

A Comparative Analysis of Profit Rate on Deposit in Islamic Banks in Bangladesh

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***Abstract:** The study is based on a total number of seven full-fledged listed Islamic Banks operating in Bangladesh. Secondary sources of data are used in this research. Data were collected from the Website of Bangladesh Bank and studying relevant literatures. This paper examines whether there is any differences of profit rate on deposits among different Islamic Banks. It also aims at finding whether there is any relationship between inflation and profit rate on deposits. Analyses have been done for two types of deposits accounts called Mudaraba Term Deposits Account and Mudaraba Savings Account. The results of the study reveal that, in case of Term Deposits the highest mean return is 11.06458% as offered by the First Security Islamic Bank Ltd. and the lowest mean return of 8.687500% is offered by Export Import Bank of Bangladesh Ltd. while in case of Mudaraba Savings Deposits the highest mean return of 6.583333% is offered by the First Security Islamic Bank Ltd. and the lowest mean return of 4.330417% is offered by Al Arafah Islami Bank Ltd. during the studied period. One sample t-test has been applied to find whether there is any significant difference in profit rate in different months and the study unfolds that the profit rate differs significantly in all the banks from month to month. The findings of Paired Sample t-test suggests that there is a significant difference in mean return between the Islamic banks in both of the Mudaraba Term Deposits and Mudaraba Savings Accounts in all the cases except for two pairs as the return on savings deposit does not significantly differ between Al Arafah Islami Bank Ltd. and Social Islami Bank Limited while it does not*

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differ significantly between Social Islami Bank Limited and Islami Bank Bangladesh Ltd. in case of Mudaraba Term Deposits. Finally, the relationship between inflation and rate of profit is found insignificant in case of Mudaraba Saving Deposits while significant relationship has been discovered between Mudaraba Term Deposits and rate of inflation.

Keyword: *Islamic Banks, Profit Rate on Deposits, Inflation.*

1. Introduction

Islamic banking is getting popularity in a good pace. According to Islamic Financial Services Board (IFSB), the industry is growing at the rate of 15% every year. Though Islamic banks are operating under a distinct system of banking based on Islamic Shariah, such banks operating in Islamic countries are faced with strong competition not only from Islamic banks but also from non-Islamic rivals¹. Thus, Islamic banks need to perform well in order to deliver better return in compensating depositors' money. Moreover, the depositors need to have a clear idea about the rate of profit that different Islamic banks are providing to their customers.

Rate of return on deposits in Islamic bank can be defined as how much money will be received by depositor from their deposit in Islamic bank for one year. The rate is usually conventional bank's interest rate but the difference is that in conventional banking the rate is predetermined while in Islamic banking it is determined at the end of year on the basis of profit sharing ratio. Thus the rate of return on deposit in Islamic banks differ from the interest rate on deposit in traditional bank in the system of receiving, utilizing and calculating return on deposits. Islamic banks have three kinds of deposit accounts: current, savings and investment. Current or demand deposit accounts are almost the same as in all conventional banks. Savings and Fixed deposit accounts function in different ways². Each of the different types of deposits available at the Islamic banks carries a different rate of return or yield to the depositors. In general, the longer the maturity of a deposit, the greater the yield to the depositor because of time value of money and the frequent upward slope of the yield curve. Similarly, saving deposits are designed to attract funds from customers who wish to set aside money in anticipation of future expenditures or financial emergencies. Bankers have learned that deposit pricing can be used to shape the kind of customers' base each bank can best serve. Changing deposit prices affect not only spread between bank

investment rates and deposit yield rates but also customers balances and deposit mix decision, which in turn, influence both bank growth and profit margin³. Thus, to attract customers to deposit their money to a particular bank, it needs to be very conscious of the rate of return on such deposits. Hence the bankers must have a very clear idea about how competitive they are in providing profit for collecting deposits from their clients.

