

## **Ethical Banking and Islamic Banking: A Comparison of Triodos Bank and Islami Bank Bangladesh Limited**

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### **Abstract**

*Ethical finance and Islamic finance are the two important topics in the post global financial crisis market environment and in the context of sustainable development goals and circular economy. If Islamic finance is inherently ethical finance, then what remains the difference between the two is an interesting theme for investigation. Islamic finance is governed by universal and divine legal and moral principles and standards related to economic transactions. Contemporary Islamic financial practices are however, strongly criticized for giving precedence to legal forms over ethical substance and for the rising gap between moral ideals and practical realities. Ethical finance is a conscious human effort to reform finance and it embraces environmentally, socially and morally conscious practices. In this paper we select two banks, namely Islami Bank Bangladesh Limited (IBBL) and Triodos Bank. We perceive that the first is an ideal Islamic Bank and the second is an ideal Ethical Bank. We undertake an analysis of the content of balance sheet disclosures of the two banks and try to gauge the similarities and divergences in their business principles and practices. The analysis uncovers that the current practices of IBBL may far exceed other Islamic banks in terms of financial inclusion, microfinance, gender balance, SME financing and green banking while still being financially stable and profitable. However, Triodos Bank has some significant lead over IBBL regarding ethical practices since it only promotes sustainable businesses. If Triodos Bank exceeds IBBL in ethical expectations as we conclude, then it is far ahead of other Islamic banks in such comparison. The implication of our conclusion is that Islamic banking*

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*needs ethical reform and this can be benchmarked with Triodos Bank's business model. For Islamic banks the correct approach would be to strike the right balance between ethics, moral standards, Sharī'ah compliance and profitability. The Islamic banking model has in-built features to ensure Sharī'ah compliance, and this can be enhanced through adopting sound ethical practices as well as dedicating efforts towards being environment-friendly. The paper attempted to present some considerations which if present in Islamic banks would take them away from the criticism of being only for-profit in motivation. Triodos has balanced its for-profit and not-for-profit motivations letting the later to lead the first.*

JEL Classification: G20, G21

KAUJIE Classification: L23, I23

Keywords: ethics, Islamic finance, Islami Bank Bangladesh Limited, Triodos Bank

## **1. Introduction**

The finance industry across the world has expanded exponentially in various degrees across different markets and jurisdictions. Some jurisdictions such as the US witnessed the invention of substantial amount of financial products and instruments including highly-sophisticated derivatives instruments over the past decades. Within the finance industry, some new concepts recently gained momentum, among them, Islamic finance and ethical finance. The concept of ethical finance is probably more recent than Islamic finance and it is increasingly gaining popularity especially in the West. According to Belabes (2013), the 2008 financial crisis incited the debate on the issue of ethics in finance and shifted the focus from being exclusively on returns on capital to incorporate ethics in finance. This view is also shared by Hayat and Malik (2014) who observed that the manifestation of the global financial crisis of 2007–2008 led to an increased interest and appeal in the underlying principles of Islamic finance particularly among those who are concerned with the overall influence of finance on society. Kmeid (2015) asserts that ethical finance sprouted as a result of rising demand across different geographies for ethically-oriented banking products and banks found that a switch to ethical products or environmentally-friendly practices was an added advantage. However, Belabes (2013) argues that in finance, ethics is voluntary and not obligatory as it is a matter of the consent of individuals. Ethics and morals, in contrast to laws, are not enforceable by an authority (Ahmed, 2011). This argument transposes to the development of Islamic financial institutions globally, which until today, is purely voluntary and a matter of individuals' choice to adhere to the Sharī'ah principles in finance.

The emergence of ethical questioning and call for ethics in finance in contemporary times is justifiable especially following the devastating domino-effects of the recent financial crisis. Belabes (2013) discusses that when increasing exchanges in financial markets do not tantamount to « better », but rather goes on to become a significant threat for socio-economic stability to such an extent that some financial experts come forward to advocate the prohibition of certain financial practices, the argument of ethics in finance becomes relevant. In fact, one of the arguments presented as to why the Islamic finance industry was not affected by the financial crisis is the fact that Islamic finance is ethical in the sense that it upholds some prudential rules of finance (for e.g., prohibition of *gharar* and gambling) which are not observed in the conventional finance model. So, can we say then that Islamic finance is the equivalent of ethical finance, or vice versa? Wilson (1997) deliberates that although there are many common elements which are ruled out under both the Islamic finance screening criteria and ethical screening criteria for investment products, the set of ethical criteria for Islamic investors may be very much different from the Western concept of “green” or ethical investments since the underlying moral value systems differ. Nienhaus (2011) argues that Sharī‘ah-compliant finance is not per se ethical finance and that most Islamic financial institutions have not reported explicit ethical screening procedures or techniques.

In fact, defining Islamic finance as ethical finance or claiming that being ethical means ‘Islamic’ is erroneous for they are two different concepts in themselves although some underlying principles may overlap in both. Kmeid (2015) argues that fundamental differences between Islamic business practices derived from religious teaching and ethical practices do not exist. But he believes the former is viewed as unique because ultimately they are based on divine revelation whereas the latter is derived from social values that appeal to humans’ consciences to create a moral economic system serving the needs of humanity at large and not only Muslims. In what follows, we will define Islamic finance and ethical finance.

### Islamic Finance versus Ethical Finance

The term Islamic finance is commonly understood as a financial service principally implemented to comply with the tenets of Sharī‘ah or Islamic law (Gait and Worthington, 2007). Islamic financial products are those which comply with the axioms and rulings of the Sharī‘ah and Islamic finance contracts must fulfill two sets of requirements: first, the Sharī‘ah conditions and second, the law of the land conditions. The Sharī‘ah conditions which govern Islamic financial contracts can be classified in two: (1) general principles of contracting (civil aptitude, consent and

legal permissibility); and (2) specific Islamic principles (balance, moral commitment/ethical foundation, Sharī‘ah permissibility and realism) (Kahf, 2015). He defined an Islamic bank as a depository institution of financial intermediation specialized in providing financial services in accordance with the tenets of Sharī‘ah, especially the moral criteria and prohibition of *Ribā* (interest). The financial intermediary function of an Islamic bank is the same as a conventional bank except for adherence to Sharī‘ah principles. Significant differences exist between interest-based banking and Islamic banking as largely discussed by numerous scholars and researches.

Conversely, ethical banking is essentially believed to be a concept which comprises of a banking system that embraces environmentally and socially conscious practices. Wilson (1997) deliberate that ethical investment products is a phenomenon that emerged and developed during the 1970s in response to particular demands for ethical products and ethical finance including finance and investments in environmentally friendly projects as well as companies that go through the moral criteria screening. According to Febea (2012)<sup>1</sup>, the role of an ethical bank is: *to work for the common good and ensure the right to receive credit through a bank activity consisting in raising funds and reallocating them in the form of credits for cultural, social and environmental projects*. In other words, ethical banks seek to positively impact development and growth in an economy or state through their financial intermediary function subject to social and environmental concerns. Ethical banks therefore promote social inclusion, sustainable development, development of social economy and social entrepreneurship and support and invest in the third sector, which is explicitly different from the profit-only motive adopted by most commercial banks.

Similarly, Cowton (1994) defined ethical investment as the use of ethical and social criteria in the selection and management of investment portfolios, and opine that ethical investors are not only concerned with the risks and returns features of their portfolios but also give a lot of importance to the characteristics of the companies in which their funds are placed. Therefore, ethically-conscious customers are very much keen to probe into the nature of companies’ goods and services, the business location and the way in which business affairs are conducted to ensure they do not violate any ethical, moral or social criteria laid down. Cowton (1994) also distinguished between two strategies for ethical investment: positive and negative. Positive ethical screening would imply being supportive of companies and projects which are acceptable in terms of their products, services, activities or business

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<sup>1</sup> FEBEA (the European Federation of Ethical and Alternative Banks and Financiers) issued in 2012 a short booklet on “*What really differentiates ethical banks from traditional banks?*”

methods such as companies involved in pollution control and renewable energy. In contrast, a negative ethical screening entail shunning any investments or financing of companies and projects which engage in unacceptable products or services, or whose activities and business methods are viewed as unethical, for example, gambling, pornography or tobacco or alcohol production and distribution. Negative ethical screening also eliminates military supplies and companies engaged in animal exploitation for cosmetics or fur trade or in factory farming for meat trade (Wilson, 1997).

Belabes (2013) contends that integrating ethics in finance can result to three variants at the input and/or output levels, two of which are:

1. Integrate at the output level some human, social and environmental norms in the functioning of global finance, without affecting the input by prohibiting, for example, usury or stock market speculation that resembles a casino;
2. Integrate at the input level some moral norms such as the prohibition of usury, without affecting the output, i.e. without giving any consideration to criteria which can be human, social, or environmental in nature. For example, two Muslim agents could be using a commercial transaction, via a *Murābaḥah* contract, without bothering if a number of standards, relating to the respect of human rights, social rights and the environment, have been observed at all levels of the chain of production and distribution.

The best approach would be if ethics in finance could be integrated both at the input and output level.

Islamic finance and business is governed by divine principles dating back more than 1400 years ago. It encompasses values such as fairness, equality and morality and the values and ethics rooted in Islamic business makes up its social and moral capital (Kmeid, 2015). In fact, the sources of the Islamic ethical system are the Qur'ān and the Sunnah and thus, the goals of the Islamic system are not essentially materialistic but aim at socio-economic justice and attaining a balance between the material and spiritual needs of humans (Kayode and Ishola, 2012). Kmeid (2015) further contends that, by definition, in an Islamic financial system, concerns about conformity to norms of Islamic ethics prevail over all other concerns and that all transactions must be within the norms of Islamic ethics as established by the Sharī'ah. Therefore, according to Kmeid (2015), the Islamic financial system is, by itself, ethical. Hayat and Malik (2014) also shared the view that Islamic ethics are embedded in Islamic economic thought and finance and that Islamic finance

principles emphasize market-based risk sharing of financing which promotes asset and enterprise, deploy finance linked to the real economy and ease redistribution of wealth and opportunity. However, they deliberate that modern Islamic financial practices promotes legal forms over economic substance which has resulted in an expectations gap between theory and practice.

In general, Islamic banks have replicated the profit-only motive of their conventional counterparts, except for adhering to Sharī'ah principles and Halal requirements. Although the message of Islam as well as any other religion is by definition moral, and Sharī'ah in itself calls for ethics, high morals and regulates behavior, there are different standards of Sharī'ah rulings (obligatory *فريضة*, advisable *مندوب*, permissible *مباح*, undesired *مكروه* and prohibited *محرم*). From this perspective, Islamic banks have a margin of flexibility in the sense that they refrain completely from the prohibited things, but they may involve in permissible or undesired things<sup>2</sup> if they believe that the economic benefits are greater. For instance, if an Islamic bank has to choose between financing construction of a school or mall, and there is nothing *ḥarām* or unlawful in either project, the Islamic bank will most certainly give preference to the financing which generates more profits at the expense of the other although one of them might actually bring more benefits to society. From the same example, it could also be that respect of labour rights or the environment are not being fully observed, which raises questions pertaining to how ethically-committed the Islamic bank is? This point was highlighted by Kamali (2008:47, cited in Ahmed 2011) that *wajib* and *ḥarām* activities have legal force, but the remaining three activities (advisable *مندوب*, permissible *مباح*, undesired *مكروه*) fall in the domain of morals that cannot be adjudicated in courts. Kamali gave the example of the prohibition of usury or gambling in contrast to Islamic teachings that encourages people not to cause injury to women and elderly or animals. The former are legal obligations while the latter reflect 'the moral underpinnings of Sharī'ah' (Kamali 2008: 49, cited in Ahmed 2011).

