

# Internship Report

On

## "Investment Risk Management and Performance Analysis of Islami Bank Bangladesh Limited

~ A Study at Hazi Camp Branch"



### Prepared By:

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ID No: 171-14-731

MBA Program

Batch :46

Major in Finance

Department of Business Administration

Daffodil International University

Date of Submission: 26<sup>th</sup> December 2018

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### **"Investment Risk Management and Performance Analysis of Islami Bank Bangladesh Limited- A Study at Hazi Camp Branch"**

Supervised By:

Ms. Tanzina Hossain

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Department of Business Administration

Daffodil International University

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## Letter of Transmittal

26<sup>th</sup> December, 2018

Ms. Tanzina Hossain

Associate Professor

Department of Business Administration

Daffodil International University.

**Subject: Submission of Internship Report on “Investment Risk Management and performance analysis of Islami Bank Bangladesh Limited- a study at Hazi Camp Branch”.**

Dear Madam,

With best respect and honor, I would like to inform you that I have completed my internship report on “Investment Risk Management and performance analysis of Islami Bank Bangladesh Limited” a study at Hazi Camp Branch. 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,

-----  
(Modina Akter)

ID No: 171-14-731

MBA Program

Department of Business Administration

Daffodil International University

## Declaration

I, am Modina Akter, a student of MBA program, Daffodil International University, hereby declare that the internship report titled **“Investment Risk Management and performance analysis of Islami Bank Bangladesh Limited- A study at Hazi Camp Branch”** is prepared after the completion of my internship at Islami Bank Bangladesh Limited at Hazi Camp Branch under the intensive supervision and guidance of Ms. Tanzina Hossain, Associate Professor, Uttara Campus, Daffodil International University and Md Zia ullah, Senior Vice President and Head of Hazi Camp Branch, Islami Bank Bangladesh Limited

I also declare that the internship report is prepared for academic purpose only and this report is not submitted by others.

-----  
Modina Akter  
ID No: 171-14-731  
MBA Program  
Department of Business Administration  
Daffodil International University

## Letter of Acceptance

This is to certify that Modina Akter bearing ID no 171-14-731, student of MBA Program, Daffodil International University, has completed the internship report under my supervision. She has worked with Islami Bank Bangladesh Limited as an internee and completed the report entitled “Investment Risk Management and performance analysis of Islami Bank Bangladesh Ltd-A Study at Hazi Camp Branch” as a partial requirement for obtaining MBA Degree. She has completed the report by herself. She has been permitted to submit the report.

Modina Akter bears a strong moral character and a very pleasing responsibility. It has indeed been a great pleasure working with her. I wish her all success in life.

---

TanzinaHossain

Associate Professor & Supervisor

Department of Business Administration

Faculty of Business & Entrepreneurship

Daffodil International University

## 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 Investment Risk Management and performance by the Islami Bank Bangladesh Limited.

I would like to thank and convey my gratitude to honorable supervisor, Tanzina Hossain, Associate Professor, Daffodil International University, for letting me to prepare this report. I would also like to express my sincere appreciation to her for her wholehearted support and guidance.

I am also very grateful to the honorable Senior Vice President and Head of Branch, Md. Zia ullah, Second Officer, Muhshinul Haque and Jaminul Islam, senior officer (Investment section) of Islami Bank Bangladesh Limited (Hazi Camp Branch) for their priceless advice and kind effort, which help me a lot to collect information and data about Investment Risk Management and 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.

## 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 Investment and Risk 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 discuss about the Investment and risk management procedure of IBBL. From this part we can get an idea about the investment processing steps of IBBL in details.

In chapter five, I use trend analysis, ratio analysis to describe the investment risk management and 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 consumer investment of Islami Bank Bangladesh Ltd. and evaluating performance of my study.

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## Acronyms

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

# *Chapter 1: Introductory Part*

## 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.

### Origin of the Study:

Internship is a part of MBA program and for completing my academic requirement I completed my internship at Islami Bank Bangladesh Limited at Hazi Camp Branch. I worked in investment division. I completed my internship under the intensive supervision and guidance of Ms. Tanzina Hossain, Associate Professor, Uttara Campus of Daffodil International University and she suggested me that the topic of my report would be “*Investment Risk Management and performance analysis of Islami Bank Bangladesh Limited*” which is related with my working experience.

### Significance of the Study:

As I have worked investment section of IBBL at Hazi Camp branch, the topic of my internship report is “*Investment Risk Management and performance analysis of Islami Bank Bangladesh Limited*” a study at Hazi Camp branch 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 investment risk management and performance of IBBL by focusing on the performance and management of investment business alongside investment risk 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.

### Objectives of the Study:

- To get an overview of the private Banking sector of our country.
- To evaluate the overall investment risk management system of IBBL through different ratios.
- To compare and analyze the investment and investment risk related performance of IBBL with other Islamic banks of Bangladesh.
- To recommend actions that may be necessary to redesign the investment risk management of IBBL.

### 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 Hazi Camp Branch and found the approximate data which has been used and presented in this report. The study has been conducted through the assistance of Investment Department, Hazi Camp Branch as per their operating and maintaining an investment business through applying modern and technological means. I have also physically observed the effectiveness of the efforts relating investment business effectively and efficiently managed by Islami Bank Bangladesh Limited, Hazi Camp Branch

Primary sources of data include the following:

- ❑ Three 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: 2015-2017.
- ❑ Business Development Conference Report: 2016 and 2017.
- ❑ Unpublished data from the IBBL, Hazi Camp 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 Institute.

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 Investment & Risk Management 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

**Limitations of the Study:**

Although I have obtained the whole hearted co-operation from the employees of Islami Bank Bangladesh Limited, Hazi Camp 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 2: Organizational Part*

## 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 four nationalized banks, four specialized banks, nine foreign banks and thirty one 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 interestfree 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.16,099.91million as on December 31, 2017. 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.

## 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.

## 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.

## 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
TIN	:	376764873732
VAT Registration No./BIN No.	:	19011032134
Line of Business	:	Banking
Total Branch	:	304
SME/Agriculture Branch	:	30
Zone	:	14
AD Branch	:	57
Offshore banking Unit	:	03
ATM Booth	:	Own-487, Shared-6000
Instant Deposit Machine (IDM)	:	51
Employees	:	13,622
Directors	:	12
Sponsors	:	36
Shareholders	:	47,909
MPB holders	:	21,601
Local Shareholders	:	36.82%
Foreign Shareholders	:	63.18%

Foreign Correspondents	:	665
Registered Office	:	40, Dilkusha C/A, Dhaka-1000, Bangladesh
Website	:	www.islamibankbd.com

### 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.

### Board of Directors:

The Board consists of 12 (twelve) 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 2013) and BSEC notification on Corporate Governance

### **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

### **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 33 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 – 2014, 2013, 2012, 2011, 2010 (1st Position amongst the Private Commercial Banks in Islamic Operation).

## 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. 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, 10. Murabaha Post Import,	19. Mudaraba NRB Entrepreneur Investment Scheme.
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**Many others include,**

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



## **Risk Management Framework and Procedure of IBBL**

Integral to its business, IBBL takes on various types of risk, the most important of which are credit risk, market risk, liquidity risk and operational risk. The identification, measurement, monitoring and management of risks remain a key focus area for the Bank. Sound Risk Management and balancing risk-reward trade-offs are critical to the Bank's success. Business and revenue growth are therefore to be weighed in the context of the risks implicit in the Bank's business strategy. The Board of IBBL endorses the risk strategy and approves the risk policies. The Risk Management Committee (RMC) of the Board supervises implementation of the risk strategy. It guides the development of policies, procedures and systems for managing risk. The Committee periodically reviews risk level and direction, portfolio composition, status of impaired credits as well as limits for treasury operations.

## **Risk Management Philosophy of IBBL**

- Like other Banks IBBL is also undertaking risks but as a shariah based bank, its risks are mainly mitigated observing shariah rules and regulations. Again it has its own risk management philosophy for giving proper attention to risk management. The key elements of the Bank's risk management philosophy are as under:
- The Bank considers sound risk management to be the foundation of a stable financial institution.
- The Bank continues to adopt a holistic and integrated approach to risk management and, therefore, brings all risks together.
- Risk management is governed by well-defined policies that are clearly communicated across the Bank.
- Risk management is a shared responsibility. Therefore, the Bank aims to build a shared perspective on risks that is grounded in consensus.
- Risk-related issues are taken into consideration in all business decisions. The Bank shall continue to strive to maintain a conservative balance between risk and reward considerations.
- Risks are reported openly and fully to the appropriate levels once these are identified.
- Risk officers work as allies and thought partners to other stakeholders within and outside the Bank, and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties.
- All subsidiaries are guided by the principles enshrined in the risk management policies of the Bank.

## Risk Management Objectives

IBBL has 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. At a strategic level, our risk management objectives are to:

- Identify the Bank's significant risks; assess the same, taking appropriate mitigating steps to ensure optimum and sustainable profitability;
- Formulate the Bank's risk appetite and ensure that business profile and plans are consistent with it;
- Optimize risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures;
- Ensure that business growth plans are properly supported by effective risk infrastructure;
- Manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
- Help executives to improve the control and co-ordination of risk taking across the business

## Risk Management Culture:

- The Board and the Management promote a responsible approach to risk.
- The responsibility of risk management is fully vested in the Board of Directors, which in turn delegates this to senior management;
- The risk management officials enjoy the sufficient professional independence and stature;
- The Bank pays close attention to both quantifiable and unquantifiable risks;
- The Bank's management ensures that risk and risk management awareness is enshrined throughout the bank
- The Bank avoids any business where the associated risks cannot be objectively assessed or managed.

### Risk management Defense:

1 <sup>st</sup> Line of Defense	2 <sup>nd</sup> Line of Defense	3 <sup>rd</sup> Line of Defense
Day to day Risk Management & Management Control	Risk Oversight Policy & Methodology	Independent Assurance
Business Units	Board's Risk Management Committee	Audit Committee
Support Functions	<ul style="list-style-type: none"> <li>○ Chief Risk Officer</li> <li>○ Risk Management Wing</li> <li>○ Operational Risk Management Committee</li> </ul>	<ul style="list-style-type: none"> <li>○ Internal Audit</li> <li>○ External Audit</li> </ul> Supervision of Regulators

### Board's Oversight on Risk Management

The Board is responsible for approving risk appetite which is the level of risk the Bank chooses to take in pursuit of its business objectives. It oversees the management of the most significant risks through the regular review of risk exposures and key controls.

IBBL has its Board's Risk Management Committee (RMC) in compliance with Bank Company Act as well as BRPD circular. The Committee monitors the Bank's risk profile against the agreed appetite. Where actual performance differs from expectations, the actions are being taken by management and reviewed to ensure that the RMC is comfortable with them and guides the Management for taking pragmatic steps. The Specific Roles of the Committee are as under:

- Approval of Risk Identification and Mitigation Techniques;
- Preparation of Organizational Structure;
- Review of Risk Management Policy and Approval;
- Maintaining Information and Reporting System;
- Supervising the overall risk management policy and implementation of the same;
- Miscellaneous issues like submission of the decisions and recommendations of the Committee before the board quarterly, compliance of the instructions of the Regulatory Authorities from time to time, evaluation report of the internal and external audit reports etc.

