the governance and performance of banking firms generally.

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Appendix:

Shahjalal Islami Bank
LIMITED
Commited to Cordial Service

Organizational Overview:

Brief History

Shahjalal Islami Bank Limited is based on Islami Shariah. SJIBL is named after the name of a saint Hajrat Shahjalal ® who dedicated his life for the cause of preaching Islam in the east-north part of the subcontinent. It was incorporated as a public limited company on 1st April 2001 under companies' act 1994. It started its banking operation on may 10, with the 1st branch opened at 58, Dilkusha C/A, Dhaka, obtaining the license of Bangladesh Bank, for upliftment of financial condition of its customers as well as to contribute to sustainable economic growth and development in trade and industry of the country. Its corporate head quarter is situated at 10, Dilkusha, C/A, Jiban Bima Bhaban, Dhaka -1000, and Bangladesh. Now it has 73 branches in Bangladesh. The sponsors of SJIBL are leading business personalities and renowned industrialists of the country. The bank are being managed by a group of highly experienced professionals with diversified experience in finance and banking. The bank has already achieved tremendous progress in from 2001-2011. The bank has already ranked as one of the quality service providers and is known for its reputation.

Vision :

To be the unique modern Islami Bank in Bangladesh and to make significant contribution to the national economy and enhance customers' trust & wealth, quality investment, employees' value and rapid growth in shareholders' equity.

Mission :

- To provide quality services to customers.
- To set high standards of integrity.
- To make quality investment.
- To ensure sustainable growth in business.
- To ensure maximization of Shareholders' wealth.
- To extend our customers innovative services acquiring state-of-the-art technology blended with

Islamic principles.

- To ensure human resource development to meet the challenges of the time.

Strategies :

- To strive for customers best satisfaction & earn their confidence.
- To manage & operate the Bank in the most effective manner.
- To identify customers needs & monitor their perception towards meeting those requirements.
- To review & updates policies, procedures & practices to enhance the ability to extend better services to the customers.
- To train & develop all employees & provide them adequate resources so that the customers needs are reasonably addressed.
- To promote organizational efficiency by communicating company plans, polices & procedures openly to the employees in a timely fashion.
- To cultivate a congenial working environment.
- To diversify portfolio both the retail & wholesale markets.

Motto :

Committed to Cordial Service.

Corporate Information

Name of the Company	**:**	**Shahjalal Islami Bank Limited.**
Legal Form	**:**	A public limited company incorporated in Bangladesh on 1st April 2001 under the companies Act 1994 and listed in Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited.
Commencement of Business	**:**	May 10, 2001.
Head Office	**:**	Uday Sanz, Plot No. SE (A), 2/B Gulshan South Avenue, Gulshan - 1, Dhaka-1212.
Telephone No.	**:**	88-02-8825457, 8828142, 8824736, 8819385, 8818737.
Fax No.	**:**	88-02-8824009
Website	**:**	www.shahjalalbank.com.bd.
SWIFT	**:**	SJBL BD DH
E-mail	:	sblho@shahjalalbank.com.bd
Chairman	**:**	Alhaj Anwer Hossain Khan
Managing Director	**:**	Md. Abdur Rahman Sarker
Auditors	**:**	M/S. Huda Vasi Chowdhury & Co. Chartered Accountants.
Tax Advisor	**:**	M/S K.M Hasan & Co. Chartered Accountants.
Legal Advisor	**:**	Hasan & Associates.
No. of Branches	**:**	73.
No. of ATM Booth	**:**	15.
No. of SME Centers	**:**	06.
Off-Shore banking Unit	**:**	01.
No. of Employees	**:**	1,677.

About Directors:

Name	Age	Education	Experience
Anwer Hossain Khan	49	B. Com(Hon's) M. Com	Member of Governing Body of Prime University. Director of Fareast Finance & Investment Ltd. and Takaful Islamic Insurance Ltd.

Name	Age	Education	Experience
Sajjatuz Jumma	61	**MS** Rajshahi University	Managing Director of Fresco Flour Industries Ltd.; Farina Industries Ltd.; Desh Electronics Ltd. and Milling Engineers Ltd. An icon of production, indenting, electronics and industrial consulting business

Name	Age	Education	Experience
Towhidur Rahman	59	He obtained a Engineering degree.	Director, Takaful Islami Insurance Limited Managing Director at Fresh Food Limited, Sea Fresh Ltd., Euro Trande Ltd., Libas Textile Ltd. and Fresh trading Ltd.

