Risk Management in Shari'ah-Based Banking in Bangladesh

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Risk Management in Shari'ah-Based Banking in Bangladesh

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Forewords

As part of the ongoing dissemination of BIBM research outputs, this document contains the results and findings of the research workshop titled “Risk Management in Shari’ah-Based Banking in Bangladesh”. The study was conducted in 2022 and the paper was presented in a workshop held on April 13, 2022.

Shari'ah-based financial institutions utilize several forms of contracts for financing to meet their clients' demands for a range of commercial and everyday activities. Each product has a unique profile of risk. The image of Islamic banks may also be at danger if they violate Shari'ah norms. Therefore, an appropriate risk management framework must be adopted in order to represent the unique characteristics of Islamic financial services and products. This paper has been finalized after incorporating the valuable comments and suggestions of the distinguished panelists, participants of different banks and the academicians, who joined the workshop. It gives me immense pleasure to see the paper publish and to distribute it to the policymakers, practitioners, academics and common readers. I hope this will be a useful treasure to understand the challenges and way out of risk management in Shari’ah-Based Banking in Bangladesh.

Dr. Md. Akhtaruzzaman
Director General

Acknowledgment

This study titled “Risk Management in Shari’ah-Based Banking in Bangladesh” has been completed with immense support from a number of individuals and organizations. We would like to express our gratitude to the honorable Director General, BIBM, Dr. Md. Akhtaruzzaman for his guidance and solid support in completing this research. The study is based on both primary and secondary information. The research team is indebted to the banking community of our country for responding to the questionnaire by giving valuable input in preparing the paper. We are also thankful to Dr. Md. Shahid Ullah, Associate Professor and Associate Editor for his Valuable Comments. Our honest appreciation goes to Training Wing of BIBM. Finally, we would like to extend our appreciation to those who, openly and sincerely, provided their support in our research effort.

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Executive Summary

Over the past few decades, there have been significant developments in the banking industry around the world. One of the main factors driving the banking sector to offer cross-border sophisticated and creative financial products is rising competition as well as the globalization of business and financial services. Furthermore, the banking industry has embraced technology quickly. As a result, the banking sector now carries far greater and more fluctuating risks than it did previously. Effective risk management is a prerequisite for sound bank management, which necessitates detecting, measuring, and minimizing risks related to various banking activities. In Bangladesh, Islamic banking has been advanced during the past forty years. With the aid of modest research efforts, knowledge about Islamic banking procedures is being created. The operations, advancement, trends, and risk management techniques should be designed following shariah permissible ways and would be easily accessible to bankers, scholars, and researchers in the relevant disciplines for the improvement of Islamic banking practices.

Based on both primary and secondary information, this study was done to show many of the aspects of Islamic banking in Bangladesh, as well as the risks involved and how they are managed. In light of this background, the study's specific goals are to: 1) comprehend the risks associated with Shari'ah-based banking; 2) present risk management tools and techniques for mitigating the risk; and 3) pinpoint the problems and difficulties associated with risk management in Shari'ah-based banking in the context of Bangladesh. The study is anticipated to be useful in understanding risk management strategies and their status in the context of Bangladeshi banking operations that are based on Shari'ah.

Bangladesh Bank created risk management guidelines for banks in 2012, which were updated in 2018. These rules are in accordance with generally acknowledged concepts and best practices in risk management. The recommendation is in keeping with the Basel Committee on Banking Supervision's (BCBS) updated Basel Core Principles (BCP) for Effective Banking Supervision, which was released in September 2012. According to the BCP on "Risk Management Processes," banks must have an extensive risk management process (including effective board and

senior management oversight) in place to identify, measure, evaluate, monitor, report, and control or mitigate all material risks on a timely basis as well as to determine the sufficiency of their capital and liquidity in light of their risk profile and the macroeconomic and market environment.

The study revealed that deposit growth of IB industry was 17.11 percent in 2020 which increased to 19.73 in 2021, whereas deposit growth of whole industry and PCBs have been decrease. Similarly, investment growth has been increased in 2021 as compared to that of 2020 in the IB industry. However, there is no significant difference between IBs and other groups of banks considering average deposits and investments per account.

Moreover, all of the full-fledged Islamic banks agreed that the risk faced by the Islamic banks in general is different form the conventional banks. Majority market players (52%) of the Islamic banking industry opined that risk faced by the Islamic banks in collection of deposits was lower from the conventional banks. On the contrary, about 60 percent respondents argued that the risk faced by the Islamic banks in investing funds was higher from the conventional banks. Similar opinions have been observed in case of market, liquidity and operational risks.

About 80 percent of the respondents agreed that there was a challenge to recruit manpower having relevant expertise/education suitable for Islamic banking operations with a dearth of proper training for human capital development.

According to the study, less than half of the respondents perceived that IBs faced challenges for deposit mobilization under Mudarabah because the conventional banks offer fixed and positive return in deposit collection, whereas the Mudarabah principle is a profit sharing and loss bearing contract. Banks were facing displaced commercial risk, Shari'ah non-compliance risk in the area of marketing, etc. All of the full-fledged banks believed that Shari'ah non-compliance risk is high in regard to operation e.g., capital/profit guarantee in case of Mudarabah deposit. However, they were enjoying competitive advantages related with cost of fund as majority of the deposit collected under Mudarabah principle.

However, the counterparty risk of Islamic banks was higher in comparison with conventional banks due to not charging any additional amount in the cases of default. Some banks believed that the compensation (i.e., penalty) charge alone is not an effective risk management technique for the Islamic banks for minimizing default culture.

As per the study, majority of the respondents believe that displaced commercial risk is a relevant risk for Islamic banks in Bangladesh. Different banks use different mechanisms for calculating profit for the depositors and it does not create challenge for them. Similarly, commodity price volatility does not impact on IB's profitability greatly. However, IBs face challenge related with currency price due to lack of Islamic derivatives; also equity price risk because there is lack of Shariah compliant sufficient equity instruments. Shari'ah-based banks are facing challenges related with liquidity due to lack of sufficient attractive and tradable instruments. Some Islamic finance professionals opine that Sukuk is coming in the market and it will reduce problem in this regard. Almost all of the banks think that the capital adequacy requirements for Islamic banks should be different from that of conventional bank considering the salient features of products and modes of contract. The study came up with some recommendations to overcome the challenges.

The core of Islamic finance is Shari'ah. In order to reduce the danger of Shari'ah non-compliance in Islamic banks in Bangladesh, a project to create a pool of Shari'ah experts may be launched. Islamic banks are commercial organizations, even then, there are certain distinctions between conventional and Islamic banks. When it comes to conducting business, Islamic banking should prioritize upholding Shari'ah principles and moral norms. The business unit should be properly encouraged and supported. Accountability for the breach of Shari'ah should likewise be guaranteed. There are differences between contacting consumers through a fully-fledged Islamic bank and a regular bank with Islamic branches or windows. A strategic plan that harmonizes the BoD's view with the SMT's perspective and the business segment's motivation may thus be essential in this respect. Although Islamic banking is expanding quickly, the structure and instruments for reporting and risk management are still not being created at the same level. Financial statements of an Islamic banks of Bangladesh do not accurately represent the key operations of a bank with a Shari'ah-based foundation. The development of stronger instruments and frameworks for solid risk management and reporting by Islamic banks should thus receive additional time and financial support from R&D. When Islamic banks experience liquidity issues, appropriate Shariah-based financial instruments are not readily accessible to swiftly raise capital from the market. Sukuk and Sukuk-linked Shari'ah-based securities may be made more well-known among prospective investors in Bangladesh in order to address this issue and provide more tools for managing liquidity risk. To achieve a competitive advantage, market share may play a vital role. Islamic banking is not only for Muslim as an owner, employee or customer. This should be properly demonstrated in the market to show the universalism of Shari'ah-based banking system. It is crucial to make sure that real performance and accomplishments adhere to the criteria and values established by the regulator and the SSB. Therefore, Shariah-based monitoring and oversight are required.

Risk Management in Shari'ah-Based Banking in Bangladesh

1.0 Introduction

The banking business worldwide has undergone noticeable changes over the last few decades. Globalization of business and financial services and increased competition are among the major forces that led the banking industry to introduce cross-border complex and innovative financial products. Furthermore, technology has been adopted rapidly in the banking business. As a result, risks carried by the banking system have increased substantially and become more dynamic over the years. Effective risk management that involves identifying, measuring and minimizing risks associated with different banking activities is a precondition for sound bank management.

A careful look at the risk management practices in the banking sector of Bangladesh reveals phase-wise development. A landmark development took place from 2003 to 2005 when Bangladesh Bank introduced core risk management guidelines to address and manage key banking risks in a uniform way. Since then, the regulatory body continuously kept examining the risk management capacity and performance of the banks and amended or extended the scope of regulation whenever it was deemed necessary. Now the banking sector of Bangladesh is endowed with a reasonably rich set of sound and effective risk management policies and guidelines (Appendix-A) consistent with the international best practices. The development of a whole range of risk management capacity in Bangladesh is mainly regulation driven. Starting from developing the risk management infrastructure through formulating risk management guidelines and setting risk governance standards, Bangladesh Bank finally embarked on constituting a dedicated organizational structure to deal with various banking risks. According to the latest regulation, Risk Management Division (RMD) will be the nucleus of the risk management process.

The banking sector in Bangladesh can be categorized into two groups – namely conventional banking and Shari'ah-based banking or Islamic banking. Although conventional banks occupy the lion share in Bangladesh, Islamic banking is gradually expanding at the rate that it may capture 30 to 35 per cent within the next decade.

Islamic banking is being conducted on the basis of three motives - (i) true/pure belief in Almighty Allah; (ii) huge market potential, and (iii) resilience and more sustainability under a stressed situation. Irrespective of the motive, compliance with Shari'ah principles is mandatory for Islamic banking. According to the Shari'ah rulings, Islamic banking must be free from fundamental prohibitions such as Riba, Gharar, Dharar, Maysir and financing must be provided to the Shari'ah permitted economic activities to uphold the Maqasid al-Shari'ah (objectives of Shari'ah). Therefore, Shari'ah-based bankers should always keep their eyes on these principles during the operations. It is difficult to comply with Shari'ah standards in cent per cent if all stakeholders do not perform their due diligence and fiduciary responsibilities. Some deviations or distortion may occur either knowingly or unwillingly during practices if there are lapses in the Shari'ah governance process. Shari'ah-based banking institutions use different types of contracts for financing to satisfy the needs of customers for various business and day-to-day activities. Every product has distinct risk profiles. Non-compliance with Shari'ah principles may also place the Islamic banks in reputation risk. Thus, a proper adoption of risk management framework is required to reflect the special features of Islamic financial services and products.

Islamic banking activities have progressed in Bangladesh during the last four decades. The information on the Islamic banking practices is gradually developed with the help of limited research activities. For the betterment of the Islamic banking practices, the operations, progress, trends and risk management practices should be readily available to the bankers, academics and researchers of the relevant fields. Capturing the detailed information on the trends, changes, risk dimensions and its management strategies would also facilitate practitioners to handle the risk management challenges and to undertake future course of actions for greater risk management effectively and efficiently. This research has been undertaken to demonstrate the facets of the Islamic banking activities, and risk dimensions and its risk management practices in Bangladesh. In this backdrop, the specific objectives of the study are: one, to understand the risks in Shari'ah-based banking; two, to present the risk management tools and techniques for mitigating the risk; and three, to identify the issues and challenges of risk management in Shari'ah-based banking in the context of Bangladesh. It is expected that the study will be helpful in understanding the risk management practices and their status in the context of the Shari'ah based banking operations in Bangladesh.

The paper is based on both primary and secondary information. Primary data have been collected from the banks through a structured questionnaire and interviews with key stakeholders. The questionnaire was sent to all Islamic banks, both full-fledged and branch/window-based Islamic banks operating in Bangladesh. A total number of 31 (thirty-one) questionnaire responses (Appendix-B) have been summarized in the paper. To validate information and getting some insights, a number of interviews of the stakeholders have been conducted by the research team. Secondary data have been collected from global literature, various publications of Bangladesh Bank and BIBM. Descriptive analytical technique has been used to analyze the data. The draft report has been presented in the research workshop participated by the expert practitioners and Islamic finance professionals from different banks and financial institutions. The report is finalized after accommodating comments of the participants and experts of the banking sector in the research workshop.

The paper is organized into six sections. The first section describes the background, objectives and methodological issues followed by the conceptual framework of risk management process in section two. General regulatory framework for effective risk management in the banking sector of Bangladesh is presented in section three. Section four describes salient risk management framework of Shari'ah-based banks considering domestic and international regulations. Primary and secondary data analysis has been portrayed in section five. Finally, section six puts forward some issues and recommendations thereto.

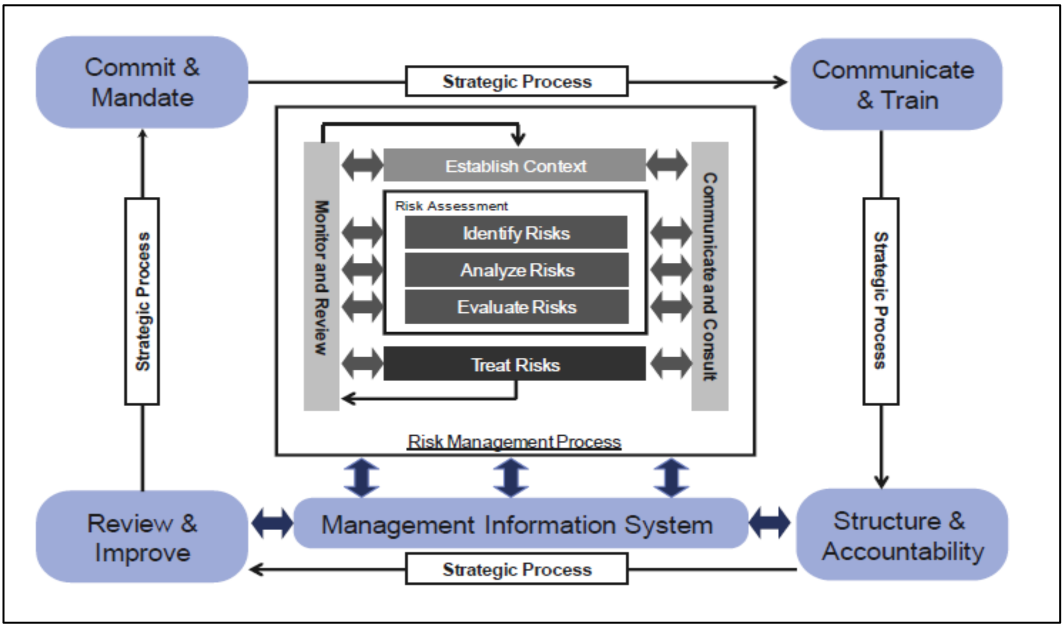
2.0 Conceptual Framework of Risk Management Process in Banks

There has been growing interest in risk management across the world due to a number of reasons. The impact of the global financial crisis has highlighted the importance of risk management. The following sub-sections describe the conceptual framework of risk management mechanisms, philosophies and concepts, and provide a clear course and direction for the risk management process.

2.1 ISO Framework and Process for Risk Management

There are many recommended approaches to risk management and risk management frameworks. Among those, the ISO framework is considered as principle-based rather than prescriptive. It provides a general framework for risk management with the expectation that individual organizations will design their own detailed and specific frameworks that meet the challenges of their particular situation and environment. Figure 2.1 depicts the ISO compatible risk management framework and risk management process that a financial organization would implement. In addition to the main components of risk management framework, it shows the further processes and functions necessary for implementation and continuous improvement.

