Sonargaon University

Internship Report
On
"Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited"

Submitted by:

Md Shahriar Sharif Leon
ID: BBA1901016031
Program: BBA (Major in Accounting)
Semester: Fall-2022

Submitted to:

Department of Business Administration
Sonargaon University (SU)
Dhaka-1215

Submitted for the partial fulfillment requirement of the degree of Bachelor of Business Administration

Date of Submission: 12 January, 2023

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Supervised by:

Md. Masud Rana
Assistant Professor & Head,
Department of Business Administration
Sonargaon University (SU)

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Letter of Transmittal

12 January, 2023

To,

Md. Masud Rana

Assistant Professor & Head,

Department of Business Administration

Sonargaon University.

Subject: Submission of Internship Report on "Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited".

Dear Sir,

With best respect and honor, I would like to inform you that I have completed my internship report on "Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited". It is an immense pleasure for me to place the same before you.

I have tried my level best to prepare this report and to accumulate relevant and insightful information. It is a great experience for me to work on this topic. I have tried to make the report vivid and comprehensive within the scheduled time and limited resources.

I sincerely hope that this report will help you to evaluate me. I will be obliged to clarify any matter or to provide any further information regarding this report.

Thanking you for your kind supervision.

Sincerely yours,

_____

Md Shahriar Sharif Leon
ID: BBA1901016031
Department of Business Administration
Sonargaon University (SU)

Letter of Acceptance

This is to certify that **Md Shahriar Sharif Leon** bearing ID No BBA1901016031, student of BBA Program, Sonargaon University, has completed the internship report under my supervision. He has worked with Islami Bank Bangladesh Limited as an internee and completed the report entitled **"Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited"** as a partial requirement for obtaining BBA Degree. He has completed the report by himself. He has been permitted to submit the report.

Md Shahriar Sharif Leon bears a strong moral character and a very pleasing responsibility. It has indeed been a great pleasure working with him. I wish him all success in life.

_____

Md. Masud Rana
Assistant Professor & Head,
Department of Business Administration
Sonargaon University (SU)

Declaration

I, **Md Shahriar Sharif Leon,** a student of BBA Program, Department of Business Administration, Sonargaon University, hereby declare that the internship report titled **"Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited"** is prepared after the completion of my internship at Islami Bank Bangladesh Limited at Head Office Complex Corporate Branch under the intensive supervision and guidance of **Md. Masud Rana**, Assistant Professor & Head, Department of Business Administration, Sonargaon University and **Md. Mahbub-A-Alam**, Executive Vice President (EVP) and In-Charge of Head Office Complex Corporate Branch, Islami Bank Bangladesh Limited.

I also declare that this report is an original work and no part of this report has been copied from elsewhere. In addition I would also like to mention that this report has not been published or submitted for being published or submitted for awarding any degree, diploma or recognition.

_____

Md Shahriar Sharif Leon
ID: BBA1901016031
Department of Business Administration
Sonargaon University (SU)

Acknowledgement

First of all, I would like to express my deep gratitude to the almighty Allah for fruitfully preparing this internship report. It was a great pleasure to prepare an internship report on the various aspects of banking activities focusing Risk Management and Financial Performance Analysis by the Islami Bank Bangladesh Limited.

I would like to thank and convey my gratitude to honorable supervisor, Md. Masud Rana, Assistant Professor, Department of Business Administration, Sonargaon University, for letting me to prepare this report. I would also like to express my sincere appreciation to him for him wholehearted support and guidance.

I am also very grateful to the honorable Executive Vice President (EVP) and In-Charge of Branch, Md. Mahbub-A-Alam, Head of Inventment Department, Md. Nasim Ahmed, Senior Vice President (SVP) of Islami Bank Bangladesh Limited (Head Office Complex Corporate Branch) for their priceless advice and kind effort, which help me a lot to collect information and data about Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited. Their valuable cooperation is the undeniable part of this internship report. I would like to give thanks to them. Also shower of thanks to those entire respondents who responded each and every time in collecting necessary data.

Internship Certificate

بِسْمِ اللهِ الرَّحْمٰنِ الرَّحِيْمِ

No. 75395

Islami Bank Training and Research Academy

Dhaka - Bangladesh

This is to certify that Md. Shahriar Sharif Leon ..... BBA Student of Sonargaon University ..... participated in the Internship Program for the University Students ..... Course/Programme conducted by the Academy from 03-10-2022 ..... to 30-11-2022 ..... and has successfully completed the same.

Dated, Dhaka

The Thursday, December 01, 2022

Managing Director

Principal General

Executive Summary

Islami Bank Bangladesh Limited is the first interest free Islamic Shariah based commercial bank with an objective of catering Islamic Shariah based financial products. The main objective of this report is to analyze and focus on the overall investment risk management operations and performance analysis of IBBL.

In Chapter One, I describe about my internship project because it is the introductory part of my report. In this part, I explain the reason why I have undertaken the project and what results I would expect from my study. I discuss about the importance of my study and from which sources I collected the data.

In Chapter Two, I try to give an idea about IBBL, its historical background, nature of business because it the Organizational part of my report. I discuss about the mission, vision, rule and regulation, strategies of IBBL.

In Chapter Three, I try to give a clear idea about Risk Management in details. I discuss about the risk grading system, risk motoring system, investment policy, factors of investment, credit recovery and principles of sound investment.

In Chapter Four, I use trend analysis, ratio analysis to describe the Financial Performance Analysis of IBBL. Here, all sorts of analysis have been executed, in order to analyze how efficient, liquid, secure and desirable the bank is in terms of its finance.

At the end of the report, I include some Findings and Recommendation, I provide findings and conclusion on overall risk management and financial performance of Islami Bank Bangladesh Limited and evaluating performance of my study.

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Acronyms

BOD	Board of Directors
CAR	Capital Adequacy Ratio
CIB	Credit Information Bureau
CRG	Credit Risk Grading
CRISL	Credit Rating Information and Services Limited
CRM	Credit Risk Management
HCRO	Head Office Credit Risk Officer
HDS	Household Durable Investment Scheme
HOBU	Head of Business Unit
HOCCB	Head Office Complex Corporate Branch
HOCR	Head of Credit Risk
HPSM	Hire Purchase Under Shirkatul Melk
IBBL	Islami Bank Bangladesh Limited
IBTRA	Islami Bank Training and Research Academy
ICAAP	Internal Capital Adequacy Assessment Process
IDB	Islamic Development Bank
IDR	Investment Deposit Ratio
KYC	Know Your Customer
MPB	Mudaraba Perpetual Bond
NRB	Non Resident of Bangladesh
OIC	Organization of the Islamic Conference
PCB	Private Commercial Bank
PLS	Profit and Loss Sharing
RDS	Rural Development Scheme
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on Investment
RWA	Risk Weighted Asset
SBIS	Small Business Investment Scheme
SME	Small and Medium Enterprise
SRPT	Supervisory Review Process Team
TIS	Transport Investment Scheme
TR	Trust Receipt
ZCRO	Zonal Credit Risk Officer

Chapter 01:

Introductory Part

1.1 Introduction:

Globalization is the primary concern in present world. As a result the world enhances the opportunities of business and investment for economic empowerment and for that modern world put a great effort favoring from all aspect. As a result, in the modern society commercial banks occupy a position of economic importance. They play a significant role to meet up the needs of the society. They are financial institutions engaged in boosting national savings and capital formation as well as constituting infrastructure through the financing of various development projects. It performs multi-dimensional activities like borrowing and lending of money, drawing, collecting and discounting bills, transferring funds, safe deposit, vault/locker service, foreign exchange transactions etc. The world of banking is undergoing a transformation. Banking today has evolved into a highly competitive and sophisticated business in which technology increasingly provides the edge. Today's customers want service and information to be provided at all times and places.

The people of Muslim countries have deep commitment to the Islamic way of life according to the Holy Quran and the Sunnah. So they make their own economic structure according to the Islamic shariah. As Bangladesh is one of the largest Muslim countries in the world, obviously it remains a deep cry in the hearts of the people of this country to fashion and design their economic lives in accordance with the precepts of Islam. The establishment of Islami Bank Bangladesh Limited on March 13, 1983, is the exact reflection of this inner urge of its people. This Bank is the first of its kind in Southeast Asia. The bank is devoted to conducting all banking activities on the basis of interest free & profit and loss sharing system.

1.2 Origin of the Report:

Internship is a part of BBA program and for completing my academic requirement I completed my internship at Islami Bank Bangladesh Limited at Head Office Complex Corporate Branch. I worked in general banking and investment division. I completed my internship under the intensive supervision and guidance of Md. Masud Rana, Assistant Professor & Head, Sonargaon University and he suggested me that the topic of my report would be "Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited" which is related with my working experience.

1.3 Significance of the Study:

As I have worked general banking and investment section of IBBL at Head Office Complex Corporate Branch, the topic of my internship report is "Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited" which is related with my working experience. It helps to understand how they deal with the investment clients alongside the way of managing investment and investment risk. This report is only done for gathering information about risk management and financial performance analysis of IBBL by focusing on the performance and management of investment business alongside risk management of IBBL while ignoring any other department of the bank. Investment section is a powerful sector of banking system having more risk. To achieve a return there will always have to be risk taken tendency. The successful investment strategy will always have the management of this risk at its heart. So, to minimize the risk a strong management policy should be followed. And it is important for whole banking system activities.

1.4 Objective of the Study:

Broad Objective:

The primary objective of this report is to successfully completing my BBA program and to obtain consciousness of Islamic Banking System in Bangladesh.

Specific Objective:

- To enhance the knowledge about the Islamic Banking System in Bangladesh.
- To evaluate the financial performance of Islamic Shariah Bank in Bangladesh.
- To visualize the Islami Bank Bangladesh Limited.
- Analyze The Risk Management System of IBBL.
- Critically evaluate the Financial Growth and Limitation of IBBL over the last 5 years (2017-2021).
- To exhibit the number of products and services are offered by IBBL.
- The last but not the least, to recommend what might be followed against the findings from its limitations.

1.5 Methodology of the Study:

In order to conduct such a study the report has prepared by following some specific methods. This report is based on an empirical method which is stated under.

❖ Sources of Data:

Methods followed to perform a job or conducting activities to complete a task is called methodology. In conducting this report the following methodology was adopted in data &information, preparation of reports etc. Both qualitative and quantitative methods were applied for preparing this report. The data were analyzed and presented by Microsoft excel and shows percentage, graphical presentation and different types of charts. Best effort was given to analyze the numerical findings. All the relevant data regarding this report are collected from two sources,

▪ Primary Sources of Data:

I discussed with the officials and executives of the IBBL Head Office Complex Corporate Branch and found the approximate data which has been used and presented in this report. The study has been conducted through the assistance of General Banking and Investment Department, Head Office Complex Corporate Branch as per their operating and maintaining general banking and investment business through applying modern and technological means. I have also physically observed the effectiveness of the efforts relating general banking and investment business effectively and efficiently managed by Islami Bank Bangladesh Limited, Head Office Complex Corporate Branch.

Primary sources of data include the following:

- ☐ Two months practical participation in internship
- ☐ Face-to-Face conversation with the respective officers and staffs
- ☐ Relevant file study provided by the officers concerned

▪ Secondary Sources of Data:

I have collected secondary data from the following sources-

- ☐ Annual Reports of IBBL: 2017-2021.

- ☐ Business Development Conference Report: 2020 and 2021.
- ☐ Unpublished data from the IBBL, Head Office Complex Corporate Branch.
- ☐ Manuals of IBBL regarding investment business.
- ☐ Credit Risk Manual by Bangladesh Bank.
- ☐ IBBL's website.
- ☐ Synopsis and training materials provided by the Islami Bank Training and Research Academy.

I have used references from the articles and journals utilized and have also utilized electronic data sources such as the Internet for useful tertiary sources of data.

- **Data Analysis Tools and Techniques:**

To analyze and present the numerical data and values associated with Risk Management and Financial Performance Analysis of Islami Bank Bangladesh Limited, I have used following tools and techniques-

1. Column Chart,
2. Bar Chart,
3. Line Chart,
4. Pie Chart, and
5. The formula has generated and used in Microsoft Excel.

- **Data Analysis and Reporting:**

Both qualitative and quantitative analyses have been done while conducting this study. Microsoft Word and Microsoft Excel were used to analyze, process and graphically represents the gathered data.

1.6 Limitation of the Study:

Although I have obtained the whole hearted co-operation from the employees of Islami Bank Bangladesh Limited, Head Office Complex Corporate Branch and Islami Bank Training and Research Academy but in the way of my study, I have faced the following problems, which may be termed as the limitations of the study. Some limitations are as under:

- The main constraint of the study was insufficiency of information, which was required for the study. There are various information the bank employee can't provide due to security and other corporate obligations.
- Data and information used in this study are mostly from secondary sources.
- All the branches of the bank were not physically visited and all the concerned personnel of the bank have not been interviewed.

The report has encountered these limitations that may hinder the progress of the study but with constant effort, I try to minimize the negative effects of these limitations.

Chapter 02:

Organizational Part

2.1 Overview of Islami Bank Bangladesh Limited:

At the time of independence Bangladesh inherited an interest-based banking system introduced by the British government during the colonial period. So, the interest based banking system and mechanism is very familiar to us. At present six nationalized banks, three specialized banks, nine foreign banks and forty three private commercial banks are operating in the financial market of Bangladesh. But the Islamic banking in Bangladesh dates back to 1983 when the Islami Bank Bangladesh Limited was established with a view to conducting its banking activities based on the principle of Islamic Shariah. Islami Bank Bangladesh Limited was incorporated as the first Shariah based interest free bank in Southeast Asia on the 13th March 1983 as a public limited company. The first branch of the Bank was Local Office at Motijheel in Dhaka which started functioning informally on 30th March 1983. It was formally inaugurated on 12th August 1983. The Bank was established with Tk.80.00 million as paid up capital which has been increased to Tk.16,099.91 million as on December 31, 2021. Corporate Headquarter of the Bank, housed in an 18-storied own modern building, is located at 40, Dilkusha Commercial Area, Dhaka. Islami Bank of Bangladesh Limited has gained the first position in all private banks in terms of deposits, investment, export and import and remittance collection. According to the Bangladesh Bank, the Central Bank of Bangladesh, the total deposits of the Islamic banking systems are now 21.9 percent of overall banking sector deposits and its investment are 17.5 percent.

2.2 Mission:

- To encourage socioeconomic development and financial services to the low-income community particularly in the rural areas.
- To establish Islamic banking through the 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.

2.3 Vision:

The vision of IBBL is to always strive to achieve superior financial performance, be considered a leading Islamic Bank by reputation and performance:

- To encourage savings in the form of direct investment.
- To encourage investment particularly in projects, which are more likely to lead to higher employment?
- To establish and maintain the modern Banking techniques, to ensure soundness and development of the financial system based on Islamic principles and to become the strong and efficient organization with highly motivated professionals working for the benefit of peoples, based upon accountability, transparency and integrity in order to ensure the stability of financial systems.

2.4 Corporate Information:

Name of the Company	Islami Bank Bangladesh Limited
Legal Status	Public Limited Company
Company Registration No.	C–10589/485 Dated March 13, 1983
Bangladesh Bank License No.	BL/DA/4290/83
eTIN	376764873732
VAT Registration No./BIN No.	000000124-0002
Line of Business	Banking
Total Branch	394
Sub Branch	219
SME/Agriculture Branch	30
Zone	17
AD Branch	70
Offshore Banking Unit	03
ATM Booth (Own)	1852
ATM Booth (Shared)	13,000+
Instant Deposit Machine (IDM)	126
Sheba Ghar	47
Agent Banking Outlet	2,676
Employees	19,193 as on December 31, 2021
Directors	20
Sponsors	19
Placement holders	17
Shareholders	30,126
MPB holders	12,568
Local Shareholders	57.57%
Foreign Shareholders	42.43%
Foreign Correspondents	633
Chairman	Mohammad Nazmul Hassan
Vice Chairmen	1. Yousif Abdullah A Al-Rajhi 2. Mohammed Shahabuddin
Managing Director	Mohammed Monirul Moula
Company Secretary	JQM Habibullah, FCS
Head of Internal Control & Compliance	Md. Nayer Azam

Chief Financial Officer	Md. Ashraful Haque, FCA
Credit Rating Agency	Alpha Credit Rating Ltd.
Subsidiary Companies	1. Islami Bank Securities Limited 2. Islami Bank Capital Management Limited
Statutory Auditors	1. M/s. Hoda Vasi Chowdhury & Co. Chartered Accountants 2. M/s. A.Qasem & Co. Chartered Accountants
Tax Advisor	M/s. K.M. Hasan & Co. Chartered Accountants
Registered Office	40, Dilkusha C/A, Dhaka-1000, Bangladesh
Phone	PABX (+88-02) 223384816, 223383040
Mobile	+(88) 01711435638, 01711435639
Contact Center	(+88-02) 8331090 or 16259
FAX	(+88-02) 9568634
SWIFT	IBBLBDDH
E-mail	info@islamibankbd.com
Website	www.islamibankbd.com

2.5 Core Values and Commitments:

Core Values:

- Trust in Almighty Allah
- Adherence to the spirit of Islamic Shari'ah
- Highest standard of Honesty & Integrity
- Transparency & Accountability
- Welfare Banking
- Equity and Justice
- Environmental Consciousness
- Respect for all
- Discipline & Cooperation

Commitments:

- To Shariah.
- To the Regulators.
- To the Shareholders.
- To the Community.
- To the Customers.
- To the Employees.

- To other Stakeholders.
- To Environment.

2.6 Board of Directors:

The Board of Directors consists of 20 (twenty) non-executive members including 04 (four) Independent Directors excluding the ex-officio Managing Director. The number of Board members is within the limit set by Bank Company Act 1991 (amended upto 2018) and BSEC notification on Corporate Governance.

2.7 Name of Board of Directors of IBBL:

Designation	Name
CHAIRMAN	Mohammad Nazmul Hassan
VICE CHAIRMAN	Yousif Abdullah A AlRajhi
VICE CHAIRMAN	Mohammed Shahabuddin
DIRECTOR	Md Salim Uddin
INDEPENDENT DIRECTOR	Mohammad Solaiman
DIRECTOR	Abdul Matin
DIRECTOR	Areef Suleman
DIRECTOR	Mohammad Sirajul Karim
INDEPENDENT DIRECTOR	Md Kamal Uddin
DIRECTOR	Mohammad Joynal Abedin
DIRECTOR	Dr Qazi Shahidul Alam
DIRECTOR	Musaid Abdullah A AlRajhi
DIRECTOR	Sayed Abu Asad
DIRECTOR	Tanveer Ahmad
DIRECTOR	Mohammad Quamrul Hasan
INDEPENDENT DIRECTOR	Dr Mohammad Saleh Jahur
INDEPENDENT DIRECTOR	Md Fashiul Alam
DIRECTOR	Khurshid Ul Alam
DIRECTOR	Mohammed Nasir Uddin FCMA
DIRECTOR	Md Kamal Hossain Gazi
EX-OFFICIO DIRECTOR	Mohammed Monirul Moula
COMPANY SECRETARY	Mr. J Q M Habibullah, FCS

2.8 Risk Management Wing of IBBL:

Risk Management Wing (RMW) has been set up as per the guidelines of Bangladesh Bank. The Wing is responsible for identification and management of risks faced by the Bank. The details of internal and external risk management mechanism are included in Risk Management disclosures. In order to formulate and implement appropriate strategies for risk assessment, its

control and management, a Risk Management Committee, comprised of 4 (four) members, has been formed. The Committee monitors risk management policies & methods and reviews the risk management process to ensure effective prevention and control measures. Roles and responsibilities of the Risk Management Committee:

- Identification and controlling strategies of risks
- Formulation of organization structure
- Reviewing and resolving risk management policy
- Information/documents preservation and reporting
- Follow-up the implementation of risk management policy as a whole

2.9 Corporate Culture & Recognition:

Since inception, IBBL has been practicing corporate culture at all levels. IBBL has always been trying to run the Bank professionally and showed its competence during last 39 years of operation. The workforce of IBBL starting from the CEO down to a Messenger are very much involved and committed professionals and thus could develop the Bank as one of the highly complied one. They work under the guidelines of Bangladesh Bank, other Regulatory Authorities and policies framed by the Board of Directors without any interference from any corner. SAFA awarded IBBL the 1st Position both under Private Sector Banks (including Co-operative Banks) in the best-presented annual reports and SAARC Anniversary Award for Corporate Governance Disclosures for the year 2012 and Certificate of Merit under Private Sector Banks (including Co-operative Banks) in the best-presented annual reports for the year 2013. Which are the obvious recognitions of the Bank's sustained success in every aspects of its operations. ICAB conferred IBBL the 3rd position under Private Sector Banks (including Co-operative Banks) in the best-presented annual reports for the year 2014. ICAB also conferred IBBL with the 1st position both under private sector banks (including Co-operative Banks) in the best-presented annual reports and SAARC Anniversary Award for Corporate Governance Disclosures for the year 2012. ICMAB glorified IBBL with the ICMAB National Best Corporate Award – 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010 (1st Position amongst the Private Commercial Banks in Islamic Operation).