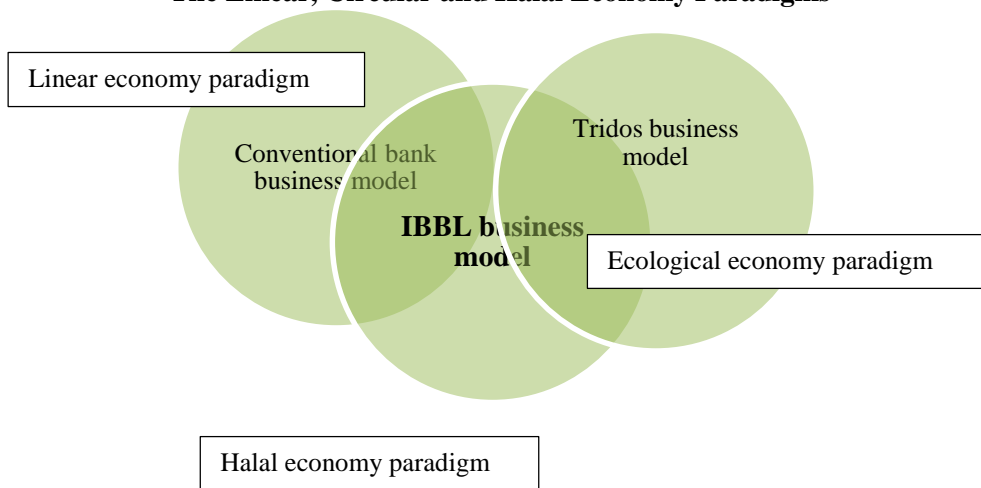
Kayode and Ishola (2012) deliberate that in business, because bank managers are agents working in the interests of the owners/shareholders and not the society's interests, this principal-agent relationship may influence the efficacy of ethical standards and therefore, ethics is sometimes marginalized in favor of profit maximization. They, however, conclude that in business it is better being ethical rather than unethical because qualities and values such as mutual trust, integrity, honesty and transparency are indispensable for business success and sustainability. Islamic banks do follow ethics to the extent of complying with Sharī'ah prohibitions

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<sup>2</sup> Makruh Tanzihih is the undesired things which are nearer to Mubah, and perpetrators of something Makruh Tanzihih are not liable to punishment and do not incur moral blame.

while ethical banks may be more involved in other areas such as environment and social issues. Such areas have usually received little attention from Islamic banks.

**Figure-1**  
**The Linear, Circular and Halal Economy Paradigms**



In terms of business paradigms summarized in Figure-1, the market economy is comprised of three premises – Linear Economy, Circular Economy and Halal Economy. The linear paradigm, the economy thrives on resource extraction, use, waste and extract more, use and waste approach. In this conventional paradigm, the environment is not considered as a resource and is rather considered something which is irrelevant in the market driven business equation. On the other hand, the ecological economy paradigm treats the environment as an essential exhaustible resource in itself. In all the religious scriptures including those Islamic, there are significant condemnation of wasteful living. In the theory of Islamic finance these moral tenets are adhered to. The theoretical Islamic business model, although explicitly neither linear nor ecological, it condemns waste and chastises somewhat moderate living. Keeping the interests of the future generations as a pillar of *Maqāsid al-Sharī‘ah* (policy guideposts), the ecological parameters cannot be separated from moderate living and inter-generational justice. This middle of the way living is under constraint of the moral and ethical values. However, when it comes to financing in the practice, the ethical tenets of avoiding waste are subdued by activity’s being Halal. In other words, the Halal economy paradigm may converge with the linear paradigm at some level and with the ecological paradigm at another level. An example of its convergence with linear paradigm will be buying a new car because

the financing rates have become more attractive, obviously if more is wasted, more will be produced and marketed and more resources extracted at the cost of the environment. The IBBL business model represents this cross-cutting nature into the linear and ecological paradigms. However, the Triodos Bank business model is inherently originated from ecological paradigm. In other words, the not-for-profit motive drives the for-profit-motive in the Triodos Bank model. The for-profit-motive within the range of Halal parameters, is what drives the IBBL business model. That makes the primary difference between the two and fundamental message of our paper.

This paper aims to study the differences and converges between a Ribawi ethical bank and an Islamic bank through a case study of Triodos Bank and Islami Bank Bangladesh Limited (IBBL). The paper contains five sections. Section 2 presents a case study of Islami Bank Bangladesh Limited and highlights some observed practices which are generally not present in other Islamic banks. Section 3 analyses and discusses the banking approach of Triodos Bank. Section 4 consists of recommendations that were reached through a case study of IBBL and Triodos Bank from the perspective of analyzing and exploring the approaches of an Islamic bank versus an ethical bank, and makes some propositions which seek to enhance the Islamic bank model. Lastly, the conclusion section ends this paper.

## **2. Islami Bank Bangladesh Limited (IBBL)**

### **2.1. Company Profile**

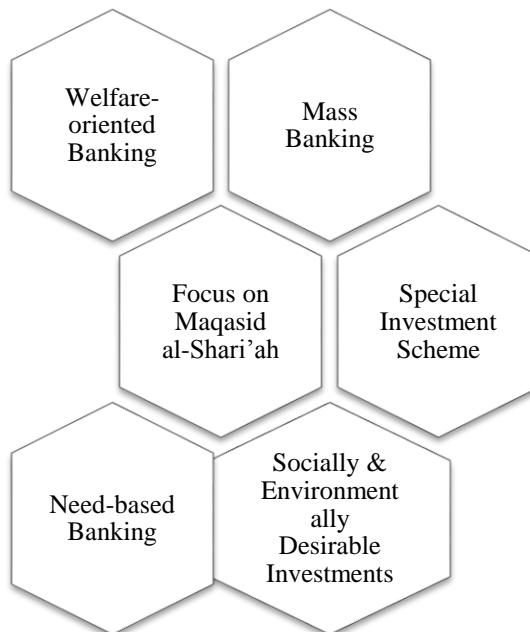
IBBL, the first Sharī'ah based Bank in South & Southeast Asia, was established on 13 March 1983 as a public limited company and started operation informally through inauguration of its first branch on 30 March 1983. A formal inauguration took place on 12 August 1983 when the first branch of the Bank (its local office located at Motijheel, Dhaka) started its full-fledged banking operations. IBBL has pioneered need based, socially-responsive and development-focused banking through operations and services which are unique by mechanism and objectives. Since inception at the early nineteen eighties, the Bank emerged as the provider of a diversified and wide range of deposit, investment and foreign exchange products coupled with techno based banking devices to people of all strata of the society through inclusive, diverse and cordial services. The establishment of IBBL unveiled a new horizon and ushered a new ray of hope towards realizing a long cherished dream of the people of Bangladesh for conducting their banking and investment transactions in accordance with Sharī'ah. Driven by the core values of equitable distribution and justice in financial activities, IBBL prioritizes welfare banking



through diversification of its financing in terms of size, sector and geographical location with emphasis on employment generation for ensuring sustainable development.

As a Bank of the mass people and to deliver its banking services to the maximum number of customers, IBBL has cultivated a vast banking network across the country. As part of its gradual expansion plan to cover important commercial places both in urban and rural areas; the Bank in 2014 successfully opened 8 new branches, increasing the total number of branches to 294 from 286 the previous year. The Corporate Headquarter of the Bank is located in Dhaka. As at 31 December 2014, the Bank's paid up capital was Tk.16,099.99 million, an increase from Tk.80.00 million upon establishment<sup>3</sup>. In its mission to uplift the socio economic conditions in rural areas, IBBL has established the highest number of rural branches among the first generation of private commercial banks.

**Figure-2**  
**Unique Features of IBBL**



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<sup>3</sup> 1 Bangladeshi Taka  $\approx$  0.013 US Dollar (9 Feb 16); equivalent to approx. US \$209.30 million in 2014; US \$1.04 million in 1983.

Out of its 294 Branches, 76.19% (224) are located in urban areas and 23.81% (70) are rural branches according to the criteria set by the Bank for determining urban-rural Branch. IBBL also has three subsidiary companies and offshore units, holds membership in several national (Central Sharī‘ah Board for Islamic Banks in Bangladesh, Central Sharī‘ah Board for Islamic Banks in Bangladesh and others) and international organizations (AAOIFI, IFSB, CIBAFI, IIFM, IIRCA, etc.) as well as equity investments in some companies. IBBL has also received several awards and recognitions worldwide such as ranking among the World’s Top 1,000 Banks list in 2012 by *The Banker* and in 2014, it ranked 970. The Bank also has numerous sponsors, local and foreign, including the Islamic Development Bank, Kuwait Finance House, Islamic Investment and Exchange Corporation (Qatar) and others. Furthermore, IBBL in 2014 obtained the highest rating (“AA+” rating) by the Credit Rating Information and Services Limited (CRISL).

The Bank’s core values, commitments and Code of Conduct and Ethical Principles are unique since they are based on Sharī‘ah and in their Annual Report, the Bank has taken a very Islamic approach to reporting by citing Quranic verses and Prophetic sayings at the beginning as well as citing the Sharī‘ah foundation of ethics (Accountability to Almighty Allah, integrity, principle of vicegerency on the earth, sincerity, piety, righteousness and making one’s work perfect, God-fearing conduct in all activities). Although all Islamic banks are based on Islamic principles, they have not adopted such an approach in their annual reports. IBBL has also established the rules of ethical conduct on three levels: 1. self-motivated rules influencing job performance<sup>4</sup>; 2. rules of conduct towards shareholders, managers and fellow employees; and 3. rules of conduct towards those who deal with the institution and its related parties.

## 2.2. IBBL’s Unique Approach to Banking

The Bank’s distinctive approach to banking lies not only in the fact that it is an Islamic bank, but also, it aims at making a real difference in the lives of Bangladeshi people. Its mission is to *introduce a welfare oriented banking system* based on Islamic principles as well as work towards financial inclusion particularly in poor rural areas. The Bank has laid down several strategic objectives which it strives to achieve, and the most remarkable ones are:

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<sup>4</sup> The first self-motivated rule stipulated by the Bank is God-fearing state of mind, followed by adherence to the Sharī‘ah and implementing its principles. If these two rules are indeed observed, many ethical dilemmas and issues would be minimized, if not eliminated, at work.

- Excellence in serving the cause of least developed community and area;
- Ensure Corporate Social Responsibilities (CSR) through all activities;
- Promote green banking culture and ecological balance;
- Expand need based Retail, SME and Micro financing;
- Ensure lucrative career path, attractive facilities and excellent working environment; and
- Ensure zero tolerance on negligence in compliance with both Sharī'ah and regulatory guidelines.

The Bank is founded on some essentials which are not usually found in contemporary Islamic banking models:

### 2.2.1 People's Bank

The Chairman of IBBL declares that IBBL belongs to *the* one hundred sixty million people of the country and that it works for people across all strata of the Bangladeshi society irrespective of cast, creed, religion, gender and political standing. The Bank's deposit and investment clients and shareholders include non-Muslims, and a significant proportion of its RDS (Rural Development Scheme) beneficiaries are women and non-Muslims. The MD (Managing Director) declared that 2015 is the 2nd year of the decade of '*Achieving Maqāṣid* al-Sharī'ah, and the aim is to be the 'Bank for all' and make IBBL as the 'Bank of choice' for all families in the country by fulfilling their entire needs.

