

IFIC Bank Limited

Market discipline- Disclosures on Risk Based Capital Under Basel II
As on 31 December 2014
(As per Guideline of Bangladesh Bank) (Consolidated basis)

BDBL Building (8th - 10th & 16th – 19th Floor) |
8, Rajuk Avenue
Dhaka-1000

Background

In order to make the banks' capital adequacy assessment more risk sensitive and to abide by the international norms and practices, Bangladesh Bank took the initiative to implement Basel –II framework. Banks in Bangladesh have gone live under Basel –II since 01 January, 2010. These disclosures under Pillar III of Basel II are made following revised 'Guidelines on Risk Based Capital Adequacy (RBCA)' for banks. These quantitative and qualitative disclosures are intended to complement the Minimum Capital Requirement (MCR) under Pillar I and Supervisory Review Process (SRP) under Pillar II of Basel II. The purpose of these disclosures is to present relevant information on adequacy of capital in relation to overall risk exposures of the Bank so that the market participants can assess the position and direction of the Bank in making economic decisions.

A) Scope of Application

Qualitative Disclosures

a) *The name of the top corporate entity in the group to which this guidelines apply: International Finance Investment & Commerce Bank Limited (IFIC Bank Limited)*

b) *An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).*

IFIC Bank Limited has two wholly owned Subsidiary Companies viz. (i) IFIC Securities Limited and (ii) IFIC Money Transfer (UK) Limited.

A brief description of the Bank and its subsidiaries are given below:

IFIC Bank Limited

IFIC Bank Limited denoted as International Finance Investment and Commerce Bank Limited, started its journey in 1976 at the instance of the Government as a joint venture between the Government of Bangladesh and sponsors in the private sector with the objective of working as a finance company. In 1983 when the Government decided to open up banking in the private sector, the finance company was converted into a commercial bank and incorporated as a public limited company in Bangladesh under the Companies Act 1913, governed by the Banking Companies Act 1991. The registered office of the Bank is situated at BDBL Bhaban (8th to 10th & 16th-19th floor), 8 Rajuk Avenue, Dhaka-1000. Its shares are listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. Government of Bangladesh held 32.75% ordinary shares and the remaining 67.25% were held by the sponsors and general public.

At present the Bank has 120 branches and 50 own ATM booths. Among the branches, there are 7 SME/Agri Branch. The Bank has an Off-shore Banking Unit (OBU) located at Dhaka. The Bank has also two subsidiary companies namely IFIC Securities Limited and IFIC Money Transfer (UK) Limited.

IFIC Securities Limited

IFIC Securities Limited, a fully owned subsidiary company of IFIC Bank Limited was incorporated as a Public limited company in Bangladesh on 2 November 2010 vide certificate of incorporation no. C-87904/10 having registered office at BDBL Bhaban 8th floor, 8 Rajuk Avenue, Dhaka-1000. It acquired membership of Dhaka Stock Exchange Limited for brokerage transaction vide Security Exchange Commission certificate no. 3.1/DSE-192/2009/316 dated 1 January 2009. The main objective of the company is to carry on business of stock brokers/ dealers in relation to shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the company. The operation of the company starts on 10 March 2011.

IFIC Money Transfer (UK) Limited

IFIC Money Transfer (UK) Limited was incorporated as a private limited company with Companies House of England and Wales under registration no. 07379137 on 16 September 2010. The company is a wholly owned subsidiary of IFIC Bank Limited. IFIC Bank Limited got permission from Bangladesh Bank for opening a fully owned subsidiary in UK. IFIC Money Transfer (UK) Limited obtained Money Laundering registration on 17 January 2011 issued by HM Customs and Excise. The company got registration from Financial Services Authority (FSA) on 16 June 2011 under Payment Services Regulations 2009. The company commenced its operation on 31 August 2011. The registered office is located at Ferrari House, 2nd Floor, 102 College Road, Harrow, Middlesex, United Kingdom HAI IES, London, UK.

c) *Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.*

Transfer of funds or regulatory capital can be performed as per directives of the regulatory bodies.

Quantitative Disclosures

d) *The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries : Nil.*

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B) Capital structure**Qualitative Disclosures**

a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Tier 2.