2.10 Products and Services of Islami Bank Bangladesh Limited:

Local Currency Deposit Accounts:

1. Al-Wadeah Current Account,	8. Mudaraba Waqf Cash Deposit Account,
2. Mudaraba Savings Account,	9. Mudaraba Monthly Profit Deposit Account,
3. Mudaraba Term Deposit Account,	10. Mudaraba Muhar Savings Deposit Account,
4. Mudaraba Special Notice Account,	11. Students Mudaraba Savings Account
5. Mudaraba Special Savings Account,	12. Mudaraba Farmers Saving Account,
6. Mudaraba Hajj Savings Account,	13.Mudaraba NRB Savings Bond.
7. Mudaraba Savings Bond Account,	

Foreign Remittance Services:

1. Central Crediting of Remittances,
2. Payment of 3rd Bank Remittance through TT & PO,
3. 3. Payment of Spot Cash Remittances - Online and Web-based,
4. Centralized NRB Account Opening,
5. SMS Notification,
6. SMS Push Pull Service,
7. Maintaining of NRD & NRT Accounts.

Investment Products:

1. Bai-Murabaha,	11. Murabaha Import Bills,
2. Bai-Muajjal,	12. Murabaha Import LC,
3. Bai-Istijrar,	13. Bai-Muajjal Back to Back Bills,
4. Bai-Salam,	14. Bai-as-sarf (Foreign Documentary Bill),
5. Bai-Istisna,	15. Bai-as-sarf,
6. Hire Purchase under Shirkatul Melk,	16. Murabaha Foreign Currency Investment,
7. Mudaraba,	17. Musharaka Documentary Bill,
8. Musharaka,	18. Bai-Salam (Pre-shipment),
9. Musharaka Investment in Potato Storage,	19. Mudaraba NRB Entrepreneur Investment Scheme.
10. Murabaha Post Import,	

Many Others Include:

1. Deposit Products in Foreign Currency,	5. ATM Services,
2. Products in Off-shore Banking Unit,	6. Other Banking and Value Added Services,
3. Foreign Remittance Products,	7. Treasury Activities,
4. Welfare-oriented Special Investment Schemes,	8. Special Services through IBBL.

Chapter 03:

Risk Management of IBBL

3.1 Risk Management Committee:

Continuous oversight and review of major risks such as, investment, capital, liquidity, operational, reputational, compliance, country, environmental, information and cyber security, financial crime etc. are essential prerequisites for a sustainable growth of an organization. To build an appropriate safeguard for the bank from any sort of hazard, there is no alternative to establish a strong risk management culture in the bank.

Islami Bank Bangladesh Limited has given the utmost priority in the risk management arena considering the present business and economic scenario of the country as well as local and international risk factors. As such IBBL manages risks under overall supervision of the Risk Management Committee (RMC) of the Board.

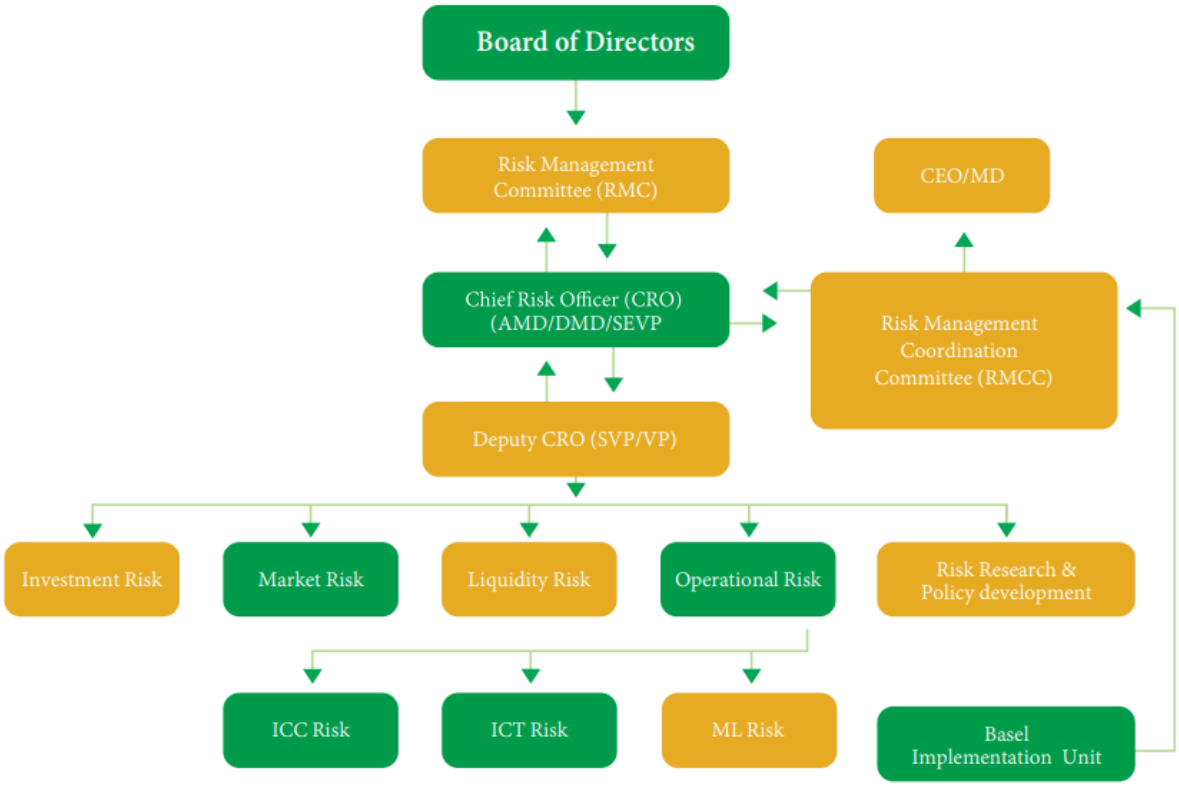
In line with the BRPD Circular No. 11 dated 27.10.2013 of Bangladesh Bank, the latest reconstitution of Risk Management Committee was made by the Board of Directors in its 301st meeting held on 27.06.2021 comprising the following members:

Name	Status in Risk Management Committee
Major General (Retd.) Eng. Abdul Matin	Chairman
Areef Suleman	Member
Professor Dr. Md. Sirajul Karim	Member
Mr. Md. Joynal Abedin	Member
Professor Dr. Qazi Shahidul Alam	Member

3.2 Risk Management Framework:

IBBL has its clear risk management objectives and a well-established strategy to address them, through core risk and capital adequacy related risk management processes and encompasses all the activities that affect its risk profile.

The risk management framework of the Bank is shown as under:



3.3 Three Lines of Defense:

The Bank's risk management framework is based on the Three Lines of Defense model which is the industry standard and may be represented as follows:



3.4 Key Achievement in Risk Management during the year 2021:

Despite the impacts of the Covid-19 pandemic, the Risk Management Wing of IBBL was vibrant in the year 2021 to reach the pinnacle of achievement in risk management of the Bank. Complying with the Risk Management Guidelines of Bangladesh Bank as well as of IBBL vigorously, the RMW successfully accomplished the following tasks during the year 2021:

- Arrangement of Annual Risk conference-2021, covering around one thousand selected employees of all branches & selected wings/divisions where the General Manager of DOS, Bangladesh Bank was the Chief Guest and the MD & CEO of IBBL was in the Chair;
- Arrangement of 13 meetings of Risk Management Coordination Committee (RMCC) where all the risk-related issues were discussed, decisions were taken and implementation there against was ensured in due course;
- Identification of a good number of internal and external risks, analysis of those risks and mitigation thereof;
- Upgradation of the Bank's resilience capacity gradually as advised by the committees;
- Preparation of Internal Capital Adequacy Assessment Process (ICAAP) Document for the year 2021.

3.5 Action Plan for the year 2022:

At the end of the year 2021, IBBL has articulated a comprehensive plan for risk management of the Bank and has taken various initiatives for mitigating Investment, Market, Operational and other associated risks, and the same will continue in future. In addition, RMW has the following ideas to address in 2022 to develop a strong risk management culture in IBBL:

- Reviewing and upgrading the "Risk Management Guidelines for IBBL" in line with the instruction of Bangladesh Bank DOS Circular No. 04 dated 08.10.2018;
- Strengthening the Branch Taskforce Committee to monitor regular clients so that any adverse movement of the clients can be detected earlier and necessary action can be taken instantly;
- Organizing Annual Risk Conference (at least one-day-long) with the participation of all the branch managers, manager operations, investment incharges, foreign exchange incharges including the officials related to risk issues at branches and Head Office;

- Conducting vigorous monitoring for compliance of the guidelines of six core risks i.e. Asset-Liability Management Risk, Investment Risk, Foreign Exchange Risk, Internal Control & Compliance Risk, Money Laundering Risk and ICT Security Risk to secure better risk rating;
- Ensuring significant contribution in establishing sophisticated risk management infrastructure with a sufficiently robust data-base, data architecture and information technology;
- Study of the potential impacts of COVID-19 pandemic on Bangladesh Economy and in the Banking Industry especially in IBBL at regular interval to face the present challenges;
- Formation of strategy for mitigating the business, operational and market risk arises from Covid-19 Pandemic.

3.6 Risk Management Process:

Risk Management is an iterative process that, with each cycle, can contribute progressively to organizational improvement by risk management with a greater insight into risks and impact.

Steps of Risk Management Process in a Banking Organization:

Step 1 – Communicate and Consult

Step 2 – Establish the context

Step 3 – Identify the risks

Step 4 – Analyze the risks

Step 5 – Evaluate the risks

Step 6 – Treat the risks

Step 7 – Monitor the risk

3.7 Core Risk Management:

In accordance with the guidelines as prescribed by the Central Bank, IBBL exclusively manages six core risks. The Bank has designed and implemented its own Risk Management Guidelines and has formed six core risk management committees. The major concerns of the committees are as follows:

i) Investment Risk Management Committee supervises and monitors investment concentration, Internal Investment Risk Rating System (IIRRS), corporate clients rating, non-performing investment, residual risk against investment, provision against classified investment, investment mix, asset quality etc.

ii) Asset Liability Management Committee (ALCO) looks after the asset-liability risk, liquidity risk, Investment Deposit Ratio (IDR), Net Stable Funding Ratio (NSFR), deposit mix, investment mix, gap analysis etc. under direct guidance of the Managing Director & CEO.

iii) Foreign Exchange Risk Management Committee oversees foreign exchange risk, treasury, net open position, import & export business, dealing room operations, anti-money laundering aspects in foreign exchange transactions, remittance etc.

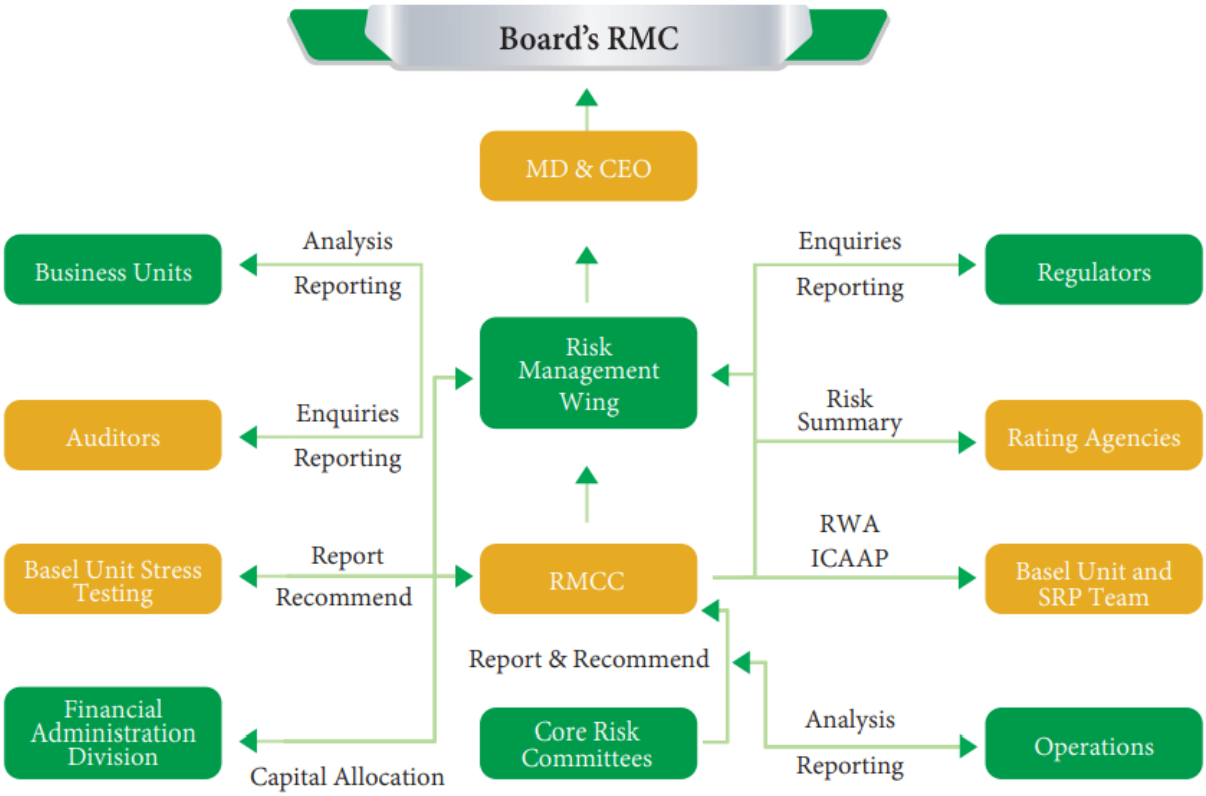
iv) Internal Control and Compliance Risk Management Committee assesses and mitigates the risks related to compliance with regulatory requirements, set rules of the Bank, internal checking system, lapses, fraud, forgeries, misappropriation, defalcation, violations of the set rules etc.

v) Money Laundering Risk Management Committee looks after the money laundering activities, STR (Suspicious Transaction Report), CTR (Cash Transaction Report), KYC (Know Your Customer) and TP (Transaction Profile), Trade Base Money Laundering (TBML), Sanction Screening, On-boarding related compliances etc.

vi) ICT Security Risk Management Committee monitors and supervises the risks related to data security, physical security, network security, disaster recovery, fraud, forgery, Standard Certification of ICT issues, system failure and business continuity etc.

3.8 Relationship of Risk Management with Other Units:

Risk management activities are directly or indirectly related with different units of the Bank. The following flow diagram shows the relationship in details.



3.9 Basel Accord:

Banking industry in Bangladesh is highly regulated. Central Bank of the country is very much aware to keep the capital of individual Bank as per international standard and for this reason, Bangladesh Bank issued guidelines on risk based capital adequacy (RBCA) for Banks and separate Supervisory Review Guidelines. Again BB has issued guidelines for Basel III which is being to be implemented from 2015 to 2019. To implement Basel III guidelines, we have formed committee as under:

a) **Basel Unit:** Basel Unit along with working team As per Bangladesh Bank instruction, Basel Unit along with a working team has been formed to implement the action plan of Basel Accord in the Bank.

b) **Supervisory Review Process Team:** Supervisory Review Process Team Banks also face some other risks which varies from country to country, business to business. Hence, banks are somewhat independent to identify and assess the additional risks and hence are advised by Bangladesh Bank to form a Supervisory Review Process Team in each Bank. IBBL has formed such a committee which is headed by the Honorable Managing Director of the Bank.

c) **Stress Testing Committee:** Stress Testing Committee The Central Bank also instructed the banks to conduct periodical stress testing on some statistical simulations assuming different risk aspects of the Bank. Here in, all the potential stresses are given on the capital base of the Bank in order to foresee the total risks and strengthen the Banks capital. In order to perform this task, IBBL has formed a committee namely Stress Testing Committee.

3.10 Implementation Status of Basel-III:

IBBL has successfully implemented the Basel-III Accord within the stipulated time given by Bangladesh Bank i.e., within 2019 and maintains the same with satisfactory level. The latest status of the requirements of Basel-III is as follow:

Parameters	Regulatory Requirement	Position of IBBL
Minimum Common Equity Tier-1 (CET-1) Capital Ratio	4.50%	4.60%
Capital Conservation Buffer (CCB)	2.50%	3.00%
Minimum CET-1 plus Capital Conservation Buffer	7.00%	7.60%
Minimum T-1 Capital Ratio	6.00%	9.00%
Minimum Total Capital Ratio	10.00%	10.54%
Minimum Total Capital plus Capital Conservation Buffer	12.50%	13.54%
Liquidity Coverage Ratio (LCR)	≥ 100%	311.57 %
Net Stable Funding Ratio (NSFR)	>100%	107.51%

3.11 Supervisory Review Process:

As per Bangladesh Bank guidelines, the Bank has formed a Supervisory Review Process (SRP) Team for adequate supervision of capital functions and risks. The key principle of the Supervisory Review Process (SRP) is that banks have a process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital at an adequate level.

3.12 Internal Capital Adequacy Assessment Process (ICAAP):

ICAAP includes regulations of the bank's own supervisory review of capital positions aiming to reveal whether it has prudent risk management and sufficient capital to cover its risk profile.

It ensures that the Bank maintains an amount of capital for additional risk that was not covered in Pillar I of Basel III.

3.13 Stress Testing:

Stress testing is an important risk management tool that provides an indication of how much capital might be needed to absorb losses in different stressed situations. IBBL has a rigorous and comprehensive stress-testing program in place. The Bank conducts periodical stress tests and assesses stress on the capital both giving individual and combined shocks on different aspects.

3.14 Risk Appetite:

Risk appetite describes the types and quantum of risks that the bank is prepared to take in executing its strategy and sets out the key business initiatives and probable financial effects of those initiatives. It is the maximum amount and type of risks that the Bank is willing to assume in pursuit of its strategy.

3.15 Implementation of Core Risk Management Guidelines and other specific risks:

Bangladesh Bank has issued six core risk guidelines, Guidelines on Profit Rate Risk in the Banking Book (PRRBB) and Guidelines on Country Risk Management (GCRM) that provide concepts, methods and processes with regards to the respective risk areas. IBBL follows those guidelines and also reviews/updates them on regular basis & gets approval from the Board. Apart from the above, there are some other specific risks that are covered by SRP Guidelines and RBCA Guidelines of Bangladesh Bank. IBBL also manages those risks.

3.16 Investment Risk Management:

In IBBL, investment risk exposure was 88.62% in 2019, 88.56% in 2020 and 89.48% in 2021 as per Guidelines on RBCA 2014. Thus investment risk is the key factor of IBBL's risk management for determination of capital requirement, profitability, liquidity and many other risk elements involved therein. IBBL handles this risk through a framework that sets out policies and procedures covering its measurement and management.

3.17 Asset-Liability Management Risk:

IBBL has a dedicated committee named Asset-Liability Management Committee (ALCO) comprising the top Executives of the Bank to make important decisions related to the risks associated with Balance Sheet, Liquidity & Profit Rate of the Bank. The committee generally meets at least once in a month and reviews the Asset-Liability Management (ALM) Manual and its components on a regular basis.

3.18 Liquidity Risk:

In Bangladesh, Sharia'h based money market is yet to be flourished, and is still in the way of development. Being the Sharia'h based bank, IBBL cannot lend or borrow money from the conventional money market. As such, it remains concerned and vigilant regarding liquidity risk. IBBL continuously monitor the liquidity ratios and periodically conducts GAP and Duration GAP analysis. As on 31.12.2021, the key liquidity ratios were as under:

Name of the Ratio	Standard Ratio	IBBL's Scenario
Cash Reserve Ratio (CRR)	4.0%	16.48%
Statutory Liquidity Ratio (SLR)	5.5%	19.84%
Investment Deposit Ratio (IDR)	<92.00%	79.74%
Liquidity Coverage Ratio (LCR)	≥100%	311.57%
Net Stable Funding Ratio (NSFR)	>100%	107.51%

3.19 Contingency Planning:

While it is the Bank's policy to ensure that it has sufficient liquidity to meet any emergency at times, it is possible that the Bank may experience liquidity problems due to both external and internal conditions. Accordingly, the bank has a liquidity contingency plan in place to overcome such situations.