## 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.

## Risk Management Process

The Risk Management process is then segregated into five steps: establishing the context, risk identification, risk analysis, risk evaluation and risk treatment. From the each steps of the risk management process, there is sufficient option for communication, consultation, reporting, and monitoring and review system

## Core Risk Management

IBBL exclusively manages 6 (six) core risks and has designed and implemented its own Risk Management Guidelines in accordance with the guidelines prescribed by the Central Bank and formed 6 core risk management committees which conduct meeting periodically. The major concerns of the committees are as under:

- a) Investment Risk Management Committee supervises and monitors investment concentration, investment risk grading, corporate clients rating, non performing investment, residual risk against investment, provision against classified investment, investment mix, asset quality etc
- b) Foreign Exchange Risk Management Committee oversees foreign exchange risk, treasury, net open position, import & export business, dealing room operations and anti-money laundering aspects in foreign exchange transactions and remittance etc.
- c) Information & Communication Technology Risk Management Committee monitors and supervises the risks related to data security, physical security, network security, disaster recovery, fraud, forgery, system failure and business continuity etc.
- d) Money Laundering Risk Management Committee looks after the money laundering activities, STR, CTR, KYC and TP related compliances. The committee also supervises and monitors the entire transactional activities of the Bank including money laundering aspects involved with foreign exchange transactions.
- e) Internal Control and Compliance Risk Management Committee is recognized to assess and mitigate the risk related to compliance with regulatory requirements, set rules of the Bank, internal checking system, lapses, fraud, forgeries, violations of the set rules etc.
- f) Asset Liability Committee (ALCO) to look after the asset-liability risk, liquidity risk, Investment Deposit Ratio (IDR), deposit mix, investment mix, gap analysis etc. under direct guidance of CEO.

### **Basel Accord Implementation**

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 b) Supervisory Review Process Team, and c) Stress Testing Committee.

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

b) 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 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.

### Relationship with Risk Management & Other Units

Risk Management Wing (RMW) is directly involved with the total risk management process of the Bank. The major job of RMW is to integrate the risk issues, bank-wide risk monitoring and reporting. Other units provide relevant data to RMW and it makes recommendation on capital allocation, budgeting and pricing, portfolio structuring, liquidity management, setting risk appetite, compliance culture etc. based on the risk reports and Risk Management Papers (RMPs).

### Risk Management Disclosures

#### Risk Appetite

The Bank's risk appetite is established by the Board of Directors The Bank's appetite for risk is governed by the following:

- High-quality risk assets as measured by ratio of non-performing investments to total investments and maximum average internal risk rating of the investment portfolio;
- A diverse investment portfolio to ensure that there are no undue concentration concerns taking into consideration the business unit, business sector, country at risk and asset portfolio tenor;
- Losses due to operational risk to be constantly monitored and to be lower than industry averages;
- Financial and prudential ratios to be pegged at levels more conservative than regulatory requirements – Investment to Deposit Ratio (IDR), Capital Adequacy, Deposit Concentration etc.; and
- The Bank strives to minimize the independent indicators of excessive risk appetite like overdue audit queries, adverse publicity and fines & regulatory penalties:

The Bank does not compromise its reputation through unethical, illegal, unprofessional conduct or violation of the commandments of Islam and the Bank has a zero appetite for association with disreputable individuals, entities and activities.

## Key Initiatives in 2015

- Review of all the Risk Management Policies;
- Review of Investment Manual;
- Key Risk Indicators of all core risk areas;
- Risk Assessment Methodology and Evaluation of the core risk areas;
- Review of Internal Capital Adequacy Process Document;
- Fraud Risk Management Policy;
- Policy for Deferred Letter of Credit;
- Guidelines for Obtaining Collateral Security from Investment Clients;
- Terms of Reference (ToR) for all the risk Committees;
- Continuous review and monitoring of the top 200 Investment clients;
- Continuous review and monitoring of the top 200 classified and investment clients and top 50 legal issues;
- Review of pricing;
- Upgrading the position of loss Branches
- Finalization of Green Banking Policy of IBBL.

## Priorities for 2016

- Increasing capital adequacy ratio and maintaining adequate capital base for adopting Basel-III Capital Accord;
- Improving Asset Quality and thus profitability, ROA, ROE and protecting the interest of the stakeholders;
- Restructuring and diversification of the investment portfolio;
- Optimization of gap and duration gap between assets and liabilities;
- Maintaining optimum liquidity and maintaining Liquidity Coverage Ratio (LCR) and Net Stable
- Funding Ration (NSFR) at the optimum level;
- Reducing RWA through portfolio restructuring, optimum rating of corporate and SME Investment clients and improving the ratio of RWA and total assets;
- Reducing Sharia'h compliance risk to the optimum level;

## Implementation of Core Risk Management Guidelines

Bangladesh Bank conducts inspection on implementation of the core risk guidelines of the bank each year. Lastly, conducted inspection based on the accounts as on 30.06.2017 and mentioned their observations in the respective reports. IBBL, being the compliant Bank, has immediately taken effective initiatives to ensure implementation of all the observations of the central bank and meanwhile implemented most of the observations and have communicated to the competent authority of the central bank well ahead of the deadline.

## Investment Risk Management

Investment risk concerned with the possibility of financial losses due to counterparties' inability or unwillingness to make contractually-agreed-upon payments. In the most radical scenario of deterioration in credit quality, this inability or unwillingness becomes a default event. Analyses of banking industry data indicate that the share of risk weighted assets (RWA) assigned to credit risk were 85 percent of the total RWA. In perspective of IBBL, investment risk exposure is 89.74%. As such, investment risk is key factor of IBBL's risk management for determination of capital requirement, profitability, liquidity and many other risk elements.

## Investment Risk Management Policy

IBBL's Investment Risk Management Policy is approved by the Bank's Board of Directors, which plays a central and strategic role in managing daily business activities. The policy defines the principles encompassing client selection, due diligence, early alert reporting, tolerable levels of concentration risk and portfolio monitoring, in line with the Bank's risk appetite. The approach is to avoid large investment risk on a counter party or portfolio level by applying stringent standards combined with sound collateralization where feasible. The policy is reviewed regularly by the Board of Directors and updated throughout the year to ensure consistency with the Bank's business strategy. A monthly Investment Risk Management Committee meeting chaired by the Head of Investment Wing drives policy decisions and implementation plans.

## Investment Processing and Approval Structure

IBBL, being the largest investment portfolio-dealing bank of the country amongst the private sector banks has specific policies in place for inducting, dealing, processing, sanctioning, and handling overdue and non-performing investments of the Bank. The Board of Directors of the Bank delegates sanctioning power from the Board to the Branch Incumbent. The investment approval procedure is being followed in accordance with the approved policy of the Bank. In every approval units i.e. at the Branch, Zone and Head Office level, there is Investment Appraisal Committee which mainly appraises and recommends the proposals.



## Market Risk

IBBL adopted Standardized Approach and follows the Risk Based Capital Adequacy Guidelines issued by Bangladesh Bank for assessing the Market Risk. There are four components from which Market Risks are evolved. The components are as under:

1. Interest Rate Related Instruments
2. Equities
3. Foreign Exchange Position
4. Commodity Risk

Being the Sharia'h based Bank, IBBL does not deal with any interest related instruments and purchases goods & commodities from the seller and simultaneously sell the same to the ultimate buyer. IBBL does not hold the goods commodities as owner of the same at any stage. As such, IBBL has no exposure under these components.

## Operational Risks

Operational Risk is the potential loss arising from breakdown in Bank's systems & procedures and corporate governance practices that results in human error, fraud, failure, damage of reputation, delay to perform or compromise of the Bank's interest by employees. IBBL follows Basic Indicator Approach for assessing the Operational Risks. Under this approach, average of the Gross Incomes of last three years is taken as the determinant for operational Risks.

## Supervisory Review Process

IBBL is committed for continuous improvement of Bank's internal procedure for assessing the specific risk situation, ongoing adjustment and further development of new methods of risk management and internal control, covering external factors as well as risk areas which are not taken into account or partially taken into account while calculating Minimum Capital Requirements, quantifying the risks under pillar 2 of Basel-II, stress testing, Internal Capital Adequacy Assessment process (ICAAP), setting capital targets that are commensurate with the Bank's risk profile and control environment etc. For adequate supervision of capital functions and risks, Bank has formed a Supervisory Review Process Team (SRPT) as stipulated in Bangladesh Bank's guidelines. Internal Capital Adequacy Assessment Process (ICAAP) , IBBL revised its own ICAAP document as directed by Bangladesh Bank which is duly approved by the competent Board of the Bank. In accordance with the document, IBBL identified, assessed the risk areas which the bank faces in its day to day business and calculated capital charge there against. In accordance with approved ICAAP document, IBBL conducts rigorous review on its risk exposure and allocates the required capital for the same which are annually being reported to the Central Bank.

## Stress Testing

IBBL conducts periodical stress tests and assesses stress on the capital both giving individual and combined shocks on different aspects. In case of giving individual shocks deterioration of performing investment, increase of NPIs due to default of top large borrowers, negative shift in NPI categories, decrease in FSV of collaterals, profit rate, foreign currency appreciation, equity shocks are considered. Combined shocks increases, FSV of the collateral decreases, NPIs increases, negative shift in NPI categories, profit rates, foreign currency appreciation. Stress Testing results of all the quarters of 2017 reflect that the Capital to Risk-Weighted Asset Ratio (CRAR) of IBBL remains above 10% for both individual and combined shock at minor and moderate level. But at major level combined shock, the CAR reduces by 1% from the optimum level which is unlikely to happen in reality and indicates that IBBL has strong shock absorbing capacity due to its asset quality and capital strength.

## 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:

## Asset-Liability Risk

To deal with Balance Sheet risk, IBBL has a dedicated committee, called the Asset Liability Committee (ALCO) comprising of the senior officials of the bank to make important decisions related to the Balance Sheet, Liquidity & Profit Rate risks of the Bank. The ALCO generally meets at least once in every month and reviews liquidity requirement, the maturity of Assets and Liabilities, Deposit and Investment pricing strategy/transfer pricing, Sensitivity of Assets and Liabilities, key Management Indicators and the Liquidity Contingency Plan of the Bank. In every ALCO meeting, the key points of the discussion are mounted and the action points are highlighted to ensure implementation. As a part of regulatory requirement, the management reviews the ALM Manual and its components regularly.

## Liquidity Risk

IBBL is running in a mixed economy where both interest based and Sharia'h based transactions are taken place at the same time. But Sharia'h based money market is yet to be flourished and is under development process. Being the Sharia'h based bank, it cannot lend or borrow money from the conventional money market. As such, IBBL has to remain always concern and vigilant regarding liquidity risk. IBBL continuously monitor the liquidity ratios and periodically conducts GAP and Duration GAP analysis.