Keeping these in mind an attempt has been made in this paper to measure the performance of profit rate on two different types of deposits (Mudaraba Saving Deposits and Mudaraba Term Deposits), which are thought to be very popular among different Islamic banks, in different months over the years.

2. Objectives of the Study

The main objective of this study is to measure the performance of the Islamic Banks in Bangladesh in relation to profit rate on deposit. Specifically this study will look

1. To measure the performances of different Islamic Banks in Bangladesh in relation to profit rate on deposit.
2. To find whether there is any significant difference among different Islamic banks in relation to profit rate on deposit.
3. To find whether there is any relationship between profit rate on deposits and inflation rate.

3. Development of Hypotheses

It is demonstrated that with the exception of fixed and investment deposits, any increase in rates of interest, deposits at conventional system will increase and deposits at Islamic system will decrease and vice-versa. One possible explanation for this is that rates of profit for deposits at Islamic system are known at the end of the deposit period and not at the beginning as opposed to the conventional system. Any upward changes in interest rate of conventional system will have an adverse impact to the deposit levels in the Islamic system. Therefore, rates of profit of Islamic system must at any time be higher or similar to those of the conventional system⁴.

Findings of the earlier studies suggest that the rate of interest is one of the important considerations in explaining the customer's or

individual's behaviour in choosing the bank to deposit their money. At present, the analysts and customers instinctively want to compare the performance and the pricing between the Islamic and conventional banking systems. In a study in Malaysia it was found that the Islamic banks' rate of return on investment significantly differs from month to month as well as from conventional banks and other financial institutions⁵. Thus, it is a matter of interest both for the banks and depositors in Bangladesh to know about the rate of returns on deposits provided by the Islamic banks in Bangladesh over the periods.

In different countries of the world inflation is found to be an important factor related with the deposit rate. In a study conducted in Bangladesh it was found that interest rate of conventional banks is closely related with inflation. It is argued in a study that the relation of inflation and interest rate can be described as the term and controller controlled where interest rate is controller and inflation is controlled. That means inflation is controlled by the interest rate. If the monetary authorities wish to increase or decrease inflation rates generally this could be achieved by raising or lowering bank interest rate. If there is a tendency towards inflation in the economy, bank rate could be raised to reduce borrowing from the banks. This would reduce somewhat the demand of businessman for bank advances and some forms of economic activity which previously were profitable would no longer be so. To some extent, therefore, production would be curtailed and since the reduced bank lending would cause a contraction of bank deposits, the total volume of purchasing power would be reduced and inflation would tend to disappear. This is happened because if interest rate is increase the business man do not want to borrow from the bank as a result the activity of production is decrease and money circulation in the open market will also decrease as a result money value would be increased which refers the decrease in inflation rate⁶.

Thus, on the basis of the above discussions the following testable null hypotheses of the study have been developed.

H₀₁: There is no significant difference in profit rate on deposit in different months.

H₀₂: There is no significant difference in profit rate on deposit among different Islamic Banks.

H₀₃: There is no relation between inflation and profit rate on deposit.

3. Literature Review

"Riba has seventy segments, the least serious being equivalent to a man committing adultery with his own mother", a Tradition of the Prophet Muhammad, narrated by Abu Hurairah⁷. Thus, the foundation of Islamic finance is based on the prohibition of Riba, Islamic Financial principles and laws. Though the literal meaning of Arabic word, Riba is increase, addition of growth, it is usually translated as usury. Usury is defined as an additional or excess return in lending and borrowing or additional in terms of weight or measurement in an exchange or buying and selling transaction. Usury is any fixed percentage of earnings in return for funds deposited⁸. All transactions and contracts must be free from elements of Riba. Those who earn from usury stand only like one who is struck by the devil's touch. This is because they claim that usury is a form of trade. Therefore, the act of giving and taking as well as managing usury or interest is forbidden in Islam⁵.