### 2.2.2 Dedication to Build a Better 'Bangladesh'

IBBL is dedicated to bring its contribution to the country and its nation through socio-economic and human development. In this regards, IBBL fulfills its responsibilities and obligations towards the country namely: paying corporate taxes on time and remitting Excise duty, tax and VAT to government Exchequer. IBBL is the largest corporate taxpayer in the country's banking sector, and in 2014, it contributed Tk.11,465 (US \$149.05) million to the National Exchequer. Such significant contributions certainly make a difference if appropriately distributed.

IBBL is also committed to realize the objectives of Sharī'ah in the aspect of human capital development, and as a result, it recruits the best talent and grooms them into future leaders in the Islamic banking industry through diverse talent development programs.

IBBL has created a vast network across the country, with 450 of its own ATM machines, and more than 4000 shared ATM booths. It has introduced some high-tech banking devices including On-line banking, i-Banking, SMS Banking, phone banking to cater for its clientele. The Bank introduced ATM/Visa Debit Card, Khidmah Credit Card, Hajj Card, Travel Card, Remittance Card, E-commerce (Payment Gateway), IDM (Islami Bank Deposit Machine) to deliver quick and flawless banking services to its large customer base. The Bank's mobile banking service -m Cash- is increasing in popularity day by day and comprises of 154 corporate agents, 32,000 dedicated retail agents and more than 45000 non dedicated retail agents. Therefore, IBBL is contributing to uplift the living standard in the country.

### 2.2.3 Bank for Humanity and Financial Inclusion

IBBL has founded community-based programs in an attempt to fulfill its mission of implementing Islamic banking for the benefit of humanity in Bangladesh. IBBL has a department for serving social causes (RDS) and social work is deeply rooted in the Bank since its inception. IBBL tried to bring its contribution to the society through CSR activities particularly geared towards education, disaster management, poverty alleviation, health care and creating an environment-friendly society. IBBL also devised some welfare and inclusivity oriented products such as Savings Account for farmers, students, and for different purposes (*Mahr*, *Cash Waqf*, Hajj) to economically empower the lower class of the society. IBBL is on the point of reaching 'Bank of Crore Clients', and has taken various measures and initiatives to reach out to the unbanked population and poorest segments in remote areas.

### 2.2.4 Corporate Governance, Transparency and Ethics

IBBL is highly committed to the standards of integrity, ethics and compliance. Although all banks, whether Islamic or conventional, are concerned with corporate governance and transparency, IBBL emphasizes a lot on Sharī'ah principles to ensure realization of *Maqāṣid al-Sharī'ah* and transparency in all its activities. The Bank believes that upholding the interest of its customers, employees and regulators significantly influence sustainable growth and the country's development. IBBL adopts the Core Values, Commitments and Code of Conduct and Ethical Principles which are approved by the Board of Directors and circulates it to all employees for acknowledgement and meticulous compliance. All employees are expected at all times to maintain high ethical standards and adequate internal control measures to guard against the occurrence of unethical practices and irregularities.

### 2.2.5 Commitment to Sharī'ah

IBBL is highly committed to Sharī'ah principles, and it scrutinizes every transaction. For instance, it stipulates that it does not even finance the import of fertilizers to be used in tobacco production. The Bank is striving to bring doubtful income at zero level, and the Sharī'ah department has been equipped with proficient manpower and appropriate logistics to conduct off-site audits and ensure transparency in Sharī'ah compliance. There has also been an increased awareness regarding Sharī'ah compliance among the workforce and clients throughout the year.

### 2.2.6 IBBL – A Family

IBBL considers its employees as the Bank's most precious asset which plays a vital role in materializing its mission, vision, goals and objectives. A systematic framework has been designed to facilitate the proper development of employees (personal and organizational knowledge, skills and abilities) including succession planning, merit-based hiring, performance appraisal system, promotion, reward & motivation, training and development and grievance management and counseling.

IBBL, as the pioneer of welfare banking in the country, is strongly committed to healthcare, safety and modern working environment for the prosperity and well-being of its employees and has established several employee welfare and fringe benefit schemes. The Bank also implements a human resources accounting system, which helps identify and measure the data about its human resources. It compiles various types of data about its human resources, namely its human resource strength (for e.g., the number of employees in different positions - executive, officer, sub-staff, number of employees per branch for RDS), total workforce by age and gender, employee productivity as well as number of employees who received training programs. As at 2014, 80.2% of IBBL's employees were below 40 years which indicates a young workforce, but out of this, only 3.88% are females (a huge gender disparity). In fact, out of IBBL's total workforce, only 4% is women. However, this figure should be interpreted according to the country's conditions, and since there is high levels of unemployment and poverty, employing more men than women certainly aims to reduce poverty and contribute to strengthening the family unit.

### 2.2.7 Environment-friendly Banking

Green Banking is consistent with the philosophical basis of the Bank. IBBL is committed to environmental protection, social benefit and human welfare. In 2014, it spent Tk.55,368.53 (US \$719.79) million in Green investments, which are

provision of financial services to businesses and projects that help prevent deterioration of the environment and/or are environment-friendly. IBBL reported that it is taking the initiative to migrate to full-fledged Green banking operation by December 2015. IBBL has several projects under the green banking concept, for example, green investment (provision of financial services to businesses and projects that help prevent deterioration of the environment as well as those which are not harmful to the environment), climate risk fund (rehabilitation support, tree plantation movement, investments in disaster prone areas), green training and awareness programs and in-house environmental management.

Since Bangladesh is identified as a southern delta which is under serious threat of natural disaster, IBBL as a responsible corporation, has taken some initiatives in this regard. The Bank has been observing a Plantation Program during the rainy season every year since 2003. Each of the RDS members are given one sapling free of cost and in 2014, 723,672 saplings were implanted at a cost of Tk.20.53 (US \$0.27) million.

IBBL is continuously striving to reduce consumption of energy, eliminate use of hazardous substances from its processes and minimizing waste generation as well as minimizing paper transactions.

#### 2.2.8 Research & Development (R&D) and Islamic Banking Literacy

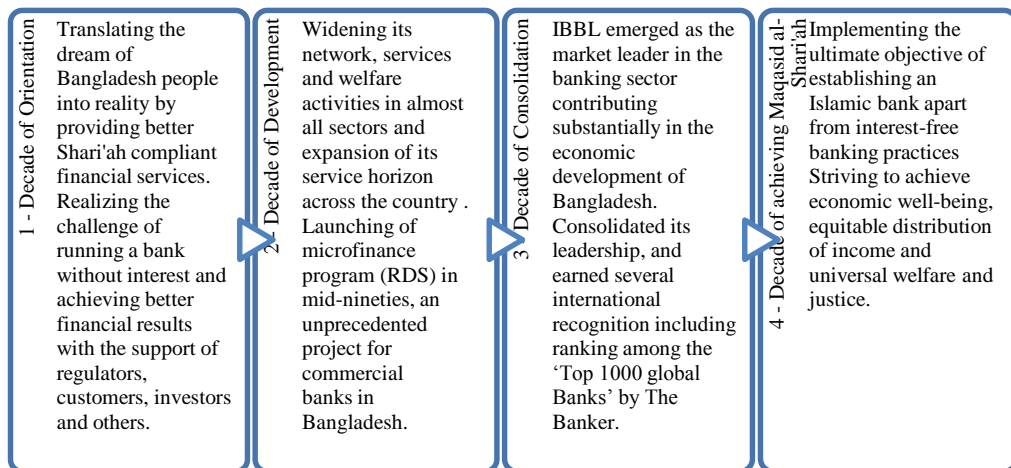
As the 1<sup>st</sup> Sharī'ah based Bank in the region and market leader in banking sector of the country, IBBL felt the need to invest in R&D to have a competent and dynamic human capital. Therefore, in 2011, IBBL started Research and Development activities, strives to bring excellence in Islamic Banking knowledge and devise Sharī'ah compliant innovative products and services which meet the *Maqāsid al-Sharī'ah*.

One of the objectives of IBBL is Islamic banking literacy and the Bank, over the years, has been continuously trying to eliminate misconceptions and present the Islamic banking model. IBBL plays an important role in empowering fellow banks towards promoting Islamic banking and humanizing the banking sector through establishing a welfare-oriented financing culture.

#### 2.3. IBBL's Experiment with Islamic Banking: Between Theory And Practice

IBBL has a rich history of 33 years, which according to its MD, can be classified into four decades of notable achievements, steady growth and performance as illustrated in Figure 3.

**Figure-3**  
**IBBL’s Practice with Islamic Banking over Four Decades**



IBBL’s MD commented on their objective for this fourth decade, and quoted Saleh Kamel, Chairman of General Council for Islamic Banks and Financial institutions (CIBAFI) in the 35th annual conference of the Islamic Development Bank in Azerbaijan in 2012, “... Over the past decades, academic researchers and Islamic banking practitioners and Shari’ah specialists have emphasized more on the modes and mechanism of Islamic Banking. We undoubtedly gained success in pursuing interest-free transactions and Shari’ah-compliant procedures. But the inherent strength of the Islamic Banking and the *Maqāṣid* or the objectivity of this system like justice in wealth distribution, mass welfare and emancipation from economic slavery, were not received due importance in the works of professional Bankers and Shari’ah experts as much as it was needed.”

IBBL’s experiment with Islamic banking and commemorating its three decades of achievements through carefully planned goals and objectives, certainly projects us with an outlook of an ideal theory for the next era of Islamic banking. There is presently a gap between Islamic banking theory and contemporary practice for most Islamic banks.<sup>5</sup> However, in the case of IBBL, we notice that the practice seems to

<sup>5</sup> Elgari (2005) noticed with concern that a closer look at the contemporary reality of Islamic banks reveal that their development did not converge towards the theory developed by its founders nor was it similar to the thought of those Shari’ah scholars, but in fact, the Islamic bank charted for itself a clearly different path. According to him, Islamic banks are increasingly relying on *Tawarruq* including on the

be aligned with the theory, and even more so, since they are now emphasizing on achieving the *Maqāṣid* al-Sharī‘ah for the next decade, starting from 2013.

## 2.4. Operational Structure, Product Diversity and Other Significant Notes

### 2.4.1 Corporate Structure

The Board consists of 15 non-executive members, one-third (5 persons) of which are independent directors excluding the ex-officio MD. What is of noticeable interest in the corporate structure of IBBL is the constituents of its Sharī‘ah Supervisory Committee. Surprisingly, in contrast to other Islamic banks, IBBL has a relatively larger Sharī‘ah Supervisory Committee consisting of 12 members, including the Chairman, Vice Chairman and Secretary, which is excellent from a Sharī‘ah governance perspective.

#### Sharī‘ah Supervisory Committee (SSC)

As per Islamic Banking Guidelines issued by Bangladesh Bank, IBBL formed an independent SSC which gives opinions and guidelines to ensure Sharī‘ah compliance in all activities of the Bank. The Committee conducted Sharī‘ah inspections in 286 branches through *Muraqibs* during 2014 to ensure that the implementation of and/or compliance with Sharī‘ah principles, or detect shortcomings (if any) that occurred in the Bank’s branches. The SSC Report discloses that although all investments and transactions executed by IBBL were in accordance with Sharī‘ah principles, some exceptions were however observed at the implementation level as per the Sharī‘ah inspection report. Therefore, we can say that the SSC is independent in its decision-making and authority.

