



Market Discipline-Disclosures on Risk Based Capital

For the year ended 31 December 2015

As per Guideline of Bangladesh Bank
Consolidated Basis

IFIC Bank Limited

Market discipline - Disclosures on Risk Based Capital
(Under Pillar 3 of Basel III Framework)
For the year ended 31 December 2015
(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 bank’s capital adequacy assessment more risk sensitive and to abide by the international norms and practices, Bangladesh Bank took the initiative to implement Basel –III framework. Banks in Bangladesh have gone live under Basel–III since 01 January, 2015. These disclosures under Pillar III of Basel III are made following 'Guidelines on Risk Based Capital Adequacy (RBCA) - Revised Regulatory Capital Framework for banks in line with Basel III' 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 III. The purpose of these disclosures is to present relevant information on the 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)	<p>The name of the top corporate entity in the group to which this guidelines applies.</p> <p>The Risk Based Capital Adequacy and related disclosures are applicable for International Finance Investment & Commerce Bank Limited (IFIC Bank Limited) which is the top corporate entity of the group.</p> <p>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 allowed to open up banking in the private sector, the finance company was converted into a full fledge commercial bank and incorporated as a public limited company in Bangladesh under the Companies Act 1913, currently governed under the Bank Companies Act 1991 as amended and rules and regulations issued by Bangladesh Bank. The registered office and principal place of business of the Bank is situated at BDBL Bhaban (8th - 10th & 16th-19th floors), 8 Rajuk Avenue, Dhaka-1000. Its shares are listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. The Government of the People's Republic of Bangladesh now holds 32.75% share of the Bank. Directors and Sponsors hold 8.48% share and the remaining 58.77% share held by the general public.</p> <p>At present, the Bank has 129 branches and 55 own ATM booths. The Bank has an Off-shore Banking Unit (OBU) located at Dhaka and also two wholly owned subsidiary companies namely IFIC Securities Limited and IFIC Money Transfer (UK) Limited. Moreover, the Bank has investment in two joint venture companies in abroad namely Nepal Bangladesh Bank Limited and Oman International Exchange LLC. The Bank has also investment in another company in abroad namely NIB Bank Limited, Pakistan.</p>

<p>(b)</p>	<p>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).</p>	<p>Brief Description of the Subsidiaries:</p> <ol style="list-style-type: none"> 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 the 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 in 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. <p>Brief Description of the Joint Ventures/ Associates of the Bank:</p> <ol style="list-style-type: none"> Nepal Bangladesh Bank Limited: Nepal Bangladesh Bank Limited (NBBL) was incorporated in Nepal and registered with Office of Company Registrar (50-050/051, Dated January 14, 1994) as a public company limited by shares. NBBL was established as a joint venture bank with IFIC Bank Ltd., Bangladesh. The Bank started its banking business form 6th June 1994. IFIC's investment in the share capital of NBBL is 40.91%. Oman International Exchange LLC: Oman International Exchange LLC (OIE), an exchange company incorporated under the laws of the Sultanate of Oman having its registered office at Saif Bin Salim Road (Hamriya), RUWI. It was established in 1985 as a joint venture between IFIC Bank Limited and Oman Nationals, to facilitate remittance by Bangladeshi wage earners in Oman. The affairs and business of the company is run and managed by the Bank under a Management Contract. IFIC Bank holds 25% shares and the balance 75% is held by the Omani sponsors. <p>Brief Description of Off-shore Banking Unit: Off-shore Banking Unit (OBU) is a separate business unit of IFIC Bank Limited. Bank obtained permission for OBU operations from Bangladesh Bank vide its letter no. BRPD (P-3) 744 (104)/2009-4233 dated 17 November 2009. The unit commenced its operation from 19 May</p>
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		<p>2010. Presently the Bank has 01 (one) Off-shore Banking Unit in Bangladesh. The OBU is governed under the rules and regulations of Bangladesh Bank.</p> <p>Basis for Consolidation: The quantitative disclosures are made on the basis of consolidated audited financial statements of the bank and its subsidiaries as at and for the year ended December 31, 2015. The consolidated financial statements have been prepared in accordance with Bangladesh Accounting Standards 27: <i>Separate Financial Statements</i> and Bangladesh Financial Reporting Standards 10: <i>Consolidated Financial Statements</i>. The consolidated financial statements are prepared to a common financial year ended 31 December 2015. All intra-group transactions, balances and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gain, but only to the extent that there are no evidence of impairment.</p>
(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 surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	Nil.

