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LIST OF ABBRIVATION

AAOIFI—Accounting and Auditing Organization for Islamic Financial Institution

ABN—Algemene Bank Netherland

AMRO—Amsterdam Rotterdam Bank

ARCIFI—International Arbitration and Reconciliation Center for Islamic Financial Institution

CBD—Commercial Bank Deposit

CBE—Commercial Bank of Ethiopia

CBO—Cooperative Bank of Oromia

DB—Deutsche Bank

FSA—Financial Service Authority

GCC—Gulf Co-operation Council

GCIBAFI—The General Council for Islamic Banks and Financial Institutions

HNWIs—Middle Eastern High Net-Worth Individuals

HSBC—Hong Kong and Shanghai Banking Cooperation

IAH—Investment Account Holder

IDB—Islamic Development Bank

IES—Islamic Economic System

IFB—Interest Free Banking

IFIs—Islamic Financial Institutions
IFSB—Islamic Financial Service Board

IFSF—Islamic Financial Stability Forum

IIFM—International Islamic Financial Market

IIFS—Institution offering Islamic Financial Service

IIRA—International Islamic Rating Agency

IMFEs—Islamic Micro Finance Institutions

LCM—Liquidation Management Center

NBE—National Bank of Ethiopia

NBFIs—Non Bank Financial Institutions

NIB—Nib International Bank

OIB—Oromia International Bank

OIC—Organization for Islamic Cooperation

PLS—Profit and Loss Sharing

SSB—Sharia Supervisory Board

UBS—Union Bank of Switzerland

UB—United Bank

UK—United Kingdom, V/P CATS—Vice president Customer and Accounts

WB—Wegagen Bank

WFS—Western Financial System
Abstract

Islamic banking system is a fairly new player in the Ethiopian financial industry, and thus, is faced with inadequate legal and regulatory environment; banks provide conventional banking service on IFB window, problem of providing dedicated window and banks use IFB related services for conventional banking challenges. The main purpose of this study is to assess and describe operational challenges and prospects of Islamic banking systems in selected banks in Addis Ababa.

The study tries to address the basic questions. In order to address the basic questions and objective, descriptive survey research design was employed which comprises quantitative methods of data gathering. Data was gathered through questionnaire that was made to triangulate and increase the validity of the data obtained. The study selected Commercial banks of Ethiopia that deliver IFB Service. Among 442 population of the research used there were a total target populations for this research were 320(55%) employees using non-probabilistic expert sampling technique. To collect representative data, 175 questionnaire copies were distributed. The data collected from target respondents through questionnaire was compiled and summarized by using SPSS statistical package for social science software version 21. The variables were analyzed by using frequency counts and percentages.

The significance of the study clearly shows Islamic banking is mostly large amounts that were given great concern by the bank in relation to the country’s growth and transformation plan. However, interest free banking has different challenges that can be observed from employees and the banks perspectives.

Finally, the results indicate the increased growth of the banking sectors have to faces some challenges and these must be overcome. Interest free banking is playing vital role in the growth of economy with special reference to corporate social responsibility.

Keywords: Islamic banking, operational challenges, Commercial banks