Paid-up Capital of the Bank is already above minimum requirement of Tk. 200.00 crore to be raised before August, 2011 as per the directives of Bangladesh Bank under Tier-I Capital. The Bank has the option of raising capital by issuing Right Shares or Subordinate Bonds. Moreover, the bank has statutory reserve required as per the directives of Bangladesh Bank, general reserve and retained earnings under Tier-I Capital. In addition, Tier-II capital includes general provision as per directives of Bangladesh Bank, asset and securities revaluation reserve up to 50%, provision for Off-Balance Sheet exposure.

Quantitative Disclosures

b) The amount of Tier I capital, with separate disclosure of:

Particulars	Figs in crore Tk.
Paid-up capital	437.75
Non repayable share premium account	-
Statutory Reserve	390.95
General Reserve	5.58
Retained Earnings	343.61
Minority interest in subsidiaries	-
Non-cumulative irredeemable preference shares	-
Dividend equalization account	-
c) The total amount of Tier 2 and Tier 3 capital.	161.35
d) Other deductions from capital.	81.62
e) Total eligible capital	1,257.61

C) Capital Adequacy**Qualitative Disclosures**

a) A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.

According to BB Guidelines IFIC Bank is assessing Risk Based Capital Adequacy under Basel-II from 01 January 2010. Under Basel-II framework the capital requirement is determined for Credit Risk and Market Risk under Standardized Approach and Operational Risk under Basic Indicator Approach and summed-up to determine total Risk Weighted Assets and thereafter the Minimum Capital Requirement (MCR). IFIC Bank has maintained Capital Adequacy Ratio of 10.80% as on 31 December 2014, whereas Minimum Capital Requirement (MCR) is 10% from 01 July 2011 as per BRPD circular No.10 dated 10 March 2010. The Bank has thus maintained some excess capital than the minimum requirement of 10.0%. However, the Bank is continuously evaluating its capital position in comparison to its risk weighted assets position and exploring ways and means to raise capital both internally and externally.

Quantitative Disclosures

Particulars	Figs in crore Tk.
b) Capital requirement for Credit Risk	980.18
c) Capital requirement for Market Risk	75.53
d) Capital requirement for Operational Risk	107.36
e) Total and Tier I capital ratio	
• For the consolidated group; and	87.17%
• For stand alone	85.73%

D) Credit Risk**Qualitative Disclosures**

a) *The general qualitative disclosure requirement with respect to credit risk, including:*

- *Definition of past due and impaired (for accounting purposes);*

As per relevant Bangladesh Bank guidelines, the Bank defines the past due and impaired loans and advances for strengthening the credit discipline and mitigating the credit risk of the Bank. The impaired loans and advances are defined on the basis of (i) Objective / Quantitative Criteria and (ii) Qualitative judgment. For this purposes, all loans and advances are grouped into four (4) categories namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural & Micro Credit.

Definition of past due/over due:

i) Any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/ overdue from the following day of the expiry date;

ii) Any Demand Loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date;

(iii) In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue from the following day of the expiry date.

iv) The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date. However, a continuous loan, demand loan or a term loan which will remain overdue for a period of 02 (two) months or more, will be put into the “Special Mention Account (SMA)”, the prior status of becoming the loan into impaired/classified/ nonperforming.

Definition of impaired / classified /non-performing loans and advances are as follows:

Continuous loan are classified are as follows:

Standard : If it is past due /overdue for 3 (three) months or beyond but less than 6 (six) months;

Doubtful - If it is past due / overdue for 6 (six) months or beyond but less than 9 (nine) months;

Bad/Loss - If it is past due / overdue for 9 (nine) months or beyond

Demand loan are classified are as follows:

Standard - If it remains past due / overdue for 3 (three) months or beyond but not over 6 (six) months from the date of expiry or claim by the Bank or from the date of creation of forced loan;

Doubtful - If it remains past due / overdue for 6 (six) months or beyond but not over 9 (nine) months from the date of expiry or claim by the Bank or from the date of creation of forced loan;

Bad/Loss - If it remains past due / overdue for 9 (nine) months or beyond from the date of expiry or claim by the Bank or from the date of creation of forced loan.

Fixed Term Loans are classified are as follows:

In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the due date, the amount of unpaid installment(s) will be termed as ‘past due or overdue installment’. In case of Fixed Term Loans: -

Standard - If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loan will be classified as "Sub-standard".

Doubtful - If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as "Doubtful".

Bad/Loss - If the amount of 'past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as "Bad/Loss".