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 CET 1, Additional Tier 1 or Tier 2.	<p>Under Basel-III capital adequacy framework, total regulatory capital of a bank are categorized into two tiers: (1) Tier 1 Capital (going-concern capital), and (2) Tier-2 Capital (gone-concern capital). The Tier 1 Capital is further subdivided into (a) Common Equity Tier 1 (CET1) and (b) Additional Tier 1. Total eligible regulatory capital of IFIC Bank Limited consists of partly CET1 Capital and partly Tier-2 Capital. The CET1 Capital of the bank comprises Paid-up Capital, Statutory Reserve, General Reserve and Retained Earnings. Paid-up Capital of the Bank is already above the minimum requirement of BDT 4,000.00 Million as per the directives of Bangladesh Bank. In addition, Tier-II Capital includes General Provision (limited to a maximum 1.25 percentage points of credit risk-weighted assets calculated under the standardized approach as per directives of Bangladesh Bank), and Revaluation Reserve of Fixed Assets and Securities (up to 50 percent). The Bank has the option of raising capital by issuing Rights Shares or Subordinated Bonds.</p> <p>Banks are required to maintain a capital conservation buffer of 0.625% during the year 2016, above the regulatory minimum capital requirement of 10%. No distribution of capital (i.e. paying dividends or bonuses in any form) is allowed in case capital level falls within</p>

		the range between 10% to 10.625%. However, the bank will be able to conduct business as normal. Capital conservation buffer is applicable both at the solo level as well as at the consolidated level. As per the Bangladesh Bank instructions contained in BRPD letter No. BRPD(BFIS)661/14B(P)/2015-18014 dated 24 December 2015, Deferred Tax Assets arising out of Specific Provision on Classified Loans is allowable to a maximum of 5% as Common Equity Tier-1 Capital (CET-1) while calculating CET-1 as per Basel III.
Quantitative Disclosures		
(b)	The amount of Regulatory capital, with separate disclosure of:	
	CET1 Capital	<i>In Million BDT</i>
	Fully Paid-up Capital	5,034.12
	Statutory Reserve	4,232.50
	General Reserve	155.07
	Retained Earnings	2,817.32
	Total [A]	12,239.02
	Additional Tier 1 Capital	[B] Nil
	Total Tier 1 Capital	[C]=[A]+[B] 12,239.02
	Tier 2 Capital	General Provision 1,282.30
		Revaluation Reserves as on 31 December 2014 (50% of Fixed Assets and Securities) 58.45
	Total [D]	1,340.75
(c)	Regulatory Adjustments/Deductions from capital	Deferred tax assets (DTA) ¹ 989.87
		Revaluation Reserves for Fixed Assets, Securities & Equity Securities (Phase-in deductions) 11.69
	Total [E]	1,001.56
(d)	Total eligible capital	[F]=[C]+[D]-[E] 12,578.21

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-III from 01 January 2015. Under Basel-III 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). The Bank assesses the capital requirement considering the existing size of portfolio, concentration of portfolio to different risk weight groups, asset quality, profit trend etc. on quarterly rest. The Bank also forecasts the adequacy of capital in terms of its capacity of internal capital generation, maintaining the size of the portfolio, asset quality, conducting credit rating of the borrowers, segregation of portfolio to different risk weight groups etc.

¹ As per the Bangladesh Bank instructions contained in BRPD letter No. BRPD(BFIS)661/14B(P)/2015-18014 dated 24 December 2015.