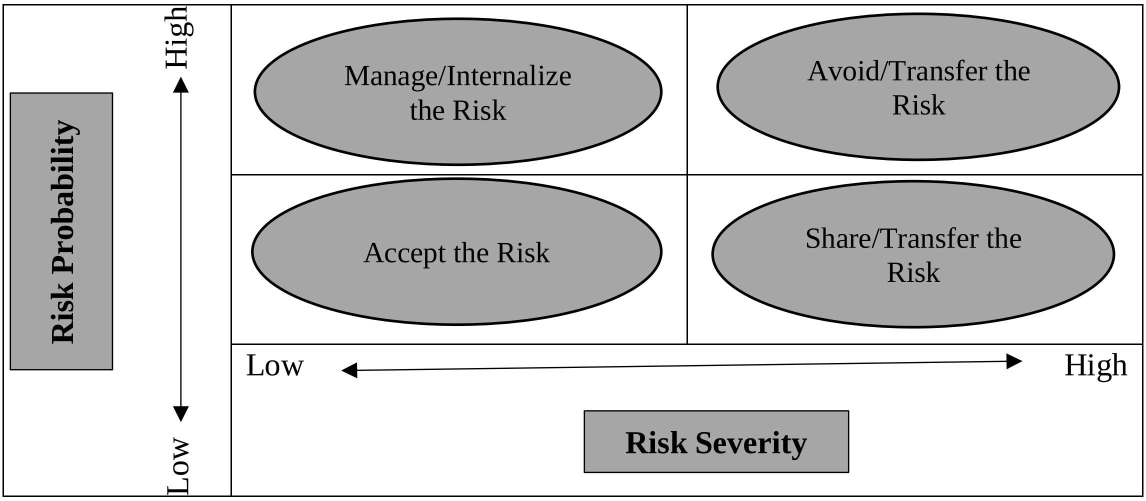
Figure 2.1: ISO 31000 Compatible Risk Management Framework and Process



Source: John Shortreed (2010)

A key element, may be the critical element, that underpins the core risk management process and the strategic feedback loop around it, is the management information system (MIS). No organizational learning and improvement of risk management is possible without an accurate and timely report on exposures and materialized losses. One important aspect of the risk management framework is the risk treatment. Risk treatment is about considering options for treating risks, evaluating those options, preparing the risk treatment plans and implementing those plans to achieve the desired outcome. Figure 2.2 provides a two-dimensional map that can be used to classify risks and suitable strategies to manage them as a function of severity and probability of occurrence.

Figure 2.2: Risk Severity/Risk Probability Map and Risk Management Strategies



Source: Based on e-learning Manual, CERM Program, Frankfurt

- **High Severity and Low Probability (bottom right box):** The chart suggests to share or transfer such a risk, rather than just bearing it and expecting for the best. The classic method for sharing a risk is insurance. Insurance works best in cases where the risk is rare, but catastrophic if it does materialize. Because the event is so severe, there is little temptation for an entity to willingly bring on the risk event or neglect basic precautions that could minimize the incidence of the risk. Thus, so called moral hazard is low. It shall be noted that the Shari'ah authorities do not permit conventional insurance.
- **Low Severity and High Probability (top left box):** The high probability / low severity situation is treated most efficiently by managing the probability as best as possible, while absorbing the losses that materializes, rather than sharing or transferring them. Because transferring the risks in this case would not be cost-effective.
- **Low Severity and Low Frequency (bottom left box):** This is a scenario where the bank should simply accept the risk. Otherwise, the mitigation effort could cost more money than could have been lost, if the risk occurred unmitigated. As an example, many companies have given up on controlling basic office supplies, like pens and paper. Such controls should have discouraged staff from over-consuming or taking supplies home. Yet, most companies have decided it is not worth the effort to stop pen and paper theft. Rather, it is better to use

bank's logo printed on the office supplies and let staff accidentally spread marketing messages in the community.

- **High Severity and High Probability (top right box):** If possible, an entity should simply stay away from this activity. If the activity cannot be avoided, the solution would be to transfer it, i.e. contract it out to another entity. Ideally, that other entity would specialize in these types of high-risk activities and have the technologies and skills to mitigate the probability and the severity of the risk.

Often people instinctively choose for risk mitigation or hedging as the risk treatment strategy. If risk and uncertainty are the problem, then creating certainty and removing the risk should be the obvious solution. Risk management is about dealing effectively with uncertainty and complexity.

2.2 Three Lines of Defense (3LD) Framework for Risk Management

A sound internal governance system is a must for establishing an effective risk management framework. Different stakeholders have different types of responsibilities in regard to this system. Board should take the necessary initiatives to implement a strong risk management culture within the organization. The senior management should focus on implementing the risk management framework as approved by the board. Internal and external audit are the third line of defense, offering independent challenge to the levels of assurance provided by business operations and oversight functions.

Depending on the bank's nature, size and complexity, and the risk profile of a bank's activities, the degree of formality of how these three lines of defense are implemented will vary. The framework is given in Figure 2.3.

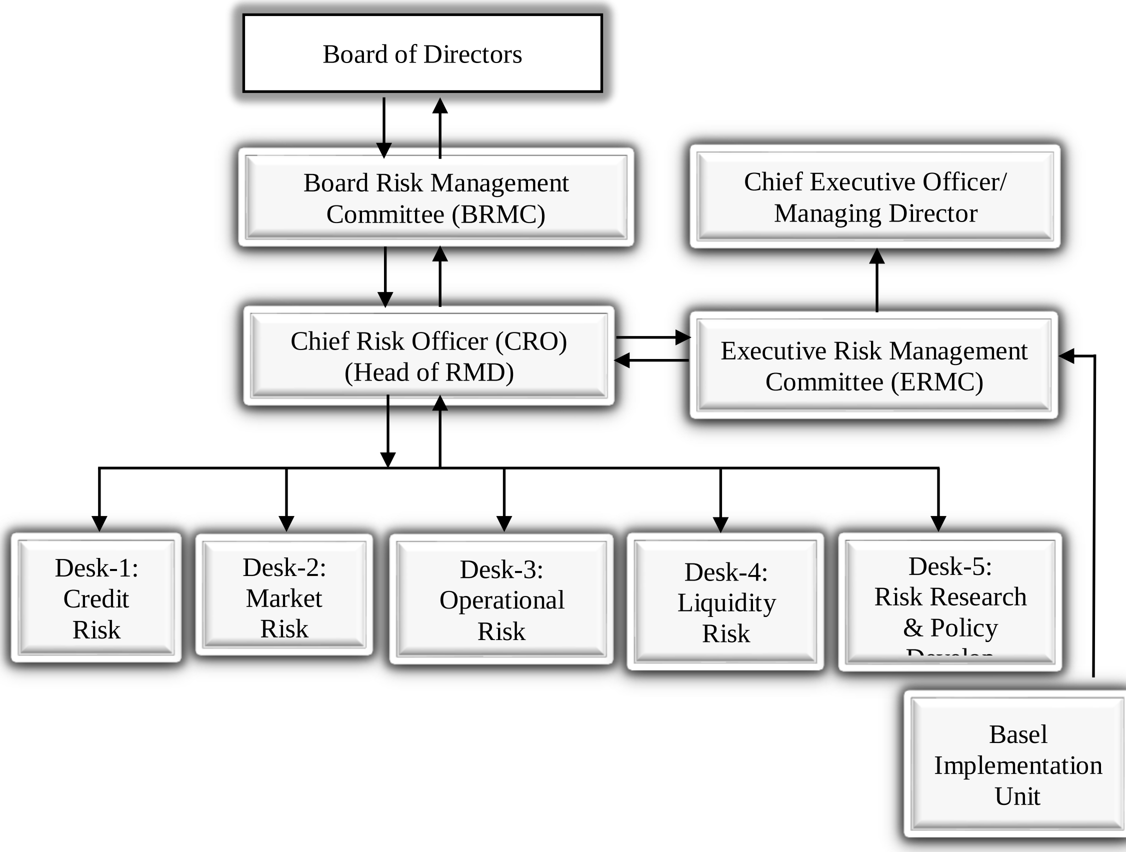
Figure 2.3: Three Lines of Defense (3LD) Framework for Risk Management

Source: KPMG, 2009

2.3 Risk Management Framework: Bangladesh Perspective

Bangladesh Bank has prepared risk management guidelines for banks in 2012, which was revised in 2018. The guideline is aligned with the revised version of Basel Core Principles (BCP) for Effective Banking Supervision published by the Basel Committee on Banking Supervision (BCBS) in September 2012. The risk management processes require that banks should have a comprehensive risk management process. In this connection, Bangladesh Bank has also given an optimum risk management organogram which is given in Figure 2.4.

Figure 2.4: Optimal Risk Management Organogram



Source: Risk Management Guidelines for Banks 2018, Bangladesh Bank

3.0 Regulatory Framework for Risk Management in the Banking Sector of Bangladesh

One of the the main functions of central bank is to regulate and supervise banks and financial institutions with a view to bringing stability in the industry and protecting customer's interest. Besides, Bank Companies Act 1991 authorizes Bangladesh Bank to formulate relevant regulations for the banking sector. Accordingly, Bangladesh Bank issues circulars/guidelines in line with international best practices. Considering the banking industry as unique and different from other businesses, Bangladesh Bank took the following initiatives to ensure sound risk management practices in the banking sector.

• Issuance of Six Core Risk Management Guidelines • Formation of Separate Risk Management Division • Issuance of Separate Risk Management Guidelines • Strengthening and Updating the Risk Management System in Banks • Implementation of Revised Regulatory Capital Framework in Line with Basel-III • Guidelines for Recognition of Eligible External Credit Assessment Institutions (ECAIs) • Guidelines on Supervisory Review Evaluation Process (SREP) • Implementation of Basel III Liquidity Ratios • Issuance of Stress Testing Guideline • Formation of Risk Committee at the Board Level • Determination of Risk Rating and its Uses • Issuance of Guidelines on Environmental & Social Risk Management (ESRM)

4.0 Guideline on Internal Credit Risk Rating Systems (ICRRS) of Banks: Salient Risk Management Framework for Islamic Banks based on Domestic and International Regulations

To manage various risks of banks Bangladesh Bank issued Risk Management guidelines for banks via DOS circular number 04 dated 8 October, 2018. The guideline is also applicable for Shari'ah based banking in the country. The guideline has focused on the following risk management aspects how a Shari'ah based banks should improve financial soundness of individual banks and stability of the overall financial sector.

Table 4.1: Risk Management Process of Islamic Banks

Dimension	Key Points for Risk Management and Financial Stability
Objective of Risk Management	Developing Risk culture, risk strategy, Risk Strategy and Risk Appetite, establishing a three-lines of defense model and Identifying risk and eliminating unacceptable risk
Risk Management System	Active involvement of board and senior management, Adequate organization, policies and procedures, adopting Appropriate management information systems; and creating Comprehensive internal controls and limits.
Risk Management Process	identify the responsible persons involved in risk assessment, understanding the context in which risk exists, Identifying and analyzing the risks, evaluating the risks and monitoring the risks
Operational Risk Management	Adopting and utilizing standard categorizations of operational risk events, according to event type and business line
Capital Management	Maintaining adequate capital, assessing internal capital adequacy of the bank and calculating its capital adequacy ratio
Risk Management Reporting	Preparing Monthly Risk Management Report (MRMR) and Comprehensive Risk Management Report (CRMR) according

Source: Risk Management Guidelines for Banks 2018, Bangladesh Bank

According to the revised regulatory capital framework, all banks are required to measure and apply capital charges against credit, market and operational risk. Similarly, Islamic banks are to follow capital framework in calculating risk weighted assets and capital charge. The Islamic banks are allowed to nominate the external credit assessment institutions (ECAIs) as recognized by Bangladesh Bank. The minimum capital adequacy requirements for both credit and market risks are set out for each of the following Shari'ah compliant financing and investment instruments (Table 4.2). The proposed measurement of capital to cater for operational risk in Islamic banks will be based on the Basic Indicator Approach.

Table 4.2: Risk Weighted Assets of Shari'ah-Based Products

Mode	RW for the Credit Risk	Capital charge for the market risk
Murabahah Contracts	On the Accounts Receivable	15% of the amount of the position
Salam contract	On the Accounts Receivable	15% of the net position and 3% on gross positions
Istisna'a contract	On the Accounts Receivable	
Ijarah and Hire Purchase under Shirkatul Melk (HPSM) contracts	future Ijarah receivable amount over the duration of the lease contract	15% of the amount of the asset's market value

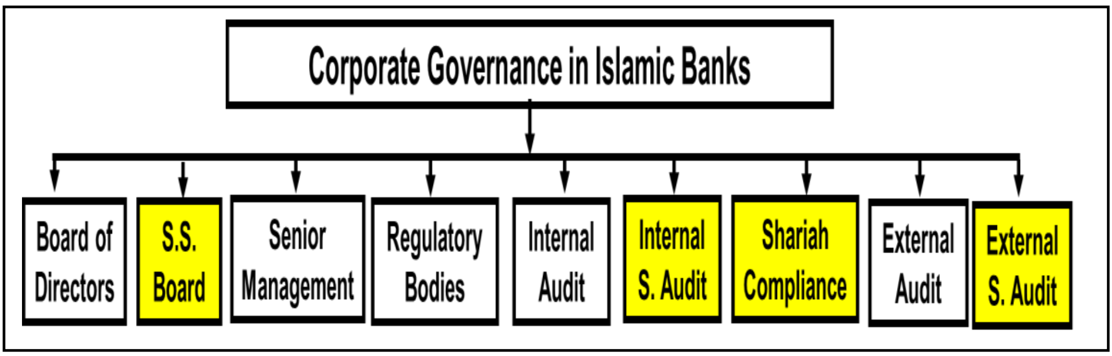
Source: Researchers' Compilation

Bangladesh Bank has issued Guidelines for Islamic Banking vide BRPD Circular No. 15 dated November 09, 2009. The summary of the guidelines - Section I: Introduction to IB; Section II: License; Section III: Responsibility for Shariah Compliance; Section IV: Principles of Deposit; Section V: Investment Principles and Investment Products; Section VI: Maintenance of CRR/SLR; Section VII: Preparation of Financial Statements; Section VIII: Framework of Rate of Return; Appendix I: Fit & proper criteria for selection of members of Shariah Supervisory Committee; Appendix II: Guidelines for preparation of financial statements; and Appendix III: Framework of rate of return.

The guidelines have set Islamic investment principles and investment products, and investment system for international trade as per Shari'ah. It has also required that all Islamic banking and commercial banks having Islamic bank branches/windows are to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as per rates prescribed by Bangladesh Bank from time to time. Fit and proper criteria for selection of Members of Shariah Supervisory Committee are also stressed in the guideline. To ensure calculation of rate of return in a fair and equitable manner, a standard framework for calculation of rate of return is also provide in the guideline.

Guidelines on Internal Control and Compliance in Banks issued by Bangladesh Bank in 2016 cover some salient risk and governance aspects of Islamic banks in Section 8 (BRPD Circular#03, dated: March 08, 2016). This section includes – Introduction to Shari'ah Audit; Risks & Implications related to Shari'ah Violation; Objectives of Shari'ah Inspection; Area of Shari'ah Inspection; Shari'ah Non-compliance Risk Rating; Shari'ah Audit Process; Measures against Shari'ah Violation and Monitoring & Follow-up. Corporate governance framework of Islamic banks is depicted in Figure 4.1.