In case of any installment (s) or part of installment (s) of a Fixed Term Loan amounting up-to Taka 10 lacs is not repaid within the due date, the classification is as under:

Standard - If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 (six) months, the entire loan will be classified as ‘Sub- standard’;

Doubtful - If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 (nine) months, the entire loan will be classified as ‘Doubtful’;

Bad/Loss -If the amount of past due installment is equal to or more than the amount of installment (s) due within 12 (twelve) months, the entire loan will be classified as ‘Bad/Loss’;

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The Short-term Agricultural and Micro-Credit will be considered irregular if not repaid within the due date as stipulated in the loan agreement. If the said irregular status continues, the credit will be classified as 'Substandard ' after a period of 12 months, as 'Doubtful' after a period of 36 months and as 'Bad/Loss' after a period of 60 months from the stipulated due date as per the loan agreement.

The Bank is following the general and specific provision for loans and advances/investments on the basis of Bangladesh Bank guidelines issued from time to time.

Category of Loans & Advances	Rate(%)of provision
General Provision-for Unclassified	
<i>Loans and advances (excluding SMA)</i>	
Small and medium enterprise	0.25%
House building loan and loan for professional	2.00%
Loans to BHs/MBs/SDs share etc	2.00%
Consumer Finance	5.00%
Short Term Agri. Credit and Microcredit	2.50%
Staff Loan	0.00%
All other unclassified loan	1.00%
<i>Special Mention Account (SMA)</i>	
Small and medium enterprise	0.25%
House building loan and loan for professional	2.00%
Loans to BHs/MBs/SDs share etc	2.00%
Consumer Finance	5.00%
Short Term Agri. Credit and Microcredit	2.50%
Staff Loan	0.00%
All other unclassified loan	1.00%
<i>Off-shore banking unit</i>	
Un-classified loans	1.00%
Special mentioned account	
Specific provision-for Classified	
Sub-standard	20.00%
Sub-standard- Short term agri. Credit	5.00%
Doubtful	50.00%
Doubtful- Short term agri. Credit	5.00%
Bad/loss	100.00%
Particulars of required provision on Off-balance Sheet Exposure	
Acceptances and endorsements	1.00%
Letters of guarantee	1.00%
Irrevocable letters of credit	1.00%
Bills for collection	1.00%

• *Discussion of the bank's credit risk management policy;*

The Board approves the credit policy, credit exposure limits and credit risk management policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in credit risk management and maintain quality of assets. Authorities are properly delegated ensuring check and balance in credit operation at every stage i.e. screening, assessing risk, identification, management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early warning system. There is a separate credit risk management division for dedicated credit risk management, separate credit administration division for ensuring perfection of securities and credit monitoring and recovery division for monitoring and recovery of irregular loans. Internal control & compliance division independently assess quality of loans and compliance status of loans at least once in a year.

Quantitative Disclosures

b) *Total gross credit risk exposures broken down by major types of credit exposure.*

Particulars	Figs in crore Tk.
Claims on Corporate	3,823.21
Claims on Banks and NBFIs	1,818.96
Claims fully secured by Commercial real estate	684.45
Claims fully secured by residential property	1,708.09

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Claims categorized as retail portfolio & SME	1,655.24
Claims on Bangladesh Government and Bangladesh Bank	1,878.45
All other assets	339.75
Claims under Credit Risk Mitigation	402.39
Past Due Claims	249.99
Investments in premises, plant and equipment and all other fixed assets	294.69
Claims on OBU	176.79
Capital Market Exposure	333.70
Cash	200.00
Claims on all fixed assets under operating lease	56.60
Consumer Loan	66.68
Claims on Public Sector Entities	3.00
Unlisted Equity Investment	85.40
Total	13,777.39

c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.

Particulars	Figs in crore Tk.
Urban	
Dhaka Division	7,396.69
Chittagong Division	1,312.68
Sylhet Division	67.11
Rajshahi Division	354.67
Khulna Division	175.19
Barisal Division	29.39
Rangpur Division	184.35
Total	9,520.08
Rural	
Dhaka Division	345.17
Chittagong Division	119.91
Sylhet Division	11.90
Rajshahi Division	91.06
Khulna Division	62.33
Barisal Division	6.45
Rangpur Division	71.33
Total	708.14

d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.