		IFIC Bank has maintained Capital to Risk-weighted Asset Ratio (CRAR) of 10.24% as on 31 December 2015, whereas Minimum Capital Requirement (MCR) is 10% from 01 January 2015 as per BRPD circular No.18 dated 21 December 2014. 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 asset's position and exploring ways and means to raise capital both internally and externally.
Quantitative Disclosures		
(b)	Capital requirement for Credit Risk	<i>In Million BDT</i> On-Balance Sheet 90,067.37 Off-Balance Sheet 15,940.19 Total 106,007.56
(c)	Capital requirement for Market Risk	Interest Rate Related Instruments Nil Equities 540.04 Foreign Exchange Position 1.86 Commodities Nil Total 541.90
(d)	Capital requirement for Operational Risk	1,139.18
(e)	Total capital, CET1 capital, Total Tier 1 capital and Tier 2 capital ratio:	
	• For the consolidated group	<i>Ratios</i> Total Capital 10.24% CET1 Capital 9.16% Total Tier 1 Capital 9.16% Total Tier 2 Capital 1.08%
	• For stand alone	Total Capital 10.07% CET1 Capital 8.96% Total Tier 1 Capital 8.96% Total Tier 2 Capital 1.11%
(f)	Capital Conservation Buffer	As per Bangladesh Bank Transitional Arrangements for implementation of Basel III, creation of Capital Conservation Buffer (CCB) has been made effective from January, 2016. However, Capital Conservation Buffer is not required for 2015.
(g)	Available Capital under Pillar 2 Requirement	<i>In Million BDT</i> Total Eligible Regulatory Capital [A] 12,578.21 Minimum Capital Requirement under Pillar 1 [B] 12,281.84 Capital Conservation Buffer[C] ² N/A Minimum Capital Requirement including CCB[D=B+C] 12,281.84 Total [E=A - D] 296.37

² As per BB directive, it is applicable from January, 2016.

D) CREDIT RISK

Qualitative Disclosures	
(a)	<p>The general qualitative disclosure requirement with respect to credit risk, including:</p> <ul style="list-style-type: none"> • Definitions of past due and impaired (for accounting purposes) <p>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 purpose, 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.</p> <p>Definition of past due/overdue:</p> <ol style="list-style-type: none"> 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. <p>Definition of impaired / classified /non-performing loans and advances are as follows:</p> <p><i>Continuous loan is classified as follows:</i> Substandard: 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 is past due / overdue for 9 (nine) months or beyond.</p> <p><i>Demand loan is classified as follows:</i> Substandard - 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.</p>

		<p><i>Fixed Term Loans are classified are as follows:</i></p> <p>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: -</p> <p>Substandard - 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".</p> <p>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".</p> <p>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".</p> <p>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:</p> <p>Substandard - 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';</p> <p>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';</p> <p>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'.</p> <p><i>Short-term Agricultural and Micro-Credit is classified as follows:</i></p> <p>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.</p>
	<ul style="list-style-type: none"> • Description of approaches followed for specific and general allowances and statistical methods 	<p>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 (please refer to Annexure - I).</p>
	<ul style="list-style-type: none"> • Discussion of the bank's credit risk management policy 	<p>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 checks 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 of 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 the quality of loans and compliance status of loans at least once in a year.</p>

Quantitative Disclosures		
(b)	Total gross credit risk exposures broken down by major types of credit exposure.	Please refer to Annexure – II.
(c)	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.	Please refer to Annexure – III.
(d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	Please refer to Annexure – IV.
(e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Please refer to Annexure – V.
(f)	By major industry or counterparty type:	
	• Amount of impaired loans and if available, past due loans, provided separately	Please refer to Annexure – VI.
	• Specific and general provisions	<i>In Million BDT</i>
		Specific provision 2,699.92 General provision 1,282.30
(g)	• Charges for specific allowances and charge-offs during the period	Specific provision 1,734.56 General provision 205.00
	Non-Performing Assets (NPAs):	
		<i>In Million BDT</i>
	Gross non-performing assets (NPAs)	7,962.05
Non-Performing Assets (NPAs) to Outstanding Loans & advances	6.46%	
Movement of Non-Performing Assets (NPAs)		
Opening balance	5,061.13	
Additions	8,190.74	
Reductions	(5,289.82)	
Closing balance	<u>7,962.05</u>	
Movement of specific provisions for NPAs		
Opening balance	1,966.39	
Provisions made during the period	1,734.56	
Write-off	(993.71)	
Write-back of excess provisions	91.98	
Provision transferred to general reserve ³	(99.3)	
Closing balance	<u>2,699.92</u>	

E) EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

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 is broadly categorized into two parts:
		i. Quoted Securities (Common or Preference Shares & Mutual Fund) that are traded in the secondary market (Trading Book Assets).