3.20 Foreign Exchange Risk Management:

Foreign Exchange risk is the risk of loss from movements in cross-currency exchange rates between foreign currencies and from changes in the value of the home or functional currency against other currencies. The foreign exchange risks of IBBL are identified, measured, monitored and controlled through proper market analysis, adherence of different dealing limits such as daylight, overnight, stop loss limit, off premises dealing limit, Management Action Trigger (MAT) and counterparty credit/investment limits etc.

3.21 Internal Control and Compliance Risk Management:

Internal Control & Compliance (ICC) system of IBBL always plays an active role in mitigating ICC risk and contributes in the process of maintaining compliance across the Bank. To develop sound, sustainable and secured growth of the Bank, there is a separate wing namely Internal Control & Compliance Wing.

3.22 Money Laundering Risk Management:

In order to ensure the AML compliance, IBBL is committed to complying with all the applicable Rules of the Money Laundering Prevention Act, Anti-Terrorism Act, BFIU Circulars, FATF Recommendations. The Bank has formed an independent Central Compliance Committee (CCC) under the leadership of the Chief Anti Money Laundering Compliance Officer (CAMLCO) and established a separate division namely Money Laundering and Terrorist Financing Prevention Division (MLTFPD).

3.23 ICT Security Risk Management:

The Bank has adequately addressed Information & Communication Technology (ICT) Security Risk which ensures ICT security functions and operations in a more effective manner. The Bank uses own developed Core Banking Software to perform all types of transactions including Local/Online/Internet in a secured way.

3.24 Strategic Risk:

It refers to the risk of a potential earnings downside due to revenues and/or costs underperforming plan targets. Strategic Risk may arise from poor strategic decision/positioning, failure to execute strategy or lack of effective responses to material negative plan deviations caused by either external or internal factors (including macro, financial and idiosyncratic drivers).

3.25 Business Continuity Plan:

A Business Continuity Plan describes how to resume business after a disruption. A business continuity plan endeavors to ensure that critical operations continue to be available. It has Data

center, Disaster Recovery Site and Disaster Recovery System, which are well equipped, designed, managed and monitored by Information & Communication Technology Wing.

3.26 Some Specific Risks for Islamic Banking:

Being the Sharia'h based bank, IBBL may also face the following specific risks due to its operations in addition to the usual risks. IBBL remains always vigilant, stringent and proactive to address and mitigate the risks:

Fiduciary Risk: Where Mudarabah Depositors' funds are commingled with the Banks own funds, the bank shall ensure that the bases for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the Bank's fiduciary responsibilities.

Displaced Commercial Risk: Banks may be under market pressure to pay a return that exceeds the rate that has been earned on assets financed by the Mudaraba depositors when the return on assets is under performing as compared with the competitors' rates. In such case, banks may decide to waive their rights to part or its entire mudarib share of profits in order to satisfy and retain its fund providers and dissuade them from withdrawing their funds. Asset liability management committee (ALCO) of IBBL regularly meets to assess the fiduciary risk, rate of return risk and displaced commercial risk if any in IBBL, and recommends mitigating and encountering the above risks.

Sharia'h Compliance Risk: IBBL is always stringent about compliance Sharia'h rules in all of its operations. Since IBBL is performing in the mixed economic system (i.e Islamic and Interest Based economy), Sharia'h compliance is the one of the vital factors particularly for IBBL. The independent Sharia'h Board keeps keen observations on the day to day transactions of the Bank and they declare doubtful transactions as suspended.

Liquidity Risk for lack of non-structured Islamic Financial Market: Since, Islamic Financial Market in Bangladesh is not strong enough and there is inadequate Islamic financial instruments, IBBL has limited scope for placement of fund with the desired return from the market at the time of surplus liquidity and similarly limited scope in receiving fund complying sharia'h rules at the time of liquidity crisis. However, during the long 31 years of banking operations, IBBL did not face any liquidity crisis since it remains vigilant enough to address the issue.

3.27 Market Risk:

Market risk refers to the risk of losses against fair value of financial assets, liabilities and off-balance sheet items resulting from adverse changes in market variables, which could negatively impact the financial condition. Market risk is evolved from the following four components:

1. Interest rate related instruments,
2. Foreign exchange position,
3. Equity price, and
4. Commodity price.

Capital Requirement for	BDT in million	
	Solo	Consolidated
Profit (Interest) Rate Risk	-	-
Equity Position Risk	378.92	378.92
Foreign Exchange Risk	872.65	872.65
Commodity Risk	-	-
Total Capital Requirement for Market Risk	1,251.57	1,251.57

3.28 Operational Risk:

Operational risk is the risk of loss or harm resulting from inadequate or failure of internal processes, people and systems or from external events.

The policy for measuring and managing operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control & Compliance to protect all operational risks. As a part of continued surveillance, the Management Committee (MANCOM), Risk Management Co-ordination Committee (RMCC), Risk Management Committee (RMC) of Board and Risk Management Wing (RMW) regularly review different aspects of operational risks and suggest to formulate appropriate policies, tools & techniques for mitigation of operational risk.

As per the Risk Based Capital Adequacy Framework, the capital charge for operational risk is equal to 15% of average positive annual Gross Income of the previous three years:

In line with the above, the Bank has adopted the **Basic Indicator Approach for computing capital to operational risk.**

Capital Requirement	Solo	Consolidated
Operational Risk	6,423.98	6,513.30

3.29 Leverage Risk:

IBBL calculates the regulatory leverage ratio as per the guideline of Basel III leverage ratio framework as adopted by Bangladesh Bank where a minimum Tier 1 leverage ratio of 3% has been prescribed both at solo and consolidated level. IBBL has been maintaining leverage ratio more than minimum requirement of 3% applicable from 01 January 2015. The regulatory leverage ratio has been calculated considering the following:

Particulars	BDT in million	
	Solo	Consolidated
Leverage Ratio	3.96%	4.03%
On balance sheet exposure	1,598,546.06	1,599,222.85
On balance sheet exposure	50,599.85	50,599.85
Total exposure	1,649,145.91	1,649,822.70

On-Balance Sheet Items: Bank has included the accounting balance sheet item for the purposes of leverage ratio.

Off-Balance Sheet Items: Bank has calculated the off-balance sheet (OBS) items by applying a uniform 100% Credit Conservation Factor (CCF). For unconditionally cancellable commitments without prior notice, a CCF of 10% is applied.

3.30 Role of the Risk Management Function:

In line with Bangladesh Bank risk management guidelines, IBBL restructured its risk management process, oversee of which in management level is being made by Risk Management Wing. The specific roles of the Risk Management Wing are as under:

- Designing bank's overall risk management strategy;
- Developing and overseeing implementation of stress tests;
- Developing, testing, and observing use of models for measuring and monitoring risk;
- Informing the board and All Risk Committees about the appetite for risk across the Bank;
- Communicating views of the board and senior management throughout the Bank;

- Independently monitoring limits, in addition to the monitoring that is done by business units;
- Establishing risk management policies and procedures;
- Formulating guidelines on the handling of all property and liability claims involving the organization;
- Developing and implementing loss prevention/loss retention programs;
- Identifying and quantifying Bank's exposures to material loss Securing and maintaining adequate loss coverage at the most reasonable cost;
- Adopting proper financial protection measures through risk transfer, risk avoidance, and risk retention programs;
- Determining the most cost effective way to construct, refurbish, or improve the loss protection system of any facility leased, rented, purchased, or constructed by the Bank;
- Managing claims for insured and uninsured losses; and
- Participating on all contract negotiations involving insurance, indemnity, or other pure risk assumptions or provisions prior to the execution of the contracts.

3.31 Investment Concentration Risk:

It is known that the Economy of Bangladesh is not well distributed and IBBL is functioning under this economy. As such, IBBL has to run its activities in accordance with the supply and demand rule of the Economy. IBBL is now exposed to some of the specific sectors highly which is inviting concentration risk. On the other hand, the Bank has also concentrated its exposures in some specific regions though these regions are economically important. But IBBL has the scope to come out from such concentration gradually having a structural perspective plan. A comparative analysis of sectorial and regional distribution of investments by IBBL is as under:

3.32 Investment Processing Steps of Islami Bank Bangladesh Limited:

Generally a bank takes certain steps to deliver its proposed investment to the client. But the process takes deep analysis. Because banks invest depositors fund, not banks own fund. If the bank fails to meet depositors demand, then it must collapse. So, each bank should take strong

concentration on investment proposal. However, Islami Bank Bangladesh Limited makes its investment decision through successfully passing the following crucial steps:

1) Selection of the Client:

In this stage investment taker (client) approaches to any of the branches of Islami Bank Bangladesh Limited. Then, he talks with the manager or respective officer (investment). Secondly, the bank considers five C's of the client. After successful completion of the discussion between the client and the bank, bank selects the client for its proposed investment. It is to be noted that the client/customer must agree with the bank's rules & regulations before availing investment. Generally, bank analyses the following five C's of the client:

1. Character;
2. Capacity;
3. Capital;
4. Collateral; and
5. Condition.

2) Application Stage:

At this stage, the bank will collect necessary information about the prospective client. For this reason, the bank informs the prospective client to provide and/or fill duly respective information which is crucial for the initiation of investment proposal. Generally, here, all the required documents for taking investment have to prepare by the client himself. Documents that are necessary for getting investment of IBBL are prescribed below:

- Trade License photocopy (for proprietorship);
- Attested copy of partnership deed (for partnership business);
- Prior three (03) years' audited balance sheet (for joint stock company);
- Prior three (03) years' business transaction statement for the Musharaka/Mudaraba investment;
- Abridged pro forma income statement for the Musharaka/Mudaraba investment;
- Attested copy of the Memorandum of Association (MOA) & Articles of Association (AOA) for the joint stock company;
- Attested copy of the Tax Identification Number (TIN) - including final assessment;

- Tenders of the proposed assets (in case of HPSM);
- Detailed summary of the sundry debtors and creditors (including both times& schedule);
- Summary of the personal movable & immovable assets; and others.

3) Appraisal Stage:

At this stage, the bank evaluates the client and his/her business. It is the most important stage. Because on the basis of this stage, the bank usually goes for sanctioning the proposed investment limit/proposal. If anything goes wrong here, the bank suddenly stops to make payment of investment. In order to appraise the client, Islami Bank Bangladesh Limited provides a standard F-167B Form (Appraisal Report) to the client for gathering all the information.

4) Sanctioning Stage:

At this stage, the bank officially approves the investment proposal of the respective client. In this case client receives the bank's sanction letter. Islami Bank Bangladesh Limited's sanction letter contains the following elements:

1. Investment limit in million.
2. Mode & amount of investment.
3. Purpose of investment.
4. Period of investment.
5. Rate of return.
6. Securities.

5) Cash/Goods Security:

In allowing Murabaha investment and the amount of cash security is generally realized from the client (amount depends on the nature of goods, creditworthiness of the client, collateral security obtained etc.) which is converted to goods security after the purchase of goods purchased out of the bank's investment and client's cash security is pledged to the bank, kept under bank's custody before its delivery to the client for payment. Example: If, for a Murabaha investment cash security is fixed at 25% Bank's investment stands at 75% of the total goods

purchased. For example, if cost of total goods purchased is Tk.100000 Bank's investment will be Tk.75000 and client's cash security will be Tk.25000.

6) Documentation Stage:

At this stage, usually the bank analyses whether required documents are in order. In the documentation stage, Islami Bank Bangladesh Limited checks the following documents of the client:

• Tax Payment Certificate. • Stock Report. • Trade License (renewal). • VAT certificate • Liability statement from different parties. • Receivable from different clients. • Other assets statement. • OngykarNama. • GhosonaPotro.	• Three (03) years net income & business transactions. • Performance report with the bank. • Account Statement Form of the bank. • Valuation Certificate. • Particulars of the Proposal. • Particulars of the Mortgagor. • Particulars of the Properties. • Outstanding liability position of the bank. • CIB (Credit Information Bureau) Report.

7) Disbursement Stage:

At this stage, the bank decides to pay out money. Here, the client gets his/her desired fund or goods. It is to be noted that before disbursement a "site plan" showing the exact location of each mortgage property needs to be physically verified.

8) Monitoring & Recovery Stage:

At this final stage of investment processing of the Islami Bank Bangladesh Limited. The bank will contact with the client continually, for example- the bank can obtain a monthly stock report from the client in case of micro investment. Here, the bank will keep his eye on over the investment taker. If needed, the bank will physically verify the client's operations. Also if the bank feels that anything is going wrong then it tries to recover its investment fund from the client.

3.33 Credit Risk Grading followed by IBBL:

Bangladesh Bank instructed all commercial Banks to develop its own credit risk grading system build its Guidelines on Credit Risk Management. In the said Guideline, Bangladesh Bank

provided a sample Risk Grading Model and advised Banks to design their own model in line with that one.

Credit Risk Grading:

IBBL adopts a credit risk grading system. The system defines the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities are assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities are immediately changed. Borrower Risk Grades are clearly stated in Credit Applications. The following Risk Grade Matrix is followed by IBBL which is provided by Bangladesh bank Lending Guidelines. With it, IBBL also follows the Risk Grade Scorecard. The more conservative risk grade (higher) is applied if there is a difference between the personal judgment and the Risk Grade Scorecard results. It is recognized that the banks may have more or less Risk Grades; however, monitoring standards and account management are appropriate given the assigned Risk Grade:

Risk Rating	Grade	Definition
Superior - Low Risk	1	Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentation should be in place.
Good - Satisfactory Risk	2	The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow and have an unblemished track record. All security documentation should be in place. Aggregate Score of 95 or greater based on the Risk Grade Scorecard.
Acceptable - Fair Risk	3	Adequate financial condition though may not be able to sustain any major or continued setbacks. These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. A borrower should not be graded better than 3 if realistic audited financial statements are not received. These assets would normally be secured by acceptable collateral (1stcharge over stocks / debtors / equipment /property). Borrowers should have adequate liquidity, cash flow and earnings. An Aggregate Score of 75-94 based on the Risk Grade Scorecard.
Marginal - Watch list	4	Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Facilities should be downgraded to 4 if the borrower

		incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.
Special Mention	5	Grade 5 assets have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30-60 days, or if a significant petition or claim IS lodged against the borrower. Full repayment of facilities is still expected and interest can still be taken into profits. An Aggregate Score of 55-64 based on the Risk Grade Scorecard.
Substandard	6	Financial condition IS weak and capacity or inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans. Loans should be downgraded to 6 if loan payments remain past due for 60-90 days, if the customer intends to create a lender group for debt restructuring purposes, the operation has ceased trading or any indication suggesting the winding up or closure of the borrower is discovered. Not yet considered non-performing as the correction of the deficiencies may result in an improved condition, and interest can still be taken into profits. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.
Doubtful and Bad (non-performing)	7	Full repayment of principal and interest IS unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as a loss. Assets should be downgraded to 7 If loan payments remain past due excess of 90 days, and interest income should be taken into suspense (non-accrual). Loan loss provisions must be raised against the estimated unrealizable amount of all facilities. The adequacy of provisions must be reviewed at least quarterly on all non-performing loans, and the bank should pursue legal options to enforce security to obtain repayment or negotiate an appropriate loan rescheduling. In all cases, the requirements of Bangladesh Bank in CIB reporting, loan rescheduling and provisioning must be followed. An Aggregate Score of 35-44 based on the Risk Grade Scorecard.
Loss (non-performing)	8	Assets graded 8 are longer outstanding with no progress in obtaining repayment (in excess of 180 days past due) or in the late stages of wind up/liquidation. The prospect of recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for. This classification reflects that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of 35 or less based on the Risk Grade Scorecard

		At least top twenty five clients/obligors of the Bank may preferably be rated by an outside credit rating agency.

3.34 Classification Procedure:

After the date of expiry, if the borrowers do not adjust their loan, IBBL at first gives a notice to them. The period of giving notice depends on the nature of the loan. For continuous loan, IBBL gives notice for three months. For five-year term loan, IBBL gives notice for six months. And for more than five-year term loan, IBBL gives notice for more than 12 months. After giving notice, if the borrower does not repay the loan, the loan will be considered as classified. Pursuant to Bangladesh Bank's Banking Regulation and policy Department's Circular No. 16 (1998), loans and advances are classified both on aging and functional criteria as follows:

Unclassified: The loan account is performing satisfactorily in the terms of its installments and no overdue is occurred. This type of loan and advances are fall into this class.

Classification Status	Length of Overdue	Rate of Provision
Unclassified	Below 3 months	1%

Substandard: This classification contains where irregularities have occurred but such irregularities are temporary in nature. To fall into this class the loan and advance has to fulfill the following factors.

Category of Credit	Time Overdue (Irregularities)
S-T Agriculture & Micro Credit	3 months & above but less than 6 months.
Demand Loan	Not recovered for 3 months & above but less than 6 months from the date of the loan is claimed.
Fixed Term Loan	**Repayable within 5years:** If the overdue installment equals or exceeds the amount repayable within 6 months. **Repayable more than 5years:** If the overdue installment equals or exceeds the amount repayable within 12 months.

The main criterion for a substandard advance is that despite these technicalities or irregularities no loss is expected to rise for the bank. These accounts will require close supervision by management to ensure that the situation does not deteriorate further.

Doubtful: This classification contains where doubt exists on the full recovery of the loan and advance along with a loss is anticipated but cannot be quantifiable at this stage. Moreover if the states of the loan accounts fall under the following criterion can be declared as doubtful loan and advance.

Category	Time Overdue (Irregularities)
Demand Loan	Not recovered for 6 months & above but less than 12 months from the date of the loan is claimed.
Fixed Term Loan	**Repayable within 5years:** If the overdue installment equals or exceeds the amount repayable within 12 months. **Repayable more than 5years:** If the overdue installment equals or exceeds the amount repayable within 18 months.

Bad and Loss: A particular loan and advance fall in this class when it seems that this loan and advance is not collectable or worthless even after all the security has been exhausted. In the following table the criteria to be fulfilled to fall in this category are summarized:

Category	Time Overdue (Irregularities)
Demand Loan	Not recovered more than 12 months from the date of the loan is claimed.
Fixed Term Loan	**Repayable within 5years:** If the overdue installment equals or exceeds the amount repayable within 18 months. **Repayable more than 5years:** If the overdue installment equals or exceeds the amount repayable within 24 months.

Following measures are available for non-repayment of a loan-

- To issue notice for adjustment,
- To issue legal notice for filing suite,
- To ensure cash securities (in case of demand loan),
- To issue legal notice for selling the hypothecated goods,
- To issue suite for foreclosure,
- Finally, to sue in money loan court or insolvency court which is suitable.

3.35 Provision Maintained by IBBL:

General Provision:

The bank will be required to maintain general provision in the following way:

- 1% against all classified loans (other than loans under consumer financing, loans to brokerage house, merchant banks, stock dealers etc. and special mention account).
- 5% of the classified amount of consumer financing whereas it has to be maintained 2% of the classified amount for housing finance and loans for professionals to set up business under consumer financing scheme.

- 2% of the unclassified amount for loans to brokerage house, merchant banks, stock dealers, etc.
- 5% on the outstanding amount of loans kept in the "Special Mention Account" after netting off the amount of interest suspense.
- 1% of the off-balance sheet exposure. (Provision will be on the total exposure and the amount of cash margin or value of eligible collateral will not be deducted while computing off balance sheet).