Hence, Islamic banks avoid riba and take deposits from the depositors and invest their money following different mechanisms like Murabaha, Musharaka, Mudarabah, Bai-Muwajjal, Bai-Salam, etc.. In Islamic banking mechanisms, the Islamic financial relationships between investors and banks are of a participatory in nature⁹. The whole foundation of Islamic Finance is based on a two parties equation (i.e. the fund-providers and the fund-users) who work in agreement as partners, without depositors (fund provider) being assured of any return from those who use their money. In practice, Islamic banks draw approximately three-quarters of the capital from their depositors, and do not guarantee any precise level of return to these fund-providers¹⁰. Among the different mechanism stated above, Trust Financing (Mudaraba) is one of the most popular mechanisms and the study is based on the rate of return of the depositors under this mechanism. Trust financing or "commendam" is the partnership of a financing partner and a managing partner. The financing partner entrusts his capital to the managing partner, who in his turn contributes his knowledge and entrepreneurial skills to the project. The financing partner is not involved in the actual management of the partnership. This makes trust financing as the preferred form of partnership for banks. Profits are shared in a pre-determined ratio, and losses are borne by the financing partner, unless they were caused by the irresponsible behaviour of the managing partner. Partners agree on a pre-determined share of the result. The exact amount of profit they receive may not be fixed, because that would simply be interest in

disguise. In the event of a loss, the financing partner bears the loss, while the managing partner loses his effort and time, and receives a lesser reward than in the case of a profit. Equity financing and investment deposits with Islamic banks are examples of *mudaraba*: in the latter case, the depositors are the financing partners, whereas the Islamic bank is the managing partner. The bank actively invests/finances the deposits. The bank, in its turn, then becomes the financing partner, whereas the client receiving the bank's financing is the managing partner. Thus, a dual trust-financing relationship is the basis of an Islamic bank¹¹.

It is argued that a Islamic bank's main responsibility is towards the shareholders and depositors and not to be burdened with other responsibilities. Social welfare responsibilities should be fulfilled by other bodies such as the government. Without doubt, Islamic banks need to pay *zakat* as part of their 'social contribution' while complying with the Shariah requirements. However, the use of shareholders' funds or depositors' money for other social activities, which are not required by the law, may jeopardize the viability of Islamic banking¹². Considering this factor the Islamic banks leave the payment of *zakat* on the personal responsibility of the depositors.

Depositors in Islamic banks are interested in evaluating the performance of their banks in providing return on their deposits over time because they are not given fixed returns and the nominal values of their deposits are not assured. Hence, analyzing the Islamic banks' performance in this regard is important from economic and public policy perspectives¹³.

Thus, this study attempts to make a comparative analysis on the trend of profit rate on deposits in different Islamic Banks so that the persons who have intention to deposit with Islamic Banks can choose the best performing bank(s) to invest their money in *Mudaraba* Saving Deposit Accounts and *Mudaraba* Term Deposit Accounts.

4 Methodology of the Study

4.1 Sample Selection

The population of the study is the listed Islamic banks in Bangladesh and there are seven full-fledged Islamic Banks. Since, the population is small all the companies in the population have been selected as sample for study. The selected full-fledged Islamic Banks are:

- Islami Bank Bangladesh Ltd. (IBBL)
- Shahjalal Islamic Bank Ltd. (SJIBL)
- ICB Islamic Bank Ltd (Started as Al-Baraka Bank Bangladesh Ltd). (ICBIBL)
- First Security Islami Bank Ltd. (FSIBL)
- Export Import Bank of Bangladesh Ltd. (EXIM)
- Al-Arafah Islami Bank Ltd. (AIBL)
- Social Islami Bank Ltd. (SIBL)

4.2 Method and Period of Data Collection

The study is mainly based on secondary data which are collected from various research books on Islamic Banking and related publications and from the web site of Bangladesh Bank. The data consist of Seven Islamic Banks. Each bank's data consist of monthly average of deposit rate on return of four years period from 2008 to 2011. The data of deposit rate provided by the banks under study are first tabulated on the basis of month (i.e. for 12 months from January to December) and then average of each month's rate of return on deposit has been calculated for the period from 2008 to 2011. Finally, to find whether there is any significant difference in deposit rate from month to month one sample t-test has been conducted (where $n=12$). Again, to investigate the relationship between rate of return on deposit and inflation rate, corresponding average inflation rates of the respective months have been calculated on the basis of data collected from the website of Bangladesh Bank.