#### The IBBL Sharī‘ah Supervisory Committee

- Consists of 12 members;
- Is governed by a by-law approved by the Board of Directors;
- Representatives attend different meetings of the Bank, like Board of Directors, Executive Committee, Audit Committee, Risk Management Committee, and Annual Business Development Conferences to give opinions and oversee the activities of the Bank from Sharī‘ah perspective;
- Evaluates performance of the officials in terms of their Sharī‘ah compliance;

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funding side to mobilize deposits which is a visible divergence from the Islamic bank model portrayed by the founders and falsifies the theory of Islamic finance.



- Held 10 (ten) Sharī‘ah Committee meetings in 2014;
- Attended 8 (eight) Seminars organized by the management of the Bank on the eve of inauguration of new branches and 18 (eighteen) Sharī‘ah Awareness programs arranged by the Head Office and different zones.

#### 2.4.2 Products & Services Offered

IBBL has various products and services to mobilize deposits and provide financing.

##### Deposit Products

IBBL successfully mobilized Tk.560,696 (US \$7289) million from 9,587,458 depositors as at 31 December 2014, registering a growth of Tk.87,555 (US \$1138) million (19 %) over the previous year. For the same period, the total number of depositors increased to 9,587,458, a 12% growth over 2013, and historical trends of deposit mobilization show that the Bank doubles its deposit base in every 4 years. The Bank has a wide array of diversified deposit products which currently stands at 24. IBBL uses two Islamic structures: *Wadī‘ah* and *Muḍārabah*. The *Wadī‘ah* structure is used for current accounts, while all savings accounts are based on *Muḍārabah*. In 2014, IBBL’s deposit mix largely comprises of *Muḍārabah* deposits (89.65%, of which *Muḍārabah* savings account single-handedly totals 32.4%) and the remaining 10.35% are cost-free deposits (*Wadī‘ah* current accounts made up 4.69% of IBBL’s deposit mix).

##### *Wadī‘ah* Accounts

IBBL’s current account works under the principle of *Wadī‘ah*. The Bank defines the operation of the *Wadī‘ah* account as follows: *The Bank commits to refund money deposited in these Accounts on the demand of customers. On the other hand, the Bank takes permission from customers that the Bank may utilize their money.* However, this should be rather known as a *qard* since the Bank is utilizing these funds with prior permission of its depositors, and similar to any other current accounts, withdrawals can be entertained at any time, depositors’ capital are guaranteed and they do not earn any profits.

##### *Muḍārabah* Accounts

IBBL invests the *Muḍārabah* funds and distributes a minimum of 65% of investment-income earned through their deployment (as per weightage assigned to

each type of *Muḍārabah* deposit) among the *Muḍārabah* depositors after the closing of the year, implying that the profit-loss sharing ratio is not fixed. In 2014, IBBL paid 71.48% of investment income earned through *Muḍārabah* funds' deployment, and some *Muḍārabah* deposits earned an additional rate over this rate derived as per weightage. *Muḍārabah* depositors share only incomes derived from investments where their funds were used. The Bank pays profits to *Muḍārabah* depositors at provisional rates on half-yearly/yearly basis considering overall projected growth, performance and profitability of the Bank during the year. The final profit rates for any accounting year are declared after finalizing the Sharī'ah inspection report and certifying the investment income of the Bank by the statutory auditors.

### General Investment

The Bank's Total General Investment increased to Tk.463,475 (US \$6025) million in 2014. Its Investment Policy is to invest on profit-loss sharing basis in accordance with the tenets and principles of Sharī'ah. IBBL's motive is not only profits, but its investment policy rather emphasizes on achieving social goals and objectives in creating employment opportunities. The following modes are used for investment: sale-based contracts (*Murābahah*, *Bay' Istijrar*, *Bay'-Mu'ajjal*, *Salam*, *Istiṣnā'* and *Bay'-As-Sarf*), sharing-based contracts (*Muḍārabah* and *Mushārah*) and *Ijārah*-based (Hire Purchase under *Shirkatul Milk*).

### SMEs and Micro-Investment Activities

IBBL has adopted a comprehensive SME Investment Policy, and disbursed Tk.24,981 (US \$324.75) crore<sup>6</sup> to SMEs in 2014 which is 106% of annual target of Tk.23,500 (US \$305.5) crore. SME investment outstanding as at 31 December 2014 is Tk. 20,112 (US \$261.46) crore which is 42% of Bank's total general investment. The Bank holds the highest position in financing SMEs in the country with 15% market share (on the basis of outstanding position). The SME Investment scheme of IBBL singlehandedly created about 800,000 jobs in Bangladesh.

Furthermore, IBBL has 16 Special Investment Schemes targeting different groups of people particularly fulfilling finance needs of under privileged and neglected segments of the population. IBBL also launched a microfinance program for rural areas under the appellation "Rural Development Scheme (RDS)" in 1995 to cater to the investment needs of the agriculture and rural sector and create employment opportunities and increase income of the rural people with a view to alleviate

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<sup>6</sup> A crore is a unit in the Indian numbering system equal to ten million (10,000,000).

poverty, and recently, the “Urban Poor Development Scheme (UPDS)” in May 2012 for extending micro-investment facilities in urban poor areas. The RDS is operated in 221 branches across the country, while UPDS is present in 23 urban branches.

IBBL also promotes non-financial (welfare) programs under several schemes in the areas of Education, Training, Health, Relief & Rehabilitation and Environment.

#### Welfare oriented products

The IBBL offers a set of unique welfare oriented deposit and investment schemes including:

- i. *Muḍārabah* Hajj Savings
- ii. *Muḍārabah* Special Savings (Pension)
- iii. *Muḍārabah* Muhor Savings
- iv. *Muḍārabah Waqf* Cash Deposit
- v. *Muḍārabah* NRB Savings Bond
- vi. Students *Muḍārabah* Savings
- vii. *Muḍārabah* Farmers Savings
- viii. Transport Investment Scheme
- ix. Small Business Investment Scheme
- x. Agricultural Implement Investment Scheme
- xi. Women Entrepreneurs Investment Scheme.

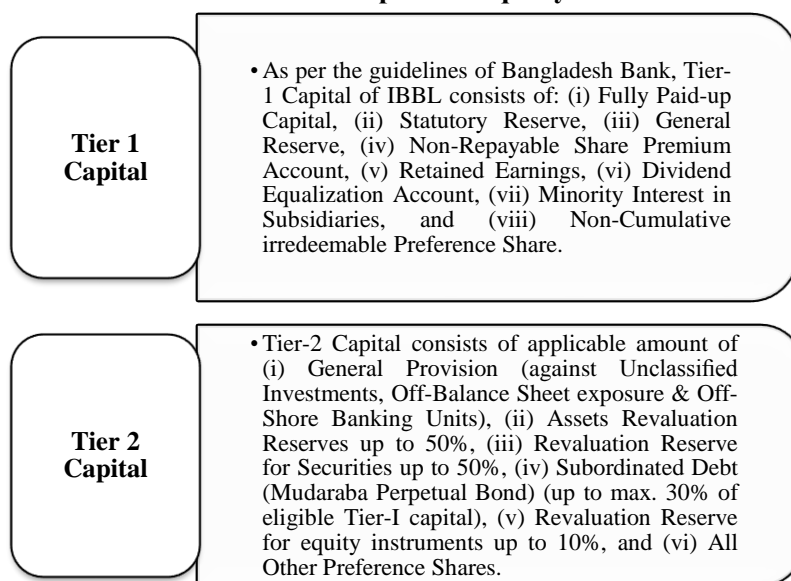
#### 2.4.3 Basel Framework

IBBL follows the guidelines issued by Bangladesh Bank on Risk Based Capital Adequacy (RBCA) for Banks and Supervisory Review Process under Basel II framework. Recently, the Central Bank issued comprehensive guidelines for Basel III with an implementation phase from 2015 to 2019, and IBBL is taking appropriate measures to start implementing the Basel III framework. The Capital Adequacy Ratio in 2014 was 12.83%. IBBL also had a Tier-I capital ratio of 9.25% (which is well above the 6% required by Basel III). Figure 4 illustrates some main information about IBBL’s Capital Adequacy position.

From IBBL’s Basel II Compliance disclosures, we note that *Muḍārabah* Accounts are simply treated as deposits accounts and do not appear in the computation of Tier 1 and Tier 2 Capital. Interestingly, IBBL does not maintain a Profit Equalization Reserve (PER) and an Investment Risk Reserve (IRR), and as a result, the profits paid to depositors dropped dangerously in 2014 for all deposit

products except for the *Mudārabah* Foreign Currency deposits (the profit rate was maintained at 1.66%). For instance, the profit rate paid on *Mudārabah* Savings Account in 2014 decreased to 4.90% from 6.30% in 2013. In contrast, IBBL maintains a dividend equalization account (DEA) for its shareholders which totaled Tk.32 (US \$0.416) million end of 2014. One of the probable reasons might be because the Statutory reserve is a legal requirement<sup>7</sup> and once this is fulfilled, IBBL might consider setting up a PER for its depositors to mitigate withdrawal risk.

**Figure-4**  
**IBBL’s Capital Adequacy Ratios**



RATIOS	31 Dec 2014	Bangladesh Bank Benchmark
Tier 1 CAR	9.25%	5%
Tier 2 CAR	3.58%	-
TOTAL Capital Adequacy Ratio (CAR)	12.83%	10%

#### 2.4.4 Risk Management

IBBL faces the same risks that any normal bank faces. It has formed 6 core risk management committees to effectively manage the 6 core risks and has designed and

<sup>7</sup> As per section 24 of the Bank Company Act, 1991 as amended, at least 20% or more of the net profit before tax is transferred to statutory reserve every year until the balance of the reserve equates with the paid-up capital.

implemented its own Risk Management Guidelines in accordance with the guidelines prescribed by the Central Bank. The major core risk management committees are: Investment Risk Management Committee, Foreign Exchange Risk Management Committee, Information & Communication Technology Risk Management Committee, Money Laundering Risk Management Committee, Internal Control and Compliance Risk Management Committee and Asset Liability Committee. Being an Islamic bank, IBBL is also exposed to some additional risks unique to Islamic banks, and implements certain measures to mitigate them as explained in Figure 5.

**Figure-5**  
**Risk Management of specific Islamic Banking Risks**

Risk	Management
<b>Fiduciary Risk</b>	In the case of mixing of funds ( <i>Muḍārabah</i> Depositors’ funds with the Bank’s own funds), the Bank ensures that the bases for asset, revenue, expenses and profit allocations are established, applied and reported in a manner consistent with the Bank’s fiduciary responsibilities.
<b>Displaced Commercial Risk</b>	The Bank may decide to waive their rights to part or its entire <i>Muḍārib</i> share of profits in order to satisfy and retain its fund providers and dissuade them from withdrawing their funds. IBBL’s Asset liability management committee (ALCO) regularly meets to assess the fiduciary risk, rate of return risk and displaced commercial risk.
<b>Sharī’ah Compliance Risk</b>	IBBL is operating in a mixed economic system. The independent Sharī’ah Board oversees the Bank’s day-to-day transactions and doubtful transactions are declared as suspended.
<b>Liquidity risk for lack of non-structured Islamic financial market</b>	IBBL has limited scope for placement of funds with the desired return from the market in times of surplus liquidity as well as limited scope in receiving Sharī’ah compliant funds at the time of liquidity crisis. However, IBBL remains vigilant – it did not face any liquidity crisis in the past and strives to ensure it remains so.