Particulars	Figs in crore Tk.
Agriculture Industries	141.73
Jute Industries	99.72
Textile Industries	548.19
Garments Industries	1,486.77
Chemical and Chemical Products	39.08
Cement Industries	15.49
Bricks & Ceramic	90.34
Food Products & Processing	431.65
Engineering & Metal	440.77
Drugs & Pharmaceuticals	-
Hospital & Clinics	12.89
Paper & Paper Products Industries	44.98
Other Small Industries	827.77
IT Sector	382.02
Other Service Industries	559.09
Trade & Commerce	2,293.80
IFIC Securities Ltd.	119.97

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Transport	74.72
Construction Firms/Companies	391.33
Housing Societies/Companies	930.61
Cold Storage	11.07
Non-Banking Financial Institutions	63.85
Consumer Finance	564.73
Energy	356.30
Telecommunication	154.17
Others	147.16
Total	10,228.21

e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.

On demand	409.77
Up to 1 month	2,093.04
Over 1 month but not more than 3 months	1,501.90
Over 3 months but not more than 1 years	3,280.87
Over 1 year but not more than 5 years	2,118.75
Over 5 years	823.88
Total	10,228.21

f) By major industry or counterparty type:

• Amount of impaired loans and if available, past due loans, provided separately;

Particulars	Figs in crore Tk.
SMA	308.50
SS	59.51
DF	70.42
B/L	376.18

• Specific and general provisions; and

• Charges for specific allowances and charge-offs during the period.

Particulars	Figs in crore Tk.
g) Gross non-performing assets (NPAs)	506.11
Non Performing Assets (NPAs) to Outstanding Loans & advances (in %)	4.95%

Movement of Non Performing Assets (NPAs)

Particulars	Figs in crore Tk.
Opening balance	316.81
Additions	451.12
Reductions	(263.25)
Closing balance	504.68

Movement of specific provisions for NPAs

Particulars	Figs in crore Tk.
Opening balance	162.01
Provisions made during the period	40.57
Write-off	(25.37)
Write-back of excess provisions	19.43
Closing balance	196.64

E) Equities: Banking book position**Qualitative Disclosures**

a) The general qualitative disclosure requirement with respect to equity risk, including:

• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and

Differentiation between holdings of equities for capital gain and those taken under other objectives is being clearly identified.

Investment in equity securities are broadly categorized into two parts:

i) Quoted Securities (Common or Preference Shares & Mutual Fund) that are traded in the secondary market (Trading Book Assets).

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ii) Unquoted securities are categorized as banking book equity exposures which are further sub-divided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future i.e. held to maturity (HTM), and securities those are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Unquoted securities are valued at cost.

The equity positions are reviewed periodically by the senior management.

• *Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.*

Important policies covering equities valuation and accounting of equity holdings in the Banking Book are based on use of the cost price method for valuation of equities. The primary aim is to investment in these equity securities for the purpose of capital gain by selling them in future or held for dividend income. Dividends received from these equity securities are accounted for as and when received. Both Quoted and Un-Quoted equity securities are valued at cost and necessary provisions are maintained if the prices fall below the cost price. As per to Bangladesh Bank guidelines, the HFT equity securities are revalued once in each week using marking to market concept and HTM equity securities are amortized once a year according to Bangladesh Bank guideline. The HTM equity securities are also revalued if any, are reclassified to HFT category with the approval of Board of Directors. Preference is given to purchase of shares of strong companies at face value through placement/ IPO.

Quantitative Disclosures

b) *Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.*

Particulars	Figs in crore Tk.
Cost price of quoted shares	333.97
Fair value of quoted shares	303.27
Decrease value	30.70

c) *The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.*

Particulars	Figs in crore Tk.
Realized Gains from sale of shares	5.85

d) • *Total unrealized gains*

• *Total unrealized losses*

• *Any amounts of the above included in Tier 2 capital.*

e) *Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.*

Particulars	Figs in crore Tk.
Capital charge for Equity Exposure assessed for total amount without group segregation	72.90

F) Interest rate in the banking book**Qualitative Disclosures**

a) *The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.*

Interest Rate Risk is managed through use of Gap analysis of rate sensitive assets and liabilities and monitored through prudential limits and stress testing. The IRRBB is monitored in movements/changes on a monthly basis and the impact on Net Interest Income is assessed. Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as well as the net worth of the bank (economic value perspective). Re-pricing risk is often the most apparent source of interest rate risk for a bank and is often gauged by comparing the volume of a bank's assets that mature or re-price within a given time period with the volume of liabilities that do so. The short term impact of changes in interest rates is on the bank's Net Interest Income (NII). In a longer term, changes in interest rates impact the cash flows on the assets, liabilities and off-balance sheet items, giving rise to a risk to the net worth of the bank arising out of all re-pricing mismatches and other interest rate sensitive position. The ALCO formulates the policy and strategy depending on the market conditions to maximize Net Interest Income.