Name	Age	Education	Experience
Al-Haj Tofazzal Hossain	54	Masters in Sociology from Dhaka University	Managing Director of Everbest Textile (Pvt.) Ltd and creditable business experience for more than two decades and first started export-import business.

Name	Age	Education	Experience
Mohammad Solaiman	53	Postgraduate in public administration from Chittagong University. **Master's Degree** University of Chittagong	Managing Director of Paradise Corporation and Paradise Electronics.Chairman of Mercantile Insurance Co.

Name	Age	Education	Experience
Abdul Halim	63	There is no Education data available.	Proprietor of Abdul Halim & Brothers. Mr. Chairman of the Board of Halim Group.Associated with Social Welfare activities.

Name	Age	Education	Experience
Md Abul Kalam Azad	52	Mr. Azad has a Bachelor of Science	Head of Credit Administration, Assistant Vice President and Member of Management Committee, Member of BGMEA and BTMEA.

Name	Age	Education	Experience
Md. Abdul Barek	58	There is no Education data available	proprietor of Rony Electronics, Arzo Electronics, New Rony Electronics and Jony Electronics.

Name	Age	Education	Experience
Mohammed Younus	53	There is no Education data available	Chairman of Younus Group and managing director of Sonali Paper and Board Mills Ltd.

Name	Age	Education	Experience
Md. Sanaullah Shahid	48	Bachelor's Degree.	The Chairman of Electra International Ltd. Alhaj Md.

Name	Age	Education	Experience
Md. Harun Miah	50	He completed Bachelor Degree.	Founder of Kushiara Financial Services Ltd., Kushiara Cash and Carry ltd., Bangla Frozen in UK and serves as its Managing Director.

Name	Age	Education	Experience
Mohammad Farooq B.A	69	There is no Education data available.	Managing Director of Famous group of Companies Ltd. and Famous General Agencies Ltd.the Coordinator of Southeast University and Eden Multicare Hospital Ltd.

Name	Age	Education	Experience
Mohammed Faruque	64	Bachelor Degree in UK. Mr. Faruque also took Diploma in Sales Management and Marketing from Jersey, Britain.	Long and creditable business experience for more than three decades in restaurant business in the UK.

Name	Age	Education	Experience
Mohiuddin Ahmed	Not given	There is no Education data available	Director at Shahjalal Islami Bank Ltd.

Name	Age	Education	Experience
Syed Nurul Arefeen	Not given	**Bachelor's Degree** 1988 University Of Dhaka Mr. Arefeen obtained honours degree in Accounting from University of Dhaka in 1988 and MBA from Dcemed University, Lakhnow, India.	Managing Partner of Solar Autos and Solar Telecommunications and Managing Director of Universal Yarn Dyeing Ltd. President of Bangladesh Dyed Yarn Exporters Association and life member of Tangail Zilla Samity.

Name	Age	Education	Experience
Akkas Uddin Mollah	Not given	There is no Education data available	Director at Shahjalal Islami Bank Ltd.

Name	Age	Education	Experience
Mohammed Hasan	Not given	There is no Education data available	Director and Member of Executive Committee, Shahjalal Islami Bank Limited

Name	Age	Education	Experience
Nazmul Islam Nuru	Not given	There is no Education data available	Director and Member of Executive Committee, Shahjalal Islami Bank Limited

Name	Age	Education	Experience
Abdul Mannan	Not given	There is no Education data available	Director of Shahjalal Islami Bank Ltd.

Name	Age	Education	Experience
Khandoker Sakib Ahmed	Not given	There is no Education data available	Vice Chairman of Shahjalal Islami Bank Ltd. since June 2011 and its serves as its Director.

Name	Age	Education	Experience
Md. Masud	54	There is no Education data available	Proprietor of Carpet House.

Name	Age	Education	Experience
Rukun Uddin Khan	56	There is no Education data available	Chairman of London Grace International School and College. Director of Taj Ten and Trading Company Limited (Momincherra tea Estate).