## 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
- 2) Application Stage
- 3) Appraisal Stage
- 4) Sanctioning Stage
- 5) Documentation Stage
- 6) Disbursement Stage
- 7) Monitoring & Recovery Stage

## 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.

### 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.

### 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.

### 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

### 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.

### 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:

<ul style="list-style-type: none"> <li>▪ Tax Payment Certificate.</li> <li>▪ Stock Report.</li> <li>▪ Trade License (renewal).</li> <li>▪ VAT certificate</li> <li>▪ Liability statement from different parties.</li> <li>▪ Receivable from different clients.</li> <li>▪ Other assets statement.</li> <li>▪ OngykarNama.</li> <li>▪ GhosonaPotra.</li> <li>▪ Three (03) years net income &amp; business transactions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Performance report with the bank.</li> <li>▪ Account Statement Form of the bank.</li> <li>▪ Valuation Certificate;</li> <li>▪ Particulars of the Proposal.</li> <li>▪ Particulars of the Mortgagor.</li> <li>▪ Particulars of the Properties.</li> <li>▪ Outstanding liability position of the bank.</li> <li>▪ CIB (Credit Information Bureau) Report.</li> </ul>
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### 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.

### 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

### 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 (1st charge 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 -	4	Grade 4 assets warrant greater attention due to conditions affecting the

Watch list		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
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### 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.

## 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%

## Information & Communication Technology Risk Management

The Bank has adequately addressed Information & Communication Technology (ICT) Risk Management which ensures ICT security functions and operations in a more effective manner. It is an in-depth exercise and continual process. The ICT Risk Management exercise mainly include minimizing financial and image loss to the institution in all events such as natural disasters, technological failure, human errors etc. The Bank uses own developed Core Banking Software to perform all types of transactions including Local/Online/Internet in a secured way. To take care of its core banking system, a separate security module has been incorporated in the software which manages different roles for different users. All financial transactions can be tracked for future audit purposes. The Bank uses Central Data Centre travelling through network uses encryption and decryption mechanism.

### Specific Risk 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.

## *Chapter 4: Analysis Part*

## Investment Performance analysis:

### Five years performance of IBBL

Particulars	2013	2014	2015	2016	2017
Authorized Capital	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
Paid up Capital	10,007.71	12,509.64	14,636.28	16,099.91	16,099.91
Share Premium	1.99	1.99	1.99	1.99	1.99
Reserve Fund	17,792.50	24,116.47	26,512.48	28,107.73	27,879.72
Retained Earnings	3,202.47	3,152.25	2,634.53	2,414.99	3,219.98
Shareholders' Equity	33,716.73	39,780.35	43,760.68	46,622.62	47,199.61
Total Deposit	341,853.67	417,844.14	473,140.96	560,696.30	615,359.21
Total Investment	322,772.83	399,930.79	474,015.95	564,332.00	629,631.27
General Investment	305,840.56	372,920.72	403,194.80	463,475.47	530,194.50
Investment Deposit Ratio	89.47%	85.18%	82.35%	79.88%	83.59%
Total Assets (including Contra)	502,613.05	592,580.50	664,554.96	765,241.27	859,201.05
Total Assets (excluding Contra)	389,192.12	482,536.32	547,229.63	652,422.04	725,821.12
Fixed Assets	7,100.19	14,808.23	15,732.81	15,926.36	15,836.48

We see in the graph below that the investment of IBBL increase rapid from 2013 to 2017. Even in 2017 the total investment is more than total deposit because IBBL has enough surplus cash in hand for investment

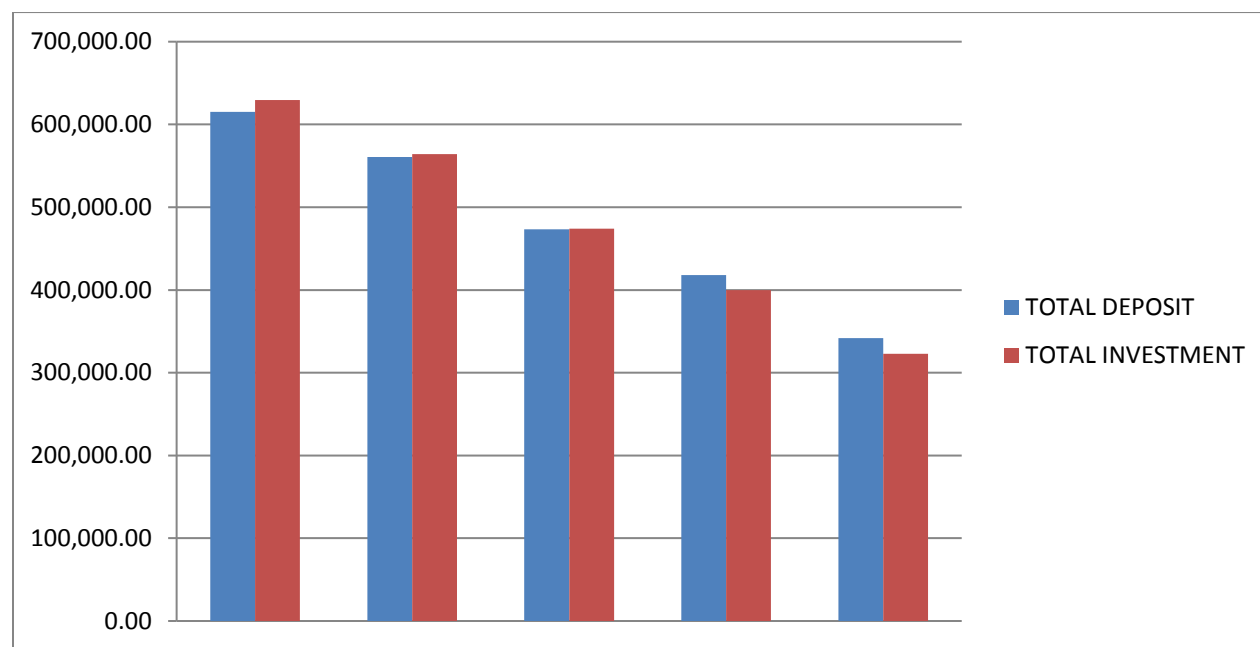


Figure 1: Five years Deposit and Investment trend of IBBL

### 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.

	2013	2014	2015	2016	2017
General Inv.	305,841	372,921	403,195	463,475	530,194
Increase/Decrease	42,615	67,080	30,274	60,281	66,719
Inv. Growth	16.19%	21.93%	8.12%	14.95%	14.40%

Total General Investment of the Bank increased to Tk. 530,194 million as on 31.12.2015 from Tk.463, 475 million as on 31.12.2014 showing an increase of Tk. 66,719 million, i.e. 14.40% growth. The growth was affected due to the overall economic scenario prevailing throughout 2015. The trend of investment shows near doubling of the figure in 5 years.

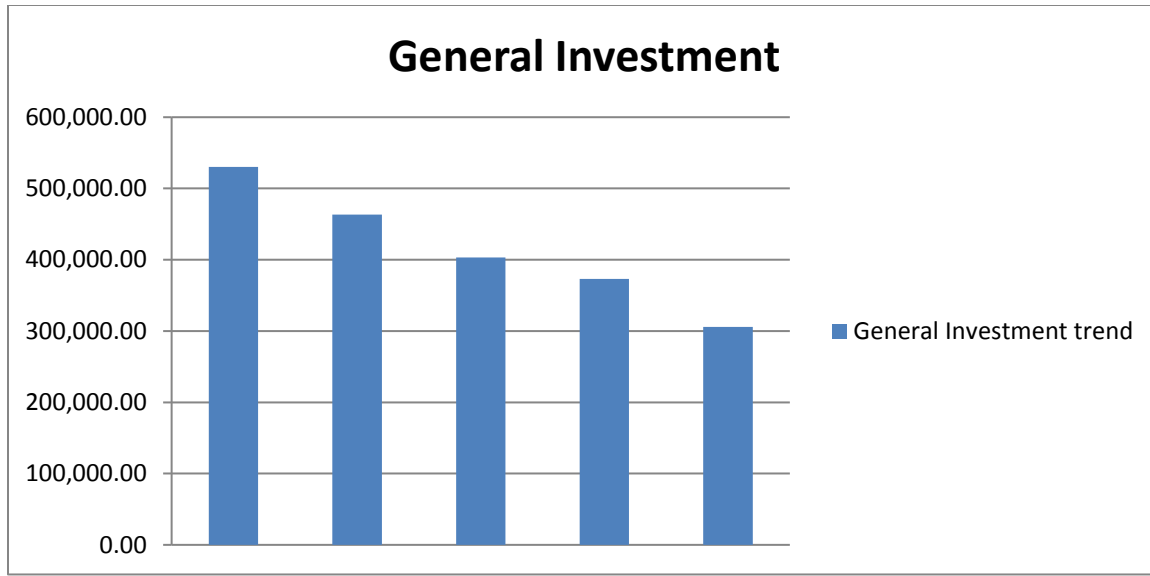
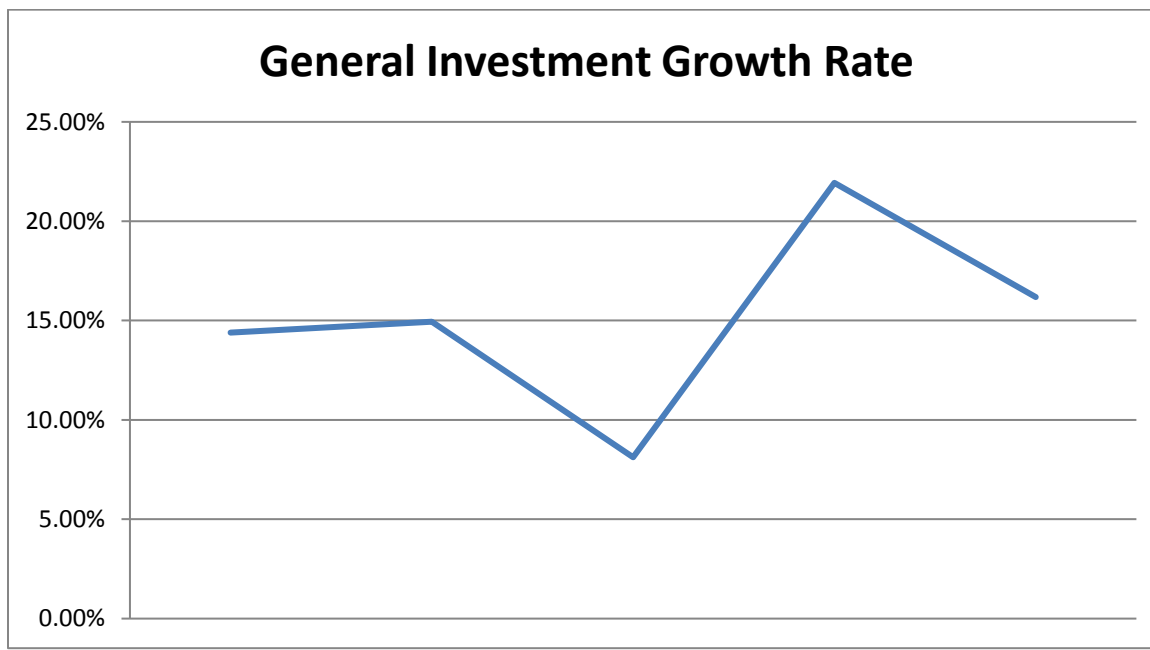


Figure 2 Year wise General Investment Trend



From this figure we understand that though investment increase but growth rate fall than that of in the year of 2014 .It increases in a slow motion in recent years.