Specific Provision:

Banks will maintain provision at the following rates in respect of classified continuous, demand and fixed term loan:

- Sub-Standard: 20%
- Doubtful: 50%
- Bad/Loss: 100%

3.36 Capital Structure with Disclosure on Risk Based Capital (Basel III):

Sl	Particulars	BDT in million	
		Solo	Consolidated
i	Fully paid-up-capital	16,099.91	16,099.91
ii	Statutory Reserve	20,735.47	20,735.47
iii	Non-repayable share premium account	1.99	1.99
iv	General reserve	16,866.06	16,891.56
v	Retained earnings	1,609.99	2,749.58
vi	Non-controlling interest in subsidiaries	-	0.28
vii	Dividend equalization fund	32.00	32.00
viii	**Common Equity Tier-1 (i to vii)**	**55,345.42**	**56,510.79**
ix	Less: Regulatory Adjustment (Intangible Assets)	216.44	216.44
x	**Common Equity Tier-1 (viii–ix)**	**55,128.98**	**56,294.35**
xi	Additional Tier-1 (AT1) (Mudaraba Perpetual Bond)	10,175.84	10,175.84
A	**Total Tier-1 Capital (x +xi)**	**65,304.82**	**66,470.19**
i	General Provision (Unclassified investment, SMA and off-balance sheet exposure)	16,041.68	16,041.68
ii	Assets revaluation reserves	5,749.49	5,749.49
iii	Revaluation reserves of securities	40.75	40.75
iv	Mudaraba Subordinated Debt (Non-Convertible Subordinated Bond)	17,000.00	17,000.00
v	**Tier-2 Capital (i to iv)**	**38,831.92**	**38,831.92**

vi	Less: Regulatory Adjustment 100% of Assets revaluation reserves	5,749.49	5,749.49
vii	Less: Regulatory Adjustment 100% of Securities Revaluation Reserve	40.75	40.75
viii	Less: Excess Tier 2 Capital (extent of 88.89% of CET1 in excess of 7% requirement	157.42	-
ix	**Less: Total Regulatory Adjustment (vi + viii)**	**5,947.66**	**5,790.24**
B	**Total eligible Tier-2 Capital (v–ix)**	**32,884.26**	**33,041.68**
C	**Total eligible capital (Regulatory Capital) (A+B)**	**98,189.08**	**99,511.87**

Chapter 04:

Financial Performance Analysis

4.1 Financial Performance Analysis:

Five Years Financial Performance of IBBL

Particulars	2021	2020	2019	2018	2017
Authorized Capital	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
Paid up Capital	16,099.91	16,099.91	16,099.91	16,099.91	16,099.91
Share Premium	1.99	1.99	1.99	1.99	1.99
Reserve Fund	46,851.40	43,902.99	40,941.78	37,186.41	32,619.08
Retained Earnings	1,609.99	1,609.99	1,609.99	1,609.99	1,609.99
Shareholders' Equity	64,561.29	61,612.88	58,651.67	54,896.30	50,328.98
Total Deposit	1,381,979.53	1,179,691.35	946,291.53	822,573.12	755,022.25
Total Investment	1,285,992.40	1,109,395.31	953,150.85	847,370.71	748,672.54
General Investment	1,191,173.00	1,035,287.88	899,013.21	805,760.06	710,728.93
Investment Deposit Ratio	79.74%	80.42%	89.39%	90.80%	87.80%
Total Assets (including Contra)	1,900,838.42	1,624,916.66	1,316,169.23	1,170,422.26	1,069,709.07
Total Assets (excluding Contra)	1,635,992.80	1,416,828.50	1,141,492.97	997,429.60	899,959.78
Fixed Assets	18,378.45	17,809.90	16,186.68	15,346.42	15,475.41

We see in the graph below that the investment of IBBL increase rapid from 2017 to 2021. Even in 2018 & 2019 the total investment is more than total deposit because IBBL has enough surplus cash in hand for investment.



Figure 01: Five Years Deposit and Investment Trend of IBBL.

4.2 Year Wise General Investment Trend:

General investments are stated in the balance sheet on gross basis. General investments and bills purchased and discounted are on the basis of their maturity/ repayment term.

Particulars	2021	2020	2019	2018	2017
General Investment	1,191,173.00	1,035,287.88	899,013.21	805,760.06	710,728.93
Increase/ Decrease	155,885.12	136,274.67	93,253.15	95,031.13	94,310.02
Investment Growth	15.06%	15.16%	11.57%	13.37%	15.30%

Total General Investment of the Bank increased to Tk. 1,191,173.00 million as on 31.12.2021 from Tk. 1,035,287.88 million as on 31.12.2020 showing an increase of Tk. 155,885.12 million, i.e. 15.06% growth. The growth was affected due to the overall economic scenario prevailing throughout 2021. The trend of investment shows near doubling of the figure in 5 years.

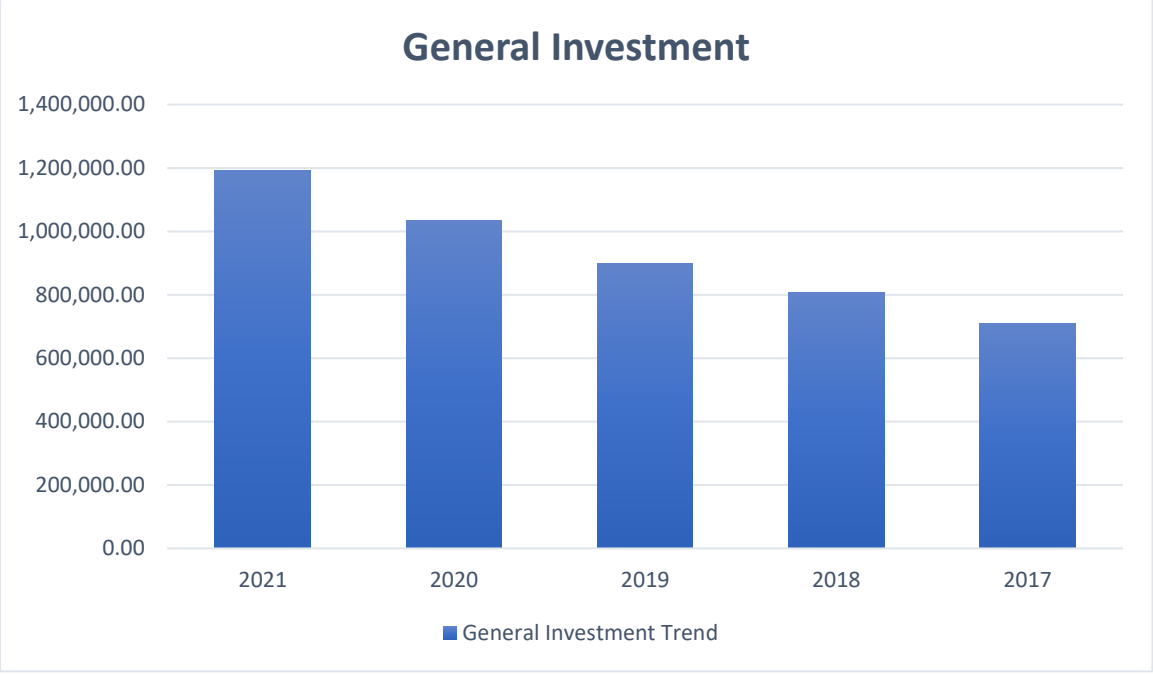
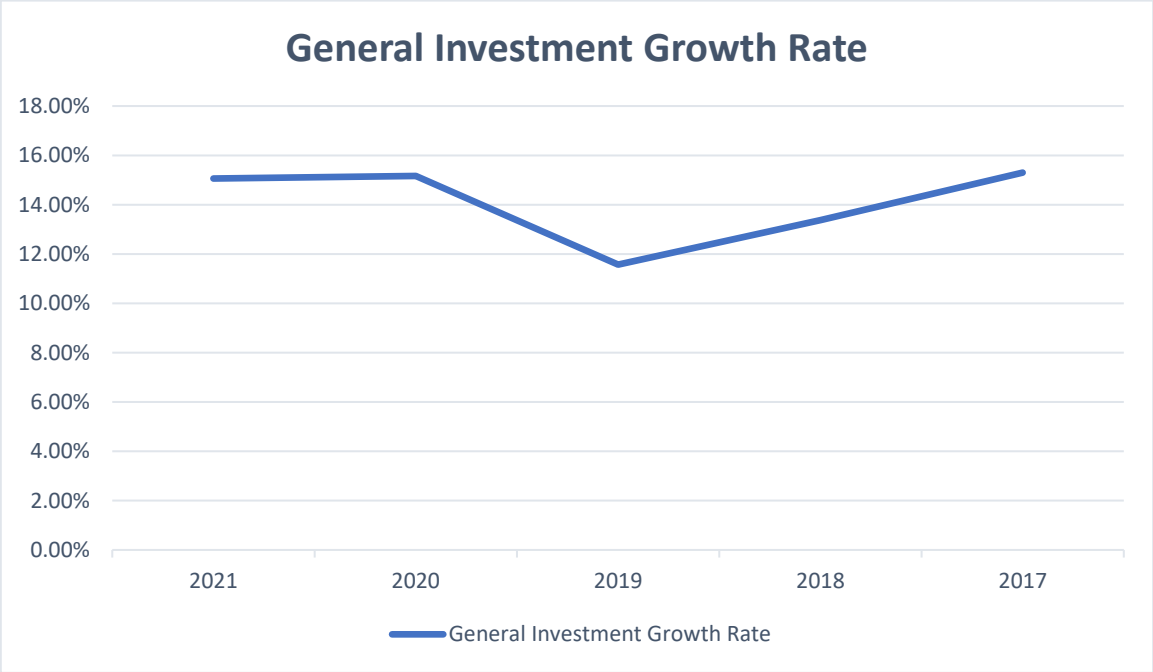


Figure 02: Year Wise General Investment Trend.



From this figure we understand that though investment increase but growth rate fall than that of in the year of 2019. It increases in a slow motion in recent years.

4.3 Investment Deposit Ratio:

An investment deposit ratio is a commonly used statistic for assessing a bank's liquidity by dividing the banks total investments by its total deposits. This number, also known as the IDR ratio, is expressed as a percentage. If the ratio is too high, it means that banks might not have

enough liquidity to cover any unforeseen fund requirements; if the ratio is too low, banks may not be earning as much as they could be.

Particulars	2021	2020	2019	2018	2017
Investment Deposit Ratio	79.47%	80.42%	89.39%	90.80%	87.80%

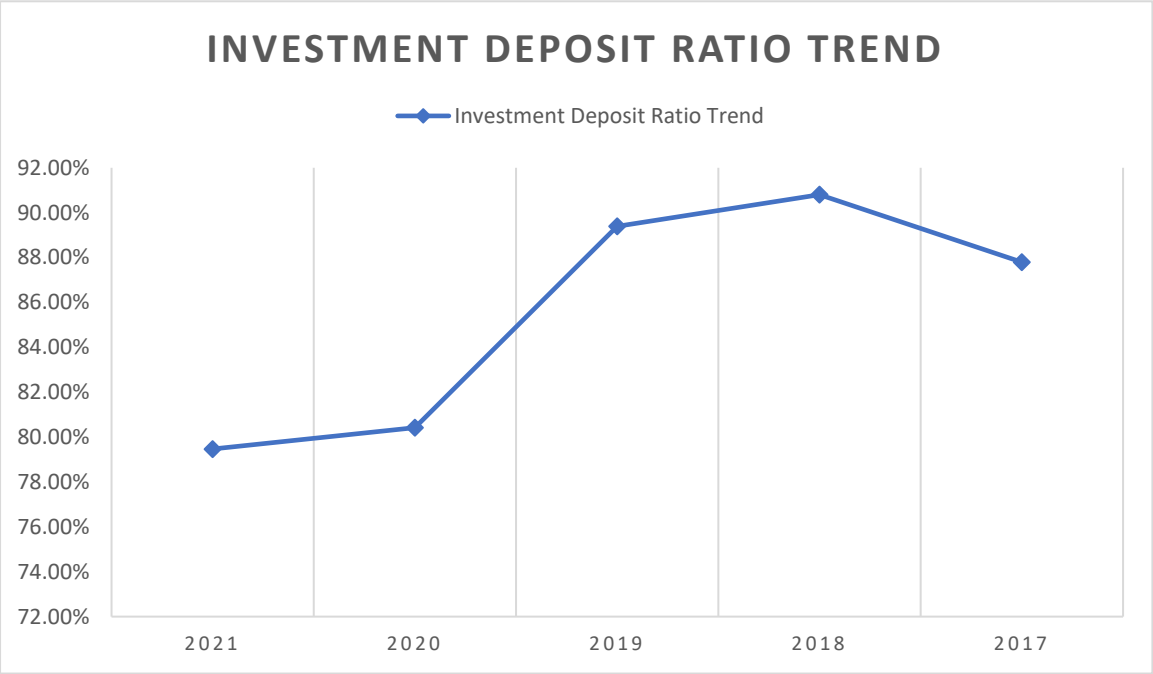


Figure 03: Investment Deposit Ratio Trend.

From the above graph it is seen that the investment deposit ratio of IBBL was fluctuating over the time. By considering the above graph it can be said that the bank is capable to utilize its deposit into an investment that indicates a good sign for the bank. The bank never faced less than 80% of the investment deposit ratio during the last five years and tried to catch 90% of the investment deposit ratio as per the instruction of Bangladesh Bank. Deposit ratio decreased at a steady rate from 2017 to 2021 which indicated that IBBL has enough cash in hand to cover any immediate requirement.

4.4 Sector-wise Investment:

Bangladesh is predominantly farming based economy. Yet the industrial sector in Bangladesh makes a huge contributor to the country's economic growth. Investing 53.25% of its resources in industrial sector, IBBL has been contributing in country's industrialization process and has created a huge employment. e sector-wise investment data are shown in the following graph:

Sector	2021 (in Million Tk.)		2020 (in Million Tk.)	
	Amount Outstanding	% to Total Investment	Amount	% to Total Investment
Industrial	634,313	53.25%	562,743	54.36%
Trade & Commerce	377,472	31.69%	304,478	29.41%
Real Estate	78,280	6.57%	65,914	6.37%
Consumer	31,501	2.64%	39,116	3.78%
Agriculture	35,589	2.99%	29,541	2.85%
Transport	9,551	0.80%	8,192	0.79%
Construction	6,038	0.51%	5,474	0.53%
Others	18,429	1.55%	19,830	1.92%
Total	**1,191,173**	**100.00%**	**1,035,288**	**100.00%**

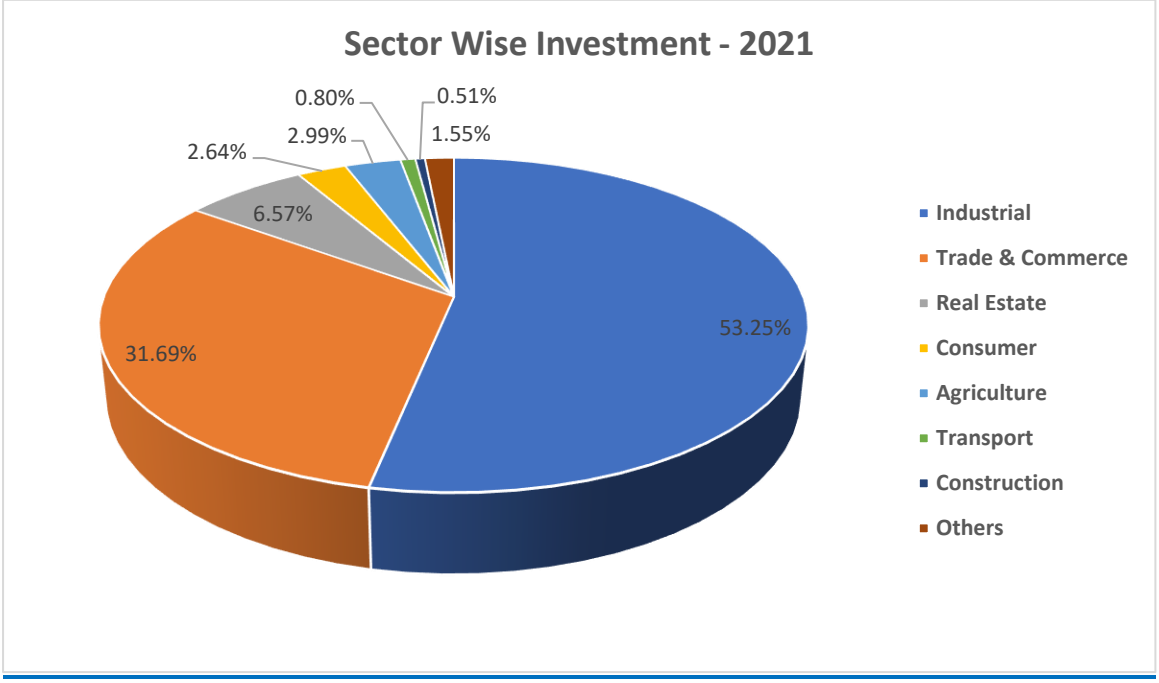


Figure 04: Sector Wise Investment in 2021.

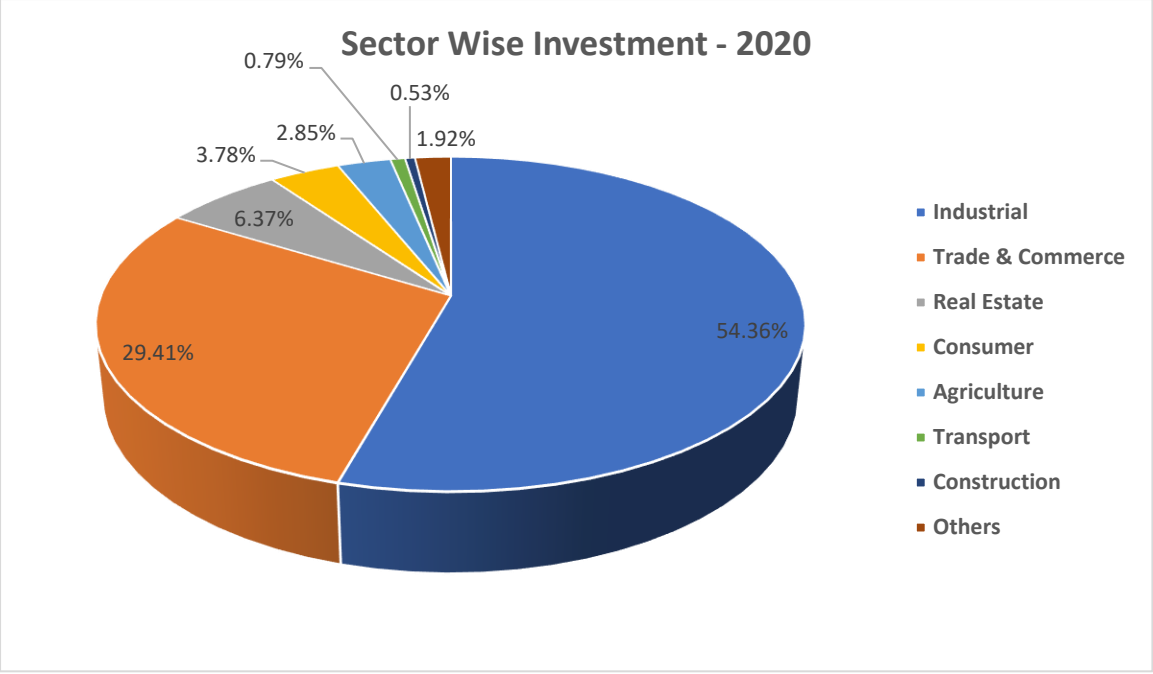


Figure 05: Sector Wise Investment in 2020.

We see in the table that IBBL invests most of its fund in industrial sector which is above 53% of total investment. But trade and commerce development of the country falls under the priority areas of IBBL. The Bank has considerable amount of investment in the trade and commerce sector. Total investment for Project Finance together with Working Capital stood at Tk. 377,472 million as on 31st December 2021 as against Tk. 304,478 million as on 31st December 2020. The Bank has deployed 53.25% of its total investment in industrial sector out of which export oriented trade and commerce industries take a share of 31.69% to total industry. As recent data is not published yet in 2022 we see that more than 53% of its fund is invested in industrial sector.

4.5 Mode-wise Investment:

The essence of IBBL is to provide banking services under shariah principles. IBBL is providing banking services through the following shariah based modes:

Investment Mode	31.12.2021	% to Total Investment	31.12.2020	% to Total Investment
Bai-Murabaha	765,167	64.24%	635,899	61.42%
HPSM	236,818	19.88%	214,847	20.75%
Bai-Muajjal	77,957	6.54%	63,781	6.16%
Quard	35,958	3.02%	44,567	4.30%
Bai-Salam	16,583	1.39%	15,526	1.50%
Bills Purchase & Neg.	53,502	4.49%	55,477	5.36%
Mudaraba	5,000	0.42%	4,800	0.46%

Musharaka	188	0.02%	391	0.04%
Grand Total	**1,191,173**	**100.00%**	**1,035,288**	**100.00%**

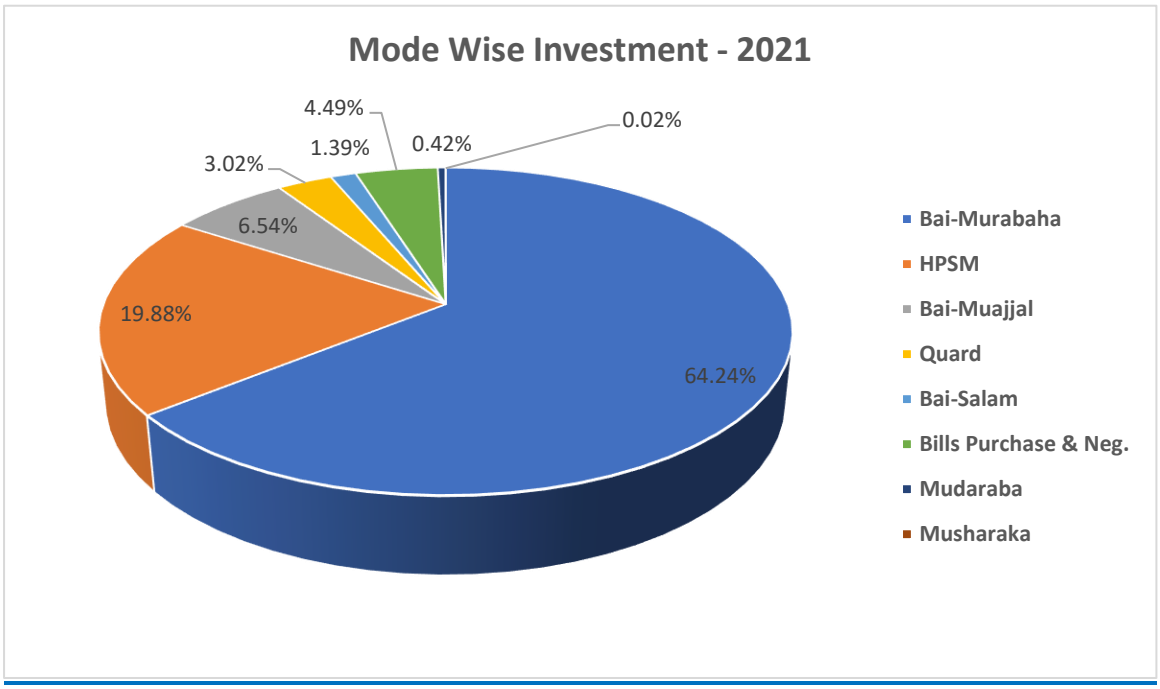


Figure 06: Mode Wise Investment in 2021.