4.3 Statistical Tools Used

To measure the performances regarding rate of profit on Mudaraba Savings Deposit and Mudaraba Term Deposit arithmetic mean has been calculate and to test the fitted hypotheses One sample t-test and Paired sample t-test have been conducted. For all of the statistical calculations the computer aided 'SPSS-20' software has been used.

5. Performance Analyses

5.1. Descriptive Statistics

Since one of the main objectives of this study is to measure and compare the performance of profit rate on deposit in different Islamic Banks in Bangladesh, table-1 displays the descriptive statistics for different Islamic Banks from year 2008 to 2011.

Table-1: Descriptive Statistics for Mudaraba Term Deposits from January to December for the years 2008 to 2011.

| Name of Bank | n (Month) | Minimum | Maximum | Mean | Standard Deviation (SD) |
|--------------|-----------|---------|---------|----------|-------------------------|
| IBBL | 12 | 9.1500 | 9.5311 | 9.273242 | .1200015 |
| SJIBL | 12 | 10.2500 | 11.6250 | 10.74150 | .3779649 |
| ICBIBL | 12 | 10.3440 | 10.8125 | 10.52133 | .1359383 |
| FSIBL | 12 | 10.0625 | 11.6500 | 11.06458 | .4920052 |
| EXIM | 12 | 7.2500 | 10.3750 | 8.687500 | 1.1870514 |
| AIBL | 12 | 9.3437 | 11.0625 | 9.733767 | .4332409 |
| SIBL | 12 | 8.5000 | 11.1250 | 9.314583 | .8798055 |

The minimum, maximum and mean return on Mudaraba Term Deposit Accounts of different Islamic Banks from January through December from year 2008 to 2011 can be seen from table-1. It can be observed that minimum, maximum and mean return on term deposit offered by the IBBL are 9.1500%, 9.5311%, and 9.273242% respectively. SJIBL offered 10.2500%, 11.6250% and 10.74150% respectively. ICBIBL offered 10.3440%, and 10.8125%, 10.52133% respectively. FSIBL offered 10.0625%, 11.6500%, and 11.06458% respectively. EXIM offered 7.2500%, 10.3750%, and 8.687500% respectively. AIBL offered 9.3437%, 11.0625%, and 9.733767% respectively. SIBL offered 8.5000%, 11.1250%, and 9.314583% respectively.

The findings indicate that the highest mean return on term deposit of 11.06458% is offered by the First Security Islami Bank Ltd. and the lowest mean return of 8.687500% is offered by Export Import Bank of Bangladesh Ltd. during the studied period.

Table-1(a): Descriptive Statistic for Mudaraba Saving Deposits from January to December for the years 2008 to 2011.

| Name of Bank | n (Month) | Minimum | Maximum | Mean | Standard Deviation (SD) |
|--------------|-----------|---------|---------|----------|-------------------------|
| IBBL | 12 | 5.2125 | 5.4625 | 5.281250 | .0919332 |
| SJIBL | 12 | 4.6250 | 4.7500 | 4.666667 | .0615457 |
| ICBIBL | 12 | 5.2500 | 6.1250 | 5.822917 | .3128786 |
| FSIBL | 12 | 6.2500 | 6.8750 | 6.583333 | .2000237 |
| EXIM | 12 | 4.7500 | 5.7500 | 5.239583 | .3710333 |
| AIBL | 12 | 4.2150 | 4.5000 | 4.330417 | .1256340 |
| SIBL | 12 | 4.1250 | 4.7500 | 4.395833 | .2709062 |