### 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.

	2013	2014	2015	2016	2017
Investment Deposit Ratio	89.47%	85.18%	82.35%	79.88%	83.59%

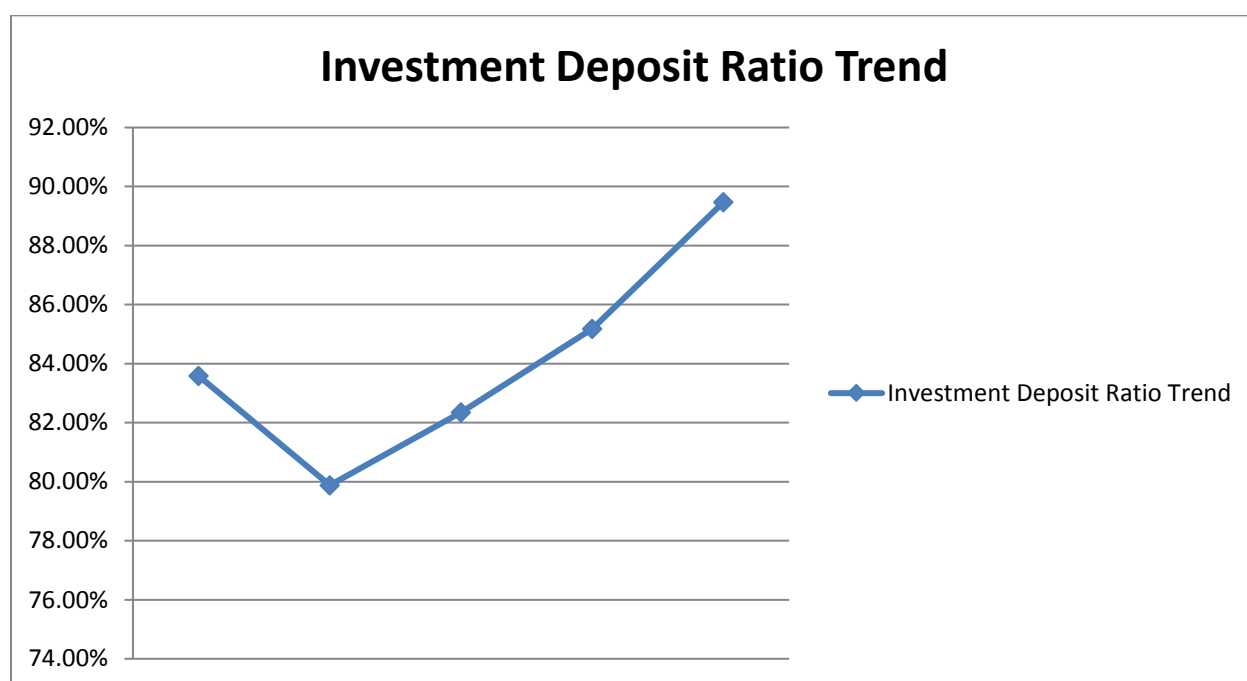


Figure 3 Investment Deposit Ratio Trend

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 2013 to 2017 which indicated that IBBL has enough cash in hand to cover any immediate requirement.

### Sector-wise Investment

Sector	2017 (In million Taka)		2016(In million Taka)	
	Amount	% to Total Investment	Amount	% to Total Investment
Industrial (Excluding SME)	172,591	32.55%	155,432	33.54%
Commercial	36,854	6.95%	42,352	9.14%
Transport	6,820	1.29%	6,435	1.39%
Real Estate	41,778	7.88%	37,680	Estate8.13%
Agriculture (including investment in Fertilizer and Agriculture Implements)	10,638	2.01%	11,354	2.45%
SME	229,864	43.35%	181,918	39.25%
Others	31,649	5.97%	28,304	6.11%
Total	530,194	100%	463,475	100%

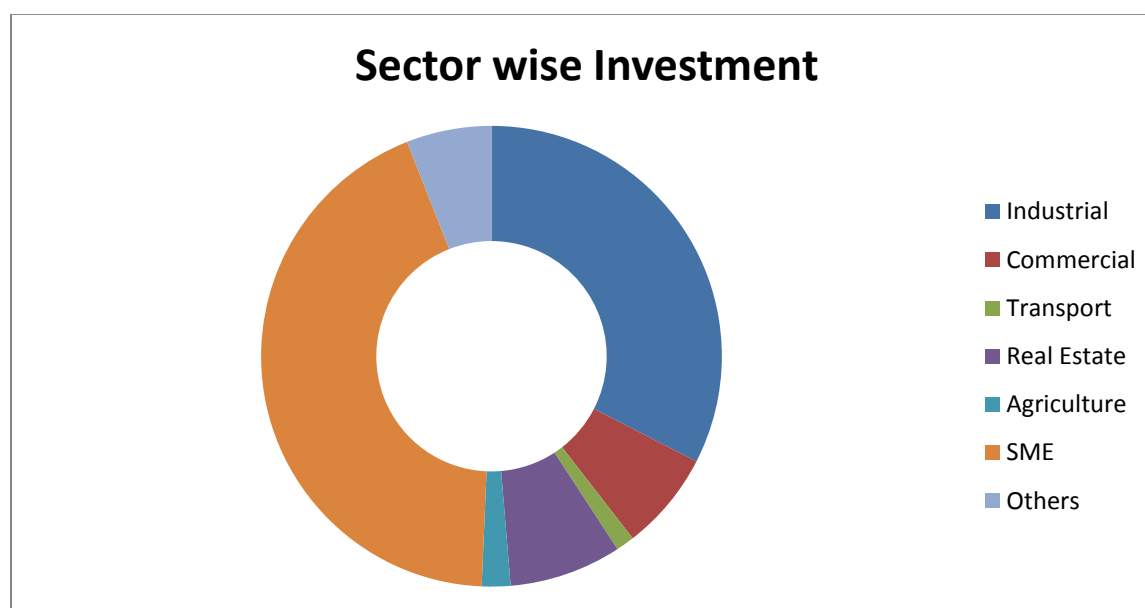


Figure 4 : Sector wise investment in 2014

We see in the table that IBBL invests most of its fund in SME sector which is above 43% of total investment. But Industrial development of the country falls under the priority areas of IBBL. The Bank has considerable amount of investment in the industrial sector. Total investment for Project Finance together with Working Capital stood at Tk. 271,211 million as on 31st December 2017 as against Tk.234, 797 million as on 31st December 2014. The Bank has deployed 51.15% of its total investment in industrial sector out of which export oriented textile and garment industries take a share of 39.4% to total industry. As recent data is not published yet in 2016 we see that more than 32% of its fund is invested in industrial sector.

### Mode-wise Investment:

Mode	2017		2016	
	Amount	% to Total Investment	Amount	% to Total Investment
Bai-murabaha	331,239	62.48%	281,556	60.75%
HPSM	123,856	23.36%	109,941	23.72%
BaiMuajjal	34,818	6.57%	15,443	3.33%
Bill Purchased & Negotiation	15,004	2.83%	30,424	6.56%
Quard	14,564	2.75%	15,478	3.34%
Bai- Salam	5,320	1.00%	4,808	1.04%
Mudaraba	5,000	0.94%	3,000	0.65%
Musharaka	393	0.07%	2,825	0.61%
Total	530,194	100%	463,475	100%

IBBL invests its most of its fund in Bai-murabaha mood from the very beginning of its birth. It invests above 63% of its income in Baimurabaha mood. HPSM mode is in the second position where IBBL invest 23% of its total investment.

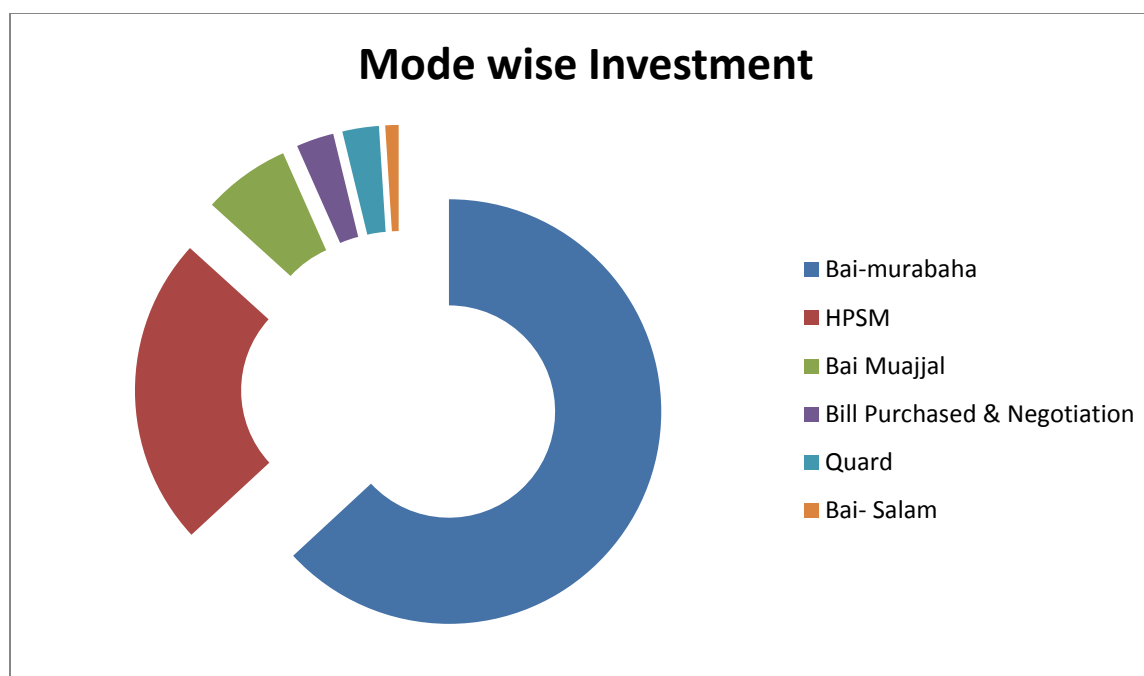


Figure 5 : Mode wise investment in 2017

### Scheme wise Investment:

In addition to the usual investment operations, IBBL has 11 Special Investment Schemes for different groups of people. The schemes as part of bank's welfare mission aim at fulfilling finance needs of different segments of people particularly the under privileged downtrodden and neglected section of population of the country. To improve the living standard of these people some welfare oriented special investment schemes as under have been undertaken:

Sl. No.	Name of Scheme	2017	2016	2015	2014	2013
1	Rural Development Scheme (RDS)	20,799	17380	13731	10390	7072
2	House-hold Durables Scheme	1,545	1392	1048	955	1070
3	Investment Scheme for Doctors	58	55	37	32	14
4	Transport Investment Scheme	7,207	6832	7057	6887	6707
5	Car Investment Scheme	124	69	75	113	152
6	Small Business Investment Scheme (SBIS)	4,094	3817	3202	2774	2348