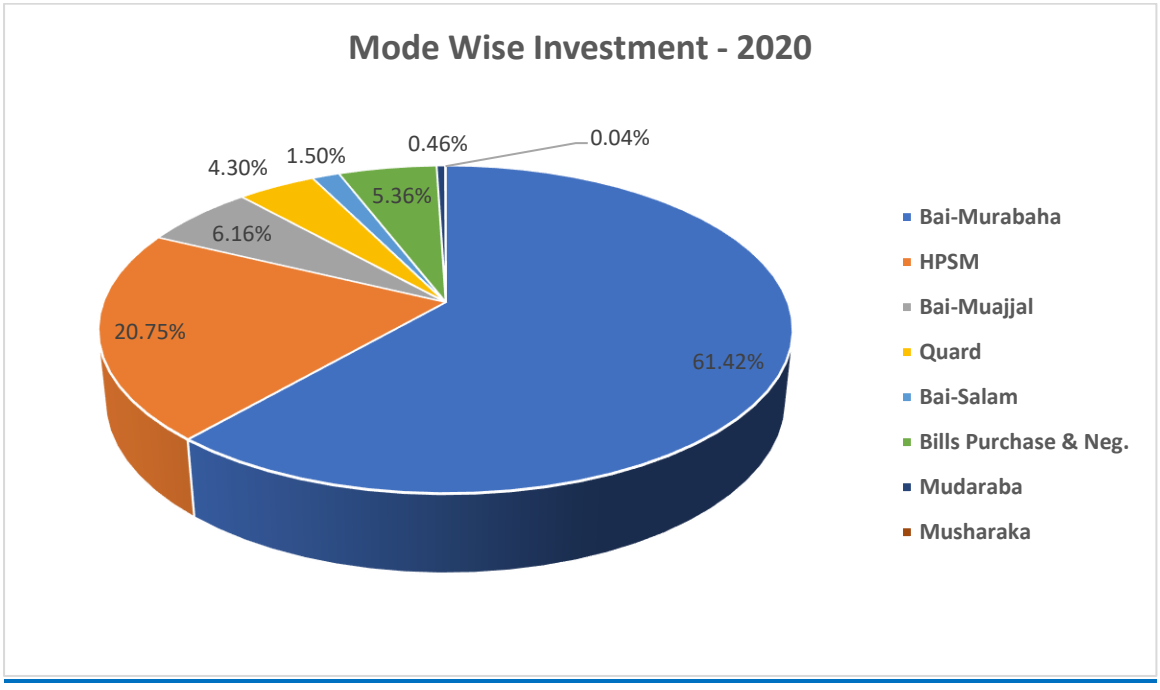


Figure 07: Mode Wise Investment in 2020.

4.6 Welfare Oriented Investment Schemes:

The prime motto of IBBL is to ensure the welfare as well as development of people of all walks. In addition to the usual investment operations, IBBL has aimed at fulfilling finance needs of

different segments of people particularly the under privileged downtrodden and neglected section of population of the country as part of bank's welfare mission under 16 Special Investment Schemes for different groups of people. To improve the living standard of these people some welfare oriented special investment schemes as under have been undertaken:

1) Household Durable Investment Scheme

To facilitate lower-income people of the country IBBL has inaugurated this scheme. They can purchase household requirement like Refrigerator, TV, Motor-cycle, Furniture, Ornaments, computers etc.

2) Housing Investment Program

Housing Investment scheme plays a vital role to improve the living of the lower income people, thereby promoting the equitable and sustain growth of the country. The Scheme not only caters to fulfilling one of the basic needs i.e. shelter but also have significant impact on the lives of the dwellers in terms of skills enhancement, income generation, increased security, health, self-confidence and human dignity.

3) Transport Investment Scheme

IBBL has introduced Transport Investment Scheme to improve the existing transportation problem and to ensure speedy economic growth and development of the country, the bank has financed of Tk. 9,505 million in this sector particularly through expansion of trade, commerce and industry.

4) Car Investment Scheme

IBBL has designed the scheme for the mid and high ranking officials of the government and semi government organizations, corporations, executives and directors of big business houses and companies and for persons of different professional groups through on easy payment terms and conditions.

5) Investment Scheme for Doctors

The scheme has been offered for fresh medical graduates intending to set up medical and Pathological centers to boost up the health of the rural and urban people through-out the country. IBBL comes forward with finance to help procure medical equipment or to set up diagnostic laboratory, pharmacy, clinic etc.

6) Small Business Investment Scheme

To strengthen the small business persons and entrepreneurs, IBBL has launched the scheme and it is contributing a lot to generate income and employment as well as to develop the living standard by taking easy and comfortable condition. The Bank provided finance in this sector for purchasing different types of grocery items, goods for operating small trade and finance etc. under this scheme.

7) Agricultural Implements Investment Scheme

The Bank has introduced this scheme keeping in view the people-orientation and welfare objectives of the Bank. Under the scheme, power tillers, power pumps, shallow tube-wells, thresher machines, agricultural instruments etc. are provided on easy terms and conditions to the unemployed rural youths for self-employment and generate the income.

8) Micro-Industries Investment Scheme

Micro Industries investment Scheme aims to spread the establishment of a wider base micro and cottage industries through- out the country. IBBL financed different potential business areas of the country to diversify the Bank's investment portfolio.

9) Rural Housing Investment Scheme

To extend housing facility to the rural people living within 10 kilometers area of any IBBL branch office financed by very easiest scheme named "Palli Griha Nirman Biniyog Prakalpa". Service holders at public, semi-public or autonomous institutions, non-resident Bangladeshis and businesspersons are preferred for such kind of investment.

10) Women Entrepreneurs Investment Scheme

Islami Bank has always given priority for developing the women entrepreneurs. Under 'Women Entrepreneurs Investment Scheme (WEIS)' IBBL offers collateral free investment up to Tk. 0.50 million with some other flexible terms & conditions to the women.

11) NRB Investment Scheme

IBBL has launched NRB Entrepreneurs Scheme for promoting investment among non-resident Bangladeshi and for encouraging them to remit money through banking channel. Expatriates

aged between 18 to 60 years or their family members who maintain accounts with IBBL for remitting money are eligible for the investment.

12) Cluster Investment Scheme

With a view to bringing the unbanked people under banking net, fulfilling the functions of financial inclusion, familiarizing welfare activities of the Bank, responding timely to changing economic landscape and consolidating the brand image of IBBL as small entrepreneur friendly bank, IBBL has launched a new investment product in the name & title of "Cluster Investment Scheme". Cluster is a concentration of interrelated industries in a particular geographical location. In particular, many industries of Bangladesh are recognized as models for clusters, these include automobile parts, jewellery, furniture, shoe making etc.

13) Freelancer Investment Scheme

To promote IT sector of the country, to ensure more employment of the educated young generation and to facilitate the sustainable economic development of the country bank has launched a new investment IT based product named Freelancer Investment Scheme.

14) Rural Transport Investment Scheme (RTIS)

To develop entrepreneurship from low income group e.g. Rickshaw Pullers, Drivers of Three Wheeler Auto & Tempo (CNG/Diesel), Mini Pick-up Van to supply adequate rural transport to mitigate the shortage of transport of the country bank has launched this investment transport based product.

15) Work Order Financing Scheme

In order to encourage new entrepreneurs, to enrich and diversify bank’s investment portfolio and to enhance financial inclusion of the Bank as well as to facilitate infrastructural development of the country Bank has launched an investment product in the name of Work Order Financing Scheme. Sometimes Bills are not released in-time; some projects may fail their commitment for shortage of fund to mitigate this IBBL go-forth in this situation.

16) Light Engineering Investment Scheme

The management of IBBL has privileged to penetrating new potential markets, diversifying investment for achieving balanced growth and sustainable development through Solar Panel and energy bulbs etc, bank launched this investment product.

4.7 Scheme-wise Investment Outstanding:

Special Scheme	31.12.2020			31.12.2021		
	Amount	% to Sp. Schemes	% to Gen. Investment	Amount	% to Sp. Schemes	% to Gen. Investment
RDS	36,772	28.99%	3.63%	45,824	31.22%	3.89%
HIP	24,468	19.29%	2.41%	27,595	18.80%	2.34%
SHBIS	26,592	20.97%	2.62%	27,690	18.86%	2.35%
WEIS	321	0.25%	0.03%	260	0.18%	0.02%
Transport (TIS)	7,986	6.30%	0.79%	7,606	5.18%	0.65%
RE (Developers)	15,275	12.04%	1.51%	19,149	13.05%	1.63%
AIIS	6,556	5.17%	0.65%	8,152	5.55%	0.69%
SBIS	3,964	3.13%	0.39%	5,221	3.56%	0.44%
PGNBP	2,018	1.59%	0.20%	1,767	1.20%	0.15%
HDS	1,744	1.37%	0.17%	2,190	1.49%	0.19%
SHDS	950	0.75%	0.09%	1,075	0.73%	0.09%
CIS	106	0.08%	0.01%	182	0.12%	0.02%
HBIS	57	0.05%	0.01%	60	0.04%	0.01%
ISD	14	0.01%	0.00%	18	0.01%	0.00%
MIIS	1	0.00%	0.00%	1	0.00%	0.00%
Total	**126,823**	**100.00%**	**12.50%**	**146,790**	**100.00%**	**12.47%**

4.8 Classified Investment & Provision:

Classifying investment under various heads such as, unclassified, sub-standard, and doubtful or bad/loss through verification of borrower's repayment is needed to know the status of the loan. It is essential to determine the financial health and efficiency of a bank. In order to get rid of default loans Bangladesh bank introduced a circular (BCD circular No. 34) on 1989 for classification & provision of loan.

Particulars	2021	2020	2019	2018	2017
Classified Investment	39,387.11	35,259.10	34,384.54	34,384.54	25,518.61
Classified Investment to Total Investment	3.31%	3.41%	3.82%	4.12%	3.59%
Provision against Classified Investment	24,902.75	23,572.03	23,994.33	17,441.34	15,020.40

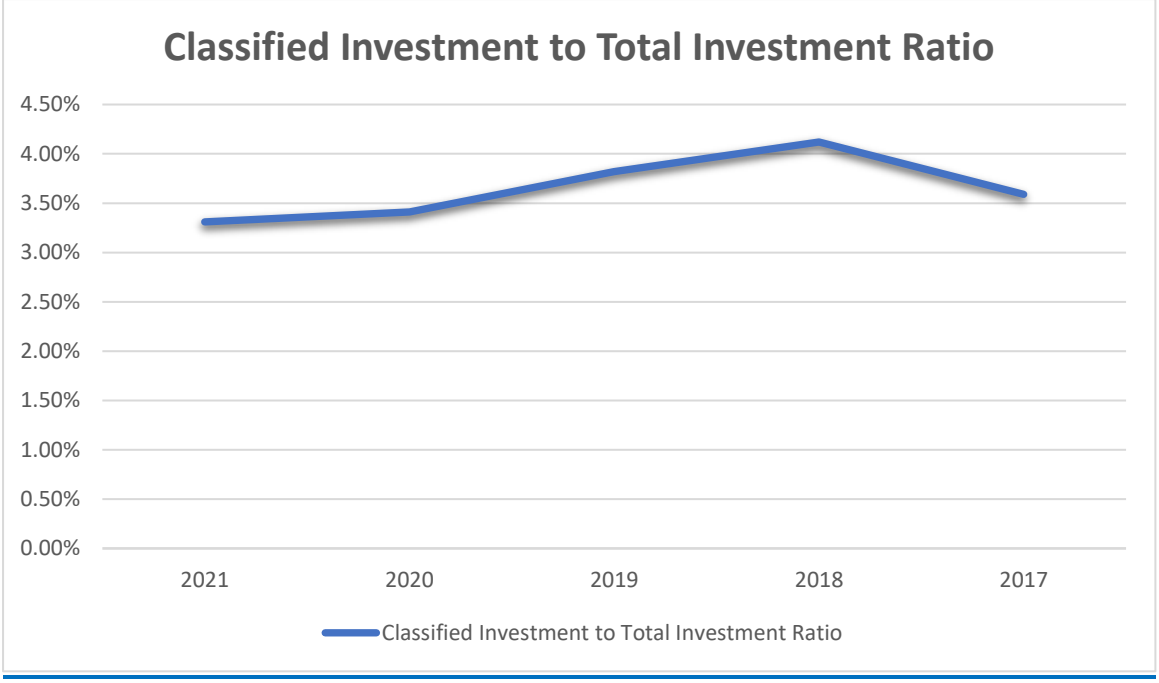


Figure 08: Classified Investment to Total Investment Ratio.

From the above figure we see that classified investment to total investment is increase at a slow rate from 2017 to 2018 and decrease at a slow rate from 2019 to 2021 though it was a little bit high in 2018. According to Basel III Accord imposed and regulated by Bangladesh Bank, IBBL kept required provision against classified investment as well as a general provision against unclassified investment and off balance sheet items.

4.9 Investment Trend in Micro Investment & Micro Enterprise Investment:

02 types of investment facilities are being provided to the beneficiaries namely (a) Micro-investment: Collateral-free investment maximum Tk.150,000/- for the RDS members and (b) Micro-Enterprise Investment: Investment with collateral security maximum Tk.700,000/- for the graduated micro-clients and newly inducted local Micro-Entrepreneurs. We also extend Quard-al-Hasana to the eligible RDS clients for setting up tube-well, sanitary latrine. Quard-al-Hasana is also provided for rehabilitation purposes in case of natural and social disasters up to Tk.10,000/- and rehabilitation of the hardcore poor who are not the member of RDS under welfare activities up to Tk.5,000/-.

Comparative position of growth of client under Micro-Investment (MI) and Micro-Enterprise Investment (MEI) of the schemes in the last 5 years:

Particulars ➢	MI Clients	MEI Clients	Total Clients
2017	573,076	84,309	657,385
2018	537,824	87,708	625,532
Growth	(6%)	4%	(5%)
2019	593,235	93,999	687,234
Growth	10%	7%	10%
2020	618,102	89,388	707,490
Growth	4%	(4%)	3%
2021	705,912	92,534	798,446
Growth	14.21%	3.52%	12.86%

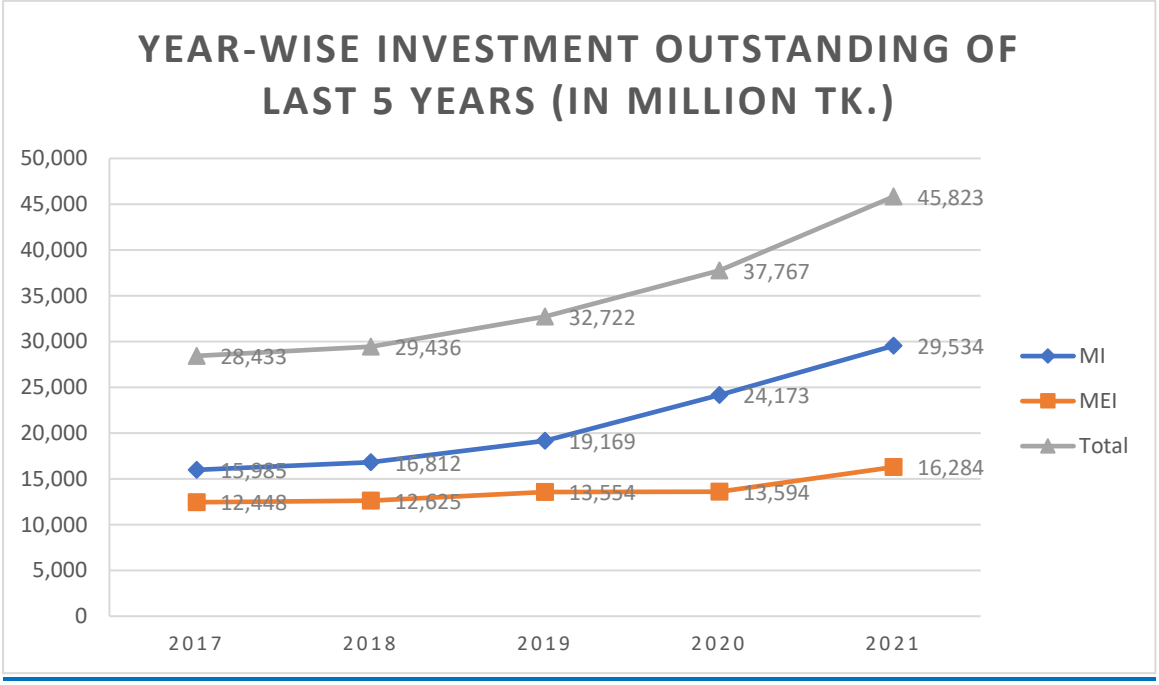


Figure 09: Year Wise Investment Outstanding of Last 5 Years.

4.10 Area-wise Distribution of Exposures of Investment:

Particulars	BDT in Million (as on 31.12.2021)
In Rural Areas	78,140.90
In Urban Areas	1,113,032.10
Total	**1,191,173.00**

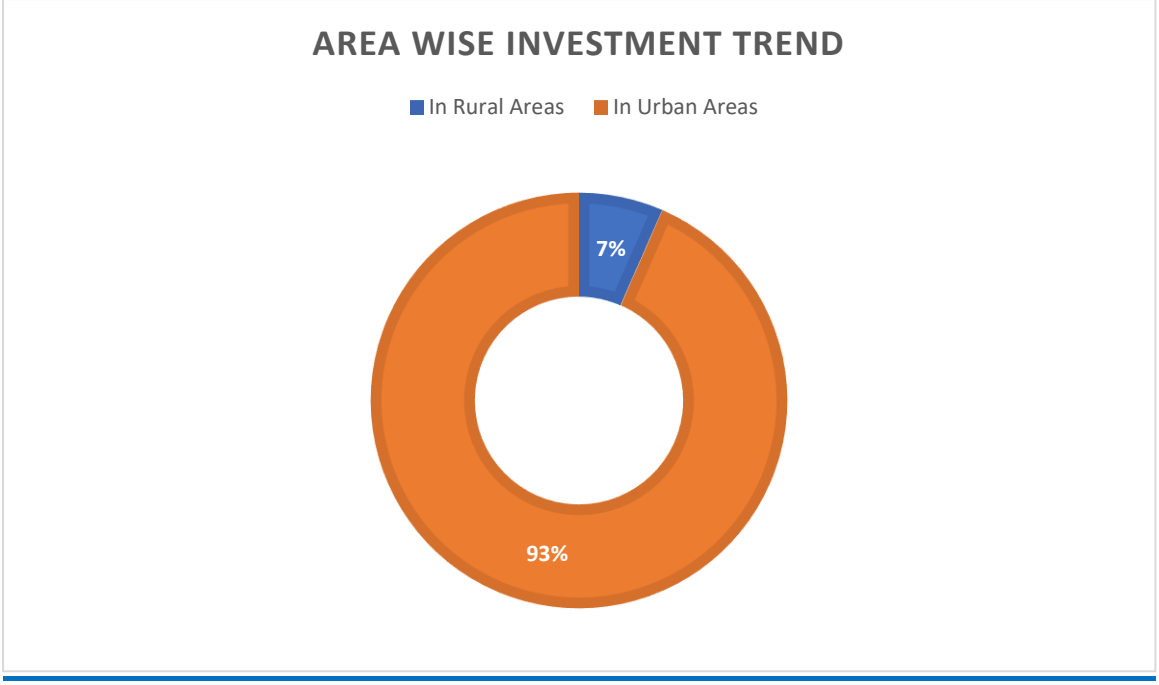


Figure 10: Area Wise Investment Trend.