#### 2.4.5 Social Responsibility

In addition to all its activities, IBBL is committed to social responsibility towards its stakeholders as well as to the communities in which it is established. CSR was an in-built mechanism of IBBL since its inception. IBBL since its establishment started

its charitable activities through creation of '*Ṣadaqah Tahbil*' which was later converted into a full-fledged foundation in 1991. Moreover, IBBL has also established a Corporate Social Affairs Department (CSAD) in 2009 in compliance with the instruction of the Central Bank. IBBL's CSR program seeks to achieve the 3 Ps: People, Planet and Profit. In 2014, IBBL spent around Tk.524.52 (US \$6.82) million as CSR expenditure in various sectors such as disaster management, education, health, sports, and environment, amongst others.

#### 2.4.6 Financial Statement Preparation

The consolidated and separate financial statements of the Bank have been prepared basically as per provisions of the "Guidelines for Islamic Banking" issued by Bangladesh Bank and in accordance with rules applicable in Bangladesh and Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) since it is a member of that organization. However, in case of differences between the Standards, the guidelines and circulars issued by Bangladesh Bank prevail.

#### 2.4.7 Treatment of Unlawful Revenue, Income and Gains

##### - Doubtful Income

Doubtful incomes arising out of shortcomings in compliance with Sharī'ah principles for investments as per the Sharī'ah Supervisory Committee report are included in the Bank's investment income and corporate taxes are paid on it accordingly, whether these amounts are realized or not. However, it is not distributed to depositors or shareholders of the Bank, and the amount net of corporate tax is transferred to an account entitled 'Doubtful Income account'. The realized amounts of doubtful income are then given to charity.

##### - Penalty Fees

IBBL charges fees on overdue payments under the sale-modes, and although the total amount is not included in investment income and kept separately, it is considered for taxes. The net realized amount of these fees and charges are expended for charitable purposes.

##### - Interest Income

Any interest income received from balances held with foreign banks and from foreign currency clearing account with the Central Bank is not credited to income and given to charity net of corporate income taxes.

The previous practice of IBBL was to treat doubtful income on temporary basis and create provisions as per the decision of its Sharī'ah Supervisory Committee and

only realized amounts net of corporate taxes were transferred and utilized for charitable purposes. However, starting from 2014, IBBL will maintain a separate account after payment of corporate income tax for doubtful income whether these incomes have been realized or not. Accordingly, in 2014, the amount of doubtful income net of corporate tax was transferred to ‘Doubtful Income account’ as a charge in profit & loss account under the sub-heading ‘Other Provisions’.

#### 2.4.8 *Zakāh*

IBBL additionally pays Zakat at the rate of 2.58% (instead of 2.50% since its financial statements follows Gregorian Year) on the closing balances of Share Premium, Statutory Reserve, General Reserve and Dividend Equalization Accounts as per guidelines of the Shari‘ah Supervisory Committee and Bangladesh Bank. Zakat is charged in the Profit & Loss Account of the Bank as per “Guidelines for Islamic Banking” issued by Bangladesh Bank. However, there was no disclosure as how this amount was spent. IBBL does not pay *Zakāh* on Paid-up Capital and Deposits because it is the responsibility of the Shareholders and Depositors respectively.

### **3. Triodos Bank**

#### 3.1 Company Profile

Triodos Bank, a European bank, is one of the world’s leading sustainable banks. Founded in the Netherlands in 1980 where its head office is presently, Triodos Bank has opened branches in Belgium, Spain, the United Kingdom and Germany. It uses money to work for positive social, environmental and cultural change by offering a comprehensive range of banking services that includes saving, investing, asset management, private banking, payment services and lending with the support of depositors and investors who want to encourage socially responsible business and a sustainable society. The Bank’s philosophy is built upon the responsibility to help bridge the gap between economic development and the interests of people and the environment which is undertaken in three different ways – by providing sustainable services, developing new and innovative products and engaging in public debate about the benefits and challenges of socially responsible business and sustainable banking. The 1960s and 1970s growing understanding of the need for sustainable economic development, and particularly awareness of the problems faced by ethical businesses dealing with conventional financial institutions motivated a small group of people to establish the Triodos Foundation in 1971 to support innovative projects and companies. In 1968, a study group, consisting of Adriaan Deking Dura (an

economist), Dieter Brüll (a professor in tax law), Lex Bos (a management consultant) and Rudolf Mees (a banker) deliberated on how money can be managed sustainably. When Triodos Foundation was first established in 1971, gifts and loans were used to support innovative projects and companies. Since this proved a viable project, the bank's founders created a fully-fledged sustainable bank. In 1980, Triodos Bank NV is established with EUR 540,000 in start-up share capital and a full banking license from the Dutch Central Bank and started operation in Netherlands. In 1990, the Bank launched the first green fund in Europe, Biogroond Beleggingsfonds followed by the Wind Fund and Green Investment Fund later. The Triodos Sustainable Trade Fund, a fund providing trade finance to certified organic and fair trade producers in developing countries and emerging markets, was launched in 2008. In 2009, Triodos won the Financial Times Sustainable Bank of the Year Award at the International Sustainable Banking Conference in London for its leadership and innovation in integrating sustainability in all its activities.

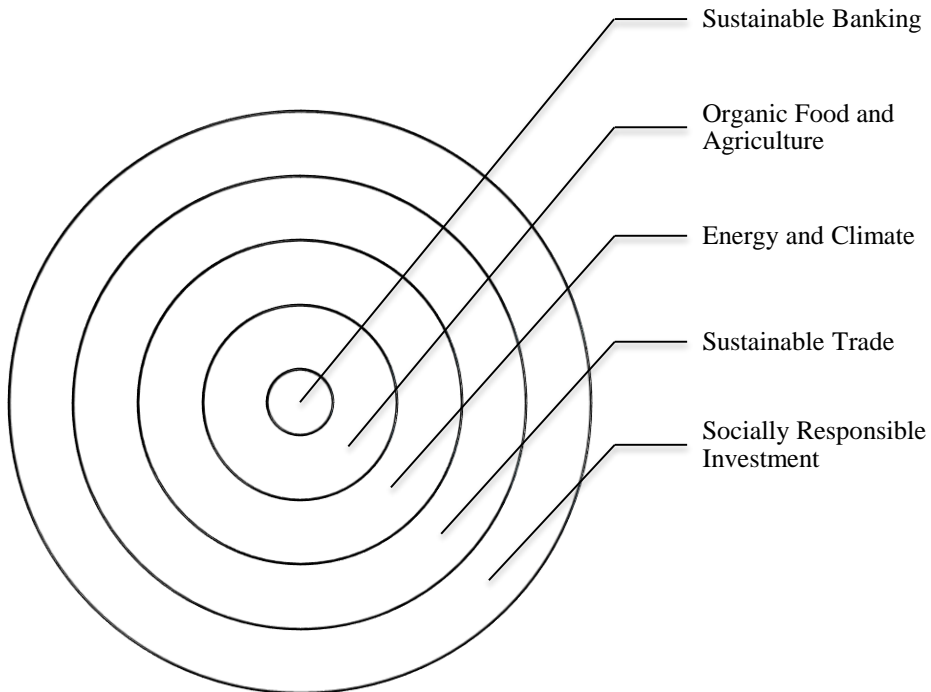
The Bank's founders believe that it is crucial that its mission and identity is protected, and thus, all Triodos Bank shares are held in trust by SAAT (the Foundation for the Administration of Triodos Bank Shares). SAAT then issues depository receipts for Triodos Bank shares to the public and institutions. Depository receipts embody the economic aspects of Triodos Bank shares but its voting rights remain solely with SAAT. The Board of SAAT's voting decisions are guided by Triodos Bank's goals and mission, its business interests, and the interests of the depository receipt holders. Depository receipts are not listed on any stock exchange. Triodos also has an International Remuneration and Nomination policy and practices a remuneration system based on the principle that income is generated by the joint efforts of all co-workers.

### 3.2 Triodos's Unique Approach to Banking

Triodos Bank's ambition is to promote human dignity, environmental conservation and focus on people's quality of life in general. To fulfill its vision, mission and ambition, the Bank has undertaken a responsible approach to business, transparency and using money more consciously through financing projects that benefit both people and the environment, and that are financially sustainable.



**Figure-6**  
**Triodos Bank Business-Lines and Expertise**



### 3.2.1 3P's Approach - People, Planet and Profit and a Reference Point

Triodos Bank is founded on the concept of banking to make a positive impact and the belief that economic activities can and should have a positive impact on society, the environment and culture – a concept the Bank coined as ‘sustainable banking’.

Triodos wants to be viewed as a reference point and be recognized internationally in terms of sustainable banking and development. Therefore, it promotes public debate on issues such as quality of life, corporate social responsibility and sustainable banking. Through hosting and participating in such events, Triodos

creates awareness about itself, and its identity, mission and objective which further strengthens the Triodos Bank brand and reputation.

### 3.2.2 Sustainable Business Model

Triodos claims to have a simple business model, whereby they only lend money collected from savers and investors to entrepreneurs they know well. They claim that they only work in the real economy and don't invest in complex financial instruments, for their own benefit, which brings high returns but which also carry greater risk. For the management of the Bank, such an old-fashioned approach is a blessing in disguise because it enables the Bank to remain solid and stable in times of global financial crisis, and sustain its rapid growth.

The Bank also gives a lot of importance to product innovation, competitive pricing and quality of service to better serve its customers as the latter not only wants sustainable products and services, but also competitive prices and a professional service.

### 3.2.3 Positively 100% Sustainable

The sustainable banking business model of Triodos implies firstly, offering products and services that directly promote sustainability. Although Triodos is ethical in the sense that it does not lend to people and businesses causing harm to other people, society and the environment, it has taken a self-consciously positive approach to finance by lending only to organizations that contribute to a more sustainable society. However, the Bank is built on the belief that money plays a leading role in sustainable banking because using money consciously means investing in a sustainable economy, which in turn helps to create a society that enjoys a better quality of life. The Bank's innovation includes the development of 'ordinary' banking products which meet Triodos Bank criteria, such as 100% biodegradable debit and credit cards and savings accounts and fixed term deposits that allow customers to donate interest, and Point of Sale machines using Forest Stewardship Council (FSC) paper.

### 3.2.4 Total Transparency

The Bank claims that they strongly believe sustainable banking depends on trust, and therefore, they publish details of every single organization which they lend to, thereby enabling their savers and investors to trace the use of their funds. Triodos also publishes all details related to Corporate Governance on its website as well as

minutes of the Triodos Bank Annual General Meeting (AGM) and the Meeting of Depository Receipt Holders of the Foundation for the Administration of Triodos Bank Shares.