It can be observed from table 1(a) that the minimum, maximum and mean return on mudaraba saving deposit offered by the IBBL are 5.2125%, 5.4625%, and 5.281250% respectively. SJIBL offered 4.6250%, 4.7500% and 4.666667% respectively. ICBIBL offered 5.2500%, 6.1250% and 5.822917% respectively. FSIBL offered 6.2500%, 6.8750 and 6.583333% respectively. EXIM offered 4.7500, 10.3750%, and 8.687500% respectively. AIBL offered 4.2150%, 4.5000, and 4.330417% respectively. SIBL offered 4.1250%, 4.7500%, and 4.395833% respectively.

The findings point out that the highest mean return of 6.583333% on saving deposit is offered by the First Security Islami Bank Ltd. and the lowest mean return of 4.330417% is offered by Al Arafah Islami Bank Ltd. during the studied period.

5.2 One sample t -test

One sample t-test has been applied to see whether there is any significant difference in mean return in different month.

Null Hypothesis:1 (H_{01t}): There is no significant difference in profit rate on term deposit in different months.

Null Hypothesis:2 (H_{01s}) There is no significant difference in profit rate on saving deposit in different months.

Table-2: One sample t-test for Term Deposit

| Name of Bank | t | Degree of Freedom (df) | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
|--------------|---------|------------------------|-----------------|-----------------|---|-----------|
| | | | | | Lower | Upper |
| IBBL | 267.692 | 11 | .000 | 9.2732417 | 9.196996 | 9.349487 |
| SJIBL | 98.447 | 11 | .000 | 10.7415000 | 10.501353 | 10.981647 |
| ICBIBL | 268.114 | 11 | .000 | 10.5213250 | 10.434954 | 10.607696 |
| FSIBL | 77.903 | 11 | .000 | 11.0645833 | 10.751978 | 11.377189 |
| EXIM | 25.352 | 11 | .000 | 8.6875000 | 7.933284 | 9.441716 |
| AIBL | 77.829 | 11 | .000 | 9.73376667 | 9.458499 | 10.009035 |
| SIBL | 36.675 | 11 | .000 | 9.3145833 | 8.755582 | 9.873585 |

From table-2 it has been observed that in cases of all the banks the term deposit rate significantly differ as the p value is significant in all the cases. Thus it can be concluded that there is significant difference in profit rate on term deposit in different months.

Table-2(a): One sample t-test for Saving Deposit

| Name of Bank | t | Degree of Freedom (df) | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
|--------------|---------|------------------------|-----------------|-----------------|---|----------|
| | | | | | Lower | Upper |
| IBBL | 199.001 | 11 | .000 | 5.2812500 | 5.222838 | 5.339662 |
| SJIBL | 262.663 | 11 | .000 | 4.6666667 | 4.627562 | 4.705771 |
| ICBIBL | 64.470 | 11 | .000 | 5.8229167 | 5.624123 | 6.021710 |
| FSIBL | 114.013 | 11 | .000 | 6.5833333 | 6.456244 | 6.710422 |
| EXIM | 48.919 | 11 | .000 | 5.2395833 | 5.003840 | 5.475327 |
| AIBL | 119.402 | 11 | .000 | 4.3304167 | 4.250593 | 4.410241 |
| SIBL | 56.210 | 11 | .000 | 4.3958333 | 4.223708 | 4.567959 |

From table-2(a) it can be observed that in cases of all the banks the savings deposit rate significantly differ as the p value is significant in all the cases. Thus it can be concluded that there is significant difference in profit rate on saving deposit in different month.

5.2 Paired Sample t-test

Paired sample t-test has been applied to see whether the rate of return on deposit significantly differs between pairs of different banks.

Null Hypotheses (H_{02t}) There is no significant difference in profit rate on term deposit in different pairs of banks.