4.11 Division-wise Distribution of Investment:

Particulars	BDT in Million (as on 31.12.2021)
Dhaka Division	551,990.00
Chittagong Division	378,911.87
Khulna Division	65,633.59
Rajshahi Division	109,706.96
Barisal Division	15,723.47
Sylhet Division	15,961.71
Rangpur Division	37,045.46
Mymensing Division	16,199.94
Total Investment	**1,191,173.00**

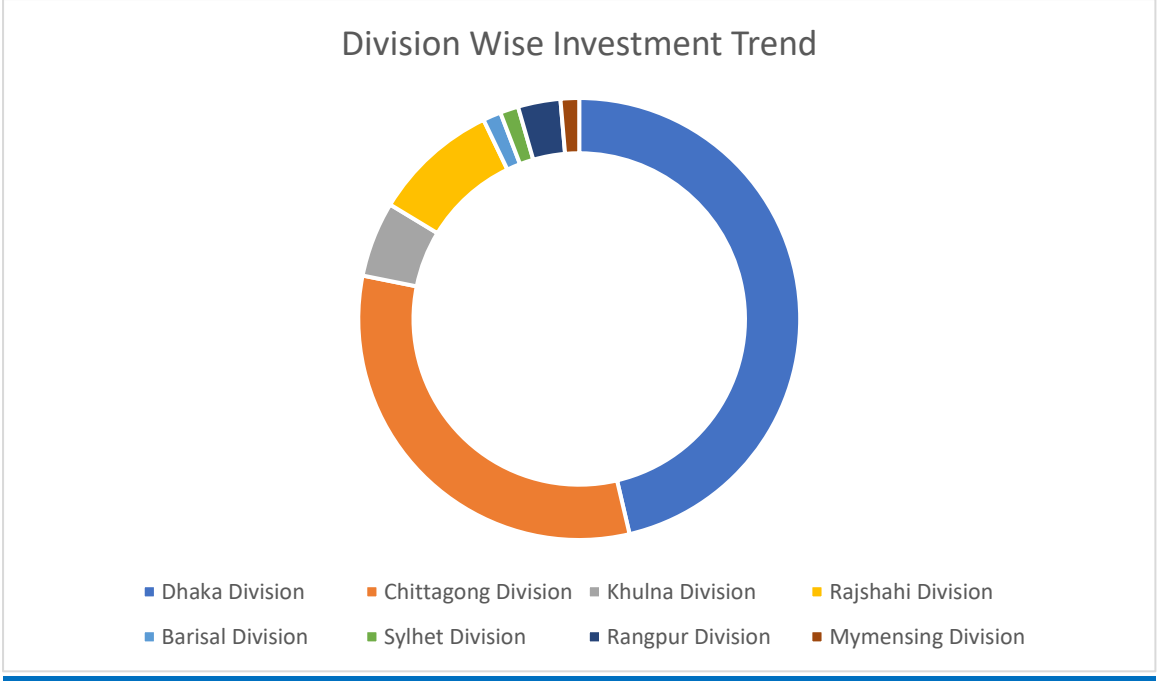


Figure 10: Division Wise Investment Trend.

From the table and graph we can see that more than 40% of total investment was distributed in Dhaka Division. It was happened due to the position of country's commercial hubs in Dhaka as well as maximum headquarters of different organizations are situated in Dhaka. Chittagong Division was in the second position for the same reasons. Others divisions got a lower distribution of investment due to the unwillingness of the bank besides less demand for investment aroused in these divisions.

4.12 Different Efficiency Ratio Analysis:

Particulars	2021	2020	2019	2018	2017
Gross Profit Ratio	49.09%	47%	49.01%	51.03%	53.12%
Cost of Fund	6.17%	7.03%	8.31%	8.02%	7.62%
Cost Income Ratio/Efficiency Ratio	0.81%	0.82%	0.75%	0.74%	0.75%
Return on Equity (ROE)	7.19%	7.38%	9.39%	11.07%	9.63%
Return on Average Assets (ROA)	0.30%	0.35%	0.50%	0.74%	0.55%
Price Earning Ratio (Times)	11.11	9.54	5.77	6.42	11.62
Spread	3.23%	2.63%	2.93%	3.80%	3.23%
Cash Reserve Requirement (CRR)	16.48%	17.05%	6.17%	6.19%	9.20%
Statutory Liquidity Ratio (SLR)	19.84%	19.86%	6.88%	7.01%	9.24%
Liquidity Coverage Ratio (LCR)	311.57%	253.79%	327.62%	169.05%	127.49%
Net Stable Funding Ratio (NSFR)	107.51%	105.75%	105.59%	110.09%	108.47%
Non Investment Income to Total Income	14.21%	9.70%	14.05%	13.44%	14.64%

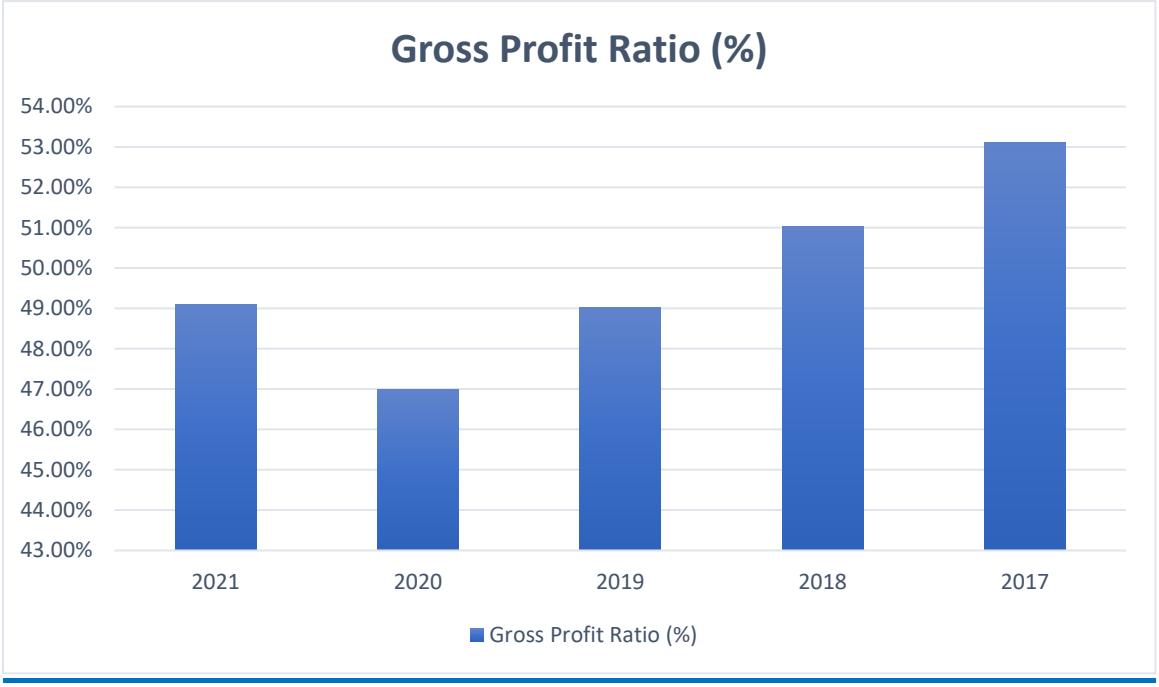


Figure 11: Gross Profit Ratio (%) Trend.

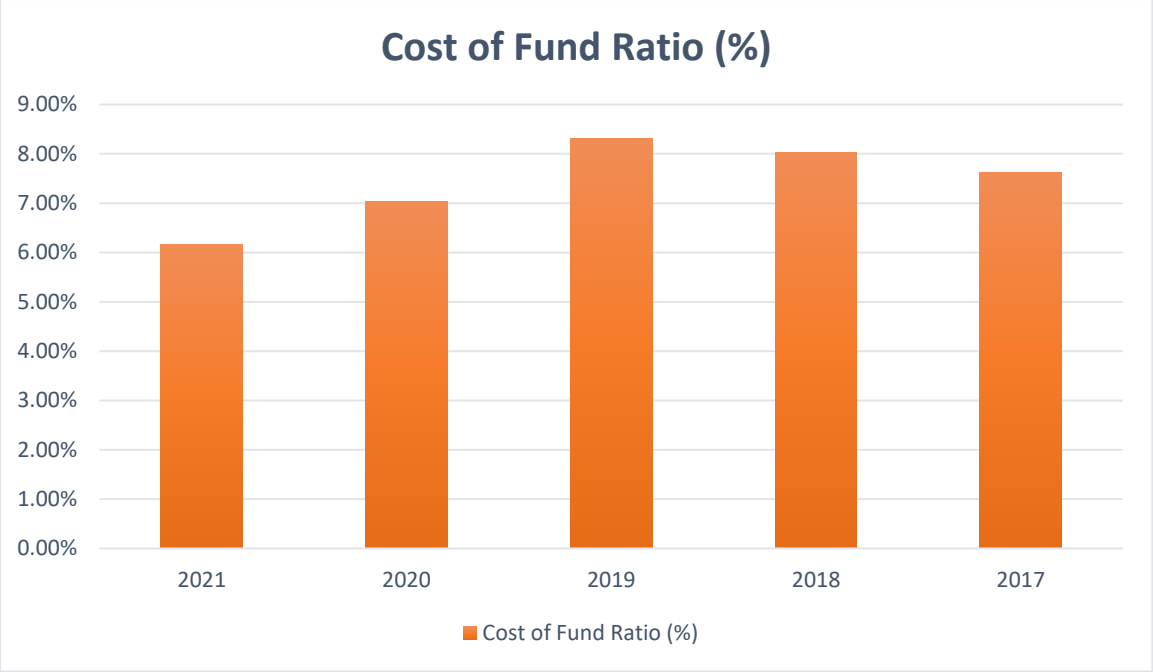


Figure 12: Cost of Fund Ratio (%) Trend.

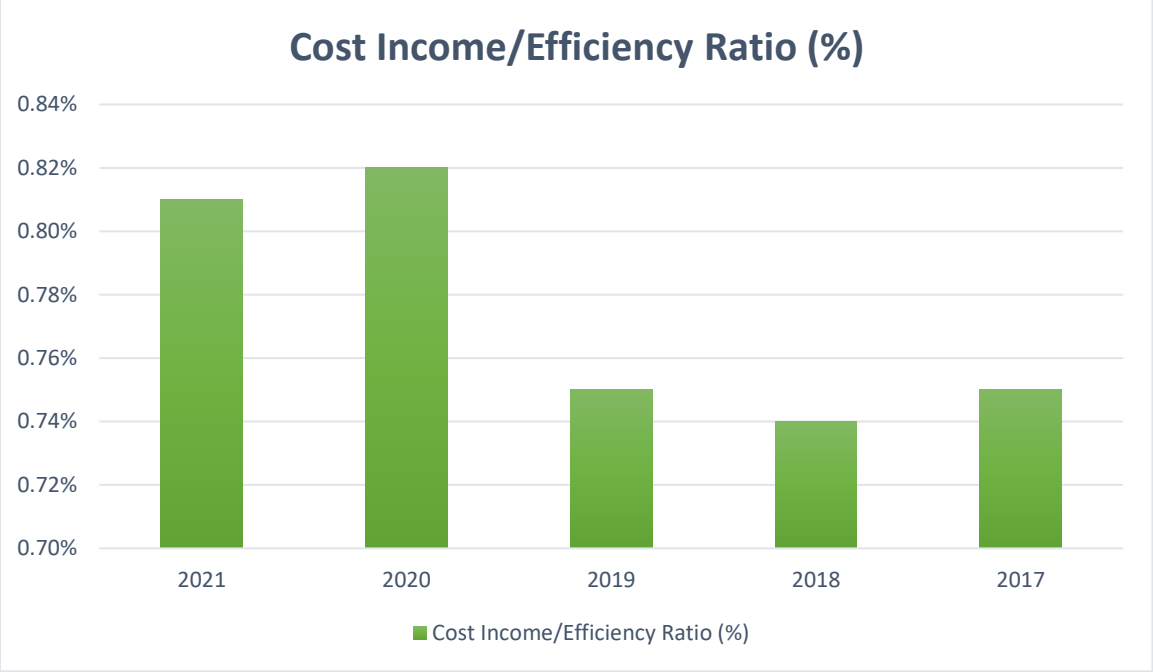


Figure 13: Cost Income/Efficiency Ratio (%) Trend.

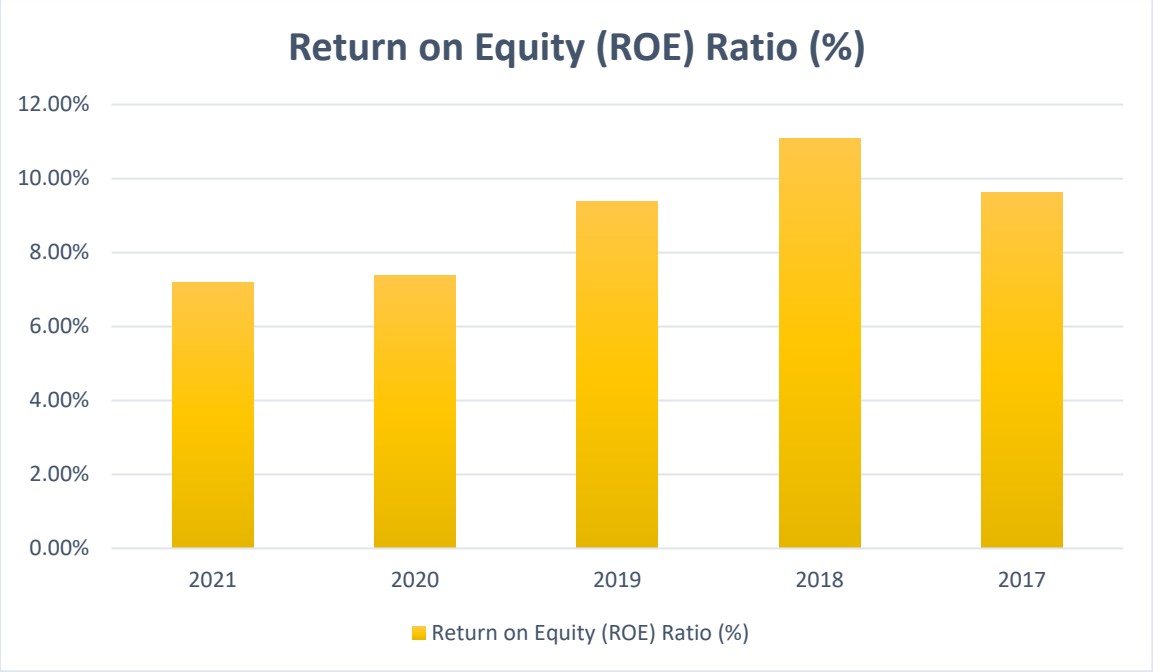


Figure 14: Return on Equity (ROE) Ratio (%) Trend.

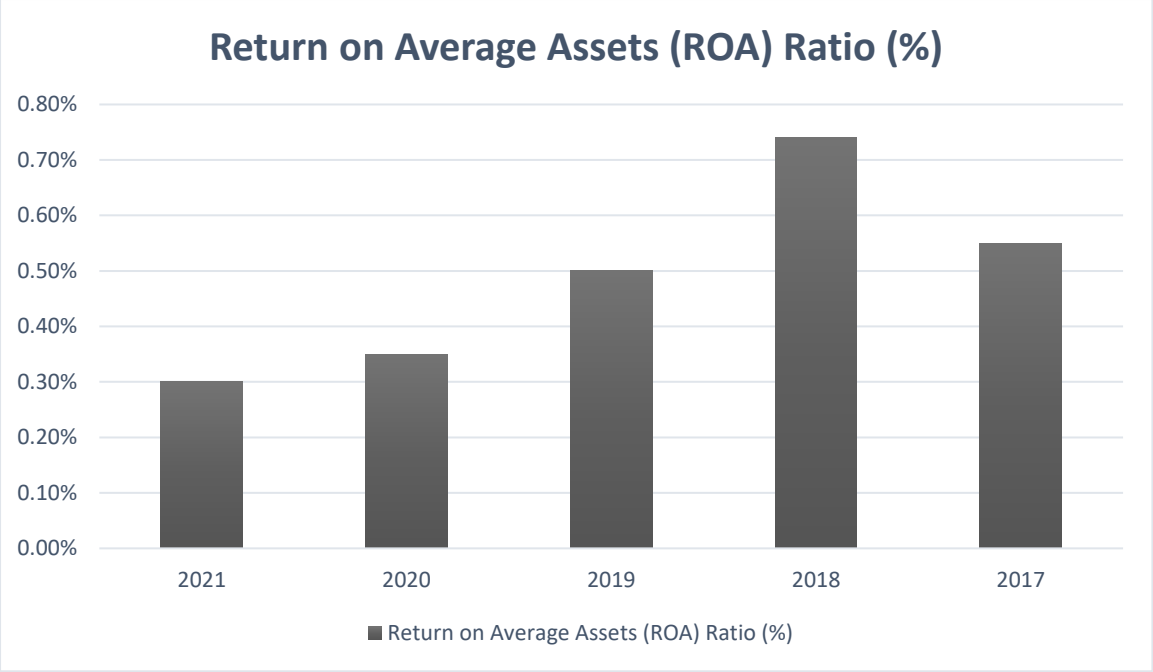


Figure 15: Return on Average Assets (ROA) Ratio (%) Trend.



Figure 16: Price Earning Ratio (Times) Trend.

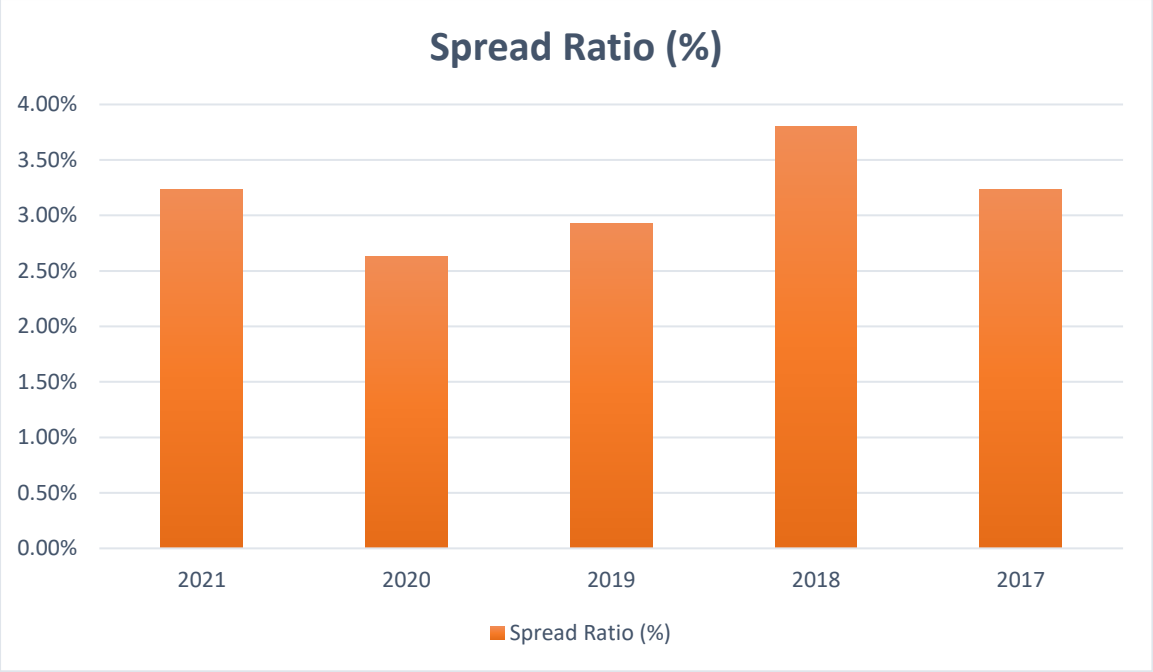


Figure 17: Spread Ratio (%) Trend.



Figure 18: Cash Reserve Requirement (CRR) Ratio (%) Trend.