Corporate Governance:

Corporate governance followed by Shahjalal Islami Bank:

Compliance of Bangladesh Bank's guideline for Corporate Governance(BRPD circular no Dated 24.07.2003

Particulars	**Compliance Status**
01. <u>Responsibilities and authorities of the board of directors:</u> **<u>(a) Work-planning and strategic management:</u>** (i) The board shall determine the objectives and goals and to this end shall chalk out strategies and work-plans on annual basis. It shall specially engage itself in the affairs of making strategies consistent with the determined objectives and goals and in the issues relating to structural change and reorganization for enhancement of institutional efficiency and other relevant policy matters. It shall analyze/monitor at quarterly rests the development of implementation of the work-plans.	**Complied**
(ii) The board shall have its analytical review incorporated in the Annual Report as regard the success/failure in achieving the business and other targets as set out in its annual work-plan and shall apprise the shareholders of its opinions/recommendations on future plans and strategies. It shall set the Key Performance Indicators (KPIs) for the CEO and other senior executives and have it evaluated at times.	**Complied**
Particulars	**Compliance Status**
(b) Lending and risk management: (i) The policies, strategies, procedures etc. in respect of appraisal of loan/investment proposal, sanction, disbursement, recovery, rescheduling and write-off thereof shall be made with the board's approval under the purview of the existing laws, rules and regulations. The board shall specifically distribute the power of sanction of loan/investment and such distribution should desirably be made among the CEO and his subordinate executives as much as possible. No director, however, shall interfere, directly or indirectly, into the process of loan approval.	**Complied**
(ii) The board shall frame policies for risk management and get them complied with and shall monitor at quarterly rests the compliance thereof.	**Complied**

Particulars	Compliance Status
(c) **Internal control management:** (i) The board shall be vigilant on the internal control system of the bank in order to attain and maintain satisfactory qualitative standard of its loan/investment portfolio. It shall review at quarterly rests the reports submitted by its audit committee regarding compliance of recommendations made in internal and external audit reports and the Bangladesh Bank inspection reports.	**Complied**
(ii) Banks are also advised to set up complaint Cell in their Zonal Offices for prompt settlement of the complaints received.	**Complied**

Particulars	Compliance Status
(d) **Human resources management and development:** (i) Policies relating to recruitment, promotion, transfer, disciplinary and punitive measures, human resources development etc. and service rules shall be framed and approved by the board. The chairman or the directors shall in no way involve themselves or interfere into or influence over any administrative affairs including recruitment, promotion, transfer and disciplinary measures as executed under the set service rules. No member of the board of directors shall be included in the selection committees for recruitment and promotion to different levels. Recruitment and promotion to the immediate two tiers below the CEO shall, however, rest upon Prudential Regulation for Banks: Selected Issues the board. Such recruitment and promotion shall have to be carried out complying with the service rules i.e., policies for recruitment and promotion.	**Complied**
(ii) The board shall focus its special attention to the development of skills of bank's staff in different fields of its business activities including prudent appraisal of loan/investment proposals, and to the adoption of modern electronic and information technologies and the introduction of effective Management Information System (MIS). The board shall get these programs incorporated in its annual work plan.	**Complied**

Particulars	Compliance Status
(e) **Financial management:** (i) The annual budget and the statutory financial statements shall finally be prepared with the approval of the board. It shall at quarterly rests review/monitor the positions in respect of bank's income, expenditure, liquidity, non-performing asset, capital base and adequacy, maintenance of loan loss provision and steps taken for recovery of defaulted loans including legal measures.	**Complied**
(ii) The board shall frame the policies and procedures for bank's purchase and procurement activities and shall accordingly approve the distribution of power for making such expenditures. The maximum possible delegation of such power shall rest on the CEO and his subordinates. The decision on matters relating to infrastructure development and purchase of land, building, vehicles etc. for the purpose of bank's business shall, however, be adopted with the approval of the board.	**Complied**

Particulars	Compliance Status
Formation of supporting committees	**Complied**
Responsibilities of the chairman of the board of directors	**Complied**
Responsibilities of the adviser	**Complied**
Responsibilities and authorities of the CEO	**Complied**
Meeting of Board of Directors etc	**Complied**

So. The Shahjalal Islami Bank has given the priority to the compliance of the rules, regulations and guidelines of Bangladesh Bank, National Board of Revenue & Securities and Exchange Commission. The Bank has complied with all related Accounting Standards adopted by the Institute of Chartered Accountants of Bangladesh.

Business Activities of SJBL:

Shahjalal Islami Bank Limited accepts deposits on the basis of Mudaraba in the following types of accounts, and pays profit, like that of dividend in these accounts, except Alwadia Current Account. The relationship between banker and customer is not debtor-creditor relationship of conventional banks. The depositor is a partner in business with SHAHJALAL ISLAMI BANK LIMITED.