### 3.2.5 Lending Process

Triodos believes that money has the potential to create lasting, positive change, and therefore, it has accordingly structured its lending process which is as follows:

- Identify sustainable sectors where the Bank can help projects to innovate and businesses to emerge and develop;
- Select projects which will bring real and meaningful benefits for the wider community - for which creating cultural, social and environmental added value is as important as meeting commercial and financial targets;
- Closely consider the motivations of the people involved in a loan application;
- Ensure each selected project meets absolute criteria which measures the potential negative impact of an organization's activity on people and the environment; and
- Finance clearly defined assets, activities or projects within each organization.

### 3.2.6 Utilization and Deployment of Funds

The Bank scrutinizes every loan application and considers its implications to ensure that it meets its overall objectives. The Bank identifies and finances projects that combine added cultural, social or environmental value with financial credibility within different sectors. It has classified its operations within three main streams: nature and the environment, culture and society, and social business.

The Bank has also devised an absolute criterion for which lending will not be provided. It does not lend to consumers, businesses and projects that are directly involved for more than 5% of its activities in non-sustainable products and services or non-sustainable working processes. Triodos ensures that, to the best of its knowledge, all the following activities are excluded, which it classifies under three headings: non-sustainable products and services (comprising fur industry, gambling, environmentally hazardous substances, pornography, tobacco, weapons and nuclear energy), non-sustainable working processes (including intensive agricultural production without concern for animal welfare and environment, corruption,

financially supporting dictatorial regimes, animal experiment, genetic engineering, etc.) and other non-sustainable products and processes.

**Figure-7**  
**Triodos Lending Sectors' Positive Screening**

<p><b>Nature and the Environment</b></p> <ul style="list-style-type: none"><li>• Finance sustainable environmental businesses and initiatives and refer to certification from respected bodies (such as SKAL, Biogarantie and the Soil Association) to guide decisions about organic food and farming loan applications. Areas considered for lending include:<ul style="list-style-type: none"><li>• Organic farming (for e.g., arable, dairy, meat, poultry, forestry, horticulture)</li><li>• Organic Food (for e.g., shops, butcheries, food processing, restaurants)</li><li>• Renewable energy (for e.g., wind, solar, hydro, biomass)</li><li>• Eco-development (for e.g., shared workplaces, property development, nature development)</li><li>• Environmental technologies (for e.g., recycling, transport).</li></ul></li></ul>
<p><b>Culture and Society</b></p> <ul style="list-style-type: none"><li>• Finance businesses and initiatives that help people to develop and act as free and responsible citizens. Lending applications are considered in:<ul style="list-style-type: none"><li>• Education (for e.g., Schools, Training and conferences centres)</li><li>• Childcare (for e.g., day care centres, kindergartens)</li><li>• Healthcare (for e.g., medical centres, therapeutic farms, care for elderly people, hospices)</li><li>• Art &amp; Culture (for e.g., visual arts, performing arts, cultural centres, film &amp; media)</li><li>• Philosophy of life (for e.g., meditation centres, religious and spiritual groups)</li><li>• Community projects (for e.g., social services, migrant integration, community buildings)</li></ul></li></ul>
<p><b>Social Business</b></p> <ul style="list-style-type: none"><li>• Businesses whose key objectives are to add value to society and, or the environment.</li><li>• The Bank refers to respected fair trade labels recognised by the Financial Labelling Organisation (FLO), an international fair trade organisation, much as it does with its work in the organics sector.<ul style="list-style-type: none"><li>• Retail non-food (for e.g., toys, books, clothing)</li><li>• Manufacturing (for e.g., printers, publishing)</li><li>• Professional Services (for e.g., consultancy, research, building contractors)</li><li>• Recreation (for e.g., parks, camping sites, eco-tourism)</li><li>• Housing (for e.g., housing associations)</li><li>• Fair Trade (for e.g., fair trade shops, wholesale trading)</li><li>• Development cooperation (for e.g., microfinance, certified FLO products, certified organic products).</li></ul></li></ul>

### 3.2.7 Monitoring Use of Funds

Triodos focuses lending to SMEs and charities to maintain close relation with people who run the organization and track use of the funds. The Bank also tries to make loans for specific purposes, such as purchase of assets, to ensure funds are indeed being used for the approved purpose. It may also lend to large companies which may not be primarily involved in generating positive social and environmental added value, but which operate certain crucial activities which are directly connected to sustainable sectors or activities provided they do not contradict the Bank's core mission.

### 3.2.8 Working Culture

Triodos Bank's working culture is open and transparent. The Bank depends on its human power to achieve its mission. Employees are involved in developing the organization's mission, and co-operation is encouraged within and between departments. All employees attend regular weekly meetings and new ones are provided a comprehensive induction into the Bank's way of working. The Bank has a training programme that involves individual and group sessions and includes specialized courses focusing on the development of personal and professional skills.

Triodos also has its own Academy that offers courses and seminars on management development and visionary leadership, as well as co-worker seminars on the values at the heart of the bank. Triodos also confers some distinctive benefits to its employees, for e.g., in the Netherlands, employees can buy two weeks' extra holiday and they can work on part-time basis. It also offers exceptional secondary terms of employment such as attractive allowance for bicycles in the Netherlands, as well as contributing to an employee's moving expenses if he/she wants to live closer to the office.

### 3.2.9 Social and Environment Reporting

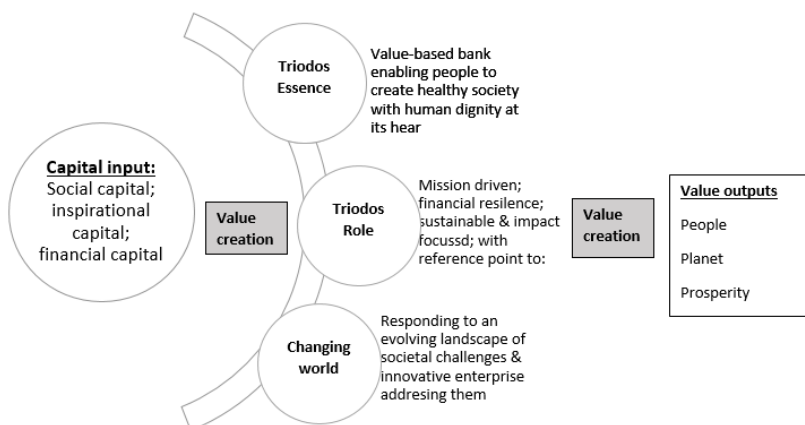
Triodos has a unique approach of disclosing in its Annual report certain social and environmental issues (social such as the number of employees at year end, employees' turnover, women as percentage of management team, ratio between the highest and the lowest salary; environment such as emission of CO<sub>2</sub> and CO<sub>2</sub> compensation). The Annual report 2014 includes a section on Co-worker Report and Environmental Report. In 2014, Triodos Bank employed 541 women (53.2%) and

476 men (46.8%); with women’s share in management positions remaining unchanged at 40%.

### 3.3 Business Model and Corporate Structure

Triodos business model is based on value creation, that is, transforming capital inputs (for e.g., skills and entrepreneurship of the people within the organization and money from customers, via our core products and services) into value outputs (making a positive contribution to the development of a healthy society).

**Figure-8**  
**Triodos Business Model**



Source: Adapted from Triodos Website

Triodos has adopted the following measures to ensure financial viability: (1) *Offer fair (but not inflated) interest rates to savers;* (2) *Aim for reasonable long-term returns for investors both in Triodos Bank and its funds;* (3) *Use deposits to lend to sustainable entrepreneurs working in the real economy;* (4) *Aim at a healthy balance between loans and deposits;* and (5) *Maintain healthy levels of capital, well above regulatory requirements to ensure long-term resilience.*

#### 3.3.1 Supervisory Board

Triodos Bank has a Supervisory Board, whose task consists of monitoring the Bank's business operations and advising and assisting its Executive Board to benefit

its business interests. The Supervisory Board new members are appointed by the Annual General Meeting, based on recommendations from the Supervisory Board.

### 3.3.2 Risk Management

Triodos Bank uses a Three-Lines-of-Defense model of risk management which ensures that each employee is fully aware of their responsibilities in the management of risk, irrespective of whether their role is in a commercial, policy-making or control function. The Bank has a solid and robust risk management policy clearly detailed in its Annual Report.

In its Annual Report 2014, Triodos Bank disclosed that it already complies with the capital and liquidity requirements of Basel III which will be compulsory as from 2019. The Bank's strategy is to be strongly capitalized and it aims for a regulatory solvency ratio of approximately 14%, well above its own internal economic capital requirements. Triodos also gives importance to the quality of capital and almost 100% of its solvency comes from equity. In 2014, the Solvency (BIS ratio) was 19.0% while the Leverage ratio was 8.8%.

### 3.3.3 Corporate Governance

The corporate governance structure of Triodos reflects and protects its mission and meets all relevant legal obligations. It complies with the Dutch Corporate Governance Code, the Dutch Banking Code and the Corporate Governance Code and Banking Code Statement 2014. The Bank closely monitors and continuously reviews its corporate governance performance and reports it in its annual report. The Bank also gives high importance to gender diversity, and the Supervisory Board seats are not held by more than 70% by either gender. During 2014, five Supervisory Board members were male (approx.70%), and two female (approx. 30%).

## **4. What Islamic Banks Can Learn?**

Although Islamic banks are viewed as ethical banks, studying the practice of some Islamic banks and an ethical bank suggest that there are some gaps which make Islamic banks ethical in some perspective, but not in its fullest sense. There are many social and environmental issues which are given the highest consideration in ethical banking, but unfortunately, very few Islamic banks pay attention to these. IBBL is one of the rare Islamic banks (although there might be others) whose banking model incorporates extra ethical banking concepts in terms of environmental and social issues. In what follows, we will first list down the convergences and divergences between IBBL and Triodos (Table 1 and 2) as well as some lessons that Islamic banks can learn from both of these banks (Table 3).

**Table-1**  
**Convergences between IBBL and Triodos**

<b>Convergences</b>
Environmentally-friendly banking / green banking and sustainable practices – 3P’s approach (People, Planet and Profit)
SME Financing
Risk Management
Corporate Governance and Enhanced Transparency
Corporate Social Responsibility
Working Culture
Integrated reporting (financial and risk reporting plus ESG disclosures)
Voluntary internal regulation – (Shariah Board in IBBL, Supervisory Board in Triodos)

**Table-2**  
**Divergences between IBBL and Triodos**

	<b>Divergences</b>	
	<b>IBBL</b>	<b>TRIODOS</b>
<b>Type of Banking</b>	Sharī’ah compliant Need-based, socially-responsive and development-focused banking Welfare-oriented banking: people’s bank, bank for humanity and financial inclusion Core values (Trust in Almighty Allah, Adherence to the spirit of Islamic Sharī’ah) and commitments (Sharī’ah directives) An Islamic approach to reporting (cites Quranic verses and Prophetic sayings as well as the Sharī’ah foundation of ethics - Accountability to Almighty Allah, integrity, principle of vicegerency on the earth, sincerity, piety, righteousness and making one’s work perfect, God-fearing conduct in all activities.)	Interest-based  Sustainable banking  Ethical lending criteria (positive and negative screening) in utilization and deployment of funds and monitoring of funds
<b>Annual Reporting and Financial Statement Preparation</b>	Research and Development and Islamic Banking literacy Basel II (2015 annual report)  Unique IB risks  Treatment of doubtful income and <i>Zakāh</i> Sharī’ah Supervisory Committee	<ul style="list-style-type: none"> <li>• A conventional approach to reporting</li> <li>• Social and Environment reporting</li> </ul> Triodos Academy  Basel III Normal risks –shuns investments in risky and complex financial instruments - Supervisory Board
<b>Others</b>		Higher gender diversity



**Table-3**  
**Lessons to learn from**

IBBL	TRIODOS
Financial Inclusion, Micro- and SME Financing PSIA Accounts: strong framework for proper management and deployment of funds <ul style="list-style-type: none"> <li>• Working Culture and employee welfare (training and development and grievance management and counseling)</li> <li>• Human resources accounting system</li> </ul> Environment-friendly banking: <ul style="list-style-type: none"> <li>• Green investment: provision of financial services to businesses and projects that help prevent deterioration of the environment as well as those which are not harmful to the environment</li> <li>• Climate risk fund: rehabilitation support, tree plantation movement, investments in disaster prone areas, green training and awareness programs</li> <li>• In-house environmental management (green office guide)</li> </ul> Commitment to Sharī'ah and Sharī'ah Governance - SSC fees and expenses disclosed R&D And Islamic Banking Literacy	Sustainable Banking Financing criteria and monitoring use of funds <ul style="list-style-type: none"> <li>• Working Culture</li> <li>• Gender equality and diversity</li> </ul> Integrated Reporting (financial and risk reporting plus voluntary ESG reporting)

The following are some principles and approaches, which if implemented by Islamic banks will positively impact the sector and pave the door to a new theory of Islamic banking.