Null Hypotheses (H_{02s}) There is no significant difference in profit rate on saving deposit in different pairs of banks.

Table - 3.1: Paired Sample t-test for Islami Bank Bangladesh Ltd. & Shahjalal Islami Bank Ltd. for Year 2008 – 2011.

| | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|------------|--------------------|----------------|-----------------|---|------------|---------|----|-----------------|
| | Men | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| IBBL-SJIBL | 1.4682583 | .3588648 | .1035953 | -1.6962701 | -1.2402465 | -14.173 | 11 | .000 |
| SJIBL | .6145833 | .1026403 | .0296297 | .5493688 | .6797979 | 20.742 | 11 | .000 |

H_{02t} : **IBBL-SJIBL:** From table 3.1 it can be concluded that the Null Hypotheses (H_{02t1}) is rejected as the p value is .000. Thus, there is significant difference in profit rate on term deposit between IBBL and SJIBL.

H_{0st} : **IBBL-SJIBL:** From table 3.1 it can be concluded that the Null Hypothesis (H_{02ts}) is rejected as the p value is .000. Thus, there is significant difference in profit rate on saving deposit between IBBL and SJIBL.

Table - 3.2: Paired Sample t-test for Shahjalal Islami Bank Ltd. & ICB Islamic Bank Ltd. for Year 2008 - 2011.

| | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|-------------|--------------------|----------------|-----------------|---|-----------|---------|----|-----------------|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| SJIBL-ICBBL | .2201750 | .2892110 | 0.834880 | .0364191 | .4039309 | 2.637 | 11 | .003 |
| ICBBL | -1.1562500 | .3158907 | .0911898 | -1.3569574 | -.9555426 | -12.680 | 11 | .000 |

H_{02t} : **SJIBL-ICBIBL:** From table 3.2 it can be concluded that the Null Hypothesis (H_{02t2}) is rejected as the p value is .003. Thus, there is significant difference in profit rate on term deposit between SJIBL and ICBIBL.

H_{02s} : **SJIBL-ICBIBL:** From table 3.2 it can be concluded that the Null Hypothesis (H_{02ts}) is rejected as the p value is .000. Thus, there is significant difference in profit rate on saving deposit between SJIBL and ICBIBL.

Table - 3.3: Paired Sample t-test for ICB Islamic Bank Ltd. & First Security Islami Bank Ltd. for Year 2008 - 2011.

| | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|--------|--------------------|----------------|-----------------|---|-----------|--------|----|-----------------|
| | Men | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| ICBBL- | 5.4325933 | .4479028 | .1292984 | .8278422 | -.2586745 | -4.202 | 11 | .001 |
| FSIBL | -.7604167 | .3207251 | .0925854 | -.9641957 | -.5566377 | -8.213 | 11 | .000 |

H_{0213} **ICBBL-FSIBL:** From table 3.3 it can be concluded that the Null Hypothesis (H_{0213}) is rejected as the p value is .001. Thus, there is significant difference in profit rate on term deposit between ICBIBL and FSIBL.

H_{0283} **ICBBL-FSIBL:** From table 3.3 it can be concluded that the Null Hypothesis (H_{0283}) is rejected as the p value is .000. Thus, there is significant difference in profit rate on saving deposit between ICBIBL and FSIBL.

Table - 3.4: Paired Sample t-test for First Security Islamic Bank Ltd. & Export-Import Bank Ltd. for Year 2008 - 2011.

| | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|-------|--------------------|----------------|-----------------|---|-----------|--------|----|-----------------|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| FSIBL | 2.3770833 | 1.4311454 | .4131361 | 1.4677769 | 3.2863897 | 5.754 | 11 | .000 |
| -EXIM | 1.3437500 | .4293064 | .1239301 | 1.0709817 | 1.6165183 | 10.843 | 11 | .000 |

H_{0214} **FSIBL-EXIM:** From table 3.4 it can be concluded that the Null Hypothesis (H_{0214}) is rejected as the p value is .000. Thus, there is significant difference in profit rate on term deposit between FSIBL and EXIM.