7	Micro-Industries Investment Scheme	54	22	29	36	38
8	Agricultural Implements Investment Scheme	2,929	882	337	278	210
9	Housing Investment Scheme	166	209	261	316	367
10	Housing Investment Program (HIP)	23,250	20780	15903	15660	12485
11	PalliGrihaNirmanBeniyogPrakalpa (PGNBP)	3,260	2717	2059	1483	903
12	Sub-total	63,487	54156	43739	43739	31366
13	Total Investment	530,194	463475	406817	406817	305841
14	% to total Investment	11.97%	11.68%	10.75%	10.75%	10.26%

In recent years IBBL change its trends of investment from heavy industrial to Small investment sector like RDS, UPDS, micro enterprise etc. Its investment in RDS project increase aggressively in RDS project from 2013 to 2017. IBBL also finances a lot in House hold project but it increased at a steady rate rather RDS project

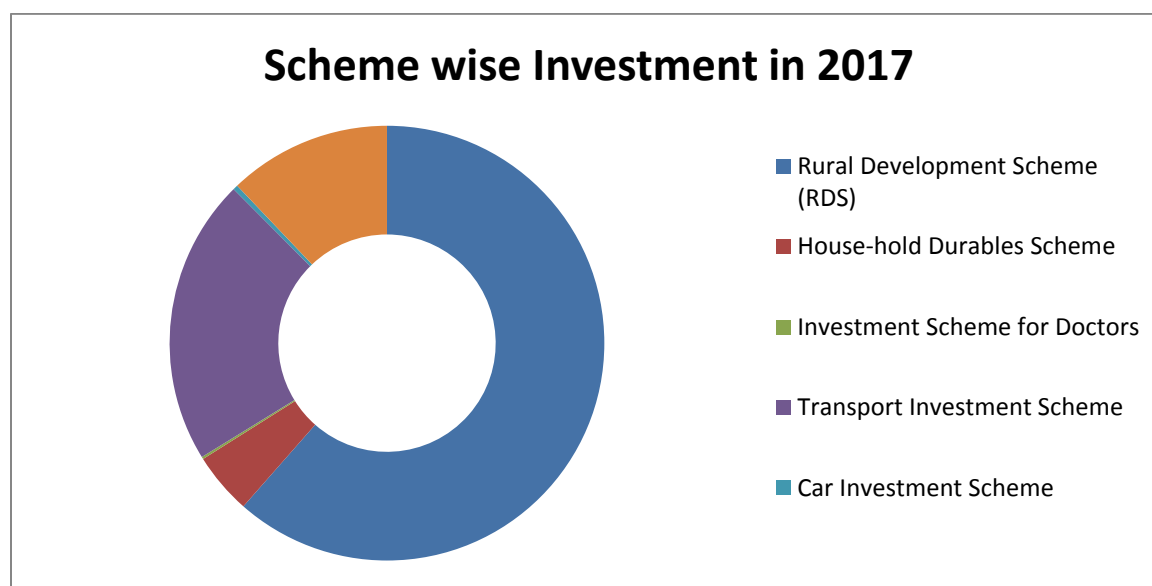


Figure 6 : Scheme wise investment of 2017

### 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

	2013	2014	2015	2016	2017
Classified Investment	8,292.32	14,212.80	14,941.90	22,807.24	22,541.24
Classified Investment to Total Investment	2.71%	3.81%	3.71%	4.92%	4.22%
Provision against Classified Investments	3,054.00	6,054.35	7,262.40	9,391.02	9,293.11

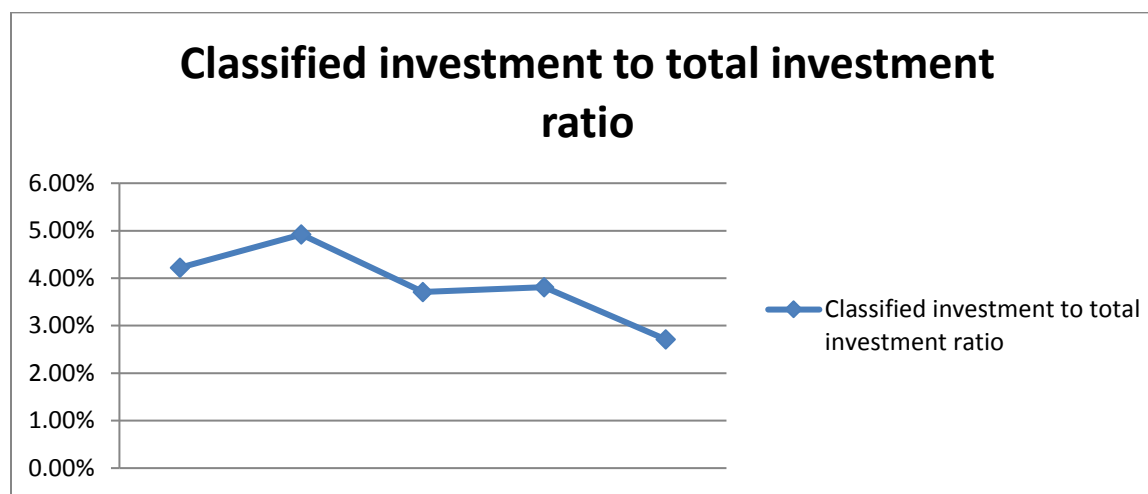


Figure 7 : Classified Investment to Total Investment

From the above figure we see that classified investment to total investment is increase at a slow rate from 2013 to 2017 though it was a little bit high in 2016. 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.

### Investment trend in Micro Investment & Micro Enterprise Investment:

Particular	2013	2014	Growt h	2015	Growt h	2016	Growt h	2017	Growt h
Micro Investment (MI)	4,234.18	6,036.74	43%	7,956.89	32%	10,254.76	29%	11,781.60	15%
ME Investment (MEI)	2,837.85	4,353.97	53%	5,774.03	33%	7,125.20	23%	9,017.21	27%
Total Outstanding	7,072.03	10,390.71	47%	13,730.92	32%	17,379.96	27%	20,798.82	20%
Rate of Recovery	99.58%	99.72%		99.70%		99.50%		99.47%	

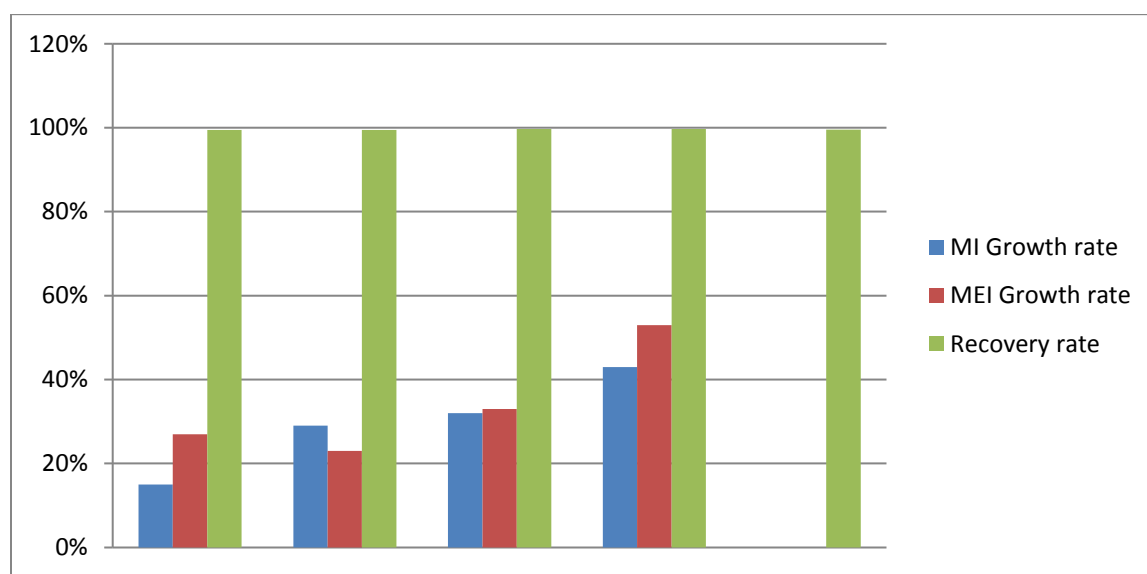


Figure 8 : Investment trend in Micro Investment & Micro Enterprise Investment

Though the recovery rate of investment in micro finance is decreasing a little in recent years because of economical instability across the whole country, the recovery rate is high enough to maintain balance in financial sector. Management takes special steps to increase this rate to maintain economic stability

### Division wise distribution of Investment:

Name of Division	As on December 31, 2015 (In million Taka)
Dhaka Division	307,919.34
Chittagong Division	95,124.36
Khulna Division	35,988.17
Rajshahi Division	48,310.44
Barisal Division	7,985.16
Sylhet Division	11,187.46
Rangpur Division	15,964.13
Mymensingh Division	7,715.44
Total	530,194.50