Figure 4.1: Corporate Governance of Islamic Banks

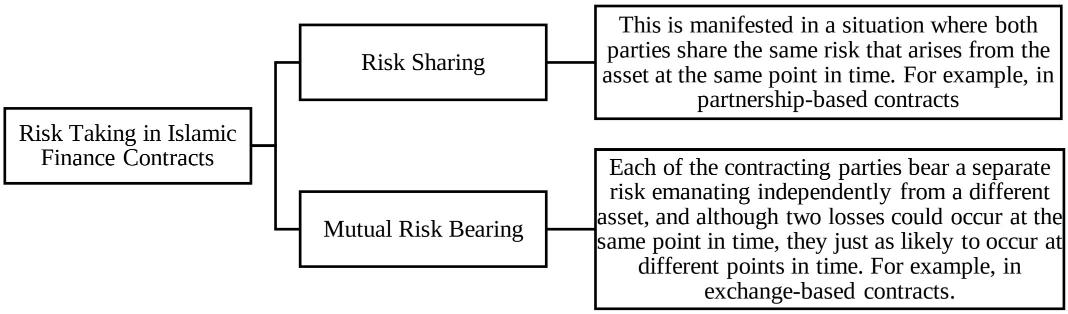


Source: Researchers' Compilation

4.1 Risks Justifies Gain in Islamic Finance

While undertaking gambling like activities or activities that entail major uncertainties are prohibited in Islamic finance transactions, bearing risk is an inherent feature in each and every contract approved by the Shari'ah (Abdul Khir, et al., 2015). As identified in Figure 4.2, the risk taking in Islamic finance can be divided into two types: risk sharing that is applicable to partnership contracts and mutual risk bearing that is applicable to exchange-based contracts.

Figure 4.2 Risk Taking from Islamic Perspective

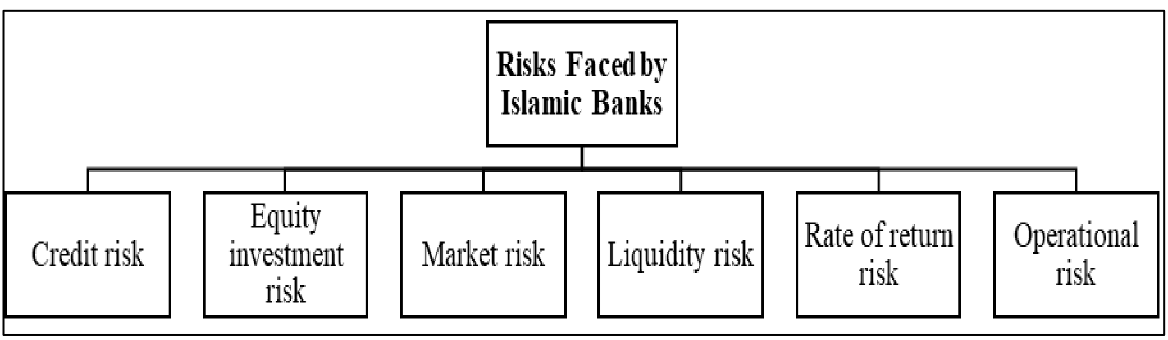


Source: Abdul Khir, et al. (2015)

4.2 Risks Faced by Islamic Banks

Different international authors and authorities have identified different risks of Islamic banks. For instance, the risks faced by the Islamic banks are grouped into six categories by the IFSB (2005). These risks are identified in Figure 4.3.

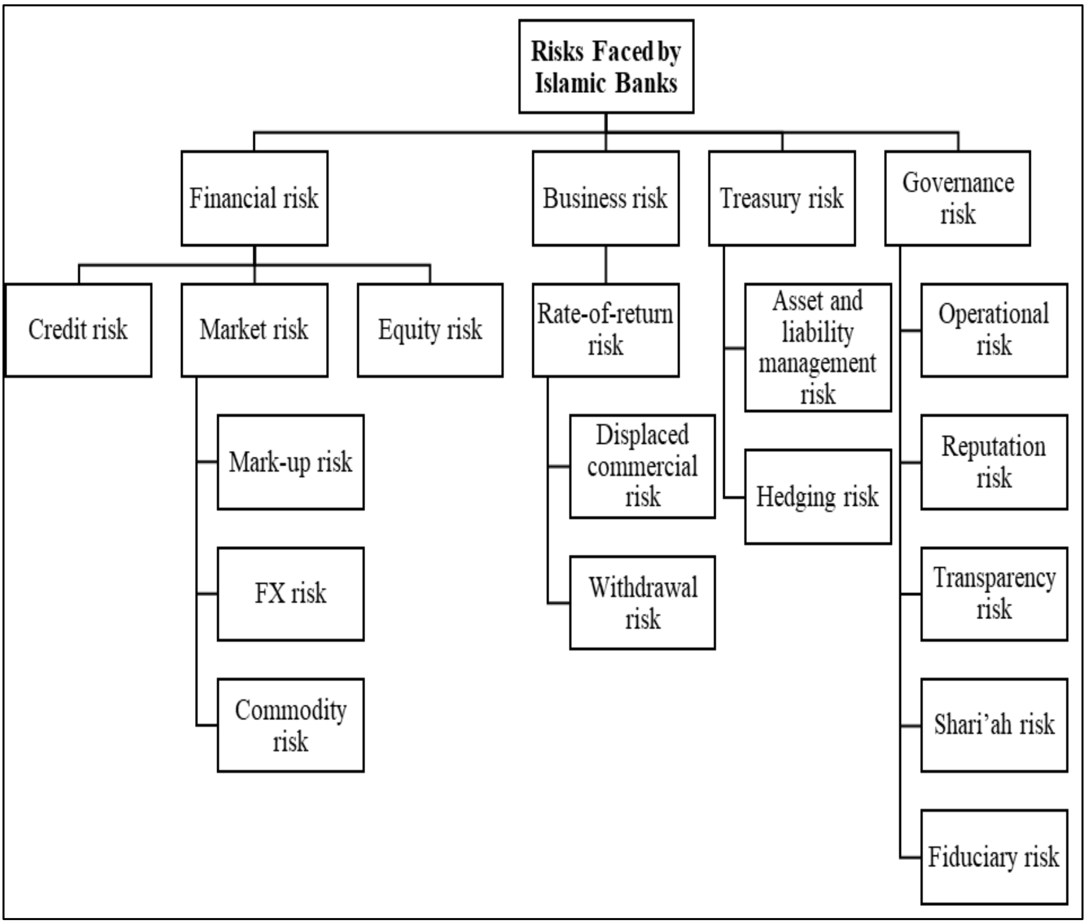
Figure 4.3: Risks Faced by Islamic Banks - IFSB (2005)



Source: IFSB (2005)

Iqbal and Mirakhor (2011) have identified a more detailed list of risks that the Islamic banks face. These are provided in Figure 4.4.

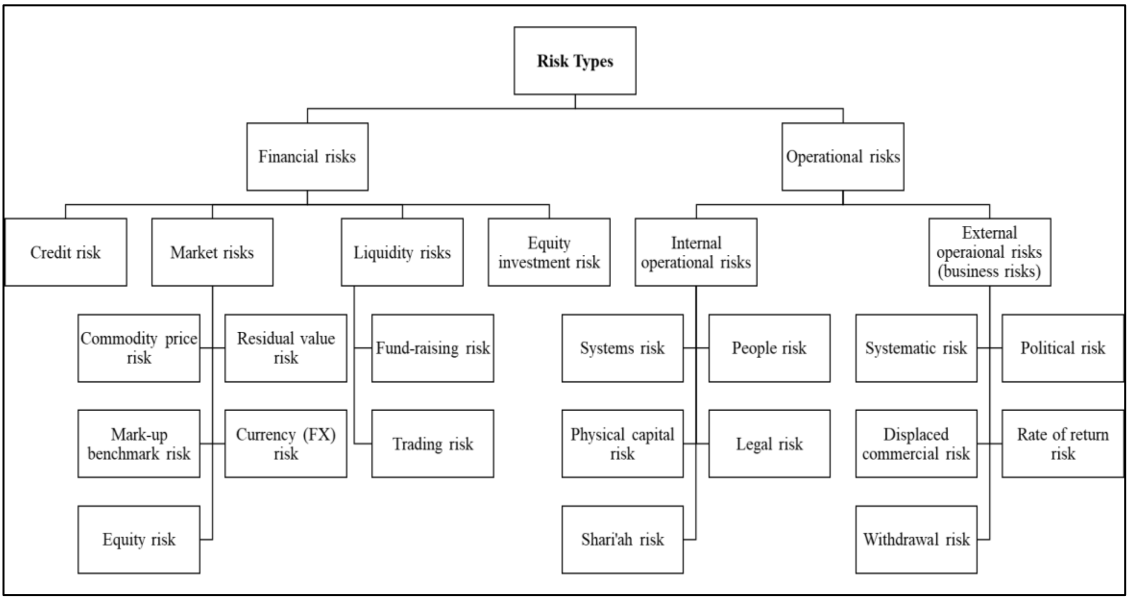
Figure 4.4: Risks Faced by Islamic Banks - Iqbal and Mirakhor (2007)



Source: Iqbal and Mirakhor (2007)

Salem (2013) has identified a similar risk profile of the Islamic banks, which is provided in Figure 4.5.

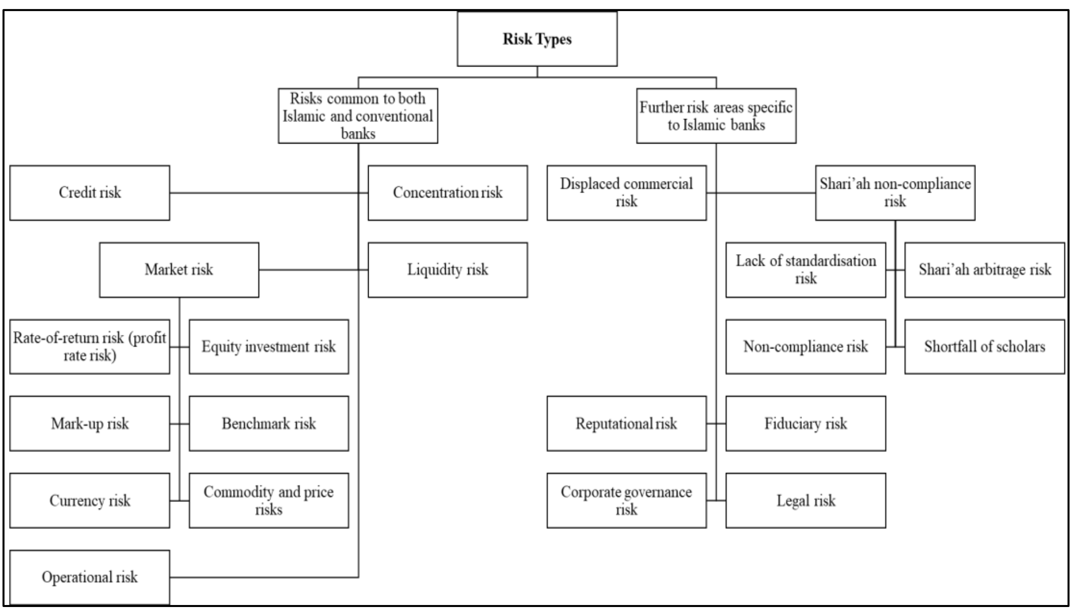
Figure 4.5: Risks Faced by Islamic Banks - Salem (2013)



Source: Salem (2013)

Whereas, Eid and Asutay (2019) divided risks faced by Islamic banks into two types: (i) risks that are common with conventional banks, and (ii) risks that are unique to Islamic banks. These risks are identified in Figure 4.6.

Figure 4.6: Risks Faced by Islamic Banks - Eid and Asutay (2019)



Source: Eid and Asutay (2019)

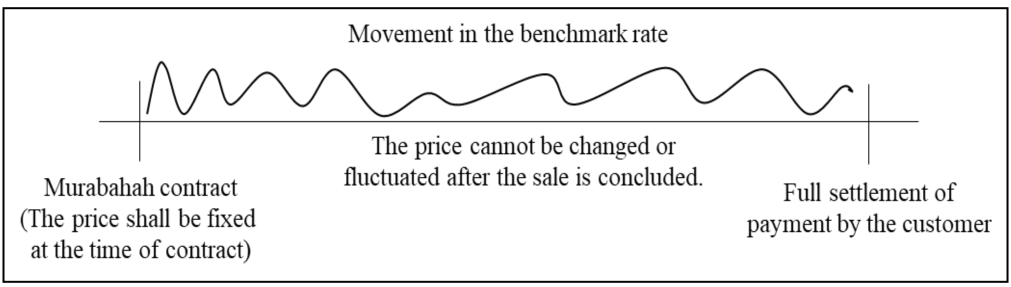
The risks faced by the Islamic banks along with the risk management principles as provided by the IFSB (2005) are briefly discussed below.

- **Credit risk:** This is the risk of failure by a counterparty to make its contractual payments. An example of credit risk in the context of Islamic banks would be non-payment by a customer in a Murabahah transaction after it purchased an asset on a deferred payment term. According to Oz, Khokher, Ali, and Rosman (2016), credit risk is present in Mudarabah- and Musharakah-based financing as well. They have identified that the risk of capital impairment and non-payment of profits by the Mudarib or another partner is also part of credit risk. The credit risk management principles provided by IFSB (2005) are listed below:
    1. "The Islamic banks shall have in place a strategy for financing, using various instruments in compliance with Shari'ah, whereby it recognizes the potential credit exposures that may arise at different stages of the various financing agreements."
    2. "The Islamic banks shall carry out a due diligence review in respect of counterparties prior to deciding on the choice of an appropriate Islamic financing instrument."
    3. "The Islamic banks shall have in place appropriate methodologies for measuring and reporting the credit risk exposures arising under each Islamic financing instrument."
    4. "The Islamic banks shall have in place Shari'ah-compliant credit risk mitigating techniques appropriate for each Islamic financing instrument."
- **Equity investment risk:** The equity investments face the risk of not generating a steady income or the expected return. This results a difficulty for the Islamic banks in forecasting and managing their cash flows. This risk is unique to the Islamic banks as the conventional banks do not invest on the basis of equity-based contracts like Mudarabah and Musharakah. The equity investment risk management principles provided by IFSB (2005) are listed below:
    1. "The Islamic banks shall have in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including Mudarabah and Musharakah investments."
    2. "The Islamic banks shall ensure that their valuation methodologies are appropriate and consistent, and shall assess the potential impacts of their methods on profit calculations and allocations. The methods shall be

partners.”
3. “The Islamic banks shall define and establish the exit strategies in respect of their equity investment activities, including extension and redemption conditions for Mudarabah and Musharakah investments, subject to the approval of the institution’s Shari’ah board.”

- **Market risk:** According to IFSB (2005), market risk is the risk of loss arising from the on- and off-balance sheet positions of the Islamic banks caused by movements in market prices of the assets held by the bank. Examples of market risk include the following:
  - **Mark-up risk:** As illustrated in Figure 4.7, Islamic banks are exposed to mark-up risk in *Murabahah* and other trade-based financing contracts where the mark-up is fixed, i.e. cannot be altered during the financing tenure despite a change in the benchmark rate. This means that if the benchmark rate increases more than the rate agreed in the *Murabahah* and other trade-based financing contracts, the bank is unable to benefit from this increase as an increase in the receivables will be a *Riba*.