³ As per BRPD Circular No. 04 dated 29 January 2015, surplus provision against restructured large loan transferred to general reserve.

	<p>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.</p> <p>The equity positions are reviewed periodically by the senior management.</p>										
<ul style="list-style-type: none"> 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. 	<p>Important policies covering equities valuation and accounting of equity holdings in the Banking Book are based on the use of the cost price method for valuation of equities. The primary aim is to invest in these equity securities for the purpose of capital gain by selling them in the 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 the Board of Directors. Preference is given to purchase of shares of strong companies at face value through placement/ IPO.</p>										
Quantitative Disclosures											
(b)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;"></th> <th style="text-align: right; width: 30%;"><i>In Million BDT</i></th> </tr> </thead> <tbody> <tr> <td>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.</td> <td></td> </tr> <tr> <td>Cost price of quoted shares</td> <td style="text-align: right;">2,926.45</td> </tr> <tr> <td>Fair value of quoted shares</td> <td style="text-align: right;">2,544.41</td> </tr> <tr> <td>Decrease in value</td> <td style="text-align: right; border-top: 1px solid black;">382.04</td> </tr> </tbody> </table>		<i>In Million BDT</i>	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.		Cost price of quoted shares	2,926.45	Fair value of quoted shares	2,544.41	Decrease in value	382.04
	<i>In Million BDT</i>										
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.											
Cost price of quoted shares	2,926.45										
Fair value of quoted shares	2,544.41										
Decrease in value	382.04										
(c)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 70%;">The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.</td> <td style="text-align: right; width: 30%;">24.55</td> </tr> </tbody> </table>	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	24.55								
The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	24.55										
(d)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 70%;">• Total unrealized gains (losses)</td> <td style="text-align: right; width: 30%;">(391.71)</td> </tr> <tr> <td>• Total latent revaluation gains (losses)</td> <td style="text-align: right;">Nil</td> </tr> <tr> <td>• Any amounts of the above included in Tier 2 capital.</td> <td style="text-align: right;">Nil</td> </tr> </tbody> </table>	• Total unrealized gains (losses)	(391.71)	• Total latent revaluation gains (losses)	Nil	• Any amounts of the above included in Tier 2 capital.	Nil				
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• Total latent revaluation gains (losses)	Nil										
• Any amounts of the above included in Tier 2 capital.	Nil										

(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.	
	Capital Charge on Equities	<i>In Million BDT</i>
	Specific Risk	270.02
	General Market Risk	<u>270.02</u>
	Total	540.04

F) INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

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 the 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 asset 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 of 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.
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 IRRBB, broken down by currency (as relevant).	Please refer to Annexure – VII.

G) MARKET RISK

Qualitative Disclosures		
(a)	Views of BOD on trading/investment activities	The trading/investment activities in the 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 review compliance on a regular basis. The objective is to provide cost effective funding to finance asset growth and trade related transactions. Market risk is the possibility of losses of assets in the 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

	<p>changes in foreign exchange rates and commodity price in the overall banking activity.</p> <p>The market risk covers the followings risks of the Bank's balance sheet:</p> <ol style="list-style-type: none"> i. Interest rate risk ii. Equity price risk iii. Foreign exchange risk; and iv. Commodity price risk
Methods used to measure Market risk	<p>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 risky 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'.</p> <p>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 times-bands (or 15 times-bands in the 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.</p> <p>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.:</p> <ol style="list-style-type: none"> i. Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk; ii. Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk; iii. Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk; iv. Capital Charge for Commodity Position Risk = Capital charge for General Market Risk.
Market Risk Management system	<p>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.</p>
Policies and processes for mitigating market risk	<p>The policy contains sound Portfolio management procedures and best 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 have been given to Loan Deposit Ratio, Whole Sale Borrowing Guidelines, Medium Term Funding, Maximum Cumulative Outflow, Liquidity</p>

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:

- i. **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 are managed and monitored from two perspectives, being an economic value perspective and an earnings perspective.

- ii. **Gap Analysis:** ALCO has established guidelines in line with the 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 the decision of enhancing or reducing the GAP according to the 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:

- i. **Continuous Supervision:** The 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.