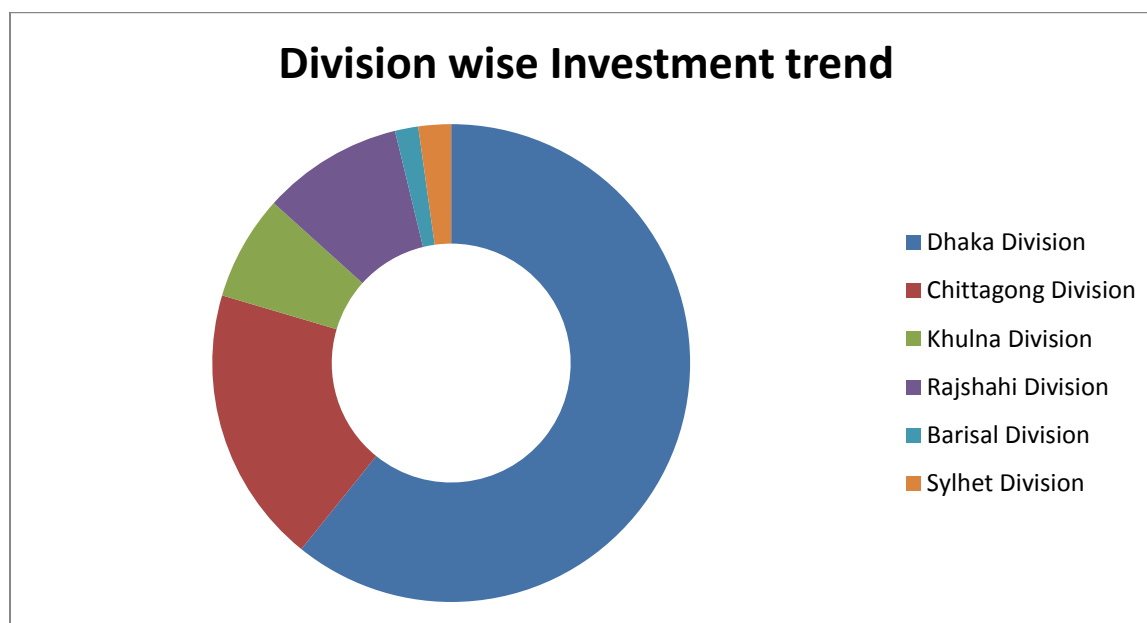


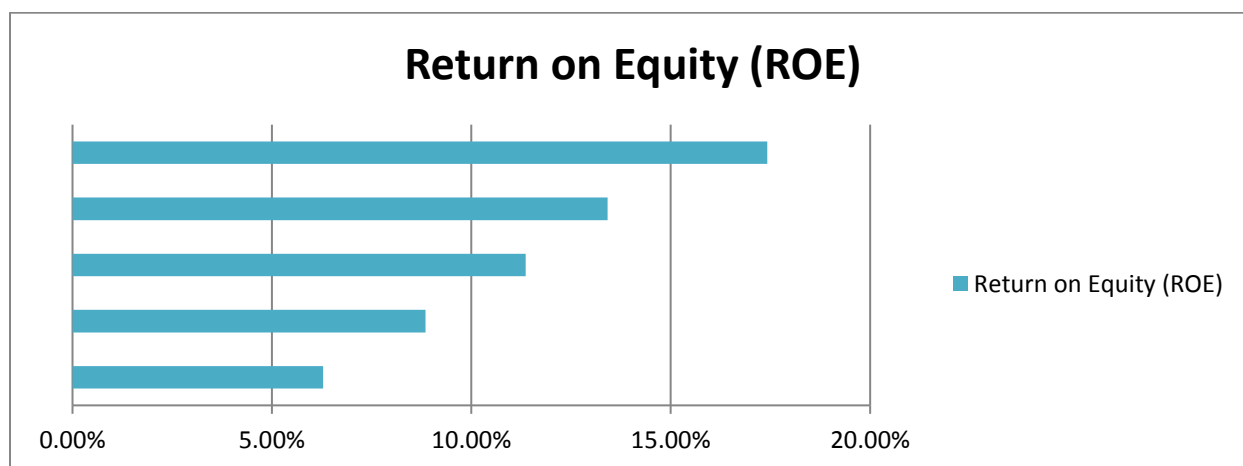
Figure 9 : Division wise distribution of Investment in 2017

From the table and graph we can see that more than 55% 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.

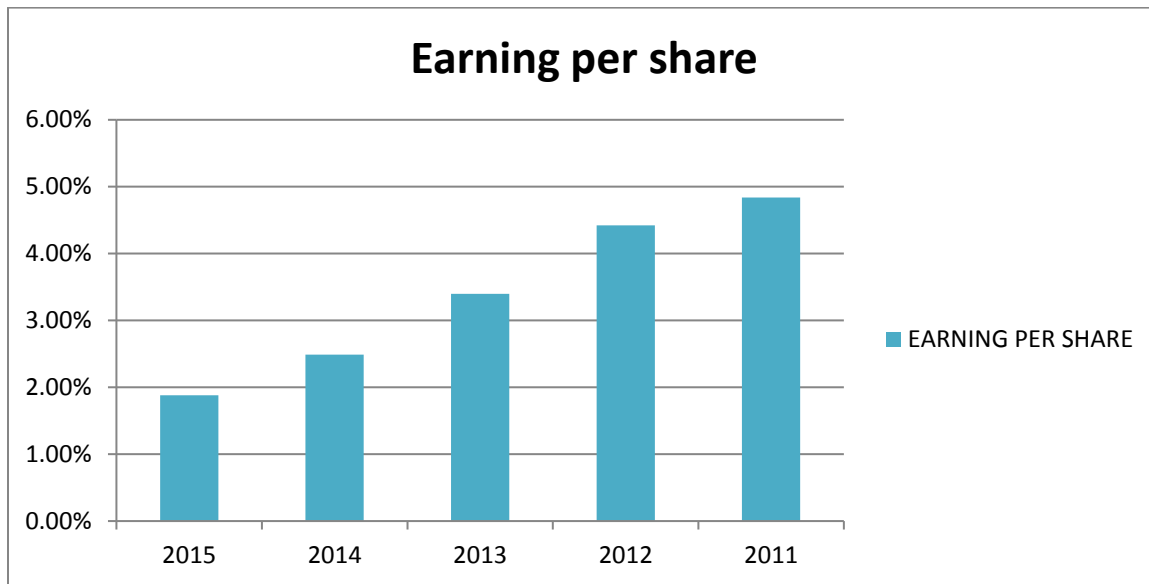
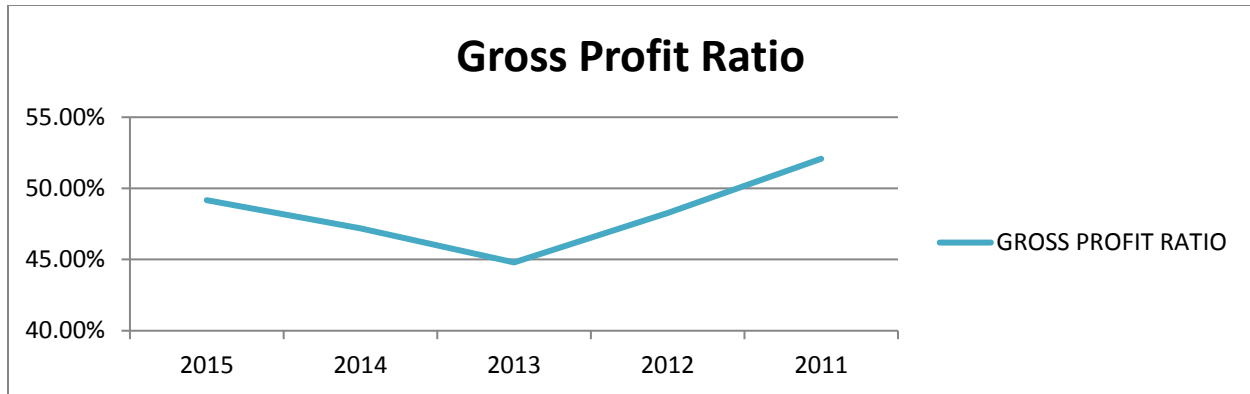
### Different Efficiency Ratio Analysis:

	2013	2014	2015	2016	2017
Gross Profit Ratio	52.08%	48.28%	44.80%	47.20%	49.18%
Cost of Fund	8.86%	9.32%	9.45%	8.55%	7.62%
Cost Income Ratio/Efficiency Ratio	0.73	0.76	0.75	0.74	0.75
Return on Equity (ROE)	17.42%	13.42%	11.36%	8.85%	6.28%
Return on Average Assets (ROA)	1.35%	1.27%	0.96%	0.67%	0.44%
Price Earnings Ratio (Times)	11.27	12.21	12.35	11.24	12.54
Spread	4.03%	4.10%	3.79%	4.27%	4.29%

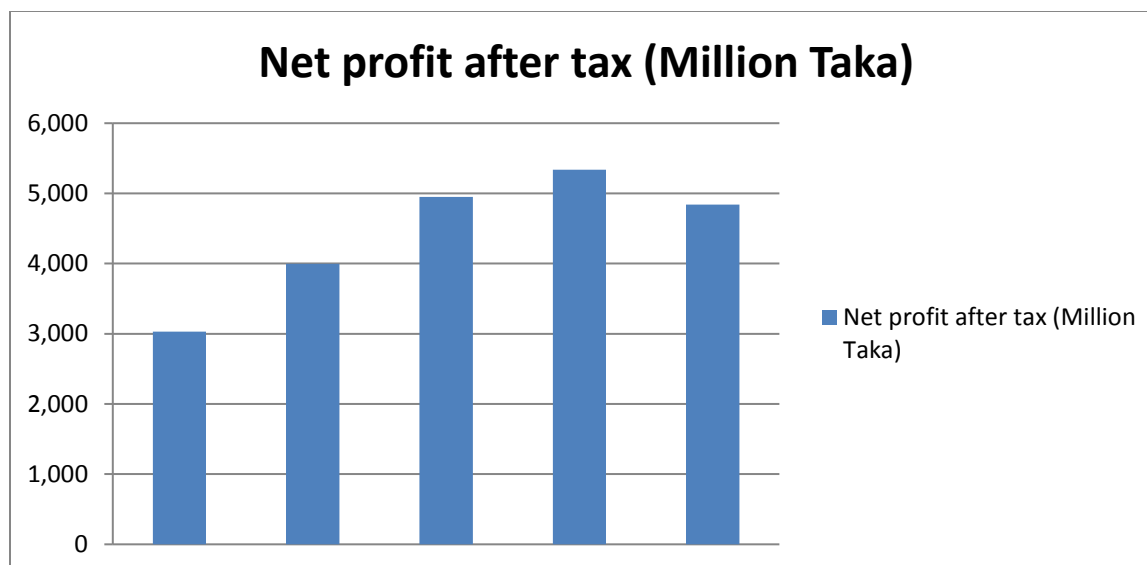
In the year 2017, Gross profit only increased but not so much than that of year 2013 which showed sign of fluctuation of profitability but both ROE and ROA decreased than previous years though Price earnings ratio increased a little







Like other financial fall down results the EPS also fall down from 2011 to 2015 drastically. EPS was decreased 100% within these five years.



Net profit also fluctuated from the year 2013 to 2017 and in 2017 it was the lowest net profit in these five years which indicated that financial profitability became worse.

### 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

Capital Adequacy Ratio	2013	2014	2015	2016	2017
	13.09%	13.49%	14.26%	12.83%	11.66%

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 sense the bank was good enough to maintain this requirement. The bank followed Basel III Accord in 2015 Basel II Accord in 2012, 2011, 2010 & 2009, followed Basel I Accord in 2008 for calculating capital adequacy ratios. Though it decreases in recent year from 2011 to 20125 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.

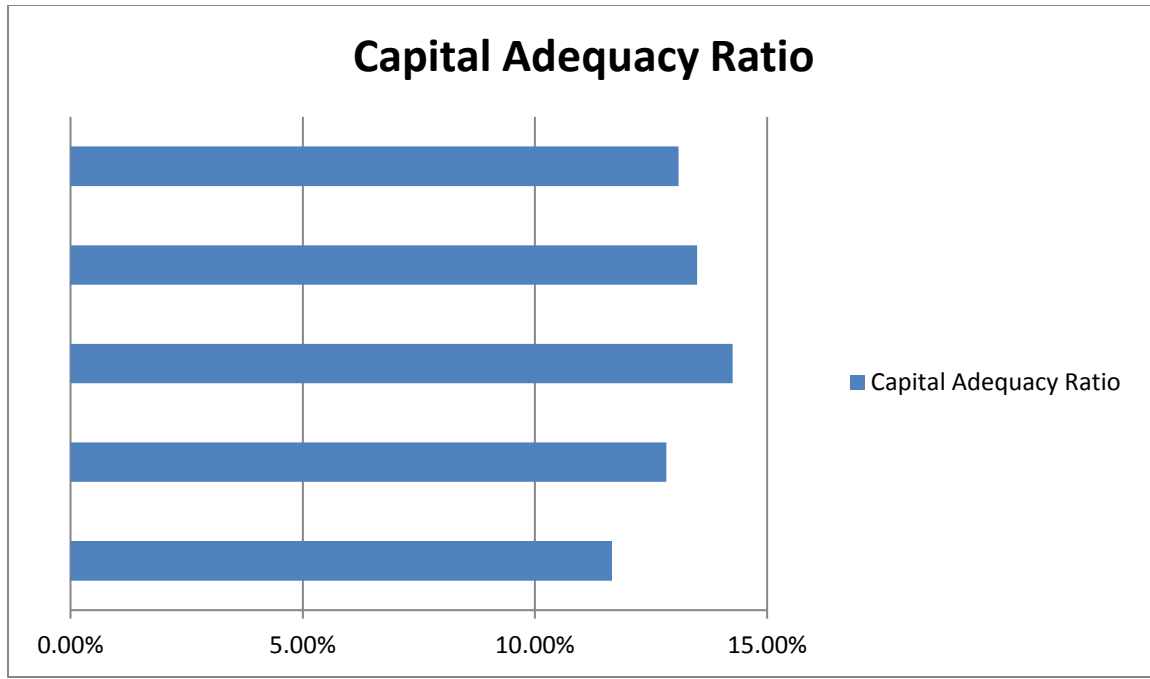


Figure 10 : Capital Adequacy Ratio

### Cost Income Ratio/ Efficiency ratio:

Efficiency Ratio that is typically used to analyze how well a company uses its assets and liabilities internally. Efficiency Ratios can calculate the turnover of receivables, the repayment of liabilities, the quantity and usage of equity and the general use of inventory and machinery