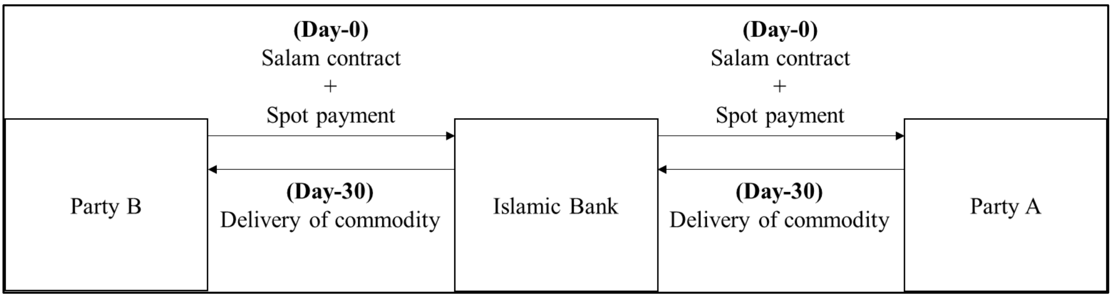
Figure 4.7: Mark-up Risk in Murabahah Financing



Source: Authors’ own.

- **Price risk:** The Islamic banks are exposed to price risk, for example in *Salam* contracts. As illustrated in Figure 4.8, an Islamic bank is a buyer in a *Salam* contract where the commodity will be delivered in the future and the Islamic bank bears the risk of fluctuation in the commodity price. In order to mitigate the risk, the bank may enter into a parallel *Salam* contract where it is the seller of the same commodity. However, even in this case, the bank is exposed to the price risk if the seller in the first *Salam* contract fails to deliver the commodity as agreed. In this case, the bank will have to purchase the commodity from the market to deliver under the second *Salam* contract.

Figure 4.8: Salam and Parallel Salam



Source: Authors' own.

The market risk management principle provided by IFSB (2005) is that "The Islamic banks shall have in place an appropriate framework for market risk management (including reporting) in respect of all assets held, including those that do not have a ready market and/or are exposed to high price volatility."

- **Liquidity risk:** The liquidity risk as it applies to Islamic banks can be of two types: (i) lack of liquidity in the market, which refers to illiquid assets held by the Islamic banks that makes it difficult for the bank to meet its liabilities and financial obligations; and (ii) lack of access to funding, which refers to the difficulty of the Islamic banks to raise funds at a reasonable cost when needed. The liquidity risk of Islamic banks is greater than the conventional banks due to certain Shari'ah prohibitions. For instance, an Islamic bank cannot borrow on interest or raise funds without any real transaction or sale its receivables at a discount. The limited availability of Shari'ah-compliant money and intra-bank markets also increases the liquidity risk of the Islamic banks. The liquidity risk mainly arises when (i) an Islamic bank does not align its assets and liabilities on the same maturity; or (ii) it has invested in securities that suddenly become illiquid due to the changes in the underlying assets; or (iii) it has placed funds in structured assets where the exit is difficult. The liquidity risk management principles provided by IFSB (2005) are listed below:
  1. "The Islamic banks shall have in place a liquidity management framework (including reporting) taking into account separately and on an overall basis their liquidity exposures in respect of each category of current accounts, unrestricted and restricted investment accounts."
  2. "The Islamic banks shall assume liquidity risk commensurate with their ability to have sufficient recourse to Shari'ah-compliant funds to mitigate such risk."

- **Rate of return risk:** The rate of return risk is present both in financing and deposits, which is different from the interest rate risk faced by the conventional banks. The risk is present in the financing side as unlike the conventional banks, the Islamic banks cannot charge interest even in the case of delay in payment by a customer. The risk is present in the deposit side as the profit distributable to the depositors of the remunerative accounts should be based on the performance of the financings sourced from the deposits. The rate of return risk management principles provided by IFSB (2005) are listed below:
  1. "The Islamic banks shall establish a comprehensive risk management and reporting process to assess the potential impacts of market factors affecting rates of return on assets in comparison with the expected rates of return for investment account holders (IAH) (i.e. Mudarabah-based depositors)."
  2. "The Islamic banks shall have in place an appropriate framework for managing displaced commercial risk, where applicable."
- **Operational risk:** According to Oz, Khokher, Ali, and Rosman (2016), operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, which also includes, for Islamic banks, possible loss resulting from Shari'ah non-compliance and failure in performing their fiduciary responsibilities. As defined above, Shari'ah non-compliance risk is part of the operational risk. There could be various sources for this risk, including as identified by Lahsasna (2014): (i) lack of knowledge, skills and competency among the staff of the Islamic bank; (ii) lack of training among the staffs of the Islamic bank; (iii) lack of close monitoring and proper supervision; (iv) weakness of the internal control system; (v) weakness in the information technology and infrastructure of the banking system particularly when it is riding on the conventional system; (vi) human error; (vii) moral hazard; (viii) dual banking business activities, which is relevant to those operating within a conventional bank; (ix) miscommunication among the staffs of the Islamic bank; and (x) poor logistics support within the Islamic bank. Nonetheless, Lahsasna (2014) has classified the Shari'ah non-compliance risk into three types, which are provided below:
  - **High: "**Shari'ah non-compliance risk may consist of risk that lead to the invalidation of the contracts without any option to rectify and/or non-recognition of profit. For example, a sale-based contract was entered into without specifically identifying the underlying asset transacted and it has matured."
  - **Medium:** "Shari'ah non-compliance risk may consist of non-compliance of conditions of the contract, but it can be rectified and may not necessarily

lead to the invalidation of the contract. However, the risk may result in non-recognition of profit. For example, late payment charges beyond the loss incurred or approved limit are channelled to charity."

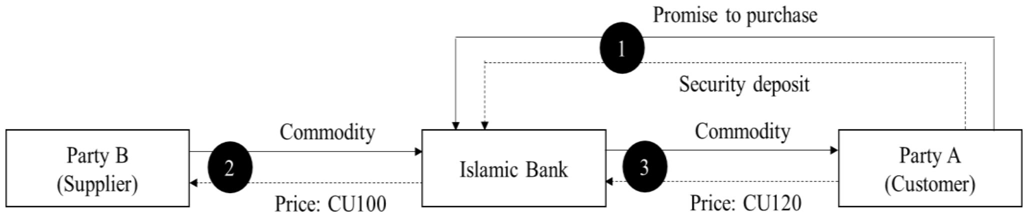
- **Low:** "Shari'ah non-compliance risk consists of minimal risk other than high and medium. For example, marketing advertisement containing images of prohibited behaviour, such as models not dressed decently, leading to reputational risk that may impact the business."

4.3 Risks Faced in Islamic Finance Contracts

As the execution of an Islamic finance transaction often involve entering into several contracts, a common Shari'ah non-compliance risk present is not following the appropriate sequence in execution of the contracts. A mitigation technique for this risk is to providing proper training to the staffs on the importance of following the right sequence in executing different stages of the contract.

Nonetheless, Figure 4.9 to 4.14 of this section identifies the risks faced in Islamic finance contracts at different stages of their execution, the common risk management techniques undertaken by the Islamic banks and the potential Shari'ah issues regarding the risk management techniques. It shall be noted that a risk itself may be Shari'ah-compliant, but the risk of Shari'ah non-compliance may arise in the mechanism of managing the risk.

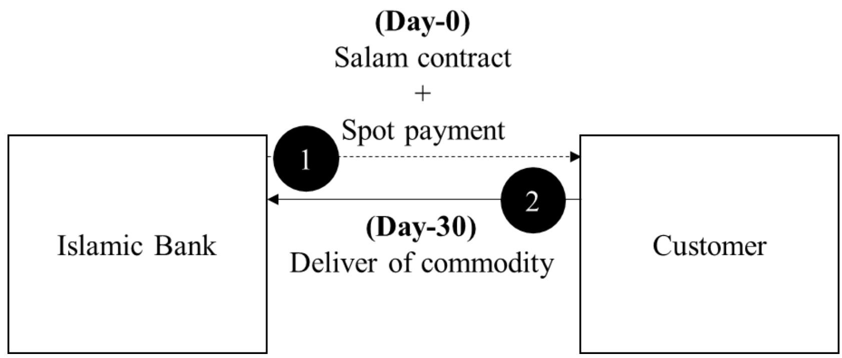
Figure 4.9 Murabahah Financing



Step	Example of Risks	Risk Mitigation Techniques	Shari'ah Issues
1	Market risk: • The price of the commodity may go up, i.e. lesser profit • The price of the commodity may go down, that may result non-recovery of actual loss	Appointing the customer as agent to identify the supplier and purchase the commodity	Significantly increase the risk of Shari'ah non-compliance if the customer is appointed as agent
2	The above + Ownership risks	The above + Insurance	The above + Conventional insurance
3	Credit risk	• First right over sold asset • Collateral • Penalty (compensation) clause	• Collateral should be Shari'ah-compliant assets • Fairness and correctness in imposing penalty (compensation), and recognition in financial statements

Source: Authors' own

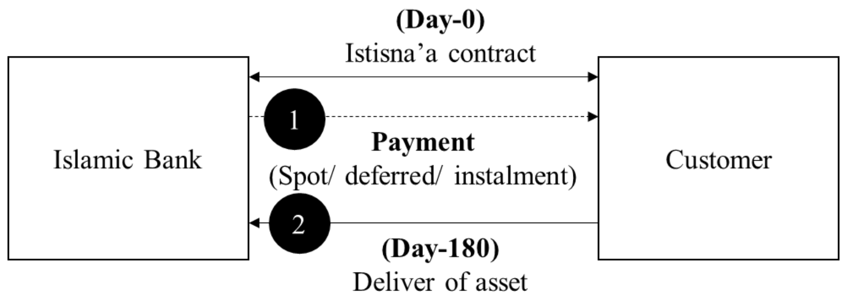
Figure 4.10 Salam Financing



Step	Example of Risks	Risk Mitigation Techniques	Shari'ah Issues
1	Non-delivery by customer	Penalty / compensation	Fairness, correctness and recognition of penalty (compensation)
	Natural disaster	Insurance	Conventional insurance
	Decrease in market price	Appointing customer as agent and price guarantee from the customer	Risk of Shari'ah non-compliance
2	Market risk	Parallel Salam	Segregation of the contracts
	Ownership risks	Appointing customer as agent and price guarantee from the customer	Risk of Shari'ah non-compliance

Source: Authors' own

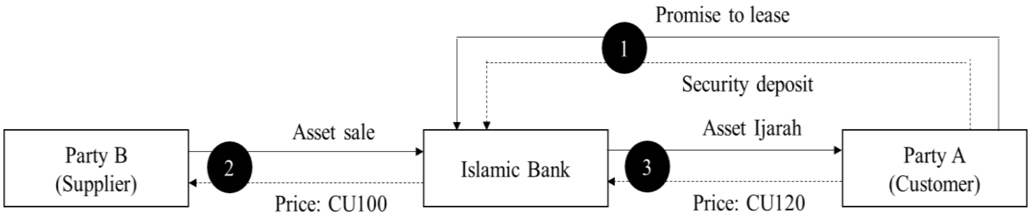
Figure 4.11 Istisna'a Financing



Step	Example of Risks	Risk Mitigation Techniques	Shari'ah Issues
1	Non-delivery by customer	Penalty / compensation	Fairness in imposition of penalty (compensation)
	Natural disaster	Insurance	Conventional insurance
	Decrease in market price	Appointing customer as agent and price guarantee from the customer	Risk of Shari'ah non-compliance
2	Market risk	Parallel Istisna'a	Segregation of the contracts
	Ownership risks	Appointing customer as agent and price guarantee from the customer	Risk of Shari'ah non-compliance

Source: Authors' own

Figure 4.12 Ijarah Financing



Step	Example of Risks	Risk Mitigation Techniques	Shari'ah Issues
1	Market risk: • The market rate may go up, i.e. lesser rental charged to customer	• Floating rate based on a reference rate • Changes in lease rental	Rental mechanism to be agreed at the time of contract
	• The price of the asset may go down, that may result non-recovery of actual loss	Appointing the customer as agent to identify the supplier and purchase the asset	Increases the risk of Shari'ah non-compliance if the customer is appointed as agent
2	The above + Ownership risks	The above + Insurance	The above + Conventional insurance
3	Credit risk	• Collateral • Penalty (compensation) clause	• Collateral should be Shari'ah-compliant assets • Fairness and correctness in imposing penalty (compensation), and recognition in financial statements
	Ownership risks	Insurance	Conventional insurance
		Delegating the tasks associated with ownership risks to the customer	Significantly increase the risk of Shari'ah non-compliance
	Market risk: The market rate may go up, i.e. lesser rental charged to customer	Change in lease rental	• Rate to be fixed prior to the beginning of the period • Rental rate cannot be changed retrospectively

Source: Authors' own

In addition to the above, the risks involve in Mudarabah and Musharakah-based financing include adverse selection and moral hazard. Furthermore, Islamic banks will be liable for any negligence and misconduct in managing the funds provided by the depositors. Transferring the risks involve in Mudarabah and Musharakah to the counterparty (for example, by guaranteeing profit or capital) will result in Shari’ah non-compliance.

5.0 Data Analysis

5.1 Status of Shari'ah Based Banking Industry in Bangladesh

5.1.1 Islamic Banking Deposits

As per Table 5.1, total deposits of IB industry stood about 4 lac crore at the end of December 2021. It is also remarkable that share of IB out to total deposits is increasing consistently over the years during 2014 to 2021 and stood at about 28 percent. IBs collects less than 5 percent deposit under Wadiah principle and remaining are under Mudarabah principle. It reduces the fixed burden and gives pleasure to the Shari'ah-based banks.

Table 5.1: Islamic Banking Deposits in Bangladesh

Islamic Banking Deposits (in Million BDT)

	Full-fledged IB	IB Branches	IB Windows	Total IB Deposits	All Bank Deposits	IB Share of Deposits %
Dec-14	1,367,099	51,719	22,671	1,441,490	6,931,126	20.80
Dec-15	1,550,233	51,892	28,828	1,630,953	7,450,231	21.89
Dec-16	1,788,619	52,846	35,484	1,876,949	8,402,682	22.34
Dec-17	2,036,981	58,662	46,951	2,142,594	9,261,793	23.13
Dec-18	2,236,572	74,789	62,308	2,373,669	10,099,810	23.50
Dec-19	2,637,564	87,376	77,338	2,802,278	11,369,796	24.65
Dec-20	3,060,002	101,814	107,406	3,269,222	12,904,724	25.33
Dec-21	3,703,840	110,250	117,020	3,931,110	14,093,430	27.89

Islamic Banking Deposits by Contracts (%)

	Wadiah CA Deposits	Mudarabah Savings Bond	Mudarabah Special Savings (Pension)	Mudarabah Hajj Deposits	Mudarabah Term Deposits	Mudarabah Special Notice Deposits	Mudarabah Savings Deposits	Other Deposits	Total
Dec-14	4.00	1.00	9.00	0.00	49.00	3.00	17.00	17.00	100
Dec-15	3.83	1.02	7.80	1.74	48.46	2.94	18.32	15.79	100
Dec-16	4.05	0.90	8.98	0.28	47.35	3.20	18.61	16.63	100
Dec-17	4.41	0.75	8.71	0.22	47.45	3.76	18.38	16.32	100
Dec-18	3.89	0.66	8.70	0.21	49.23	3.68	18.38	15.25	100
Dec-19	3.58	0.58	8.62	0.22	48.21	3.94	17.60	17.23	100
Dec-20	3.91	0.48	9.32	0.23	47.04	4.67	18.77	15.58	100
Dec-21	4.71	0.37	9.63	0.19	45.55	4.80	19.39	15.36	100

Source: *Quarterly Report on Development of Islamic Banking in Bangladesh, Bangladesh Bank*

5.1.2 Islamic Banking Investments

Total investments of IB industry stood about 3.5 lac crore at the end of December 2021 (Table 5.2). It is mentionable that share of IB out to total investments (credit) of the whole banking industry is increasing over the years. At the end of December 2021, IB share stood at about 28 percent. Most of the funds of IBs are invested under fixed earning modes e.g. Murabahah, Muajjal, etc. It reduces the risk of IBs for bad performance of the investee. However, it increases the risk for IBs in case of default because, they do not earn any extra amount through rescheduling.