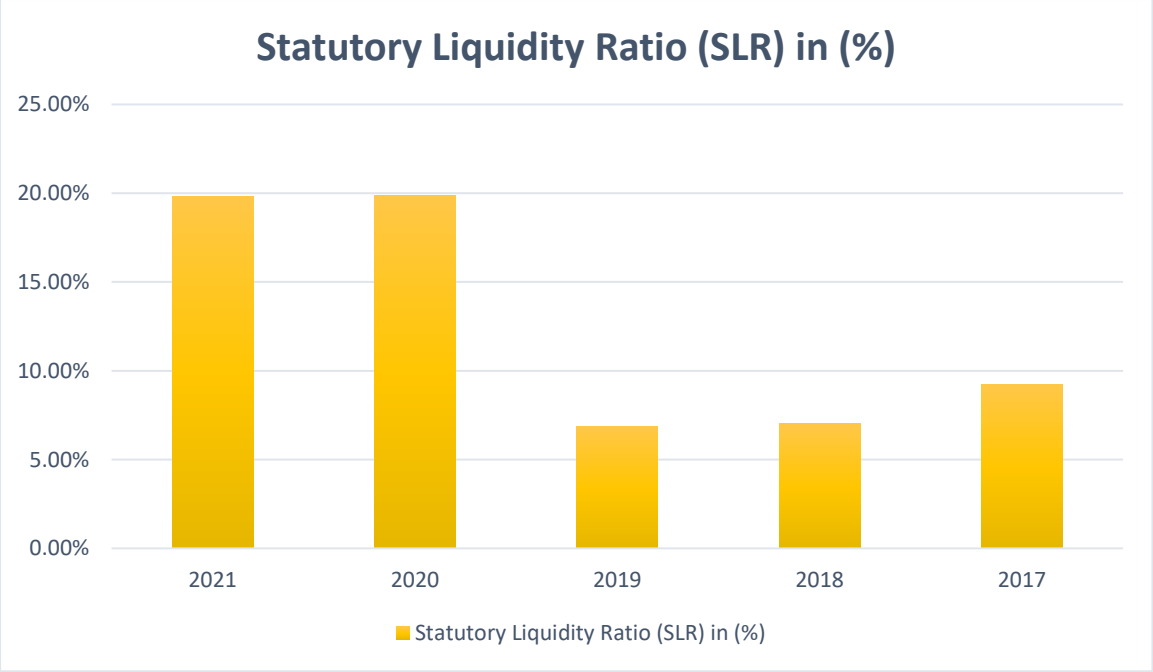


Figure 19: Statutory Liquidity Ratio (SLR) in (%) Trend.

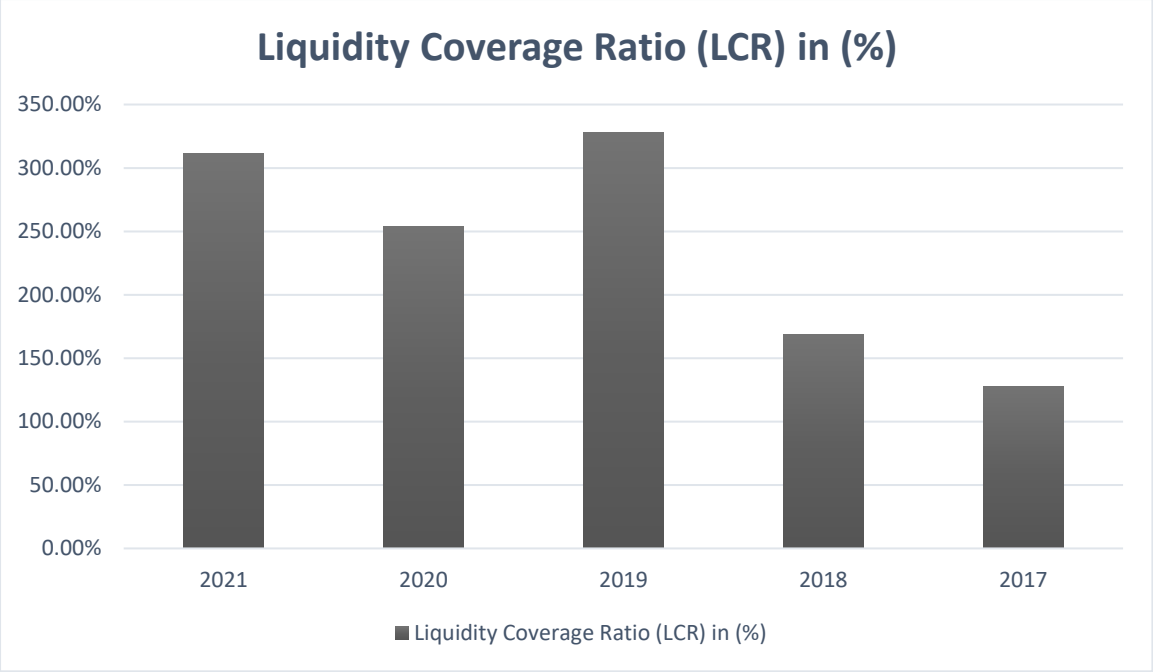


Figure 20: Liquidity Coverage Ratio (LCR) in (%) Trend.

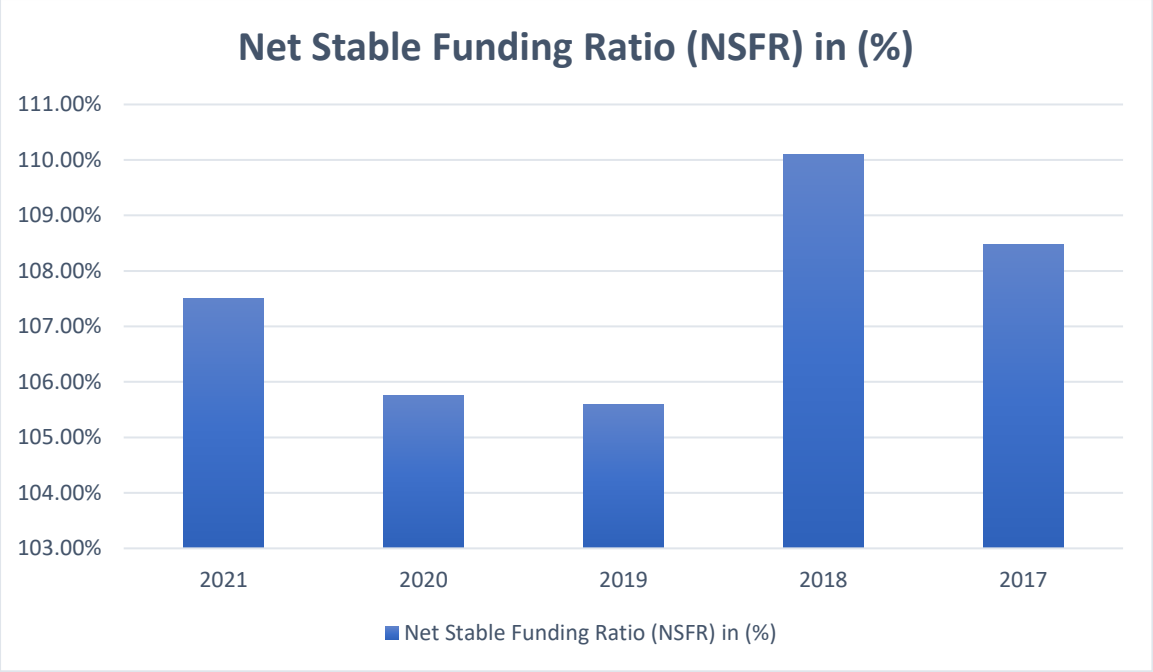


Figure 21: Net Stable Funding Ratio (NSFR) in (%) Trend.

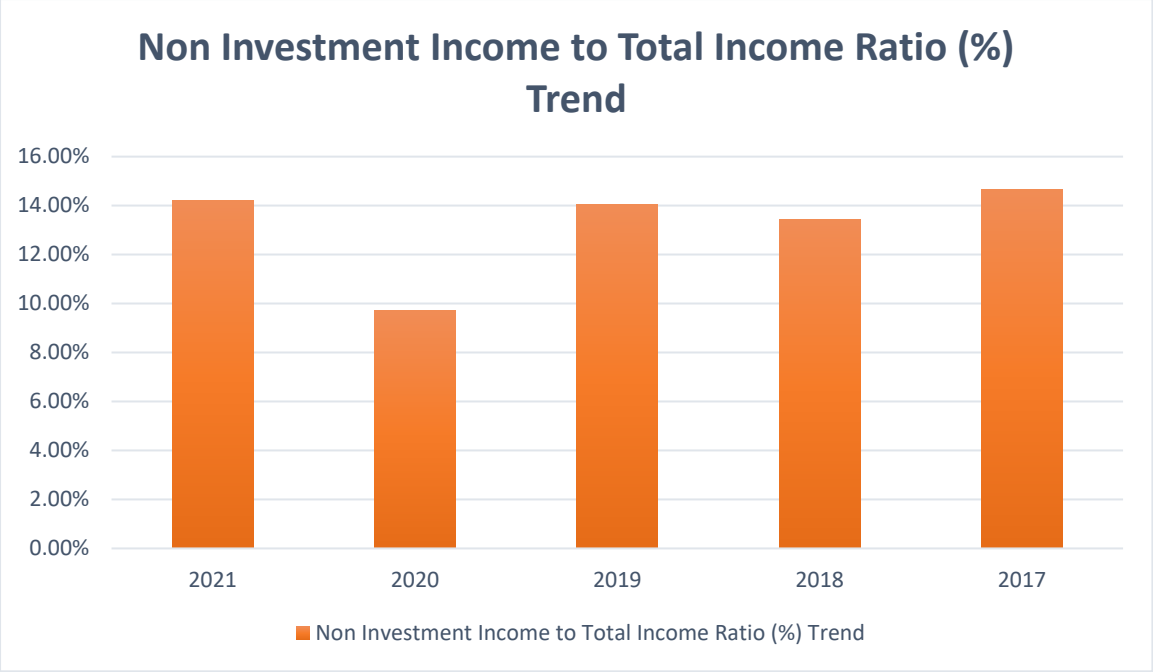


Figure 22: Non Investment Income to Total Income Ratio (%) Trend.

4.13 Earning Per Share (EPS):

Particulars	2021	2020	2019	2018	2017
Earning Per Share (EPS) in Taka	2.88	2.81	3.31	3.77	2.91

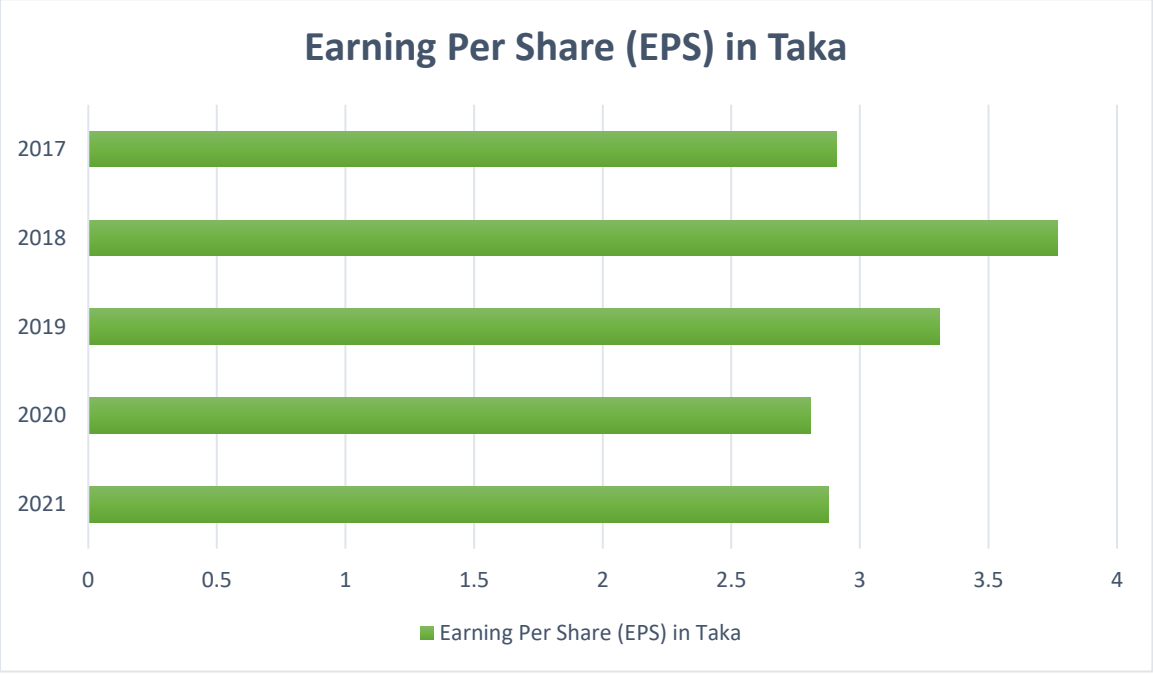


Figure 23: Earning Per Share (EPS) Trend.

Like other financial fall down results the EPS also fall down from 2018 to 2021 drastically. EPS was decreased almost 50% within these five years.

4.14 Net Profit:

Particulars	2021	2020	2019	2018	2017
Profit Before Tax (Million Taka)	11,441	10,689	14,100	13,701	13,701
Profit After Taxes (Million Taka)	4,639	4,521	5,328	6,075	4,693

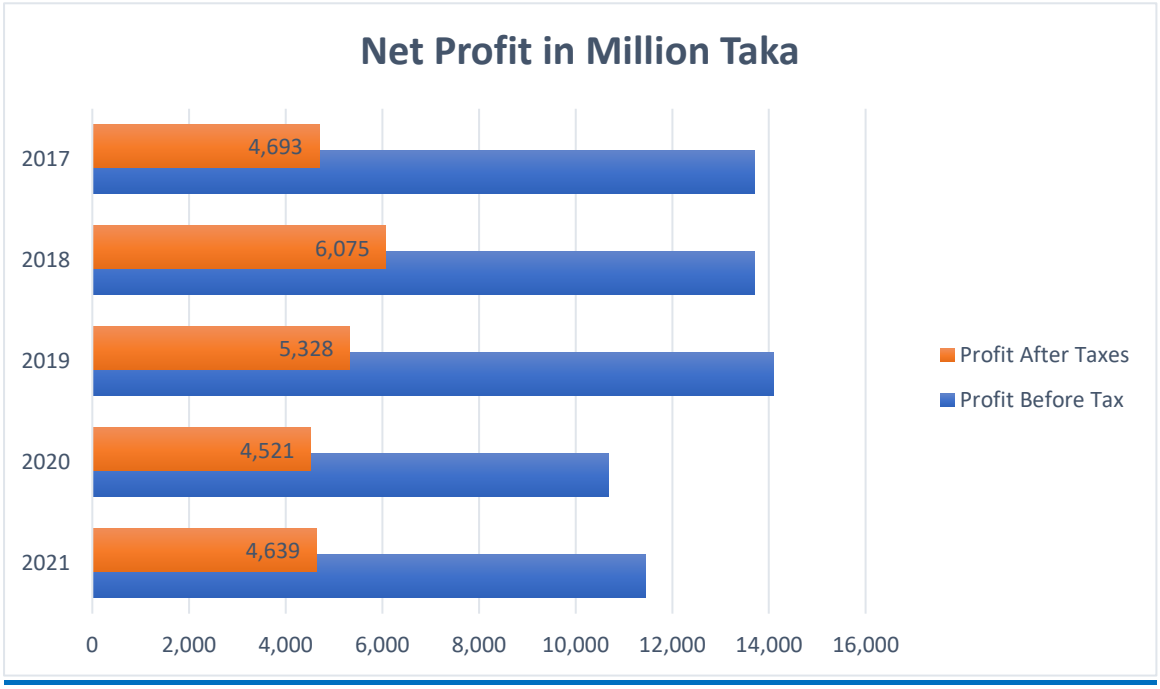


Figure 24: Net Profit Before Tax & After Taxes Trend.

Net profit also fluctuated from the year 2017 to 2021 and in 2020 it was the lowest net profit in these five years which indicated that financial profitability became worse.

4.15 Capital Adequacy Ratio:

Capital Adequacy Ratio, also known as Capital to Risk (Weighted) Assets Ratio (CRAR), is a ratio of a bank's capital to its risk. National regulators track a bank's CAR to ensure that it can absorb a reasonable amount of loss and complies with statutory capital requirements.

Particulars	2021	2020	2019	2018	2017
Capital Adequacy Ratio	13.54%	13.55%	12.95%	11.97%	11.30%

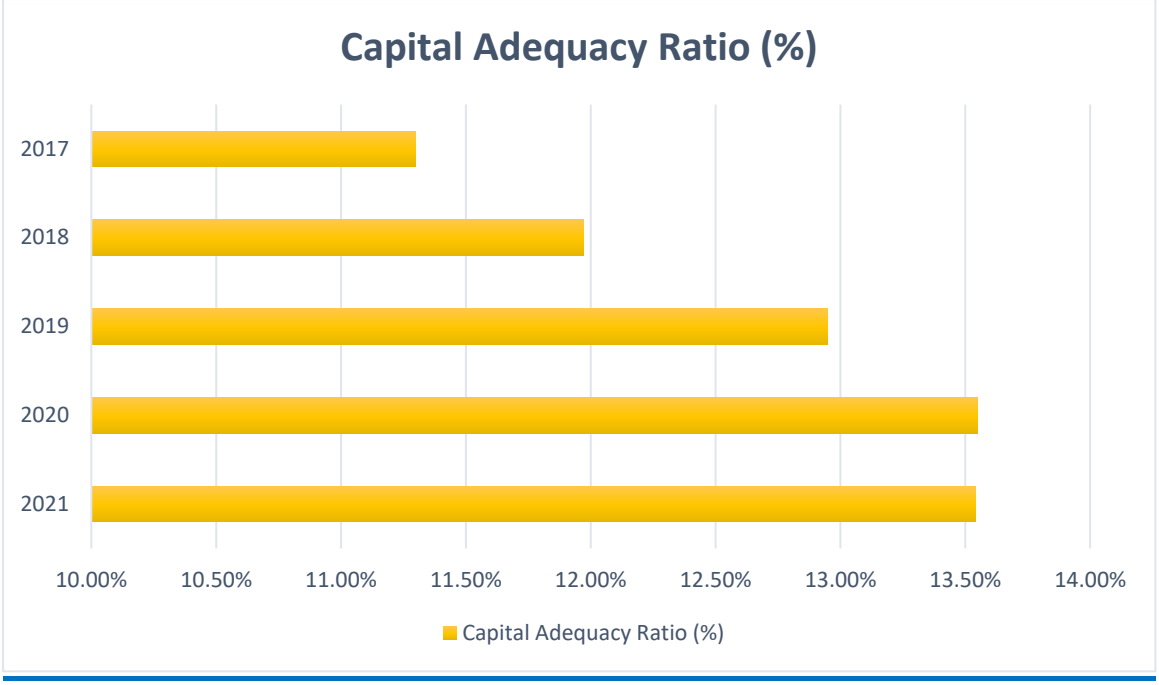


Figure 25: Capital Adequacy Ratio (%) Trend.

Capital Adequacy Ratio determines the capacity of the bank in terms of meeting the liabilities and other risk such as credit risk, operational risk etc. Generally, 10% is an acceptable line for this ratio in that senses the bank was good enough to maintain this requirement. Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III) as provided by BRPD of Bangladesh Bank is followed by IBBL while managing excessive on and off-balance sheet leverage of the bank. As per RBCA Guidelines, leverage ratio is being calculated as Tier I Capital divided by Total Exposure (on and off-balance exposures) after related deductions. Though it decreases in recent year from 2017 to 2021 the bank's capital adequacy ratios were above 11% all the time indicates that the bank's capacity to meet the liabilities and other risk such as credit risk, operational risk were satisfactory.