H_{0284} **FSIBL-EXIM:** From table 3.4 it can be concluded that the Null Hypothesis (H_{0284}) is rejected as the p value is .000. Thus, there is significant difference in profit rate on saving deposit between FSIBL and EXIM.

Table - 3.5: Paired Sample t-test for Export-Import Bank Bd. Ltd. & Al-Arafah Islami Bank Ltd. for Year 2008 - 2011

| | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|-----------|--------------------|----------------|-----------------|---|-----------|--------|----|-----------------|
| | Men | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| EXIM-AIBL | 1.0462667 | 1.0847706 | .3131463 | -1.7354970 | -.3570363 | -3.341 | 11 | .003 |
| | .9091667 | .3246105 | .0937070 | .7029190 | 1.1154143 | 9.702 | 11 | .000 |

H_{0215} **EXIM-AIBL:** From table 3.5 it can be concluded that the Null Hypothesis (H_{0215}) is rejected as the p value is .003. Thus, there is significant difference in profit rate on term deposit between EXIM and AIBL.

H_{02s5} **EXIM-AIBL:** From table 3.5 it can be concluded that the Null Hypothesis (H_{02s5}) is rejected as the p value is .000. Thus, there is significant difference in profit rate on saving deposit between EXIM and AIBL.

Table - 3.6: Paired Sample t-test for Al-Arafah Islami Bank Ltd. & Social Islami Bank Ltd. for Year 2008 - 2011.

| | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|-----------|--------------------|----------------|-----------------|---|----------|--------|----|-----------------|
| | Men | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| AIBL-SIBL | .4191833 | .7807236 | .2253755 | -.0768648 | .9152315 | 1.860 | 11 | .002 |
| | -.0654167 | .1544412 | .0445833 | -.1635439 | .0327106 | -1.467 | 11 | .170 |

H_{0216} **AIBL-SIBL:** From table 3.6 it can be concluded that the Null Hypothesis (H_{0216}) is rejected as the p value is .002. Thus, there is significant difference in profit rate on term deposit between AIBL and SIBL.

H_{0216} **AIBL-SIBL:** From table 3.6 it can be concluded that the Null Hypothesis (H_{02s6}) is supported as the p value is .170. Thus, there is no significant difference in profit rate on saving deposit between AIBL and SIBL.

Table - 3.7: Paired Sample t-test for Social Islami Bank Ltd. & Islami Bank Bangladesh Ltd. for Year 2008 - 2011.

| | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|-----------|--------------------|----------------|-----------------|---|-----------|--------|----|-----------------|
| | Men | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| SIBL-IBBL | .0413417 | .8451551 | .2439753 | -.4956443 | .5783276 | .169 | 11 | .869 |
| | .8854167 | .2681393 | .0774051 | .7150491 | 1.0557842 | 11.439 | 11 | .000 |

H_{02t7} **SIBL-IBBL:** From table 3.7 it can be concluded that the Null Hypothesis (H_{02t7}) is supported as the p value is .869. Thus, there is no significant difference in profit rate on term deposit between SIBL and IBBL.

H_{02s7} **SIBL-IBBL:** From table 3.7 it can be concluded that the Null Hypothesis (H_{02s7}) is rejected as the p value is .000. Thus, there is significant difference in profit rate on saving deposit between SIBL and IBBL.

5.3 Relationship between Profit Rate on Deposit and Inflation Rate

Null Hypothesis: H_{03} : There is no relation between profit rate on deposit and rate of inflation.

Alternative Hypothesis: H_{13} : There is a significant relation between profit rate on deposit and rate of inflation.