Table 5.2: Islamic Banking Investments

Islamic Banking Investments (in Million BDT)

	Full-fledged IB	IB Branches	IB Windows	Total Investments	All Bank Credits	IB Share of Investments %
Dec-14	1,213,214	41,376	16,652	1,271,242	5,076,270	25.04
Dec-15	1,349,895	61,479	20,632	1,432,005	6,174,735	23.19
Dec-16	1,608,311	51,858	29,405	1,689,575	7,131,130	23.69
Dec-17	1,912,794	55,830	42,372	2,010,996	8,444,356	23.81
Dec-18	2,197,967	61,616	49,490	2,309,073	9,604,620	24.04
Dec-19	2,498,847	74,939	53,734	2,627,520	10,587,073	24.82
Dec-20	2,790,725	77,525	72,686	2,940,936	11,449,073	25.69
Dec-21	3,376,680	82,420	75,380	3,534,480	12,675,610	27.88

Islamic Banking Investments by Contracts (%)

	Qard (Secured)	Bai al-Murabahah	Bai al-Muajjal	Bai al-Salam	Bai al-Istisna	Mudarabah	Musharakah	Ijarah/ HPSM	Others	Total
Dec-14	1.33	44.24	24.72	0.86	0.30	0.29	1.32	22.66	4.10	100
Dec-15	1.45	44.47	24.93	0.76	0.30	0.38	1.54	22.62	3.59	100
Dec-16	1.31	44.64	25.24	0.80	0.23	0.32	1.59	22.89	2.98	100
Dec-17	1.32	43.81	25.17	0.96	0.22	0.26	1.53	24.29	2.44	100
Dec-18	1.32	44.33	25.63	0.99	0.07	0.26	1.43	23.39	2.58	100
Dec-19	0.05	44.60	23.95	0.03	1.16	0.32	1.38	23.64	4.87	100
Dec-20	1.67	44.97	23.76	1.29	0.01	0.33	0.92	23.79	3.26	100
Dec-21	1.11	46.39	23.24	1.23	0.02	0.25	0.49	23.30	3.98	100

Source: *Quarterly Report on Development of Islamic Banking in Bangladesh, Bangladesh Bank*

5.1.3 Islamic Banking Growth and Performance

Deposit growth of IB industry was 17.11 percent in 2020 which increased to 19.73 in 2021, whereas deposit growth of whole industry and PCBs have been decreased (Table 5.3). Similarly, investment growth has been increased in 2021 as compared to that of 2020 in the IB industry. However, there is no significant difference between IBs and other groups of banks considering average deposits and investments per account. Concentration risk of IBs, PCBs and whole banking industry is almost similar (Appendix E). A summary of bank-wise share of deposits and investments is portrait in Appendix F.

Table 5.3: Deposits and investment (advances) distribution by types of banks

		All Banks		PCBs including IBs		IBs	
		2021	**2020**	**2021**	**2020**	**2021**	**2020**
Deposits	Growth (y-o-y)	9.69	13.56	9.00	12.28	19.73	17.11
	No. of Account	124,896,934	115,812,966	64,563,656	58,053,641	25,183,387	21,166,125
	Average amount (BDT Lacs)	1.21	1.19	1.56	1.59	1.39	1.38
Investments (Credit)	Growth (y-o-y)	10.42	9.24	10.38	9.00	21.73	12.42
	No. of Account	11,785,795	11,186,286	4,104,993	3,739,034	1,722,791	1,546,130
	Average amount (BDT Lacs)	10.27	9.8	22.05	21.93	18.99	17.38

Source: Scheduled Banks Statistics, Bangladesh Bank

Performance of IB industry in the economy is depicted in Table 5.4. Considering different parameters, IB industry is performing better as compared to the overall banking industry of Bangladesh. Return on assets (ROA) of IBs is 0.6 in 2021 which was 0.5 in 2020. Whereas, ROA of the overall banking industry is 0.5 in 2021 which was 0.3 in 2020. Similarly, return on equity (ROE) of IBs is much higher than that of the overall banking industry. Most importantly, asset quality of IBs is much better that the overall banking industry of Bangladesh.

Table 5.4: Some Selected Indicators of Banking Sector of Bangladesh (%)

Indicators	2019		2020	
	All Banks	**IBs**	**All Banks**	**IBs**
ROA	0.5	0.6	0.3	0.5
ROE	7.4	11.4	4.3	10.2
Net Profit Margin	2.1	2.9	1.4	2.4
Interest (Profit) Income to Total Assets (TA)	6.1	7.6	4.9	6.4
Net Interest (Profit) Income to TA	1.9	2.6	1.2	2.1
Non-Interest (Profit) Income to TA	1.8	0.9	2.0	0.8
Advance (Investment) to Deposit Ratio	77.3	94.3	81.4	83.3
CRAR	11.6	12.4	11.6	12.7
Classified Loans (Investment) to Advances	9.3	4.7	8.1	4.1
Classified Loans (Investment) to Capital	92.1	71.7	80.7	67.2

Source: Financial Stability Report, Bangladesh Bank

5.2 Risk Management Practices of Shari'ah Based Banking in Bangladesh

5.2.1 General Perception Regarding Risk of Shari'ah-based Banks

General perception regarding risk of Shari'ah-based banks and conventional banks is summarized in Table 5.5. All of the full-fledged Islamic banks agree that the risk faced by the Islamic banks in general is different form the conventional banks. Majority market players (52%) of the Islamic banking industry opine that risk faced by the Islamic banks in collection of deposits is lower from the conventional banks. On the contrary, about 60 percent respondents argue that the risk faced by the Islamic banks in investing funds is higher from the conventional banks. Similar opinions have been observed in case of market, liquidity and operational risks.

Table 5.5: General perception regarding risk of Shari'ah-based banks and conventional banks (%)

S/n	Aspects	Response of Full-fledged IB			Response of IB Industry		
		A	B	C	A	B	C
1.	Do you think that the risk faced by the Islamic banks in general is different from the conventional banks? a) Yes; b) No	100	0		90	10	
2.	Do you think that the risk faced by the Islamic banks in collection of deposits is different from the conventional banks? a) Risk of IB is higher than CB b) Risk of IB is lower than CB c) There is no difference	40	50	10	42	52	6
3.	Do you think that the risk faced by the Islamic banks in investing funds is different from the conventional banks? a) Risk of IB is higher than CB b) Risk of IB is lower than CB c) There is no difference	60	30	10	58	32	10
4.	Do you think that the operational risk faced by the Islamic banks is different from the conventional banks? a) Risk of IB is higher than CB b) Risk of IB is lower than CB c) There is no difference	80	10	10	71	13	16
5.	Do you think that the market risk faced by the Islamic banks is different from the conventional banks? a) Risk of IB is higher than CB b) Risk of IB is lower than CB c) There is no difference	60	40	0	59	28	13

6.	Do you think that the liquidity risk faced by the Islamic banks is different from the conventional banks? a) Risk of IB is higher than CB b) Risk of IB is lower than CB c) There is no difference	70	20	10	67	27	6
7.	Do you think that there are differences of risk in Islamic banks (IBs) as compared to conventional banks (CBs) in regard to capital adequacy? a) Risk of IB is higher than CB b) Risk of IB is lower than CB c) There is no difference	50	20	30	33	20	47
8.	Do you think that differences in verdicts of Shari'ah scholars' impact on the risk management of IBs? a) Yes; b) No	60	40		71	29	0

Source: Questionnaire Survey

5.2.2 Perceptions Regarding Operational Risk of Shari'ah-based Banks

About 80 percent of the respondents agree that there is a challenge to recruit manpower having relevant expertise/education suitable for Islamic banking operations (Table 5.6). They feel a dearth of proper training for human capital development. Majority of the full-fledged Islamic banks do not face additional challenges for acquiring and maintaining Shari'ah compliant software however, opposite opinions have been observed from the whole IB industry. A good number of respondents are facing challenges related with Shari'ah compliant process of operations due to lack of knowledge and market pressure, business motives of the banks' owners ignoring Shari'ah, unavailability of competent Shariah scholars, additional cost for ensuring Shari'ah governance and monitoring, etc.

Table 5.6: Perceptions regarding operational risk of Shari'ah-based banks (%)

S/n	Aspects	Response of Full-fledged IB		Response of IB Industry	
		Yes	No	Yes	No
1.	**Related with Human Resources:** Do you face any challenge to recruit manpower having relevant expertise/education? (Because, combination of traditional and Shari'ah knowledge is essential).	70	30	81	19
2.	Do you face any challenge to develop your manpower by catering proper training? (Because, combination of traditional and Shari'ah knowledge is essential).	67	33	57	43
3.	**Related with System**: Do you face any challenge related with Shari'ah compliant software (e.g., availability and maintenance)?	33	67	60	40
4.	**Related with Process:** Do you face any challenge related with Shari'ah compliant process of operations due to lack of knowledge and market pressure?	67	33	70	30
5.	Do you face any challenge related with Shari'ah compliant process of operations due to Business motives of the banks' owners ignoring Shari'ah?	11	89	23	77
6.	Do you face any challenge related with Shari'ah compliant process of operations due to unavailability of competent Shariah scholars and their role in Shariah Supervisory Committee?	11	89	40	60
7.	Do you think that cost of operation is higher in IB as compared to CB due to additional cost for ensuring Shari'ah governance and monitoring?	100	0	83	17
8.	**Related with External Event:** Do you face any challenge related with external event in case of Mudarahah and Musharakah investment due to legal framework, accounting system and ethical values of the counterparty?	56	44	59	41
9.	Do you face the underlying asset's ownership risks in Murabaha contract?	56	44	63	37
10.	Do you face the underlying asset's ownership risks in Salam contract?	44	56	64	36
11.	Do you face the underlying asset's ownership risks in Istisna'a contract?	44	56	62	38
12.	Do you face the underlying asset's ownership risks in Ijarah contract?	44	56	41	59

Source: Questionnaire Survey

5.2.3 Perceptions Regarding Deposit Mobilization Risk of Shari'ah-based Banks

According to Table 5.7, less than half of the respondents perceive that IBs faces challenges for deposit mobilization under Mudarabah because the conventional banks offer fixed and positive return in deposit collection, whereas the Mudarabah principle is a profit sharing and loss bearing contract. Banks are facing displaced commercial risk, Shari'ah non-compliance risk in the area of marketing, etc. All of the full-fledged banks believe that Shari'ah non-compliance risk is high in regard to operation e.g., capital/profit guarantee in case of Mudarabah deposit. However, they are enjoying competitive advantages related with cost of fund as majority of the deposit collected under Mudarabah principle.

Table 5.7: Perceptions regarding risk management of Shari'ah-based banks: Deposit (%)

S/n	Aspects	Response of Full-fledged IB		Response of IB Industry	
		Yes	No	Yes	No
1.	Do you face any challenge to collect deposits under the Mudarabah principle? (The conventional banks offer fixed and positive return in deposit collection, whereas the Mudarabah principle is a profit sharing and loss bearing contract.)	40	60	45	55
2.	Do you face any challenge related with displaced commercial risk as there is a variable rate of return on deposit unlike conventional banks?	50	50	55	45
3.	Do you face any challenge related with Shari'ah non-compliance risk in the area of marketing (e.g., double benefit scheme)? (Because, the mode is profit sharing but loss bearing).	70	30	67	33
4.	Do you face any challenge related with Shari'ah non-compliance risk in regard to operation (e.g., capital/profit guarantee)? (Because, capital/profit may not be guaranteed).	100	0	63	37
5.	Do you face any challenge related with Shari'ah non-compliance risk in regard to profit calculation/distribution (e.g., lack of transparency)	50	50	35	65
6.	Do you think that IB enjoy competitive advantages related with cost of fund as deposit collected under Mudarabah principle?	80	20	70	30

Source: *Questionnaire Survey*

5.2.4 Perceptions Regarding Investment (Credit) Risk of Shari'ah-based Banks

The counterparty risk of Islamic banks is higher in comparison with conventional banks due to not charging any additional amount in the cases of default (Table 5.8). Some banks believe that the compensation (i.e., penalty) charge alone is not an effective risk management technique for the Islamic banks for minimizing default culture. Islamic credit insurance can play a role in this regard. Nonetheless, they think that there is a less possibility of default in Islamic banking because all investments are linked with real economy and asset-backed, if it is fully Shari'ah compliant.

Table 5.8: Perceptions regarding risk management of Shari'ah-based banks: Credit (Investment) (%)

S/n	Aspects	Response of Full-fledged IB		Response of IB Industry	
		Yes	No	Yes	No
1.	Do you think that the counterparty risk of Islamic banks increases in comparison to conventional banks due to not charging any additional amount in the cases of default?	56	44	53	47
2.	Do you think the compensation (i.e., penalty) charge is an effective risk management technique for the Islamic banks?	33	67	63	37
3.	Do you think that the Shariah requirement of not imposing the compensation (i.e., penalty) charge on an insolvent or incapable customer places Islamic banks in a disadvantageous position in comparison to conventional banks in credit risk management?	67	33	43	57
4.	Do you face any challenge in managing the counterparty risk because there is no Islamic credit insurance service provider in Bangladesh?	78	22	66	34
5.	Do you think that there is a less possibility of default in Islamic banking because all investments are linked with real economy and asset-backed?	89	11	83	17
6.	Do you think that there is a difference in concentration risk of Islamic banks as compared to conventional banks?	78	22	53	47

Source: Questionnaire Survey

5.2.5 Perceptions Regarding Market Risk of Shari'ah-based Banks

As per Table 5.9, majority of the respondents believe that displaced commercial risk is a relevant risk for Islamic banks in Bangladesh. Different banks use different mechanisms for calculating profit for the depositors and it does not create challenge for them. Similarly, commodity price volatility does not impact an IB greatly. However, IBs face challenge related with currency price due to lack of Islamic derivatives; equity price risk of because there is lack of Shariah compliant sufficient equity instruments.