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Quantitative Disclosures

b) The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk broken down by currency (as relevant).

Particulars	Figs in crore Tk.
1) At 1% increase in Interest Rate, fall in MVE (Market Value of Equity)	58.73
2) At 2% increase in Interest Rate, fall in MVE (Market Value Equity)	117.45
3) At 3% increase in Interest Rate, fall in MVE (Market Value Equity)	176.18

G) Market Risk**Qualitative Disclosures**

a) Views of Board of Directors on trading/investment activities:

The trading/investment activities in IFIC Bank Limited are managed cautiously so that maximum returns are obtained without taking undue risks. The Board approves all policies related to market risk, set limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance assets growth and trade related transactions. Market risk is the possibility of losses of assets in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e., interest rate, exchange rate and price. Allocation of capital is required in respect of the exposure to risks deriving from changes in interest rates and equity prices in the bank's trading book, in respect of exposure to risks deriving from changes in foreign exchange rates and commodity price in the overall banking activity.

The market risk covers the followings risks of the Bank's balance sheet:

- i) Interest rate risk;
- ii) Equity price risk;
- iii) Foreign exchange risk; and
- iv) Commodity price risk

Methods used to measure Market risk

The Bank uses the Standardized (rule based) Approach to calculate the Market Risk for Trading Book Exposures. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for 'specific risk' and 'general market risk'.

Maturity Method has been prescribed by Bangladesh Bank in determining capital against market risk. In the maturity method, long or short positions in debt securities and other sources of interest rate exposures, including derivative instruments, are slotted into a maturity ladder comprising 13 time-bands (or 15 time-bands in case of low coupon instruments). Fixed-rate instruments are allocated according to the residual term to maturity and floating-rate instruments according to the residual term to the next re-pricing date.

In Standardized (rule based) Approach the capital requirement for various market risks (interest rate risk, price, and foreign exchange risk) are determined separately.

The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. e.g.:

- a) Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;
- b) Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;
- c) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk;
- d) Capital Charge for Commodity Position Risk = Capital charge for general market risk.

Market Risk Management system

The Asset Liability Management Policy of the Bank as approved by the Board ensures effective management of the Market Risk through a well-structured Treasury function which includes a Front Office, Mid Office and Back Office and an ALCO body. The aim of the Market Risk Management System is to minimize the impact of losses on earnings due to market fluctuations.

Policies and processes for mitigating market risk

The policy contains sound Portfolio management procedures and good practices such as minimizing risks through diversification of portfolio. Policy for managing Market Risk has been set out by the Board of Directors of the Bank where clear instructions has been given on Loan Deposit Ratio, Whole Sale Borrowing Guidelines, Medium Term Funding, Maximum Cumulative Outflow, Liquidity Contingency Plan, Local Regulatory Compliance, Recommendation / Action Plan etc. Furthermore, special emphasis has been put on the following issues for mitigating market risk:

Interest Rate Risk Management

Treasury Division reviews the risks of changes in income of the Bank as a result of movements in market interest rates. In the normal course of business, the Bank tries to minimize the mismatches between the duration of interest rate sensitive assets and liabilities. Effective Interest Rate Risk Management is done as under: been put on the following issues for mitigating market risk:

- Market Analysis

Market analysis over interest rate movements are reviewed by the Treasury Division of the Bank. The type and level of mismatch interest rate risk of the Bank is managed and monitored from two perspectives, being an economic value perspective and an earning perspective.

- Gap Analysis

ALCO has established guidelines in line with central Bank's policy for the management of assets and liabilities, monitoring and minimizing interest rate risks at an acceptable level. ALCO in its regular monthly meeting analyzes Interest Rate Sensitivity by computing GAP i.e. the difference between Rate Sensitive Assets and Rate Sensitive Liability and take decision of enhancing or reducing the GAP according to prevailing market situation aiming to mitigate interest rate risk.