Table - 4: Relationship between profit rate on term deposit and inflation rate from year 2008 to 2011.

| | | INFLT | Average T |
|-----------|---------------------|-------|-----------|
| INFLT | Pearson Correlation | 1 | -.686 |
| | Sig. (2-tailed) | | .014 |
| | N | 12 | 12 |
| Average T | Pearson Correlation | -.686 | 1 |
| | Sig. (2-tailed) | .014 | |
| | N | 12 | 12 |

* Correlation significant is tested at the 0.05 level (2-tailed)

Null Hypothesis (H_{03t}) may be rejected at the 5% level of significance as p value is .014 and it can be concluded that there is a significant relationship between inflation rate and profit rate on term deposit.

Table - 5: Relationship between profit rate on saving deposits and inflation from year 2008 to 2011.

Correlations

| | | INFLT | Average S |
|-----------|---------------------|-------|-----------|
| INFLT | Pearson Correlation | 1 | -.360 |
| | Sig. (2-tailed) | | .250 |
| | N | 12 | 12 |
| Average S | Pearson Correlation | -.360 | 1 |
| | Sig. (2-tailed) | .250 | |
| | N | 12 | 12 |

* Correlation significant is tested at the 0.05 level (2-tailed)

Null Hypothesis (H_{03s}) is accepted at the 5% level of significance as p value is .0.250 and it can be concluded that there is no relationship between inflation rate and profit rate on saving deposit.

6. Summary of Findings

The findings of the study can be summarized as follows,

- i. The rate of return on both of mudaraba term deposits and mudaraba saving deposits differ significantly in different months of the year.
- ii. The rate of return on both of mudaraba term deposits and mudaraba saving deposits differ significantly among different pairs of banks except for AIBL and SIBL in case of mudaraba saving deposits and for SIBL and IBBL in case of mudaraba term deposit.
- iii. The highest mean returns for both mudaraba term deposit and mudaraba saving deposits are provided by First Security Islami Bank Ltd. which are 11.06458% and 6.583333% respectively.
- iv. The lowest mean returns on mudaraba term deposit is 8.687500% offered by Export Import Bank of Bangladesh Ltd. while the lowest mean return on Mudaraba savings deposits is provided by Al Arafah Islami Bank Ltd. which is 4.330417%.
- v. No significant relationship has been found between the rate of return on mudaraba saving deposits and the rate of inflation while the rate of return on mudaraba term deposits and the rate of inflation are significantly related.

7. Policy Implications and Recommendations of the Study

- i. Banking organizations may use the findings of the study in determination of profit ratio on deposit for making them more competitive and offering more profit rate on deposit.
- ii. General public is also expected to use the issues enunciated in this article in choosing a bank for depositing their money at a higher profit rate.
- iii. The significant relationship between the rate of mudaraba term deposits and inflation rate, as uncovered in this study, may help Bangladesh Bank in strategic decision making regarding monetary policy formulations.

7. Conclusion

People in Bangladesh are showing their interest in Islamic banking which results in a rapid growth in the number of customers in Islamic banking as well as the number of Islamic banks in the recent years. As deposit of clients is the heart of banking operations, the bankers should take proper care of the money deposited with them and should provide with fair returns. Since the depositors in Islamic banks invest their money on a profit and loss sharing (PLS) basis, undoubtedly, they will look for a bank which ensures safe investment and better earnings. In this study it is revealed that the rate of return on different types of deposits in different months as well as in different banks differs significantly. Thus, this research will provide important information to the investors to choose the bank to invest their money. The bankers who practice Islamic banking will also be benefitted from this paper as they will be able to readjust their profit sharing ratios to become more competitive. Again, the research uncovered the significant relationship between the rate of profit on mudaraba term deposits and the rate of inflation having a good impact on the money market policy formulations.

This paper also provides indications for future research in this field. For instance, researches may be conducted to facilitate the comparison between the rate of return in Islamic banks and the fixed rate of interest on deposits of the traditional banks and non banking financial institutions. An in-depth analysis regarding the rate of return on deposits & inflation rate and its impact on the rate of investment demands attention of researchers who have research interest in this area.

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