- ii. **Treasury Back Office separated from the 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.

- iii. **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 a specific time interval as prescribed by Bangladesh bank.

- iv. **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

	<p>accounts are reconciled on a monthly basis. The management reviews outstanding entry beyond 30 days for settlement purpose.</p> <ul style="list-style-type: none"> ▪ Equity Risk Management: Equity Risk is the risk of loss due to adverse changes in the market price of equities held by the Bank. Equity Risk is managed by the following fashion: <ul style="list-style-type: none"> i. Investment Portfolio Valuation: Mark-to-Market valuations of the share investment portfolio are followed in measuring and identifying risk. Mark-to-Market valuation is done against a predetermined cut loss limit. ii. Diversified Investment to minimize Equity Risk: IFIC minimizes the Equity Risks by Portfolio diversification as per investment policy of the Bank. <p>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.</p>										
Quantitative Disclosures											
(b)	<p>The capital requirements for:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: right; width: 20%;"><i>In Million BDT</i></th> </tr> </thead> <tbody> <tr> <td>▪ Interest rate risk</td> <td style="text-align: right;">Nil</td> </tr> <tr> <td>▪ Equity position risk</td> <td style="text-align: right;">540.04</td> </tr> <tr> <td>▪ Foreign exchange risk</td> <td style="text-align: right;">1.86</td> </tr> <tr> <td>▪ Commodity risk</td> <td style="text-align: right;">Nil</td> </tr> </tbody> </table>		<i>In Million BDT</i>	▪ Interest rate risk	Nil	▪ Equity position risk	540.04	▪ Foreign exchange risk	1.86	▪ Commodity risk	Nil
	<i>In Million BDT</i>										
▪ Interest rate risk	Nil										
▪ Equity position risk	540.04										
▪ Foreign exchange risk	1.86										
▪ Commodity risk	Nil										

H) OPERATIONAL RISK

Qualitative Disclosures	
(a)	<p>Views of BOD on system to reduce Operational Risk</p> <p>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. 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.</p> <p>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.</p>

	<p>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.</p> <p>Operational risk loss data are collected and reported to the senior management. Identifying, monitoring and recording of fraud, irregularities, unauthorized works, system breakdown, etc. are done by the Management and details of the untoward incidents are reported to the Bank's Audit Committee.</p>
<p>Performance gap of executives and staffs</p>	<p>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 Training 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. The academy is fully equipped with a professional library, modern training aids and professional faculty. The library has a huge number of books on banking, economics, accounting, management, marketing and other related subjects. Main training activities consist of in-depth foundation programs for entry level Management Trainees. Specialized training programs in the areas like general banking, advance, foreign exchange, marketing and accounts etc. are also organized by the Academy depending on need. Frequently outreach programs are organized to meet demand for new and specialized skills.</p> <p>During its many years of existence, the Academy not only conducted courses, workshops and seminars as required by the Bank, but it also organized training programs for the Bank of Maldives, Nepal Bangladesh Bank Limited and Oman International Exchange LLC. In addition, the 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, programs, 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.</p> <p>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.</p>

Potential external events	<p>Losses from external events, such as a natural disaster that damages a firm’s physical asset 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:</p> <ul style="list-style-type: none"> ▪ 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 the global economic crisis and supply side distortion. The changes in the import prices affected the commodity sectors and ship breaking industry. A deterioration in credit quality requires provisioning. ▪ Basel-III implementation: Basel-III is fully effective from 2015 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 the capital required 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. 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 the foreign exchange market are 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 the 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.
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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 in effectively identifying, assessing, monitoring and controlling and mitigating operational risk. Operational risks in the Bank are managed through a comprehensive and well-articulated internal control frameworks.
Approach for calculating capital charge for operational risk	<p>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:</p> $K = [(GI_1 + GI_2 + GI_3) \times \alpha] / n$ <p>Where:</p> <p>K = the capital charge under the Basic Indicator Approach 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.</p> <p>Besides, Gross Income (GI) is calculated as “Net Interest Income” plus “Net non-Interest Income”. The GI is also the net result of:</p> <ol style="list-style-type: none"> 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 the income derived from insurance.
Quantitative Disclosures	
(b)	The capital requirements for operational risk: BDT 1,139.18 Million