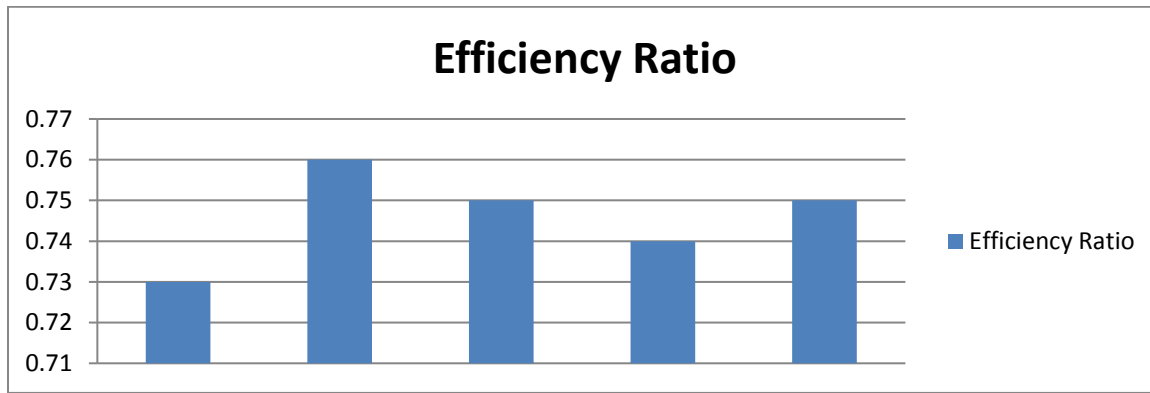


Figure 11 : Cost Income Ratio

Cost Income Ratio or Efficiency Ratio is the ratio between operating expenses and operating income. It is a measure of how costs are changing compared to income. It is one of the main key performance indicators of a bank's efficiency: the lower the ratio the more efficient the bank. Islami Bank Bangladesh Limited's efficiency ratios were in a fluctuating move over the period of

2013 to 2017. In 2015 the bank's efficiency ratio was 0.73% which was very close to an efficiency ratio of 0.76% in 2014 and 75% in 2011. The Bank's average cost income ratio during this period was about 0.75%.

### 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.

<b>Return on Investment</b>	2017	2016	2015	2014	2013
	8.20%	9.86%	11.53%	12.21%	10.87%

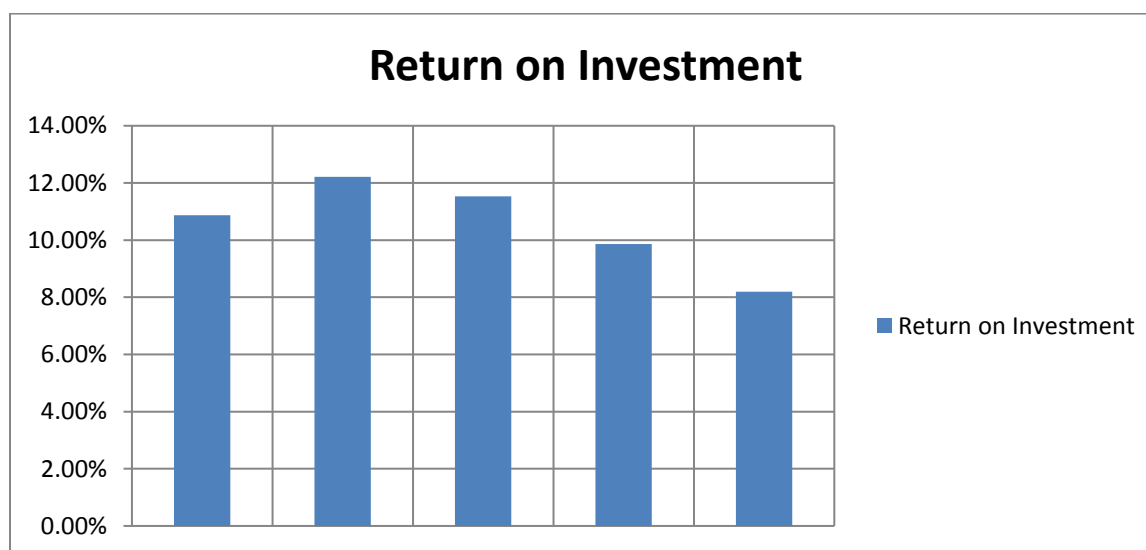


Figure 12 : Return on Investment

Return on Investment (ROI) ratios of Islami Bank Bangladesh Limited were fluctuating over the period of 2013 to 2017. In 2013 bank's return on investment ratio was 10.87% which was gradually increased in 2014 to 12.21% but decreased rapidly in the following years and it was 8.20% in 2017. 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. The Bank's average return on investment during this period was 10.53%.

### 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.

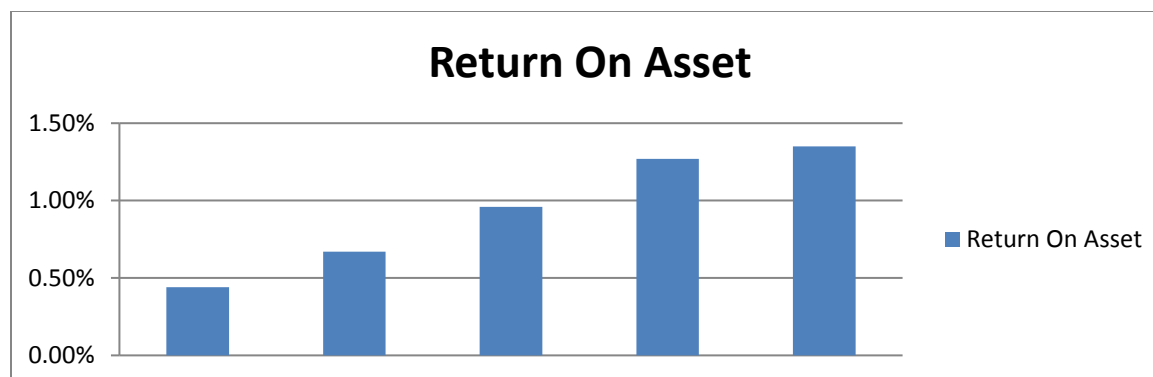


Figure 13 : Return on Asset

As IBBL's total income did not increase so much in recent years at the same time assets did not decrease rather than it increased, so ROA decreased in a steady rate from 2013 to 2017. In 2013 it was below 1.5% but in 2017 it was under .50%.

### Liquidity ratio:

Name of the Ratio	Standard Ratio	IBBL's Scenario
Cash Reserve Ratio (CRR)	6.50%	7.12%
Statutory Liquidity Ratio (SLR)	5.50%	18.50%
Investment Deposit Ratio (IDR)	<90%	83.59%

Liquidity ratios are a class of financial metrics used to determine a company's ability to pay off its short-term debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts. Here we observe that in the scenario of 2017 year both CRR and SLR ratio is far better in a position than minimum standard ratio.

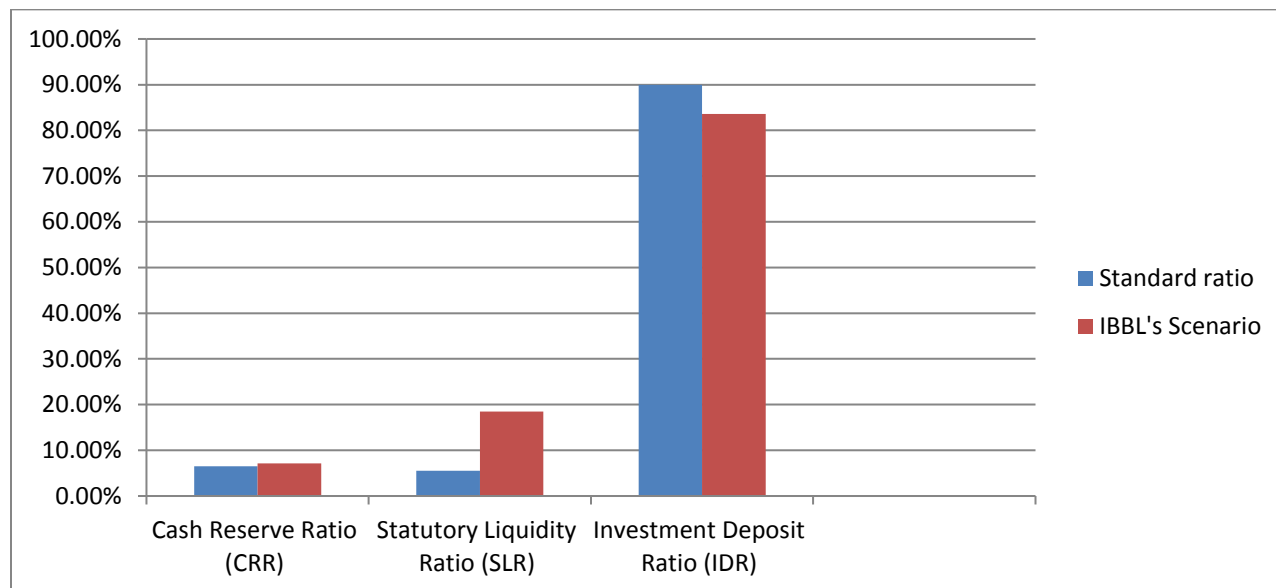


Figure 14 : Liquidity ratio of 2017

### Leverage risk:

A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans), or assesses the ability of a company to meet financial obligations. In this table both solo and consolidated leverage ratio is given in the scenario of 2017

Capital Requirement for	Solo ( in millions)	Consolidated ( in millions)
Leverage Ratio	5.12%	5.13%
On balance sheet exposure	708,069.63	708,016.63
Off balance sheet exposure	47,402.51	47,402.51
Total exposure	755,472.14	755,419.14

### Operating Performance:

	2013	2014	2015	2016	2017
--	------	------	------	------	------

Investment Income	32,019.53	43,672.23	48,145.46	49,109.96	48,152.28
Profit Paid on deposit	18,401.22	25,870.43	30,975.19	30,650.27	28,737.87
Net Investment Income	13,618.31	17,801.80	17,170.27	18,459.69	19,414.41
Non-Investment Income	6,381.76	6,345.56	7,972.88	8,937.07	8,399.62
Total Income	38,401.29	50,017.79	56,093.75	58,047.03	56,551.90