Table 5.9: Perceptions regarding risk management of Shari'ah-based banks: Market (%)

S/n	Aspects	Response of Full-fledged IB		Response of IB Industry	
		Yes	No	Yes	No
1.	Do think that the displaced commercial risk is a relevant risk for Islamic banks in Bangladesh? (Displaced commercial risk refers to the risk of losing deposit customers by Islamic banks due to providing lower than the expected profit or Market rate.)	56	44	57	43
2.	Do you face any challenge related with rate of return on deposit due to different mechanism of profit calculation (e.g., ISR or Weightage method)?	22	78	40	60
3.	Do you face any challenge related with commodity price in case of Murabahah (possibility of change in price before delivery to customer)?	56	44	37	63
4.	Do you face any challenge related with commodity price in case of Salam & Istisna'a (possibility of change in price after getting delivery from customer but before selling to others)?	22	78	36	64
5.	Do you face any challenge related with commodity price in case of Ijara (possibility of change in price of the Ijara asset at the end of the period)?	22	78	14	86
6.	Do you face any challenge related with currency price due to lack of Islamic derivatives?	89	11	62	38
7.	Do you think that there is a difference in equity risk of IB as compared to CB because there is lack of Shariah compliant sufficient equity instruments?	78	22	79	21
8.	Do you face the additional risks in comparison to conventional banks due to the lack of Islamic hedging instruments?	78	22	70	30

Source: Questionnaire Survey

5.2.6 Perceptions Regarding Liquidity Risk of Shari'ah-based Banks

Table 4.10 depicts a summary of opinions of the respondents on liquidity risk management of Shari'ah-based banks. Shari'ah-based banks are facing challenges related with liquidity due to lack of sufficient attractive and tradable instruments. Some Islamic finance professionals opine that Sukuk is coming in the market and it will reduce problem in this regard.

Table 5.10: Perceptions regarding risk management of Shari'ah-based banks: Liquidity (%)

S/n	Aspects	Response of Full-fledged IB		Response of IB Industry	
		Yes	No	Yes	No
1.	Do you face any challenge related with liquidity due to lack of sufficient attractive instruments unlike CB?	78	22	83	17
2.	Do you face any challenge related with liquidity due to lack of tradability of all instruments unlike CB?	78	22	86	14
3.	Do you face any challenge related with liquidity due to lack of sufficient secondary market instruments unlike CB?	89	11	90	10
4.	Do you face any challenge related with liquidity due to low return of the instruments unlike CB?	67	33	76	24

Source: Questionnaire Survey

5.2.7 Perceptions Regarding Capital Adequacy Requirements Shari'ah-based Banks

Almost all of the banks think that the capital adequacy requirements for Islamic banks should be different from that of conventional bank considering the salient products and modes of contract (Table 5.11). In addition to other aspects, Shariah non-compliance risk should be considered in determining the capital adequacy requirements for Islamic banks. Out of total risk weighted assets of full-fledged Islamic banks, more than 90 percent is for credit risk (Table 5.12).

Table 5.11: Capital adequacy requirements (%)

S/n	Aspects	Response of Full-fledged IB		Response of IB Industry	
		Yes	No	Yes	No
1.	Do you think that the capital adequacy requirements for Islamic banks should be different from the conventional bank?	100	0	94	6
2.	Do you think that the Shariah non-compliance risk must be considered in determining the capital adequacy requirements for Islamic banks?	100	0	87	13

Source: Questionnaire Survey

Table 5.12: Risk weighted assets of full-fledged Islamic banks (%)

Year	Credit Risk	Market Risk	Operational Risk	Total
2016	91.43	1.96	6.61	100
2017	92.02	1.49	6.48	100
2018	91.86	1.46	6.73	100
2019	91.76	1.38	6.85	100
2020	91.38	1.37	7.25	100
2021	91.44	1.69	6.87	100
Average	**91.65**	**1.55**	**6.80**	**100**

Source: Questionnaire Survey

6.0 Observations and Recommendations

6.1 Human Capital Development

The operational risk is related with the risk of loss due to inadequate or failed process, system, people or other external events. Special features of Islamic banking can give rise to operational risk due to failure of the internal control processes to identify the probable problems, unskilled use of technology, difficulties in implementing Islamic contracts in the existing legal environment. The asset-backed nature of Islamic investment products such as Salam, Murabaha, Istisna'a etc. can create operational risk due to inappropriate drafting of Shari'ah contract and its execution. So, competent and committed human resources who are well skilled in latest technology (fintech), process and free from greed & fraud are absolutely essential to reduce the operational risk to a tolerable level.

6.2 Development of a Pool of Shariah Scholars

Shari'ah is the heart of Islamic banking. Shari'ah risk is involved with the functioning and structure of SSB/SSC at the institutional and national level. This might occur due to unstructured practices of Shariah contracts and non-compliance of Shari'ah rules. Adoption of Shari'ah principles in a different way can result in differences in financial accounting, reporting and auditing practices in Islamic banks. It is seen that only a few Shari'ah scholars are serving the SSBs of various banks in Bangladesh. Besides, academic curricular is not well-designed to cater both Fiqh Ibadah and Fiqh Muamlat knowledge in a balanced way. Therefore, an initiative may be undertaken to develop a pool of Shari'ah scholars in order to lessen the risk of Shari'ah non-compliance in Islamic banks in Bangladesh.

6.3 Changing the Mindset of the Management and BoD

Though Islamic banks are commercial organization, there are some differences from conventional banks considering the principles, motives and mechanism. Uplifting Shari'ah principles and moral ethics should get priority in case of Islamic banking in doing business. Without align with conventional counterpart, the senior management and BoD should guide the operational executives to run the business in Shari'ah compliant way. Proper motivation and support should be provided to the business unit. Besides, accountability should also be ensured for the Shari'ah violation. It will make the Islamic finance industry more sustainable as well.

6.4 Formulation of Strategic Plan by the Branch/Window based Islamic Banks

Reaching to customers by a full-fledged Islamic bank and a conventional bank having Islamic branches/windows is different. Network, operational, governance and risk management infrastructure are also different in branch/window based Islamic banks. Perception of the general employees of these banks is also important for expanding Islamic banking services through these banks. Therefore, a strategic plan aligning the perception of the BoD, thought of the senior management team (SMT) and motivation of the business segment may play a crucial role in this regard. Besides, a long-term vision instead of short-term gain may be set to achieve economies of scale of business.

6.5 Adoption of Shari'ah-based Framework for Reporting and Risk Management

Though Islamic banking is growing very rapidly, still the tools and framework for reporting and risk management is not being developed with this pace. Only a few instruments, tools and techniques are available for managing the risks faced by the

Islamic banks during its operational activities, whereas more and widely used risk management instruments are available for conventional banks. Besides, a stringent reporting and governance framework considering the salient products and services of Islamic banks. Financial statements of an Islamic banks of Bangladesh do not properly reflect the salient activities of a Shari'ah-based bank. Therefore, more time and money should be invested in R&D for devising better tools and framework for sound risk management and reporting by Islamic banks.

6.6 Popularization of Sukuk and Shari'ah-Based Instruments

Adequate Shariah-based financial instruments are not available to raise funds from the market quickly when liquidity problem is faced by Islamic banks. In order to solve this problem and to give more devices to manage liquidity risk, Sukuk and Sukuk-linked Shari'ah-based instruments may be popularized among the potential investors in Bangladesh. There is a light of hope that Bangladesh Bank, MOF and BSEC have taken some initiatives to popularize Sukuk in Bangladesh, which may be continued and extended.

6.7 Demonstrating Universalism and Innovation and Diversification Products

To achieve a competitive advantage, market share may play a vital role. Islamic banking is not only for Muslim as an owner, employee or customer. This should be properly demonstrated in the market to show the universalism of Shari'ah-based banking system. Besides, products and services should be designed considering the market demand and changing business environment. These initiatives may also be helpful for risk management by Islamic banks.

6.8 Strengthening Shari'ah-Based Supervision and Monitoring

Supervision and monitoring is essential for all types of entities however, Shari'ah-based monitoring and supervision is an additional requirement of Islamic banks. It is absolutely essential for ensuring that actual performance and achievements are in line with the standards and principles set by both the regulator and SSB. In case of Islamic banking, it is also mandatory to comply with Shari'ah principles and securing the best performance by doing real asset-based banking businesses. Therefore, Shariah-based monitoring and supervision are necessary to realize the full potential of Islamic banking.

6.9 Reforming Judiciary System for Dispute Settlement in Shariah-Based Banks

Existing judiciary system for dispute settlement is arranged for conventional banking and finance. The nature, mode and principle of Shari'ah-based contract and therefore the nature of non-compliance or violation are different from that of conventional contracts. Since the volume of Islamic banking activities is growing, so it has become the need of the present banking scenario to reform the existing judiciary system for dispute settlement in case of Islamic banking and finance.

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Appendix-A

List of Regulatory Guidelines for Risk Management

SL.	Name of Guidelines/Regulations	Remarks	Year of Issue
1.	Foreign Exchange Risk Management	Core Risk Guideline	2003 and revised 2016
2.	Asset Liability Management	Core Risk Guideline	2003 and revised 2016
3.	Internal Control and Compliance	Core Risk Guideline	2003 and revised 2016
4.	Credit Risk Management	Core Risk Guideline	2003 and revised 2016
5.	Money Laundering & Terrorist Financing Risk Management Guidelines	Core Risk Guideline	2015
6.	Money Laundering and Terrorist Financing Risk Assessment Guidelines for Banking Sector	BFIU	2015
7.	Guideline on ICT Security for Banks and Non-Bank Financial Institutions	Core Risk Guideline	2015
8.	Risk Management Guidelines for Banks	For RMD	2012 and Revised 2018
9.	Strengthening and Updating the Risk Management System in Banks	DOS	2015
10.	Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III	BRPD	2010 and revised 2014
11.	Guidelines for recognition of eligible External Credit Assessment Institutions (ECAIs)	BRPD	2008
12.	Guidelines on Supervisory Review Evaluation Process (SREP)	BRPD	2014
13.	Implementation of Basel III Liquidity Ratios	LCR & NSFR	2015
14.	Guidelines on Subordinated Debt for Inclusion in Regulatory Capital	BRPD	2010
15.	Guidelines on Stress Testing	DOS	2010 and revised 2011

16.	Prudential Regulations for Banks: Selected Issues	BRPD	2014
17.	Money Laundering Prevention Act-2012	BFIU	2012
18.	Anti-Terrorism Act-2012	BFIU	2012
19.	Submission of Cash Transaction Report-CTR	BFIU	2015
20.	Guidelines on Environmental Risk Management (ERM)	BRPD	2011
21.	Implementation of Credit Risk Grading Manual	BRPD	2005
22.	Formation and Responsibilities of Board of Directors of a Bank Company	BRPD	2013
23.	Self-assessment of Anti-fraud internal Control Statement	DOS	2012 and revised 2017
24.	Foreign Account Tax Compliance Act of the United States	BRPD	2014
25.	Guidelines on Internal Credit Risk Rating System for Banks	BRPD	2018
26.	Environmental and Social Risk Management Guidelines	SFD	2017

Source: *Bangladesh Bank*

Appendix-B

List of Respondents to Questionnaire Survey

S/n	Name of the Respondent
	Full Fledged Islamic Banks
01	Islami Bank Bangladesh Ltd.
02	Al-Arafah Islami Bank Ltd.
03	Social Islami Bank Ltd.
04	Standard Bank Ltd.
05	Export Import Bank of Bangladesh Ltd.
06	First Security Islami Bank Ltd.
07	Union Bank Ltd.
08	Shahjalal Islami Bank Ltd.
09	Global Islami Bank Ltd.
10	ICB Islamic Bank Ltd.
	Islamic Banking through Branch/Window
11	Agrani Bank Ltd.
12	Pubali Bank Ltd.
13	AB Bank Ltd.
14	United Commercial Bank Ltd.
15	Mercantile Bank Ltd.
16	Trust Bank Ltd.
17	Mutual Trust Bank Ltd.
18	Bank Asia Ltd.
19	Meghna Bank Ltd.
10	NRB Commercial Bank Ltd.
21	NRB Bank Ltd.
22	The City Bank Ltd.
23	Prime Bank Ltd.
24	Dhaka Bank Ltd.
25	The Premier Bank Ltd.
26	Bank Alfalah Ltd.
	Individuals
27	Islamic Finance Professional-01
28	Islamic Finance Professional-02
29	Islamic Finance Professional-03
30	Islamic Finance Professional-04
31	Islamic Finance Professional-05

Appendix-C

Perceptions of the Respondents

S/n	Aspects	Response
1.	Do you think that the risk faced by the Islamic banks in general is different from the conventional banks?	• Islamic Banks faces some unique and specific risks in performing their operations for using permissible Islamic modes in financing and collecting deposits. Conventional Banks have no risk of Shariah violation but IS Banks have. • IB faces difficulties in investing fund where both general and shariah compliance rules have to mitigate.
2.	Do you think that the risk faced by the Islamic banks in collection of deposits is different from the conventional banks?	• In addition to regular banking risk, IB faces shariah compliance risk which involved shariah compliant optimum return. • Islamic Bank collects deposits in PLS and non-PLS systems. And the risk of loss in PLS method has to be borne by the depositors (Shahibul Maal). Interest or predetermined payment (Riba) beyond the actual amount is prohibited by the Islamic bank. The depositors will be disappointed if they receive, returns on their deposits that are lower than the market rate. This will make the depositors to seek withdrawal of their deposit amount from the bank. On the other hand, the conventional bank collects deposits on the basis of pre-determined rate. Here the depositors do not carry any risk. For this reason, risk faced by the Islamic bank in collection of deposit is different from conventional bank.
3.	Do you think that the risk faced by the Islamic banks in investing funds is different from the conventional banks?	• Modes of investment of IBs are different than those of CBs. Islamic Banks uses risk sharing method in investing funds. IB's investment always linked with real asset which also has associated risk but in CB there is no such associated risk of asset. Avoidance of financial transaction in this case is the main risk for IB. Investment products in IB faces some more steps which require more documentations and time. • Islamic banking is less risky than conventional bank for investing under Bai Murabaha, Bai Muajjal and HPSM method. Because, the investment is disbursed directly against the actual products and services. Conventional banking system does deal with actual product. Moreover, investing in PLS system (Mudaraba & Musharaka) is riskier in Islamic banking than conventional banks.
4.	Do you think that the market risk faced by the Islamic banks is different from the conventional banks?	• IBs deal with asset/commodity which price may be fluctuated. IB has to bear loss incurred from price fall in Shirkat. Restriction of Investment Sector i.e. Gambling, Garar. Islamic Banks invest in shariah based instruments that are less risky. • According to Islamic Shariah- any interest or predetermined payment (Riba) beyond the actual amount is prohibited by the Islamic bank. For example, in a