#### 4.1. Financial Inclusion, Micro- and SME Financing

Few Islamic banks provide microfinancing and even fewer pay attention to financial inclusion of society's lower segments. Instead, Islamic banks have private and exclusive banking departments for the rich and elite class of the society providing high net worth individuals personalized service (in many instances, each client has a Relationship Manager assigned to serve him/her exclusively at all times), flawless and efficient transaction execution combined with a world of privileges and facilities with privacy and confidentiality. Although it is not prohibited for Islamic banks to undertake such transactions, it becomes preoccupying when they completely ignore the financing needs of the middle-class and entrepreneurs and wipe out small savers and the 'unbankable' segment.

We are not trying to portray ideals, and the fact that an Islamic bank remains an institution owned by its shareholders whose objective is to make profits for its shareholders is not overlooked. The Islamic bank, as any individual would do with his/her own money, can make profits and even maximize profits for its shareholders,

but within the boundaries of the Sharī'ah. But, as any other institution in society, the Islamic bank has certain commitments to society, which it can easily undertake at no extra cost. For example, it can easily set up a department for microfinancing, provide deposits products for low savers and channel these deposits together with funds from other sources to financing micro-financing needs. The objective is not to make the Islamic bank a charitable institution – Islam has in place other institutions for that namely, *Qard*, *Zakāh*, *Awqāf*, forbearance and *Sadaqah* – but, to promote financial inclusion. IBBL has implemented RDS in 1995 which caters for the investment needs of the agricultural and rural sector, creates employment and alleviates poverty as well as an Urban Poor Development Scheme (UPDS) in 2012 to extend micro-investment facilities among the urban poor.

Although all countries are different with their own demographic factors, there is still scope for microfinancing and SME financing. Islamic banks should promote financial inclusion, instead of excluding people from financial services based upon income and wealth factors. The decision of providing financing is based on credit risk assessments, and despite some classes are viewed as riskier than others, this should not be a cause of their exclusion from Islamic banking services. Islamic banks can potentially build a robust and successful department for microfinancing and SMEs, and in some instances, *Waqf* and *Zakāh* funds can be used as funding. For instance, cash *waqf* made for the purpose of providing *qard* to the poor or microfinancing can be administered by the Islamic bank as an agent against a fee, and in return, the Islamic bank is also giving back to society.

#### 4.2. Sustainable Banking and Integrated Reporting

Islamic banks can infuse the concepts of sustainable banking as well as environment and society-reporting as practiced by Triodos and IBBL. Although Triodos is more advanced than IBBL in terms of sustainable banking, IBBL has started implementing green banking, which means that other Islamic banks can do it as well. Islamic banks could also at a later stage report on social and environmental issues as done by Triodos. This would be a very positive innovation and customers can actually monitor the bank's impact on the environment and society and choose to bank with the most sustainable one. An interesting discovery is the implementation of an 'In-house Environmental Management' by IBBL and it even has a Green Office Guide which it follows in its day-to-day office operations to minimize and reduce carbon emissions, achieve more efficient use of resources and reduction of waste, save energy and money, and help improve working environment. Islamic banks can adopt such an environment-friendly approach and encourage their employees to observe sustainable practices especially in terms of water and energy management and paper consumption.

Disclosures offered in the annual reports of Islamic financial institutions are evolving through time. Most traditional financial disclosures are supplemented by regulatory requirements like Basel 2 Pillar 3 disclosures about balance sheet and off-balance sheet risks and to certain extent also about governance. Obviously, from historical records we know about the *Maqāṣid*, society's ideals that shall serve as guideposts for policy making, that include sustainability of cultural and religious values, protecting the interests of future generations, human dignity and self-respect, intellectual development and access to wealth and material resources. These elements need to constitute the disclosures of Islamic financial institutions as well as non-banking businesses in an integrated manner instead of merely relying on financial and risk reporting as required by regulators. The global regulatory models are traditionally fit and designed for the linear business model. However, we know that the sustainable development goals (SDGs) try to change the overall approach and integrated reporting may eventually become the norm of practice. At present, integrated reporting is not standardized and is adopted voluntarily by some institutions. In the Islamic finance practices, it is reduced to compliance of form with the Shari'ah. When we look at the IBBL disclosures these are evolving in an integrated manner – the disclosures over and above regulatory requirements is significant and visible. Same is the case of Triodos Bank disclosures which are integrated covering financial and risk aspects but simultaneously, also covering environmental, social and governance (ESG) issues.

Triodos Bank and IBBL both practice somewhat radical transparency. In the Islamic banks' funding sources, we have share-holders' equity, equity of holders of profit sharing investment accounts (PSIAs), equity of *Sukūk* -holders, and the lent money of current account holders. This presents a unique governance challenge, particularly in terms of protecting the PSIA holders' interests as they are the weakest party (not being guaranteed not being managing). The standards of the Islamic Financial Services Board (IFSB), particularly concerning market discipline give significant attention to better disclosures to protect PSIAs. The IBBL has significant PSIAs and offer significant disclosures in this regard. In this regard an important learning opportunity is offered by the disclosures of the Triodos Bank and IBBL.

#### 4.3. Financing Criteria

Triodos Bank has very concise and detailed lending criteria. In a 4-page document available on its website<sup>8</sup>, Triodos clearly details to whom it lends, and to whom it does not. Triodos only lends to organizations that contribute to a more sustainable society. Although this is somewhat restrictive in itself, because it implies that if you

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<sup>8</sup> <https://www.triodos.com/downloads/425586/lending-criteria.pdf>

are not directly involved in a sustainable business you might be excluded (for e.g., if you are not involved in organic food or farming), the lending criteria developed by Triodos is very useful, and can be developed by Islamic banks in an attempt to foster a more systematic approach to financing. The non-compliant areas of financing for Islamic banks include gambling, alcohol (consumption), swine and related products, conventional financial services, entertainment (adult), tobacco, weapons and defense, and any other activity prohibited by Sharī'ah. Triodos goes a step forward by including to the list: fur industry, environmentally hazardous substances, intensive agricultural production, corruption, dictatorial regimes, animal experiment, genetic engineering, breach of legislations, codes of conduct or conventions related to the environment, labour rights amongst others as well as anything which is not viewed as sustainable<sup>9</sup>. As an ethical bank, Triodos also lends money deliberately for specific purposes such as financing assets to ensure monitoring of funds. In this sense, Islamic banks can develop a concise and well-laid out criteria for financing which meets Sharī'ah principles and *Maqāṣid* al-Sharī'ah and avoid providing cash to customers whereby the monitoring of funds is lost<sup>10</sup>.

#### 4.4. PSIA Accounts and Unique Structure of Funds

IBBL's deposit mix largely comprises of *Mudārabah* deposits. Although it faces some unique risk such as fiduciary risk and displaced commercial risk associated with the nature of deposits, IBBL is still highly successful in mobilizing deposits through the *Mudārabah* structure and provides attractive returns to its depositors. In some jurisdictions, PSIA's are not allowed since they pose threats to financial stability. However, since IBBL has successfully been able to mobilize deposits through *Mudārabah* and manage it expertly, other Islamic banks can do the same provided a strong framework is built for proper management and deployment of these funds. For example, although the principal amount is not guaranteed by Islamic banks and the *Rabb al-māl* (in this case, the depositors) bears the loss, if any, in *Mudārabah*, this is not an absolute principle since Islamic banks will be responsible in case of misconduct, negligence or breach of contract on its part. We have now the concept of Protected Capital, which means that the principal amount is not

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<sup>9</sup> From the Sharī'ah perspective, some of these are prohibited, while others are controversial. For e.g., financing the fur industry is opinionated, whereas there is no Sharī'ah issue regarding intensive agricultural production. Genetic engineering is a scientifically controversial issue, and some Sharī'ah scholars have not taken a position until science confirms one. In contrast, it is not permissible for Islamic banks to finance environmentally hazardous substances, animal experiment, breach of legislation, codes of conduct or conventions (particularly violation of fundamental child labour rights, forced labour, etc.) if such facts are proved and established.

<sup>10</sup> In *Tawarruq* transactions, it is difficult to trace and monitor the purpose of funds since cash is provided to customers.

guaranteed, but the principal is invested in financing secured by collaterals which may be liquidated in case of default. Islamic banks also try to invest in low-risk financing to protect both the bank and its depositors, which is true also in the case of IBBL<sup>11</sup>. IBBL, despite being highly successful in microfinancing and SME financing resorted to *Murābahah* instruments and *Ijārah*, instead of *Muḍārabah* and *Mushārahah* due to the inherently high risk elements and several impediments. Therefore, Islamic banks cannot be criticized of not using *Muḍārabah* and *Mushārahah* instruments on the financing side because they are financial intermediaries, acting on behalf of their depositors and shareholders and are bound by Shari'ah principles and the *Wakālah* contract to act in a responsible manner.

The capital structure of Triodos Bank is also innovative as its Depository Receipts constitute significant source of funds. The IBBL is one of the pioneering banks which has significantly innovated by introducing *Muḍārabah Perpetual Bonds* in 2007 as perpetual profit sharing certificates and the instrument was introduced much earlier than the Basel 3 additional tier-1 perpetual bonds. Triodos Bank works for a purpose which is to make responsible business ventures successful. In theory, an Islamic bank too has a purpose as the primary focus of its stakeholders, and in this sense, the owners are not as profit sensitive as the owners of conventional banks. In practice, however, this again goes back to the concerns the paradigms. The Triodos Bank and IBBL are however, newer experiments and perhaps we need more time to determine the longer-term motivations of different types of fund owners.