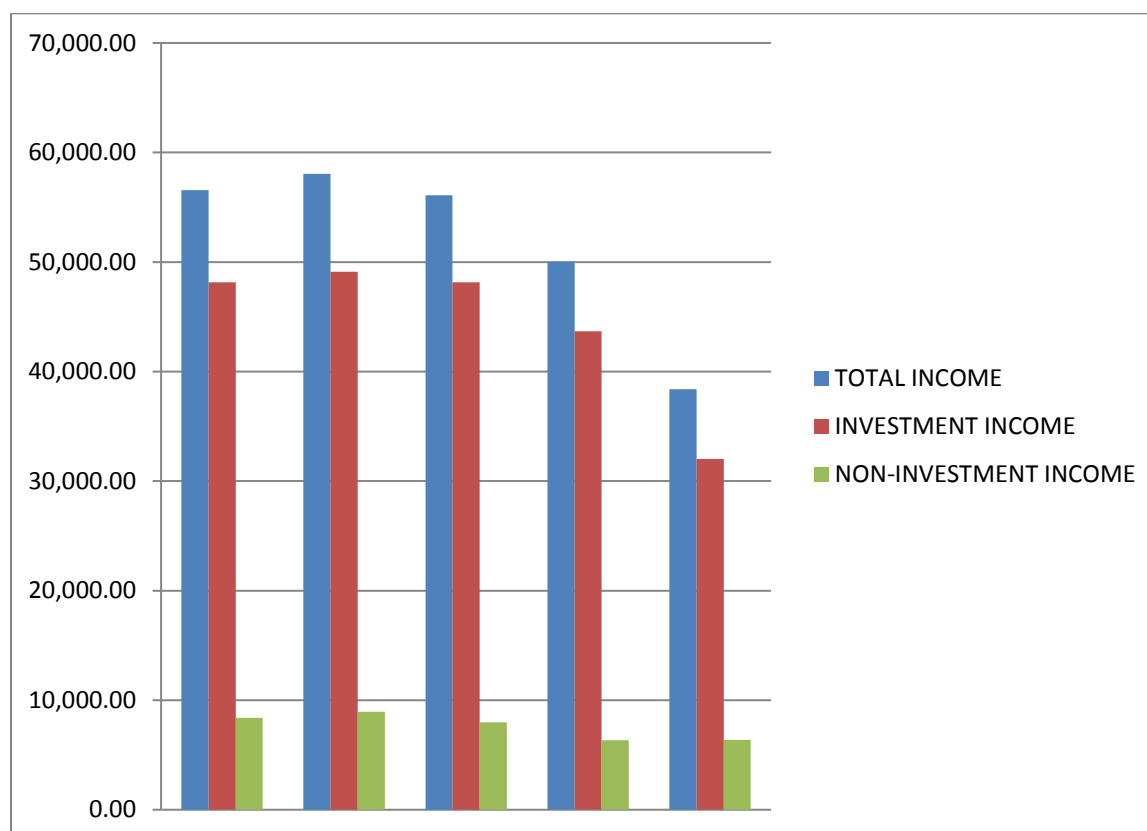


Figure 15 : Operating Performance

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 2017 rather than previous year.

### 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.

Total Risk Weighted Assets (RWA)	2013	2014	2015	2016	2017
	257,564.30	311,511.60	319,215.90	378,742.72	410,332.28

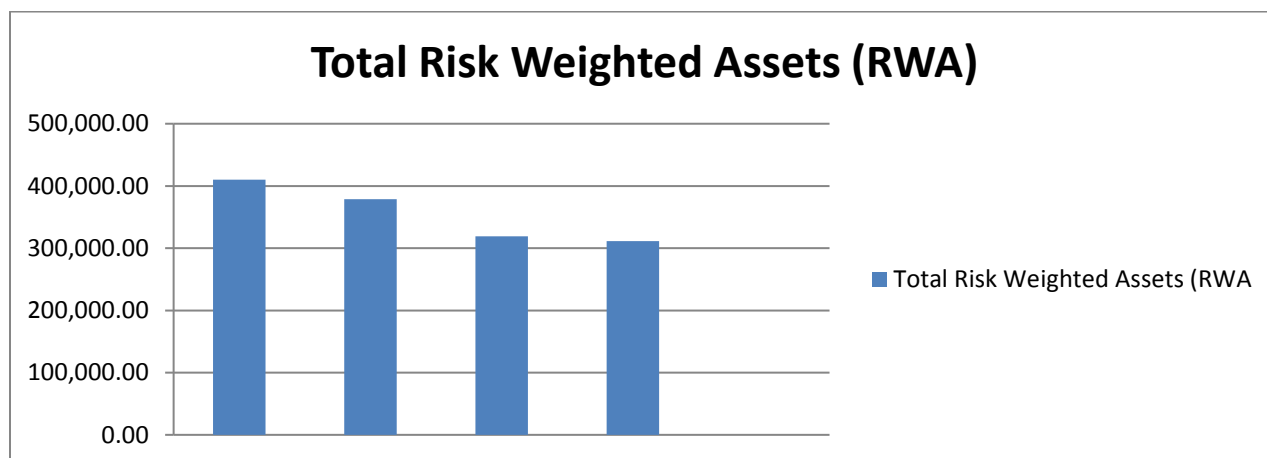


Figure 16 : Total Risk Weighted Assets (RWA)

Total Risk Weighted Assets (RWA) of Islami Bank Bangladesh Limited was increasing over the period of 20013 to 2017. In 2013 the bank's total risk weighted assets was Tk. 257, 564.30 million which became about doubled in 2017 of Tk. 410,332.28 million worth. It was the result of the bank's increased investments as well as the bank's total assets. The bank's average total risk



weighted assets during this period was Tk. 2, 61, 691.36 million. Besides during the period of 2013 to 2017 the bank all the time faced a capital surplus.

### Portfolio wise Exposure

(In crore Taka)

Particulars	2017	2016	Incr/Decr
Total Assets	72,582.11	65,242.20	
Total RWA	41,033.23	37,574.27	3158.96
Efficiency in RWA	56.53%	58.05%	
Total Eligible Capital	4,784.53	4856.99	(72.46)%
CAR	11.66%	12.83%	(1.17)%
Outstanding against Corporate (on balance sheet + off-balance sheet)	31,908.18	31,225.28	682.90
RWA against Corporate (On + Off balance sheet)	19,634.25	18,872.87	761.38
Efficiency in Corp RWA	61.53%	60.44%	1.09%
Unrated Corporate	2,917.62	2,805.91	111.71
RWA (Unrated)	3,674.02	3,507.39	139.63
Efficiency	125%	125%	
Outstanding (Past due)	1,868.18	2,329.50	(461.32)
RWA (Past Due)	1,321.28	2,712.99	(1391.71)
Efficiency in RWA (Past - Due)	70.73%	116.46%	
Others Assets	4,009.96	2,804.19	1,205.77
RWA against Others Assets	3,043.78	1,924.02	1,119.76
Efficiency in RWA	75.91%	68.61%	7.30%

Here we see that 88.97% of the total Risk Weighted Assets (RWA) is against the Investment Risk Exposure. Amongst Tk. 33, 8690 million of RWA, 95% arises from the on Balance Sheet

Exposure and the rest Tk. 26,374.93 million i.e. 7% of RWA arises from the Off Balance Sheet Exposure. Thus the total RWA Tk. 410,332.28 million against which Minimum Capital requirement is Tk. 410,333.23 million (10% of the RWA).

### Credit Ratings 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
2017	AA+	ST-1	Stable
2016	AA+	ST-1	Stable
2015	AA+	ST-1	Stable
2014	AA+	ST-1	Stable
2013	AA+	ST-1	Stable

CRISL has reaffirmed its Long Term rating to „AA+“ (pronounced as double A plus) and Short Term rating to „ST-1“ of Islami Bank Bangladesh Limited (IBBL) through an in-depth analysis of the operational and financial performance of the bank along with all its relevant quantitative and qualitative factors. The basis of its evaluation has been the consolidated financial up to December 31, 2017 and other prevailing factors up to the date of the rating. Long Term Rating of AA+, AA, AA- (Double A); High Safety: Banks rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions. Short Term Rating of ST-1; Highest Grade: Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations

### SWOT Analysis of Investment 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, Hazi Camp 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,

<b>Strengths:</b> <ul style="list-style-type: none"> <li>▪ Unique Banking software.</li> <li>▪ Adequate internal fund,</li> <li>▪ Goodwill and market reputation,</li> <li>▪ Confidence of common people of our country,</li> <li>▪ Corporate culture and good governance</li> <li>▪ Sovereignty in policy making,</li> <li>▪ Collective efforts of the management in any situation of the bank,</li> <li>▪ Experienced management team,</li> <li>▪ Honest, sincere and reliable manpower,</li> </ul>	<b>Weaknesses:</b> <ul style="list-style-type: none"> <li>▪ Lack of diversification,</li> <li>▪ Lengthy investment procedure,</li> <li>▪ Poor logistic support,</li> <li>▪ CAR maintains,</li> <li>▪ Insufficient IT sector,</li> <li>▪ Lack of specialized employees,</li> <li>▪ Unethical influence.</li> </ul>
<b>Opportunities:</b> <ul style="list-style-type: none"> <li>▪ Favorable environment for Islamic banking,</li> <li>▪ To introduce new Islamic instruments,</li> <li>▪ Accommodation of low income group to the banking industry,</li> <li>▪ Emergence of e-banking,</li> <li>▪ Increasing importance for Islamic banking,</li> <li>▪ Decentralization of business geographically,</li> </ul>	<b>Threats:</b> <ul style="list-style-type: none"> <li>▪ Absence of specified Islamic banking law enforced by government</li> <li>▪ High inflation view,</li> <li>▪ Economic recession,</li> <li>▪ Lack of financial stability,</li> <li>▪ Instability in capital market,</li> <li>▪ Absence of Islamic money market,</li> <li>▪ Inappropriate Islamic banking by competitors.</li> </ul>

## *Chapter 5: Findings Recommendations and Conclusions*

## **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 18.18%. From 2013 to 2017 almost all types of welfare investment schemes became doubled to five times bigger in amount of investment.
2. The bank never faced less than 80% 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 BaiMurabaha and HPSM by the bank from 2013 to 2017. But under Musharaka mode they have very little investment because of less demand of clients and willingness of the bank.
4. In 2017 with 304 branches the bank's SME investment was Tk. 229,864 million which was almost 125% from 2013 of Tk. 181,918 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 2013 from 2017.
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 2013 to 2017 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 55% 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 2017 was Tk. 22,541.24 million which was 4.22% of their total investment; in the year of 2013 the classified investment was 2.71% 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 2013 to 2017. 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 2013 bank's return on investment ratio was 10.87% which was gradually increased in 2012 to 12.21% but decreased rapidly in the following years and it was 8.20% in 2017. The Bank's average return on investment during this period was 10.53%.
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.

## 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.

## Conclusion:

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. 530,194.50 million in 2015 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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