		murabaha contract the mark-up is determined by adding the risk premium to the benchmark rate (usually the LIBOR). Consequently, if the benchmark rate changes, the mark-up rates on these fixed income contracts cannot be adjusted. As a result, Islamic banks face risks arising from movements in market interest rate. Commodity price risk arises as a result of the bank holding commodities or durable assets as in salam, ijara and mudaraba/musharaka. All these increase the market risk in IB than CB.
5.	Do you think that the liquidity risk faced by the Islamic banks is different from the conventional banks?	• Islamic Banks have less instruments available to invest that can be converted easily into cash as well as the market for these instruments is limited. Islamic banks have limited scope to invest surplus fund and have a very limited scope to manage stress fund during liquidity scarce. • Islamic banks are prone to facing serious liquidity risks such as First, there are high restrictions on the securitization of the existing assets of Islamic banks, which are predominantly debt in nature. Second, slow development of financial instruments, Islamic banks are also unable to raise funds quickly from the markets. Third, the existing lender of last resort (LLR) facilities are based on interest, therefore Islamic banks cannot/avail benefit from LLR.
6.	Do you think that the operational risk faced by the Islamic banks is different from the conventional banks?	• IBs may face Shari'ah non-compliance risk which is not taken under consideration in CBs. Islamic Banks operate within the ways available to them as per Islamic Shariah. Islamic banks may not have enough qualified professionals (capacity and capability) to conduct the Islamic financial operations. • Because of their unique contractual features and legal environment. Specific aspects and diversity of contract could raise the operational risks of Islamic banks. • Risk of loss arising from a negative perception of the Islamic bank's reputation due to its business practices or conduct, which may unfavorably influence its operations, profitability or shareholder value.
7.	Do you think that there are differences of risk in Islamic banks (IBs) as compared to conventional banks (CBs) in regard to capital adequacy?	• Risk of IB is lower than CB because different type of risk function is not permitted in IB. The specific risk in IB increases the operational risk of the bank but the capital maintained under Pillar-I/Pillar-II (ICAAP) for operational risk is sufficient which decreases overall the capital adequacy requirements. • To maintain adequate capital, when we take initiative to raise capital through sub-ordinated bond or perpetual bond we can sell to any banks or FIs.
8.	Do think that differences in verdicts of Shariah scholar's impact on the risk management of IBs?	• Differences in the interpretations of Shari'ah rules may result in differences in financial reporting, auditing and accounting treatments. • Compliance with Shariah reduces bank's risks and improves asset quality. Shariah members of the bank may reach in one opinion regarding problems. We can solve this

		problem by following the verdicts/opinion of Central Shariah Board for Islamic Bank of Bangladesh.
Perceptions regarding risk of Shari'ah-based banks: Operational risk		
9.	**Related with Human Resources:** Do you face any challenge to recruit manpower having relevant expertise/education? (Because, combination of traditional and Shari'ah knowledge is essential)	• Shariah Based Banking has both traditional banking along with compliance with shariah rules/guidance. As new joiners who have only exposure in traditional banking find it difficult in working with Islamic Bank. • Manpower risk in Islamic banks is significantly higher than in conventional banks because the staff needs to have knowledge of both Islamic and conventional banks.
10.	Do you face any challenge to develop your manpower by catering proper training? (Because, combination of traditional and Shari'ah knowledge is essential)	• The sincerity and good intention of the policy makers and management is required with special attention. Shortage of talent is one of the most significant issues facing the Islamic banks. • There is not much program available on this topic. But it is not so big challenge to develop your manpower because of above 90% people are Muslim and they have knowledge in Sharia and we have enough Islamic bankers and Islamic organization through which proper training can be arranged.
11.	**Related with System**: Do you face any challenge related with Shari'ah compliant software (e.g., availability and maintenance)?	• Man behind the machine with policy support as well as Shari'ah knowledgeable IT Man are required to mitigate software challenge. Beside this, Shari'ah compliant software is cry need for further development. In Bangladesh few software companies offer wide range of software solutions to Islamic banks and Islamic financial institutions in order to tackle all their operational requirements.
12.	**Related with Process:** Do you face any challenge related with Shari'ah compliant process of operations due to lack of knowledge and market pressure?	• Recruiting manpower having relevant expertise/education and proper Shari'ah orientation/training may reduce the challenge. Existing software may include Shari'ah compliant mode. • Software needs re-engineering with the help of skilled manpower with adequate Shariah knowledge on banking and IT.
13.	Do you face any challenge related with Shari'ah compliant process of operations due to Business motives of the banks' owners ignoring Shari'ah?	• No persuasion from owners.They are interested in complying Shariah. Bank Management are always emphasis to maintain shariah compliant process of operations by strong Shari'ah board and Shari'ah audit. • Shari'ah governance may be strengthened and regulators /licensing authority may increase surveillance to keep the bank in right track.
14.	Do you face any challenge related with Shari'ah compliant process of operations due to unavailability of competent Shariah scholars and their	• Some of SSC members are not capable to catch the point. Appointing competent Shariah scholars and their role in Shariah Supervisory Committee. Inclusion of Islamic Banking and finance subject in academic level, Strengthening R&D by the IBs, arrangement of high voltage training for the members of SSC, giving proper honorarium and other supports to the scholars for giving

	role in Shariah Supervisory Committee?	sufficient times in studying the issues before giving opinion.
15.	Do you think that cost of operation is higher in IB as compared to CB due to additional cost for ensuring Shari'ah governance and monitoring?	• If IBs comply Shari'ah principles in their all activities, non-performing asset will be reduced and recovery related cost will be saved resulted increase of profitability. • For ensuring Shari'ah governance and monitoring cost of operation is little bit higher in IB. However, the impact of this cost is very negligible in Banks' total operating cost. On the contrary, it helps to create good image of the Bank as a Shariah compliant IB to the stake holders. Eventually IBs are benefitted by this cost.
16.	**Related with External Event:** Do you face any challenge related with external event in case of Mudarahah and Musharakah investment due to legal framework, accounting system and ethical values of the counterparty?	• Clients are acquainted with Mudaraba and Musharaka. Moreover, non-sharia'h based system of the country, absence of IB Act & clients are not habituate. • Mass awareness, commitment and Taqwa feelings of the clients, regulatory initiatives may minimize this challenge. Legal framework, accounting system and ethical values of the counterparty, etc. need to be restructured. • Highly ethical value is necessary for investment under Mudaraba and Musharaka investment. So legal framework, like a separate 'Bank Company Act' for IB's, which defines rights & obligations for each party (Bank & Client) may act as a remedy for ethical deficiency.
17.	Do you face the underlying asset's ownership risks in Murabaha contract?	• Usually, Bank do not stock its goods for the purpose of sell to the client. Bank establishes ownership on underlying assets by purchasing goods as per quotation of the client. Ultimate aim to sell those goods by adding profit to the client. It reveals that some companies do not want to make voucher in the name of Bank. Because they sell their goods to their dealers or distributors only. So, in this case, if any dealer wants to avail Murabaha facility from IB then establishment of ownership becomes difficult. Govt. may enact a law in this regard through its concerned Ministry. • Underlying asset's ownership should be always with asset owner. Shari'ah motivated manpower and client's commitment for complying Shari'ah may solve the problem.
18.	Do you face the underlying asset's ownership risks in Salam contract?	• Theoretically, its answer is `Yes'. But in reality, IBs arrange Parallel Salam against a Salam to minimize the ownership risk. • In the context of our country Bai-Salam mode of financing used in agricultural sector. Usually, farmers do not have enough facility to maintain separate go-down for Bank. So, it is difficult to identify the goods purchased by the Bank under specific Salam contract.
19.	Do you face the underlying asset's ownership risks in Istisna'a contract?	• In the context of our country Istisna contract is mainly done for pre-shipment finance in RMG sector. They stock their own products with Bank's product under Istisna contract in the same go-down. In this case, it is difficult to identify the goods under specific Istisna contract.

20.	Do you face the underlying asset's ownership risks in Ijarah contract?	• In true sense, an Ijara asset may be damaged without any misconduct or negligence of lessee. Further, an Ijara asset may be damaged by force majeure. In these cases, IBs supposed to face ownership risk and Proper Insurance coverage (which is supposed to bear by IBs) may be arranged to compensate the loss. • Risk that is default occurs, the bank has to re-rent or dispose the asset /property in open market at lower price than agreed. Also, if clients decide not to take ownership of the asset/property at the end of the period, risk is that market price is lower than the book value. Market risk is partly mitigated by the value of asset/property and advance payment.
Perceptions regarding risk management of Shari'ah-based banks: Deposit		
21.	Do you face any challenge to collect deposits under the Mudarabah principle? (The conventional banks offer fixed and positive return in deposit collection, whereas the Mudarabah principle is a profit sharing and loss bearing contract.)	• Religiously motivated people want to avoid interest. Mentionable, interest/usury is prohibited/discouraged in major religions of the world. In our country majority people are muslim and they believe that keeping money in Islamic banks is safe and interest free. • Due to the prevalence of income sharing mudaraba instead of net profit mudaraba and the practice of provisional profit method, the practice of mudaraba system do not arise any problem. As in most of the cases Islamic Banks (IB) pay profit as per initial provisional profit rate. • In addition to regular banking risk, IB faces shariah compliance risk which involved shariah compliant optimum return.
22.	Do you face any challenge related with displaced commercial risk as there is a variable rate of return on deposit unlike conventional banks?	• In our country most of the people are Islamic minded. Normally religiously motivated depositors of IBs do not switch over to the CBs for more gain with few exceptions. • All Islamic Bank (IB) initiate their relationship with customer through a contract and always try to educate customer of the impact of this contract. Although some IBs have experienced outrageous reaction when bank have paid lower amount of profit than initial provisional rate. • Vary on rate of return on deposit in Islamic Bank. In Bai & Ijara mode the rate of returns is fixed.
23.	Do you face any challenge related with Shari'ah non-compliance risk in the area of marketing (e.g., double benefit scheme)? (Because, the mode is profit sharing but loss bearing)	• We do calculate final rate at the end of each year. After that we adjust additional profit or extra profit in the form of Ehsan. • Strengthening Shari'ah governance especially strong supervision of SSC may solve the problem. From true shariah perspective, it has been difficult to offer a fixed rate of return over the years. There are no guaranteed returns for depositors. But if we follow the shariah rules then there will be no loss in the bank.

24.	Do you face any challenge related with Shari'ah non-compliance risk in regard to operation (e.g., capital/profit guarantee)? (Because, capital/profit may not be guaranteed)	• In IB's, capital/profit is not guaranteed. Islamic Banks manages Shari'ah non-compliance risk in regard to operation at their own discretion. • Capital providers are well informed about Shariah Banking risk. But clients usually want a guarantee of profit and for this sometimes IBs faces negative reaction from customer as IBs operate in conventional environment as well as it is difficult to educate customer on mudarabah principal. Publicity should be increased to enrich their ideas about Islamic banking.
25.	Do you face any challenge related with Shari'ah non-compliance risk in regard to profit calculation/distribution (e.g., lack of transparency)	• The profit distribution ratio is mentioned in the account opening form. Actual profits are distributed annually and customers willingly accept ISR. • Most of the IBs don't adhere to stringent Shariah principle and transparency. Profit calculation in IBs is some extent complicated compared to CBs. Deep Study/research may be conducted to device easily understandable method.
26.	Do you think that IB enjoy competitive advantages related with cost of fund as deposit collected under Mudarabah principle?	• Very few IBs enjoy competitive advantage as most of the IBs operational procedure and other scenario are as like as conventional commercial banks. But it is one of the beauty and unique characteristics of the IBs and key reason of sustainability of the Islamic banking system. • Generally, Mudaraba depositors are not price sensitive. Because the profit is given to the fund provider according to the rational profit distribution ratio. IB's declare a provisional rate not fixed rate.
Perceptions regarding risk management of Shari'ah-based banks: Credit (Investment)		
27.	Do you think that the counterparty risk of Islamic banks increases in comparison to conventional banks due to not charging any additional amount in the cases of default?	• We can charge an additional amount in case of willful defaulters or can convert their mortgage/collateral into liquid money. Because according to various Islamic scholars we get to know that-we can obviously charge an additional amount to defaulters who willfully did not pay back the investment amount after proper surveillance of that defaulter. • Compliance of Shari'ah principles and asset backed finance reduce the counterparty risk. Besides, charging this compensation along with a strong and effective monitoring system minimize the risk.
28.	Do you think the compensation (i.e., penalty) charge is an effective risk management technique for the Islamic banks?	• This is only for willful defaulters. Because this charge helps to decrease the risk of the bank and also help to stop the practice of being defaulter willfully in Islamic Banking sector. • Compensation is not the effective solution. Because it is to spent charity. But overdue culture will be reduced if compensation charged. Besides, the law should be enacted to stop willful defaulters and increase investments in PLS system.
29.	Do you think that the Shariah requirement of not imposing the compensation (i.e., penalty) charge on an	• Waiver of penalty in case of insolvent clients is a beauty of IBs. Shari'ah compliance or extending hand of `Ihsan' upon the insolvent clients may cause of `Barakah' for IBs. • Regarding this issue, Islamic banks can reduce their

	insolvent or incapable customer places Islamic bank in a disadvantageous position in comparison to conventional banks in credit risk management?	corporate tax rates. Giving an amount from their CSR fund, providing them with various entrepreneurial knowledge, training, of course giving priority to shariah requirement.
30.	Do you face any challenge in managing the counterparty risk because there is no Islamic credit insurance service provider in Bangladesh?	• Islamic Insurance is available in Bangladesh to secure the Investment. • As Islamic Banking is getting popular in our country, Islamic investment insurance company may be introduced by the concerned body.
31.	Do you think that there is a less possibility of default in Islamic banking because all investments are linked with real economy and asset-backed?	• Asset backed investment may be a safeguard of the IBs' money and if Shari'ah compliance is ensured along with good governance, there would be less scope of diverting the Banks' fund in the unproductive sectors. • All investments are linked with real economy and asset backed and bankers strongly monitoring the loan from the beginning and that's why loans are rarely defaulted. Islamic Banking will remain strong as long as this scenario sustains.
32.	Do you think that there is a difference in concentration risk of Islamic banks as compared to conventional banks?	• Islamic banking system encourages to diversify the assets and to achieve Maqasid Al-Sharia'h by distributing asset among the underprivileged people of the society. • In IB concentration risk is little bit lower than CB. Because as per Maqasid Al-Shariah, IBs should distribute their investment fund across the segments of the society. Moreover, underline asset movement remove the concentration risk of Islamic Banks.
Perceptions regarding risk management of Shari'ah-based banks: Market		
33.	Do you think that the displaced commercial risk is a relevant risk for Islamic banks in Bangladesh? (Displaced commercial risk refers to the risk of losing deposit customers by Islamic banks due to providing lower than the expected profit or Market rate.)	• As very few IBs paid profit as per Mudarabh with weightage mechanism. Rather most of the banks like to give profit as per their initial offering. Some cases, if necessary, even they provide excess profit amount than the true Mudarabh weightage calculation under the principle of Ehsan. • Islamic funds are available in the market with a little effort with higher profit rate and deposit are increasing day by day. If Islamic Banking volume increased then displaced commercial risk will be reduced.
34.	Do you face any challenge related with rate of return on deposit due to different mechanism of profit calculation (e.g., ISR or Weightage method)?	• Most of the depositors are in the dark regarding profit calculation method of IBs. Different mechanism of profit calculation imposed in some of deposit mode for extra attraction like Hajj deposit, pension deposit, etc. For this, Bank has maintained feature CBS for solve it. • These two methods have different calculation mechanism. Though ISR is more shariah compliant mode but most of the Islamic Banks have been practicing weightage method.
35.	Do you face any challenge related with commodity	• As practice of our country, it is said that the IBs delivered the goods to the clients at supplier's premises. So, the

	price in case of Murabaha (possibility of change in price before delivery to customer)?	goods are transferred from supplier control to the client's control without delay. Therefore, fluctuation of the price cannot affect the IBs. • The commodity is owned by the bank for a very short time. As all the transactions happened within very short span of time in murabaha mode, there is negligible impact on price fluctuation of commodity. • The Shariah contract applied for Murabahah via Commodity Murabahah arrangement. It is a method of sale with a mark-up price whereby the Customer makes payment over an agreed period of time. The underlying asset for the sale transaction between the Customer and the Bank will be a specific tradable Shariah-compliant commodity.
36.	Do you face any challenge related with commodity price in case of Salam & Istisna'a (possibility of change in price after getting delivery from customer but before selling to others)?	• General Bai Salam is not in practice in our country except in case of export sectors where this challenge is rarely found. Most of the Islamic banks go through under a parallel Salam or Istisn'a at same time. • Though the commodity is owned by the bank for a very short time, market price of commodity should be observed carefully before disbursement as well as keeping proper cushion and educating the stakeholders.
37.	Do you face any challenge related with commodity price in case of Ijara (possibility of change in price of the Ijara asset at the end of the period)?	• In Ijarah/ HPSM assets is sold to the client at the purchase price and most of the Islamic banks are practicing hire purchase under Shirkatul Milk (HPSM) rather than pure Ijara, where ownership is transferred gradually to the customer. Therefore, salvage value of the asset at the end of Ijara period does not create any challenge on IBs. The Hirer may acquire the full title of the Hire's portion of the asset on payment of the total price at the end of the Ijara period.
38.	Do you face any challenge related with currency price due to lack of Islamic derivatives?	• The risk can be minimized by a clause in the contract showing an agreement between the two parties that a certain level of price fluctuation will be acceptable, but beyond that point the gaining party shall compensate the party which is adversely affected by the price movements. Moreover, innovation and use of Sharia'h compliant derivatives should be formulated and increased along with alternate Islamic Financial Instrument may be introduced. • Islamic banks, similar to conventional banks, face credit risk, liquidity risk, profit-rate risk and currency risks, among others. Conventional banks use derivatives to hedge their exposures against interest-rate risk and currency risk, in addition to offering their customers derivative products. However Islamic banks do not use derivatives, and most of that use it in a limited capacity, constraining it to instruments like profit-rate swaps and Islamic-currency forward contracts.