Foreign Exchange Risk Management

Risk arising from potential change in earnings resulted from exchange rate fluctuations, adverse exchange positioning or change in the market prices are considered as Foreign Exchange Risk. Treasury and International Division manage this risk in the following fashion:

- Continuous Supervision

Bank's Treasury Division manages and controls day-to-day trading activities under the supervision of ALCO that ensures continuous monitoring of the level of assumed risks. Treasury Division monitors the foreign exchange price changes and Back Office of the Treasury Division verifies the deals and passes the entries in the books of account.

- Treasury Back Office separated from Treasury Front Office

Treasury Back Office is conducting its operation in separate locations apart from the Treasury Front Office. Treasury Back Office is responsible for currency transactions, deal verification, limit monitoring and settlement of transactions independently. Treasury Back Office gathers the market rates from an independent source other than dealers of the same organization, which helps to avoid any conflict of interest.

- Mark-to-Market Method for Approved Securities and Foreign Exchange Revaluation

All foreign exchange reserves and balances along with approved securities are revalued at Mark-to-Market method according to Bangladesh Bank's guidelines. Such valuations are made after specific time interval as prescribed by Bangladesh bank.

- Nostro Accounts

Nostro accounts are maintained by the Bank with various currencies and countries. These Accounts are operated by the International Division of the Bank. All Nostro accounts are reconciled on monthly basis. The management reviews outstanding entry beyond 30 days for settlement purpose.

Equity Risk Management

Equity Risk is the risk of loss due to adverse change in market price of equities held by the Bank. Equity Risk is managed by the following fashion:

- Investment Portfolio Valuation

Mark-to-Market valuations of the share investment portfolio is followed in measuring and identifying risk. Mark-to-Market valuation is done against a predetermined cut loss limit.

- Diversified Investment to minimize Equity Risk

IFIC minimizes the Equity Risks by Portfolio diversification as per investment policy of the Bank.

- Margin Accounts are monitored very closely

Where Margin loan is allowed, security of investment, liquidity of securities, reliability of earnings and risk factors are considered and handled professionally.

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Quantitative Disclosures*b) Capital requirements for*

Particulars	Figs in crore Tk.
<i>Interest rate risk</i>	1.56
<i>Equity position risk</i>	72.90
<i>Foreign Exchange Position and Commodity risk</i>	1.08
	-

H) Operational Risk**Qualitative Disclosures***a) Views of BOD on system to reduce Operational Risk*

IFIC Bank manages its operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events and implementing any additional procedures required for compliance with regulatory requirements. The following procedures are maintained in the Bank:

Operational risk management responsibilities are assigned to the senior management.

Internal auditors are assigned for recording, identification and assessment of operational risks and to prepare reports for the Audit Committee.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. It is inherent in every business organization and covers a wide spectrum of issues. The Board of Director (BOD) of the Bank and its Management firmly believe that this risk through a control based environment in which processes are documented, authorization is independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the group stays in line with industry best practice and takes account of lessons learned from publicized operational failures within the financial services industry.

The BOD has also modified its operational risk management process by issuing high level standards, supplemented by more detailed formal guidance. This explains how the bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that any branch of the bank is affected by a business disruption event, to incorporate lessons learned in the operational recovery from those circumstances. Plans have been prepared for the continued operation of the bank's business, with reduced staffing levels.

Operational risk loss data is collected and reported to the senior management. Identifying, monitoring and recording of fraud, irregularities, unauthorized works, system break down etc. are done by the Management and details of the untoward incidents are reported to the Bank's Audit Committee.

Performance gap of executives and staffs

Human Resources Development is focused on recruitment and in-house training for both on the job and off the job Bank staff members through the Bank's Academy. IFIC Bank Academy, the oldest institution in the private sector, was conceived of as an in-house training center to take care of the training needs of the Bank internally.

Academy is fully equipped with a professional library, modern training aids and professional faculty. Library has huge number of books on banking, economics, accounting, management, marketing and other related subjects.

Main training activities consist of in-depth foundation programmes for entry level Management Trainees. Specialized training programmes in the areas like general banking, advance, foreign exchange, marketing and accounts etc. are also organized by the Academy depending on need.

Frequently outreach programmes are organized to meet demand for new and specialized skills.

During its many years of existence, Academy not only conducted courses, workshops and seminars as required by the Bank, but it also organized training programmes for the Bank of Maldives, Nepal Bangladesh Bank Limited and Oman International Exchange LLC. In addition, Academy has also the credit of organizing system of Bank of Maldives.