#### 4.5. Working Culture

The practical experiences of Triodos Bank and IBBL evidence that Islamic banks as well can implement conducive working environment, ensure gender equality in terms of remuneration and opportunities, and work towards overall employee welfare. Any company's greatest asset is its workforce, and Islamic banks first and

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<sup>11</sup> In 1984, the bank made 28.95% of its total investment under the *Mushārahah* mode which was reduced to 3.54% in 1994 (Alam, 2000), and in 2014 amounted to only 0.6%. In fact, Alam commented on IBBL as follows: "as regards the overall investment position of the Islami Bank Bangladesh it may be concluded that, since the beginning of banking activities the bank has not invested any amount in any project on the *Muḍārabah* mode of investment" and confirmed that *Muḍārabah* and *Mushārahah* were only applied on the funding side and not financing side. "While interviewing officers in the investment department it was informed that in order to, make investment under *Mushārahah* mode of investment honest and sincere entrepreneurs are required. They experienced a hard time in many cases while introduced financing under the *Mushārahah* mode. In most cases it was found that although the entrepreneur is an honest person he lacks in sufficient equity capital. The bank has not concentrated much in financing small and cottage industry owners in rural Bangladesh. The bank has not invested yet under the *Muḍārabah* mode of investment while it is one the main mode of investment of Islamic banks. It needs a lot of care and the investment under this mode costs much to administer and supervise the loan."

foremost should be guided by Sharī‘ah morals and values to promote and enhance employee welfare as well as provide a safe and healthy working environment. Islamic banks can devise a systematic framework to facilitate the proper development of employees and implement a human resources accounting system, to easily identify and measure data about its human resources as practiced by IBBL. Islamic banks should set the example, once they are well-established, by providing attractive remuneration packages and benefits to their employees. For instance, in the Netherlands Triodos employees can buy two weeks’ extra holiday and the Bank also contributes to an employee’s moving expenses if he/she wants to live closer to the office. IBBL also confers some distinctive benefits to its employees, such as burial expenses, recreation program, scholarships for education of meritorious wards of employees, cash prizes and certificate of merit to meritorious wards of bank employees, etc.

The IBBL is sensitive to the ideal of gender-balance and it is reflected in several places of their disclosures, which is lesser common among other Islamic banks. However, due to the dominant culture of Bangladesh where women don’t have equal access to educational and professional opportunities, there may not be a sizable woman work force in IBBL. Triodos is a European Bank and in Europe, obviously, there are more opportunities for women to work in banks. We avoid discussing demographic issues with respect to whether the European culture as such can be compared with the culture in Bangladesh. Obviously, cultural differences will affect relative visibility of women in the workforce. What is important is that this by itself shall be part of disclosures and that is what IBBL and Triodos Bank actually share, indeed a good sign with respect to aspirations of SDGs.

#### 4.6. Commitment to Sharī‘ah and Sharī‘ah Governance

IBBL has a rather exceptional Sharī‘ah Board. Most Sharī‘ah Boards consist of 3-5 members including the Secretary. IBBL has a rather large Sharī‘ah Board size which is excellent from a Sharī‘ah governance perspective. The Annual Report also contains appropriate disclosures regarding the SSC fees and expenses as well as rates of fees for attending different meetings. IBBL also ensures that the Sharī‘ah Secretariat has qualified manpower and necessary logistics to undertake off-site Sharī‘ah audits. The SSC Report highlights some remarks and recommendations which suggest its true independence from IBBL’s management and Board of Directors, for e.g., the observations of some shortcomings at the implementation level of investments and transactions executed by IBBL, and that it is necessary to provide more Sharī‘ah training to employees and strengthening of different steps to improve Sharī‘ah Compliance such as motivational programs, administrative

measures and intensive supervision by management. IBBL has a high level of transparency and commitment to Sharī‘ah which all contributes to its good Sharī‘ah governance which other Islamic banks can learn from in an attempt to improve their Sharī‘ah governance structure.

Voluntary internal regulation is another institutional aspect of convergence between the two banks. In Triodos Bank Supervisory Board and in Islamic banks, the Shariah Board ensure voluntary supervision. These voluntarily internal supervisions add a new layer of governance structure to supplement the external regulation based on Basel and IFSB requirements. In Europe, there is a rising trend of the circular economy paradigm, and the regulatory authorities must be growingly supporting integrated reporting like Triodos Bank does. In the SDG implementation process regulators are perhaps going to encourage such an approach, and if pursued, the beneficiaries would also be Islamic banks and their clients.

#### 4.7. R&D and Islamic Banking Literacy

IBBL spends on R&D activities, and Islamic banks can significantly increase their competitiveness in the market if they undertake such activities. R&D activities are vital for product development and devising Sharī‘ah compliant innovative products and services which simultaneously meet market needs.

Islamic banking and financial literacy is also very important, especially in new and emerging markets. Islamic banks should consider embarking on some well-structured ongoing projects in view of promoting Islamic banking and finance awareness to the general public and creating an Islamic financial literacy. An Islamic financially literate population is primordial so that people can make responsible and informed decisions especially in a world of complex financial products as well as to eliminate misconceptions about Islamic finance. Once the Islamic bank is well-established, it can contemplate on launching its own Academy as undertaken by Triodos and offer courses and seminars on Islamic finance to train its own employees and interns on a first instance which can be extended to other audiences later.

### 5. Conclusion

This paper is an attempt to explore the similarities and divergences between an Islamic bank and an ethical bank through an in-depth case study of Islami Bank Bangladesh Limited and Triodos Bank. The analysis uncovered that the current practices of IBBL by far exceeds other Islamic banks in terms of financial inclusion, microfinance, SME financing and green banking while still being financially stable

and profitable. However, Triodos Bank has some upper hand over IBBL regarding some ethical practices since it promotes mainly sustainable businesses. The correct approach would be to strike the right balance between ethics, morals, Sharī'ah compliance and profitability. Belabes (2013) argues that the challenge for religious, ethical and socially responsible finance is not the race against conventional finance by offering more competitive products, but by tackling the issue of human purpose devoid of which finance would be meaningless. It is man who gives value to finance and not vice-versa. As a result, religious, ethical and socially responsible finance should be viewed and dealt with as a resource, an opportunity and a strength instead of a constraint or weakness.

Islamic banks are financial intermediary institutions, not charitable institutions, and yet, they can significantly make a positive contribution in society if they observe Sharī'ah compliance and Islamic ethics and values in fulfilling their objective and mission as well as incorporate social and environmental concerns in their day-to-day business. Kayode and Ishola (2012) opine that Islamic finance is an ethical system based on religious values and its fundamental requirement is that all transactions should be linked to real economic activities. They argue that for Islamic banking and finance to positively contribute towards economic development, the system should be adopted and faithfully implemented in its entirety. The Islamic banking model has in-built features to ensure Sharī'ah compliance, and this can be enhanced through adopting sound ethical practices as well as dedicate efforts towards being environment-friendly. Islamic banks as institutions which follow Sharī'ah principles, although are not altruistic or non-for-profit organizations, can impact the society positively through creating employment, financial inclusion, and contribute to development of the country. Although some believe that ethics and profits are valid business objectives that are complementary, rather than substitutes, there are no empirical evidence to suggest or validate the claim that a trade-off actually exists between the two (Kayode and Ishola, 2012). However, from a macro-perspective, for the long-term stability and healthy growth of the sector, in case of conflicts between ethics and profits, ethical concerns should prevail.

The paper presented some elements which if present in Islamic banks would take them away from the forever criticism of being profit-only-motivated or profit-maximizing organizations. Some of the elements which would be required in an ideal Islamic bank are: promoting financial inclusion, micro- and SME financing, sustainable banking practices and reporting, well-detailed Sharī'ah-compliant and ethical financing criteria, diligent management of PSIA's Accounts, promote an organizational working culture, commitment to Sharī'ah and Sharī'ah Governance, and R&D activities and promoting Islamic banking literacy. IBBL has been very



successful in its unique approach to Islamic banking, but the one-size fits all approach is utopian. All markets are not alike, and therefore, Islamic banks should give due consideration to market conditions and demographic factors before choosing the best approach under specific circumstances.

Moreover, judging whether banking practices are ethical or not necessitates an examination of the effect of transactions on morality and welfare (Ahmed, 2011). These kinds of ethical issues usually crop up when transactions or products are structured to be legally-compliant but have negative impacts on welfare or morality, the simple example of which are products which encourages borrowing through multitudes of attractive privileges and benefits. In the case of the Islamic finance sector too, if Islamic financial institutions give preference to the legality of transactions but which can lead to unethical outcomes, there is the need for a mechanism or authority which will ensure Islamic banking practices remain ethical within the moral teachings of Islam. Kamali (2008) states that although courts looked only into legal issues, the market controller (*muhtasib*) in ancient times had the power to intervene in the market and stop immoral practices. In contemporary times, should Islamic banks and Islamic financial institutions prove to be inefficient in observing Islamic ethics and morals of doing business, regulators can intervene in the market and issue binding laws and/or guidelines promoting ethical behavior for the welfare of the sector and society.

## APPENDIX

### Summary of Key Elements of the Institutions

BANK	IBBL	Triodos
<b>Vision</b>	<ul style="list-style-type: none"> <li>• To establish Islamic Banking through introduction of a welfare oriented banking system and also ensure equity and justice in all economic activities, achieve balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less developed areas of the country; and</li> <li>• To encourage the socio-economic development and financial services to the low-income community particularly in the rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank exists because it believes that people have the freedom to develop themselves, have equal rights and are responsible for the consequences of their economic actions on society and the planet. It only lends to and invests in organisations that contribute to a more sustainable society. Triodos Bank's approach takes account of people, planet and profit to deliver a positive return over the long term. This people-oriented, environmental and financial approach is expressed in the Bank's name itself. Triodos – 'Tri hodos' – translated from Ancient Greek means 'three-way'.</li> </ul>
<b>Mission</b>	<ul style="list-style-type: none"> <li>• To always strive to achieve superior financial performance, be considered a leading Islamic Bank by reputation and performance;</li> <li>• To establish and maintain modern banking techniques, to ensure soundness and development of the financial system based on Islamic Principles and to become a strong and efficient organization with highly motivated professionals, working for the benefit of people, based on accountability, transparency and integrity to ensure stability of the financial systems; and</li> <li>• To encourage savings in the form of direct investment as well as encouraging investment particularly in projects, which are more likely to lead to higher employment.</li> </ul>	<ul style="list-style-type: none"> <li>• To help create a society that promotes people's quality of life and that has human dignity at its core;</li> <li>• To enable individuals, institutions and businesses to use money more consciously in ways that benefit people and the environment, and promote sustainable development;</li> <li>• To offer customers sustainable financial products and high quality service.</li> </ul>
<b>Core Values</b>	<ul style="list-style-type: none"> <li>• Trust in Almighty Allah</li> <li>• Adherence to the spirit of Islamic Shari'ah</li> <li>• Honesty &amp; Integrity</li> <li>• Transparency &amp; Accountability</li> <li>• Welfare Driven</li> <li>• Equity &amp; Justice</li> <li>• Environment Consciousness</li> <li>• Customers Focus</li> <li>• Respect for all</li> <li>• Discipline &amp; Cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Entrepreneurship</li> <li>• Excellence</li> <li>• Sustainability</li> <li>• Transparency</li> </ul>
<b>Commitments</b>	<ul style="list-style-type: none"> <li>• Shari'ah directives</li> <li>• Regulators</li> <li>• Shareholders</li> <li>• Society</li> <li>• Customers</li> <li>• Employees</li> <li>• Environment</li> </ul>	<p><b>Business principles</b></p> <ul style="list-style-type: none"> <li>• Promote sustainable development</li> <li>• Respect and obey the law</li> <li>• Respect human rights</li> <li>• Respect the environment</li> <li>• Be accountable</li> <li>• Continuous improvement</li> </ul>

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