39.	Do you think that there is a difference in equity risk of IB as compared to CB because there is lack of Shariah compliant sufficient equity instruments?	• It is an inherent strategic disadvantage compared to conventional counterparts. Islamic banks have to sacrifice business opportunity as they can only deal foreign currency against real need. • IBs earn very little from BGIIB compared to T-Bond & T.Bill. Islamic money market area should be enhanced and Shariah compliant instruments should be increased.
40.	Do you face the additional risks in comparison to conventional banks due to the lack of Islamic hedging instruments?	• It is also an inherent strategic disadvantage compared to conventional counterparts. Shariah compliant instruments should be introduced widely and more equity instruments are needed for Islamic Market.
Perceptions regarding risk management of Shari'ah-based banks: Liquidity		
41.	Do you face any challenge related with liquidity due to lack of sufficient attractive instruments unlike CB?	• Collecting liquidity (deposit) is not problem at all for IBs. Because IBs` deposit products are sufficient compared to CBs. Besides Halal features added an extra attraction to the deposit products of IBs. • Sometimes IB's face challenge to manage their liquidity with so little alternatives unlike their counterparts. Some IBs manage it through Mudaraba Special Notice Deposit (MSND) account with other Islamic banks/ windows or branches and sometime manage to borrow from Bangladesh Government Islamic Investment Bond (BGIIB). But IB's earn nominal profit from BGIIB and our funds stay idle. Issuance of tradable Shariah Compliant instruments by the Govt. and repo/reverse repo options against Sukuk/bond.
42.	Do you face any challenge related with liquidity due to lack of tradability of all instruments unlike CB?	• As there is no or scanty market structure of Islamic banks like their conventional counterparts, IBs have to maintain excess liquidity by sacrificing cost and opportunity. • Islamic money market needs to expand. May be issued different tenor Sukuk with attractive profit rate and developed unique & electronic trading platform. Opening repo/reverse repo/ withdrawal facility against sukuk. Allowing ALS/ELS facility against sukuk/bond investment by Islamic Banks.
43.	Do you face any challenge related with liquidity due to lack of sufficient secondary market instruments unlike CB?	• The avenues to invest IBs` idle fund is limited compare to CBs which creates risk of liquidity management for IBs. As there is no or scanty market structure of Islamic banks like their conventional counterparts, IBs have to maintain excess liquidity by sacrificing cost and opportunity, in absence of secondary market instruments. Shariah based instrument in secondary market is very few. For this BGIIB and Sukuk are not vibrant. • Sufficient secondary market instruments should be increased. May be listed in the Capital Market. Issue of long-term high yield bond/sukuk from government and tradable featured bond/sukuk issuance.
44.	Do you face any challenge related with liquidity due to	• As there is no or scanty market structure of Islamic banks like their conventional counterparts, IBs have to maintain excess liquidity by sacrificing cost and opportunity. Lately

	low return of the instruments unlike CB?	Bangladesh Government has introduced is Ijara SUKUK which has given Islamic banks to explore some investable options though these instruments' price is significantly lower than same tenured conventional bonds which ultimately create hinder to make level playing field. • Research as well as regulatory initiatives to develop appropriate liquidity management instrument and nourish secondary market for IBs. May be issued different tenor & rated Shari'ah based Instruments. Unless and until the Islamic money market increased this problem will not be solved.
	Capital adequacy requirements	
45.	Do you think that the capital adequacy requirements for Islamic banks should be different from the conventional bank?	• Shariah principles are different from the conventional banking policy. Most Islamic Banking investment are asset backed. In case of calculation of RWA against operational risk of IBs should be different because there is Shari'ah non-compliance risk in IBs. So, the capital adequacy requirements should be different. • Islamic bank has an equity-based capital structure, dominated by shareholders' equity and investment deposits based on profit and loss sharing [PLS]. There is no need for capital adequacy regulations if the Islamic banks are structured as pure PLS-based organizations.
46.	Do you think that the Shariah non-compliance risk must be considered in determining the capital adequacy requirements for Islamic banks?	• An option of charging capital based on average doubtful income of last three years or any relevant factor should be included under Pillar-2 (ICAAP). • For better shariah practice, Shariah non-compliance risk should be considered in determining the capital adequacy requirements. Regulatory initiatives are required to be taken in this regard.

Appendix-D

Additional Issues of Risk Management of Islamic Banks in Bangladesh

S/n	Problems	Suggestions
1.	Lack of Islamic banking knowledge of depositors, borrowers and employees.	To create awareness and proper train up about the Islamic Banking by advertising, distribution of leaflet among the customer.
2.	There is no uniform Shari'ah Auditing system in the IBs of Bangladesh.	Regulatory role is necessary to ensure uniform Shari'ah Auditing system in the IBs of Bangladesh.
3.	There is no Shari'ah Non-compliance Risk Management Guidelines in IBs.	Every IB should Shari'ah Non-compliance Risk Management Guidelines in light of BRPD 3/2016.
4.	Underdeveloped money market and govt securities based on profit loss sharing.	There is a need to establish a systematic Islamic money market for Islamic financial institutions.
5.	Weightage of the assets.	A system can be introduced for risk weighting of all the assets of the Islamic Bank separately with internationally accepted practices.
6.	Treasury management challenge	Strengthening Shari'ah compliant Islami Bond market.
7.	Reluctance to comply Shariah	Buildup of Shariah awareness among all stakeholders.
8.	Islamic Banking Windows within a conventional banking branch create competition between them to some extent.	Co-operation of mother branch can mitigate the problem.
9.	Commitment Limitation	Various limitations for banking operation set by the Bangladesh Bank should be relaxed in case of Islamic Bank. So that it can reduce the potentiality of moral hazard in the PLS modes, by helping the banks to have adequate amount of their own capital at risk.
10.	Investment Risk	An improvement in the institutional infrastructures and a refinement of the Islamic banking products can be instrumental in enhancing the collateral quality and reducing credit risks.

Appendix E

Concentration Risk

Deposits distributed by types of accounts (%)

Types of Account	All Banks		PCBs including IBs		IBs	
	2021	2020	2021	2020	2021	2020
Current and cash credit account	9.08	8.67	8.87	7.92	5.18	4.09
Savings deposits	22.41	21.19	20.12	18.47	20.99	19.89
Foreign currency account	0.39	0.35	0.26	0.20	0.01	0.01
Special notice deposits	9.69	10.37	8.44	8.25	4.42	4.19
Fixed deposits	44.62	44.95	46.43	48.48	53.51	53.33
Recurring deposits	7.48	7.72	9.36	9.64	10.73	11.86
Others	6.33	6.75	6.53	7.04	5.16	6.63
Total	**100**	**100**	**100**	**100**	**100**	**100**

Deposits and investment (advance) distribution by rural and urban areas (%)

Areas		All Banks		PCBs including IBs		IBs	
		2021	2020	2021	2020	2021	2020
Deposit	**Urban**	78.49	78.66	83.36	83.60	81.70	81.81
	Rural	21.51	21.34	16.64	16.40	18.30	18.19
Investment (Advances)	**Urban**	88.80	89.19	93.48	93.88	92.97	93.63
	Rural	11.20	10.81	6.52	6.12	7.03	6.37

Deposits and investment (advances) distribution by size of accounts (%)

Amount		All Banks		PCBs including IBs		IBs	
		2021	2020	2021	2020	2021	2020
Deposit	**0-100,000**	7.54	5.29	5.34	5.67	5.86	6.34
	100001-1000000	23.16	24.51	26.43	27.03	32.59	33.19
	1000001-10000000	26.06	27.05	31.48	31.11	30.19	29.76
	10000001-50000000	11	11.05	11.9	12.04	9.7	9.57
	50000001-250000000	12.21	12.42	10.83	11.40	10.48	10.59
	Above 25 Crore	20.01	19.68	14.02	12.75	11.18	10.55
	Total	**100**	**100**	**100**	**100**	**100**	**100**
Investment (Advances)	**0-100,000**	2.18	2.35	0.75	0.72	1.08	1.12
	100001-1000000	8.06	7.63	5.87	5.75	5.33	5.92
	1000001-10000000	16.97	16.81	17.69	17.23	16.42	17.39
	10000001-50000000	14.45	14.75	17.01	17.38	17.04	18.14
	50000001-250000000	21.34	22.88	24.33	25.92	28.20	31.01
	Above 25 Crore	37	35.58	34.35	33	31.93	26.42
	Total	**100**	**100**	**100**	**100**	**100**	**100**

Investment (advances) categorized by securities (%)

Types of Securities	All Banks		PCBs including IBs		IBs	
	2021	2020	2021	2020	2021	2020
Machinery/Fixed assets	1.75	2.56	1.97	2.14	2.91	3.49
Commodities	6.22	6.06	6.67	6.21	5.97	5.76
Real estate	65.57	66.90	67.92	69.98	75.18	76.44

Financial obligations only	6.06	5.81	7.08	6.67	8.03	7.35
Guarantee of individuals	6.8	5.41	6.14	4.80	3.01	2.61
Others	12.8	12.67	9.68	9.94	4.8	4.32
Without security	0.79	0.59	0.55	0.26	0.1	0.03
Total	**100**	**100**	**100**	**100**	**100**	**100**

Investments (advances) categorized by economic purposes and sector (%)

	Economic Purposes	All banks		IB	
		2021	**2020**	**2021**	**2020**
1.	**Agriculture, Fishing & Forestry**	4.70	4.61	2.24	1.68
2.	**Industrial term loan**	20.92	20.58	16.96	16.19
3.	**Industrial WC financing**	20.37	21.30	24.66	23.33
4.	**Housing (Commercial)**	2.15	2.26	2.47	2.69
5.	**Housing (Residential)**	2.44	3.02	1.99	2.41
6.	**Others Construction**	3.87	3.65	3.54	3.95
7.	**Transport**	1.04	1.34	0.98	1.39
8.	**Wholesale and Retail Trade**	18.07	17.70	29.46	28.85
9.	**Export Financing**	5.85	5.43	5.01	4.44
10.	**Import Financing**	9.27	10.08	7.52	10.58
11.	**Others Trade and Finance**	0.62	0.51	0.15	0.05
12.	**Consumer Finance**	7.88	6.34	3.77	2.89
13.	**Miscellaneous**	2.82	3.19	1.11	1.55
	Total	100	100	100	100

Investments (advances) concentration by divisions (%)

Divisions	All Banks		PCBs including IBs		IBs	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Dhaka	67.56	67.68	68.44	68.71	54.62	56.33
Chattogram	18.51	18.72	21.53	21.68	33.75	32.20
Khulna	3.91	3.85	2.59	2.50	3.23	3.28
Rajshahi	3.85	3.75	3.43	3.22	4.65	4.24
Rangpur	2.42	2.34	1.48	1.44	1.65	1.71
Mymensingh	1.36	1.36	0.77	0.77	0.65	0.68
Sylhet	1.24	1.16	1.11	1.03	0.77	0.83
Barishal	1.15	1.14	0.65	0.65	0.68	0.73
Total	**100**	**100**	**100**	**100**	**100**	**100**

Weighted average rate of profit (interest) (%)

	All Banks		PCBs including IBs		IBs	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Investment (Advances)	7.42	7.69	7.73	8.10	8.10	8.49
Deposit	4.06	4.56	4.18	4.78	4.38	5.14
Spread	3.36	3.13	3.55	3.32	3.72	3.35

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Source: *Scheduled Banks Statistics, Bangladesh Bank*

Appendix F

Bank-wise Share in Deposits and Investments

Islamic Banking Deposits by Banks (%)

	IBBL	FSIBL	EXIM	AAIBL	SIBL	SJIBL	Union	ICB	SBL	GIB	IB Br.	IB. Win.	Total
Dec-14	39.05	12.66	13.29	12.21	7.56	6.82	2.41	0.83			3.59	1.57	100
Dec-15	37.72	14.18	13.67	10.44	8.45	6.50	3.41	0.68			3.18	1.77	100
Dec-16	36.22	14.61	12.36	11.69	9.24	6.63	3.96	0.58			2.82	1.89	100
Dec-17	35.08	13.96	11.90	12.12	9.38	6.79	5.32	0.53			2.74	2.19	100
Dec-18	34.67	13.48	11.45	12.05	9.43	7.39	5.26	0.48			3.15	2.62	100
Dec-19	33.83	13.44	12.71	11.56	9.53	7.26	5.36	0.43			3.12	2.76	100
Dec-20	36.13	13.11	12.25	10.61	9.15	6.69	5.28	0.38			3.11	3.29	100
Dec-21	35.18	11.93	10.75	9.66	8.52	5.53	5.09	0.33	4.24	3.00	2.80	2.97	100

Islamic Banking Investments by Banks (%)

	IBBL	FSIBL	EXIM	AAIBL	SIBL	SJIBL	Union	ICB	SBL	GIB	IB Br.	IB. Win.	Total
Dec-14	38.64	11.91	14.08	12.51	8.37	6.78	2.28	0.74			3.34	1.34	100
Dec-15	37.15	12.53	13.38	11.57	9.05	6.76	3.18	0.64			4.30	1.44	100
Dec-16	36.48	13.07	12.76	11.16	9.90	7.28	3.97	0.55			3.07	1.74	100
Dec-17	34.86	13.24	12.08	11.48	10.12	7.89	5.01	0.44			2.78	2.11	100
Dec-18	34.51	13.06	12.61	11.13	10.25	8.06	5.19	0.37			2.67	2.14	100
Dec-19	34.32	13.84	12.60	10.96	9.97	7.51	5.57	0.32			2.85	2.05	100
Dec-20	34.49	14.09	13.07	10.53	10.08	6.68	5.66	0.29			2.64	2.47	100
Dec-21	33.31	12.84	11.75	9.41	8.71	6.13	5.48	0.24	4.64	3.03	2.33	2.13	100

Source: *Quarterly Report on Development of Islamic Banking in Bangladesh, Bangladesh Bank*

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