In addition to conducting courses internally, The Academy also selects candidates for nomination to various courses conducted by distinguished training organizations in the country including Bangladesh Bank Training Academy and Bangladesh Institute of Bank Management.

The Academy also re-designs its courses, programmes etc, regularly to meet the requirement of new skills arising out of various

directives, guidelines of the Central Bank and significant changes in the banking sector from time to time.

Performance goals are most often attained by executives and staffs with a few exceptions. Every organization needs to effectively manage its human resources to get the maximum contribution from its employees.

Potential external events

Losses from external events, such as a natural disaster that damages a firm's physical assets or electrical or telecommunications failures that disrupt business, are relatively easier to define than losses from internal problems, such as employee fraud and product flaws. It is needless to say that there are certain risk factors which are external in nature and can affect the business of the Bank. The factors discussed below can significantly affect the business:

- External rules and regulations

Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application

- Damage to assets

Potential for loss or damage to physical assets and other property from natural disaster and other events.

- Safety and security

Potential for loss or damage to health or safety of staff, customers or third parties arising from the effects of external events

- External financial crime

Potential for loss due to criminal acts by external parties such as fraud, theft and other criminal activity

- Political condition and general business

IFIC's performance greatly depends on the general economic conditions of the country. The effect of recession is still unfolding which may result to slow down in business environment. Political stability is must for growth in business activities.

- Credit quality of borrowers

Risk of deterioration of credit quality of borrowers is inherent in banking business. This could result due to global economic crisis and supply side distortion. The changes in the import prices affected the commodity sectors and ship breaking industry. Deterioration in credit quality requires provisioning.

- Basel-II implementation

Basel-II is fully effective from 2010 and IFIC needs to be complied with respect to credit risk management, its supervision and establishment of effective internal control. The grading of the borrowers and its link with capital requirement may slow down the credit expansion. The establishment of effective control requires more investment in technology and operating expenses are likely to increase.

- Equity markets Volatility

The Bangladesh Securities and Exchange Commission and the stock exchanges improved their supervisory role but the equity market is still volatile. The recession fear also added to the volatility. If volatility continues it is likely to affect the performance of the bank.

- Changes in market conditions

Changes in market conditions particularly interest rates on deposits and volatility in foreign exchange market is likely to affect the performance of the bank. Depositors are becoming increasingly price sensitive and any unilateral upward change by a bank will exert pressure on interest rate structure of the banking sector. It is feared that wage earners remittances may decline due to fall in job opportunity in international market. Unless offset by export performances, there may be pressure in the foreign exchange market.

- The litigation risk

In the ordinary course of business, legal actions, claims by and against the bank may arise. The outcome of such litigation may affect the financial performance of the bank.

IFIC Bank Limited

Market discipline- Disclosures on Risk Based Capital Under Basel II
 As on 31 December 2014
 (As per Guideline of Bangladesh Bank) (Consolidated basis)

BDBL Building (8th - 10th & 16th – 19th Floor) []
 8, Rajuk Avenue
 Dhaka-1000

Policies and processes for mitigating operational risk

The Operational Risk Management Policy adopted by the Bank outlines organizational structure and detailed processes for management of operational risk. The basic objective of the policy is to closely integrate operational risk management system into day-to-day risk management process of the bank by clearly assigning roles for effectively identifying, assessing, monitoring and controlling and mitigating operational risk. Operational risks in the Bank are managed through comprehensive and well articulated internal control frameworks.

Approach for calculating capital charge for operational risk

The Bank follows the Basic Indicator Approach (BIA). The BIA stipulates the capital charge for operational risk is a fixed percentage, denoted by α (alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula:

$$K = [(GI_1 + GI_2 + GI_3) \alpha] / n$$

Where:

K = the capital charge under the Basic Indicator

GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)

α = 15 percent

n = number of the previous three years for which gross income is positive.

Besides, Gross Income (GI) is calculated as “Net Interest Income” plus “Net non-Interest Income”. The GI is also the net result of :

- i) Gross of any provisions;
- ii) Gross of operating expenses, including fees paid to outsourcing service providers;
- iii) Excluding realized profits/losses from the sale of securities held to maturity in the banking book;
- iv) Excluding extraordinary or irregular items;
- v) Excluding income derived from insurance.

Quantitative Disclosures*b) The capital requirements for operational risk*

Particulars	Figs in crore Tk.
Capital requirements for operational risk	107.36