Attractive Deposit and Investment Schemes:

Deposit Schemes	**Investment Schemes**
Al Wadiah Current Deposit	Bai-Muajjal (F.O.) Investment Scheme.
Mudaraba Savings Deposit	Small & Medium Business Investment.
Mudaraba Short Notice Deposit.	Small Business Investment Scheme.
Mudaraba Term Deposit.	Housing Investment.
Mudaraba Schemes Deposit:	Household Durable Investment.
Monthly Income Scheme.	Car Purchase Investment.
Multiple Benefit Scheme.	CNG Conversion Investment.
Millionaire Scheme.	Overseas Employment Investment.
Monthly Deposit Scheme.	Investment Scheme for:
Hajj Scheme.	Doctors.
	Executives.
	Marriage.
	Education.

Investments modes:

To provide interest-free Banking Shahjalal Islami Bank has adopted the following modes of investment

Musharaka (equity participation on the basis of sharing profit and loss)

Mudaraba (sharing of profit and loss in business where one of the partners provides expertise and management and other partner provides capital remaining inactive)

Murabaha (buying and selling of commodities goods etc. with profit)

Bai-Muajjal (credit sale with profit)

Ijara (leasing for rent)

Hire purchase or Shirkatul Melk

Bi-Salam (purchasing of agricultural products while in production and providing advance oney to the producers)

Istisna (purchasing of industrial products while in production and providing advance money to the producers).

Quard.

Computer services:

Shahjalal Islami Bank is computerized and provides the following services some of these services will be introduced soon. Shahjalal Islami Bank Limited introduced a few schemes, which are very popular:

- Online services
- Automated Accounting
- Integrated System
- Any Branch Banking
- ATM Services
- POS Services
- SMS Push Pull Services
- Signature Verification
- Other Delivery Channel Services (to be implemented)
- SME Service

Departments of SJIBL:

All branches of Shahjalal Islami Bank Limited are divided into three departments:

- General Banking Department.
- Foreign Exchange Department.
- Investment Department.

General Banking Department:

General banking department is one of the most important departments of Shahjalal Islami Bank Limited. Basically bank provides the main services to the customer through this department. In general this section of the Shahjalal Islami Bank Limited is divided into five sections.

- Accounts opening section
- Cash section
- Remittance section
- Bills and clearing section
- Accounts section

Foreign Exchange Department:

Banks play a very important role in effecting foreign exchange transaction of a country. Mainly transactions with overseas countries are in respect of imports; exports and foreign remittance come under the purview of foreign exchange department. Banks are the vital sectors by which such transactions are effected /settled. Central Bank records all sorts of foreign exchange transactions. The other banks dealing with foreign exchange are to report to Bangladesh Bank regularly (viz. daily, monthly, quarterly, yearly etc.). The foreign exchange department consists of three sections. They are:

- Import section
- Export section
- Foreign remittance section

Investment Department:

Banking business consists of borrowing and lending. Bank act as an intermediary between surplus and deficit economic units. Thus a banker is a dealer in money and credit. Banks accept deposit from large number of customers and then lend a major portion of the accumulated money to those who wish to borrow. In this process banks secure reasonable return to the savers, make funds available to the borrowers at a cost and earn a profit after covering the cost of funds. Banks, besides their role of intermediation between savers and borrowers and providing an

effective payment mechanism, have been allowed to diversify into many new areas of better paying business activities.

Security against the investment facility:

- Incase of Monthly Deposit Scheme (MDS) and Millionaire Scheme (MS), the deposit account will be marked lien till full and final adjustment of the liability.

- Incase of facility against MBDS/MIS/MPS/MTDR, the deposit account will be pledged till full and final adjustment of the liability.

- Bai-Muajjal Agreement and other charged documents to be executed as per the nature of the investment.

Conclusion:

Shahjalal Islami Bank limited is a leading Private Islami bank in Bangladesh with superior customer bases that are loyal, faithful, worthy towards the bank. The service provided by the young energetic officials of the Shahjalal Islami Bank Limited is very satisfactory. As an Islami bank SJIBL has to follow the rules of Bangladesh bank despite the fact that these rules sometime restrict the foreign business to some extent. During my internship in Foreign exchange branch I have found its Investment department to be very efficient; therefore this department plays a major role in the overall profitability of the branch an to the Bank as a whole.

The Bank's drive towards market leadership as well as quality in choosing business will continue in the coming years although competition is intensified with the opening of more financial institutions. The Bank is optimistic that the volume of business will increase in future through pragmatic and market friendly policies; The Bank shall continue to explore new fields of investment and take steps to open new Branches for Banking. We shall endeavor to adopt customer-oriented policies and introduce new techniques that will help to earn profit and increase greater confidence of the existing/ prospective customers.