4.16 Return on Investment:

Return on Investment is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

Particulars	2021	2020
Return on Investments	6.32%	7.40%

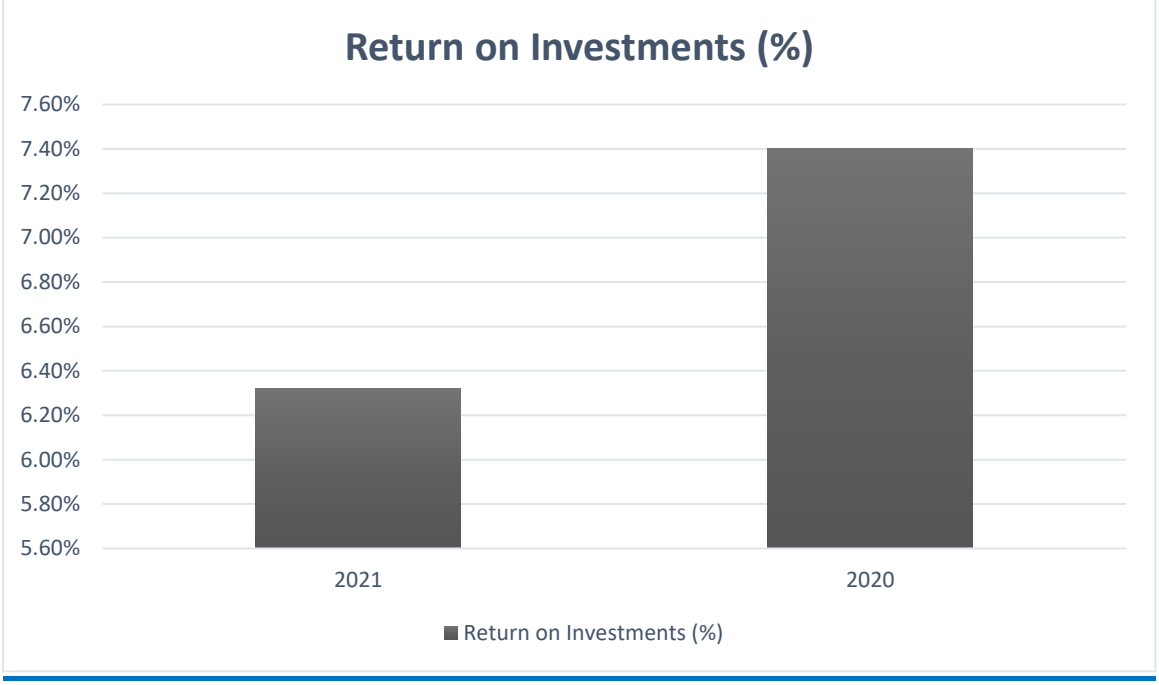


Figure 26: Return on Investments (%) for the year Ended 2020 & 2021.

Return on Investment (ROI) ratios of Islami Bank Bangladesh Limited were fluctuating over the period of 2020 & 2021. In 2020 bank's return on investment ratio was 7.40% which decreased in the following year and it was 6.32% in 2021. It happened because the bank's decreased gain from the investment and increased cost of investment simultaneously. So, the bank did not do an excellent investment business during this period with different types of strategies and policies.

4.17 Return on Asset:

Return on Asset is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage.

Particulars	2021	2020
Return on Assets	0.30%	0.35%

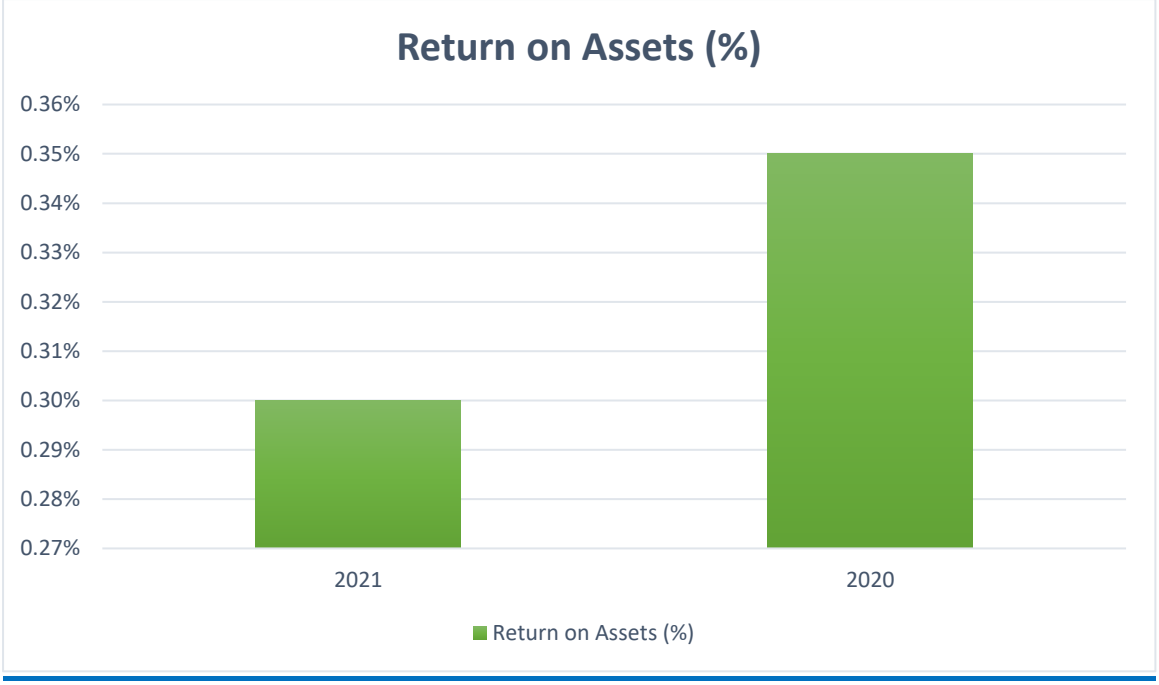


Figure 27: Return on Assets (%) for the year Ended 2020 & 2021.

4.18 Operating Performance:

Operating performance is found to be positively related to loan quality and the asset size or the bank's market share, and negatively related to liquidity, the loan ratio and bank's age.

Particulars	2021	2020	2019	2018	2017
Investment Income	73,410.09	74,305.33	75,748.84	67,166.19	57,141.63
Profit Paid on deposit	44,930.23	44,787.01	44,941.33	37,999.26	31,383.09
Net Investment Income	28,479.86	29,518.33	30,807.51	29,166.93	25,758.54
Non-Investment Income	14,846.92	10,180.05	12,382.28	10,429.90	9,797.72
Total Income	88,257.01	84,493.38	88,131.12	77,596.09	66,939.35

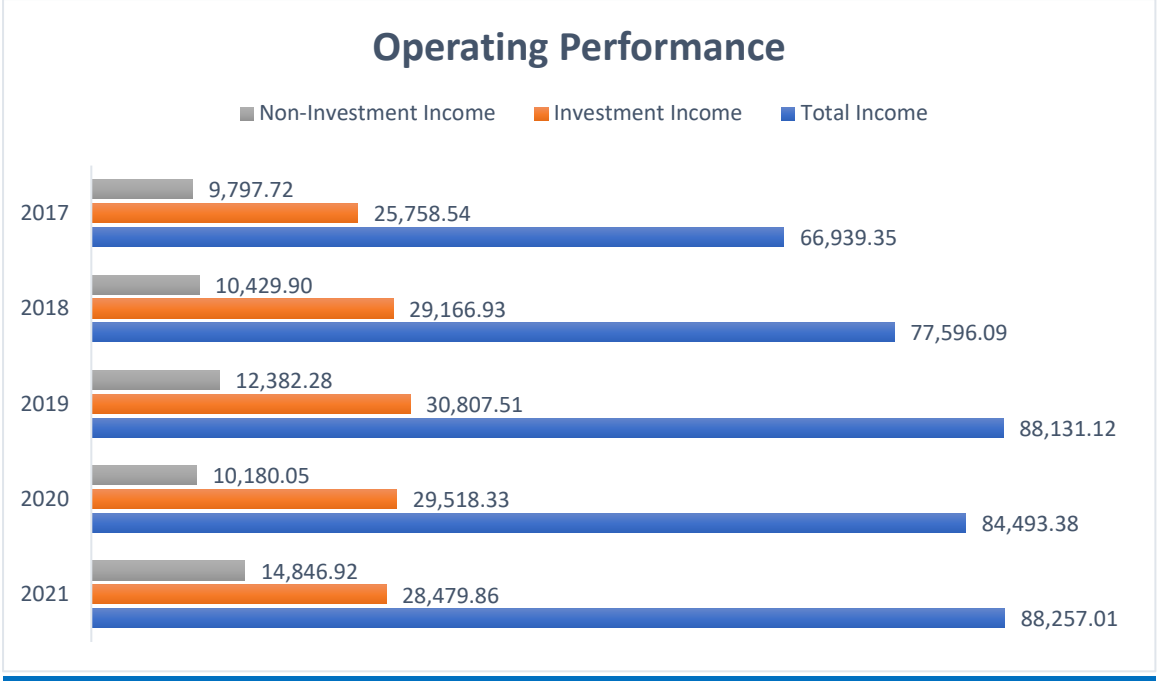


Figure 28: Operating Performance Trend.

From this figure we see that non-investment income is in a stable condition either total income increase or not. Ratio of total income and investment income is also in a stable condition though both the income decrease a little in 2020 rather than previous year.

4.19 Total Risk Weighted Assets (RWA):

Risk weighted assets mean fund based assets such as cash, loans, investments and other assets. Degrees of credit risk expressed as percentage weights have been assigned by the national regulator to each such assets. In terms of the minimum amount of capital that is required within banks and other institutions, based on a percentage of the assets, weighted by risk. The idea of risk-weighted asset is a move away from having a static requirement for capital. Instead, it is based on the riskiness of a bank's assets. For example, loans that are secured by a letter of credit would be weighted riskier than a mortgage loan that is secured with collateral.

Particulars	2021	2020	2019	2018	2017
Total Risk Weighted Assets (RWA)	725,369.92	644,094.71	610,712.38	581,444.97	513,097.86

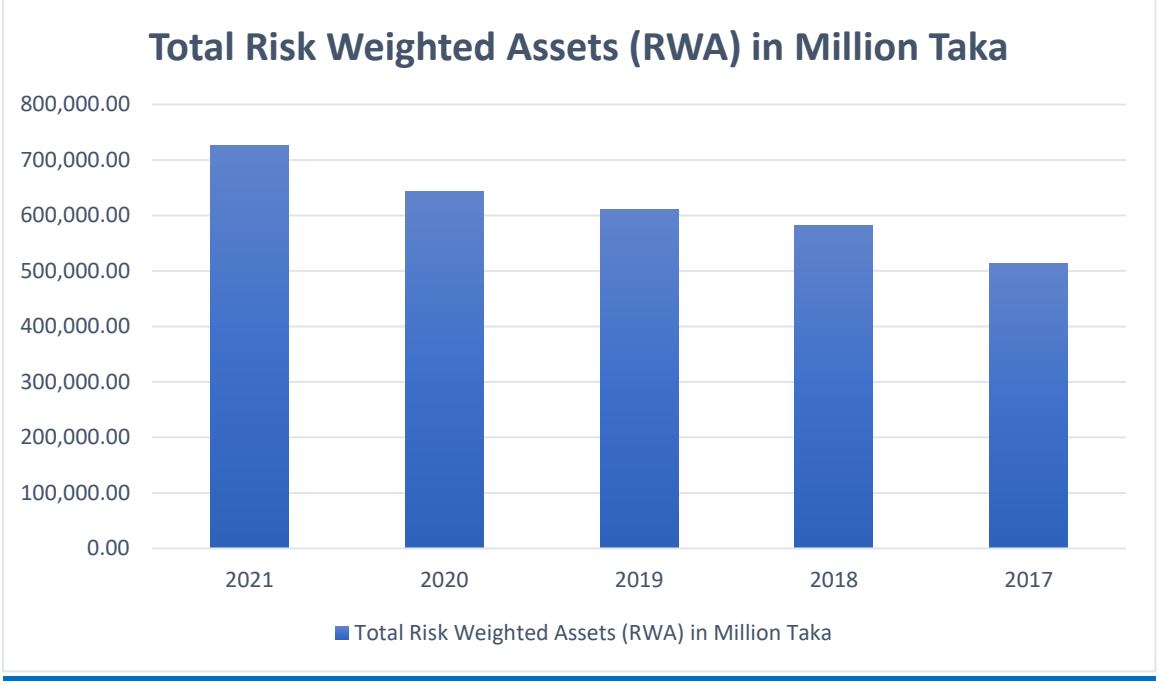


Figure 29: Total Risk Weighted Assets (RWA).

Total Risk Weighted Assets (RWA) of Islami Bank Bangladesh Limited was increasing over the period of 2017 to 2021. In 2017 the bank's total risk weighted assets was Tk. 513,097.86 million which became increased in 2021 of Tk. 725,369.92 million worth. It was the result of the bank's increased investments as well as the bank's total assets. Besides during the period of 2017 to 2021 the bank all the time faced a capital surplus.

4.20 Credit Rating Status of IBBL:

A credit rating is an evaluation of the credit worthiness of a debtor, especially a business (company) or a government, but not individual consumers. The evaluation is made by a credit rating agency of the debtor's ability to pay back the debt and the likelihood of default.

Year	Long Term	Short Term	Outlook
2021	AAA	ST-1	Stable
2020	AAA	ST-1	Stable
2019	AAA	ST-1	Stable
2018	AA+	ST-1	Stable
2017	AA+	ST-1	Stable

Alpha Credit Rating Company Ltd. (ACRCL) has assigned "AAA" in long term & ST-1 in short term expose highest rating. This report is valid upto 13.07.2022. IBBL has been maintaining this highest credit rating among the Private Commercial Banks consistently and will likely to remain unchanged for years ahead.

4.21 SWOT Analysis of Financial Operation of IBBL:

SWOT Analysis is the critical analysis about an organization, where the Strengths, Weaknesses, Opportunities and Threats to that organization are analyzed. It includes all internal and external aspects of the organization. It can be therefore defined as the analysis of external and internal environments. The major objective of doing the SWOT Analysis is to find out the internal strengths that is, in which areas it is more forward than its competitors and weaknesses that in which areas it has lacked. At the same time, the organization can know the opportunities that are available in the market for it and the threats ahead from its competitors or other regulatory bodies. Now showing the SWOT figure, I worked as an internee for sixty days in the Islami Bank Bangladesh Limited, Head Office Complex Corporate Branch. By this time, I tried to find out its Strengths, Weaknesses, Opportunities and Threats. I wish this would help the bank to make its service better and make a greater contribution to the society and to make a higher profit. The result of SWOT Analysis is as follows,

Strengths:	**Weaknesses:**
▪ Unique Banking software, ▪ Adequate internal fund, ▪ Goodwill and market reputation, ▪ Confidence of common people of our country, ▪ Corporate culture and good governance, ▪ Sovereignty in policy making, ▪ Collective efforts of the management in any situation of the bank, ▪ Experienced management team, ▪ Honest, sincere and reliable manpower.	▪ Lack of diversification, ▪ Lengthy investment procedure, ▪ Poor logistic support, ▪ CAR maintains, ▪ Insufficient IT sector, ▪ Lack of specialized employees, ▪ Unethical influence.
Opportunities:	**Threats:**
▪ Favorable environment for Islamic banking, ▪ To introduce new Islamic instruments, ▪ Accommodation of low income group to the banking industry, ▪ Emergence of e-banking, ▪ Increasing importance for Islamic banking, ▪ Decentralization of business geographically,	▪ Absence of specified Islamic banking law enforced by government, ▪ High inflation view, ▪ Economic recession, ▪ Lack of financial stability, ▪ Instability in capital market, ▪ Absence of Islamic money market, ▪ Inappropriate Islamic banking by competitors.

Chapter 05:

Findings

5.1 Findings:

From the report I get some positive and negative findings about the Investment operation of IBBL. The findings are necessary for the bank to take corrective measures. So, I disclose the findings below:

Positive Findings:

1. General investment of IBBL was increasing year by year. Trend of general investment shows a clear direction of doubling in the last 5 years results the average growth rate per year is 14.09%. From 2017 to 2021 almost all types of welfare investment schemes became doubled to five times bigger in amount of investment.
2. The bank never faced less than 79% of the investment deposit ratio during the last five years and tried to make it 90% of the investment deposit ratio as per the instruction of Bangladesh Bank.
3. Excellent growth has been achieved in the modes of investment of Bai Murabaha and HPSM by the bank from 2017 to 2021. But under Musharaka mode they have very little investment because of less demand of clients and willingness of the bank.
4. In 2021 with 384 branches the bank's SME investment was Tk. 263,659.20 million which was almost 115% from 2017 of Tk. 229,864 million. The contribution of IBBL to the National SME has been raised by 5% and contribution to the total SME exposure of PCBs has been raised by 3% in 2017 from 2021.
5. The Investment Risk Management Committee of IBBL is entrusted to comply with the CRM Guidelines, monitoring & updating the bank's investment policy. Moreover, the committee regularly analyses the investment portfolio on the basis of Basel Guideline and attempts to restructure the investment portfolio.
6. IBBL is keeping enough provision for classified and unclassified investments which is good enough to compare to the standard.
7. From 2017 to 2021 the bank's capital adequacy ratios were above 11% all the time indicates that the bank's capacity to meet the liabilities and other risk such as credit risk, operational risk were satisfactory.
8. In comparison to the banking sector of Bangladesh, IBBL has the largest market share in the banking industry of Bangladesh. On the other hand IBBL's investment growth

rates were higher than the banking industry average growth rates during the last five years.

9. SME Investment of IBBL was increasing very rapidly during last five years.

Negative Findings:

1. IBBL focused on commercial and industrial sectors in urban areas mainly on Dhaka Division and Chittagong Division basis and provided the maximum amount of investment in these areas. More than 40% of total investment was distributed in Dhaka Division. It was happening due to the position of the country's commercial hub in Dhaka. Depriving other divisions may not help IBBL to achieve good result in the long run.
2. The amount of classified investment in 2021 was Tk. 39,387.11 million which was 3.31% of their total investment; in the year of 2017 the classified investment was 3.59% of its total investment. So it is not a good sign for a bank and indicating the bank is in a weaker position than the previous while recovering the investment and managing its investment risk.
3. Return on Investment (ROI) ratios of Islami Bank Bangladesh Limited were fluctuating over the period of 2020 & 2021. It happened because the bank's decreased gain from the investment and increased cost of investment simultaneously. So, the bank did not do an excellent investment business during this period with different types of strategies and policies. In 2020 bank's return on investment ratio was 7.40% which will decreased in 2021 to 6.32%. The Bank's average return on investment during this period was 6.86%.
4. The procedure of investment facility is less supervised comparing to other banks. IBBL does not have the necessary expertise and trained manpower to appraise, monitor, evaluate and audit the projects they are required to finance. As a result it can't expand its investment despite of having enough financial liquidity.

Chapter 06:

Recommendations, Conclusions and Bibliography

6.1 Recommendations:

Based on findings it can be recommended to progress in future. The recommendations are disclosed below:

1. To help the country's development regionally equal and take the bank as amiable to mass people countrywide, the bank should give more accentuate to make their fund available as functional to rural based industries and organizations alongside diversified industries which may act as the factors to minimize the investment risk of the bank.
2. IBBL needs to focus to minimize its "Bad debt Loss". Interested customers for investment should be analyzed more cautiously and flawlessly in order to lessen the classified investment. It can be made by gathering and accumulating customer's information through the online CIB Report or historical activities of the customers toward investment so that their classified investment will be less.
3. To avoid investment risk as much as possible through minimizing adverse selection, before sanctioning any investment (loan) the officers of the bank have to observe whether every aspect of principles of and other things such as credit requirement, accountability, prepayment of loans, collections procedures etc. The IBBL should reduce their expenses and improve operating efficiencies and brand awareness.
4. The bank should always be aware, ready to respond quickly against competitors' actions as well as different economic conditions, bring new and innovative investment products and services, utilize advanced technical and technological means to be quickest and errorless, arrange various investment risk related training and workshop for the employees regularly etc. in order to keep their current position among the Islamic banks of the country as well as the banking industry of Bangladesh and be placed in a better position in the upcoming future.

6.2 Conclusions:

Islami Bank Bangladesh Limited has been established with the aim of contributing to the balanced growth and equitable development of the country through diversification of its investment portfolio by size, sector, geographical area etc. for the bank's ultimate objective of ensuring justice and equity in the field of economy in the interest of all segments of people. The bank has been endeavoring hard towards the achievement of the above goals and making progress tremendously in this regard. With the unprecedented support of the stakeholders of all categories the bank now is handling investible fund of more than Tk. 16,099,906,680 in 2021 and thereby IBBL hold a strong position in the country's economy being appreciated by people of all walks of life. The bank has been able to allocate its investible fund in such a manner that safeguards the interest of its stakeholders as well as meets the country's needs. The bank has been emphasizing on the industrialization of the country and giving due attention to the priority sectors. With this end in view and to reduce country's dependence on foreign countries a significant amount has been deployed in Spinning, Garments, Iron/Steel and Engineering. Food/Beverage, Ship Braking, Ship Building, Power (Electricity) sectors. At the same time, the bank has been laying stress on trade and imports of consumer goods/fertilizer etc. to meet the country's immediate needs.

Finally, Islami Bank Bangladesh Limited has been established with a view to conduct interest free banking to establish participatory banking instead of the debtor-creditor relationship and finally to establish welfare oriented banking through its investment operations that would lead to a justice based society.

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