I) LIQUIDITY RATIO

Qualitative Disclosures	
(a)	<p>Views of BOD on system to reduce liquidity Risk</p> <p>In line with the provisions of liquidity risk management under Basel III, Bangladesh Bank has identified the (i) Liquidity Coverage Ratio (LCR); (ii) Net Stable Funding Ratio (NSFR); and (iii) Leverage under the purview of ‘Liquidity’ ratio vide BRPD Circular No. 18 dated 21 December 2014 and DOS Circular No. 1 dated 1 January 2015. The Board of Directors (BOD) reviews the liquidity risk of the Bank on quarterly rest while reviewing the Quarterly Financial Statements, Stress Testing Report etc. ALM Policy Guideline approved and revised time to time by the Board of Directors.</p>

	<p>An overview on liquidity position and liquidity ratios are submitted annually to the BOD and the BOD approve the strategic plan for managing optimum liquidity. The Board always strives to maintain adequate liquidity to meet up Bank’s overall funding need for the depositors, borrowers’ requirements as well as maintain regulatory requirements comfortably.</p>
<p>Methods used to measure Liquidity risk</p>	<p>The maintenance of Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR) are considered as the fundamental methods/tools to measure the liquidity position/risk of IFIC Bank. However, under Basel III, the following methods and tools are mandated for measuring the liquidity risk.</p> <ul style="list-style-type: none"> ▪ Liquidity Coverage Ratio (LCR): Liquidity Coverage Ratio ensures to maintain an adequate level of stock of high quality liquid assets that can be converted into cash to meet its liquidity needs (i.e. total net cash outflows) over the next 30 calendar days. ▪ Net Stable Funding Ratio (NSFR): Net Stable Funding Ratio aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items. The minimum acceptable value of this ratio is 100 percent, indicating that, available stable funding (ASF) should be at least equal to required stable funding (RSF). ASF consists of various kinds of liabilities and capital with percentage weights attached given their perceived stability. RSF consists of assets and off-balance sheet items, also with percentage weights attached given the degree to which they are illiquid or “long-term” and therefore requires stable funding. <p>In addition to the above, following measures have been put in place to monitor the liquidity risk management position of the Bank on a continued manner: i) Asset-Liability Maturity Analysis (Liquidity profile); ii) Whole sale borrowing capacity; and iii) Maximum Cumulative Outflow (MCO). Besides, following tools are also used for measuring liquidity risk: i) Stress Testing (Liquidity Stress); and ii) Net open position (NOP) limit - to monitor the FX funding liquidity risk.</p>
<p>Liquidity risk management system</p>	<p>At the management level of IFIC Bank Limited, the liquidity risk is primarily managed by the Treasury Division (Front Office) under oversight of Asset Liability Committee (ALCO) which is headed by the Managing Director along with other senior management. Treasury Division (Front Office) upon reviewing the overall funding requirements on daily basis sets their strategy to maintain a comfortable/adequate liquidity position taking into consideration of Bank's approved credit deposit ratio, liquid assets to total assets ratio, asset-liability maturity profile, Bank's earning/profitability as well as overall market behavior and sentiment etc. Apart from the above, Basel Unit also monitors & measures the liquidity risk in line with the Basel III liquidity measurement tools, namely, LCR, NSFR, Leverage Ratio. The unit addresses the key issues and strategies to maintain the Basel III liquidity ratios to the respective division(s) on regular interval.</p>

<p>Policies and processes for mitigating liquidity risk</p>	<p>The Asset-Liability (ALCO) policy leads the process & procedures for mitigation of liquidity risk of IFIC Bank. ALCO works under specific Terms of References approved by the Board. Treasury Division (Front Office) and ALM desk under regular supervision of Top Management reviews the overall liquidity position of IFIC Bank and takes appropriate strategy, process in line with the industry position for managing liquidity risk of the Bank. The general liquidity risk management policies of the bank are as follows:</p> <ul style="list-style-type: none"> ▪ To maintain CRR <ul style="list-style-type: none"> i. Under the surplus liquidity condition, Treasury will handle the excess liquidity by providing more loans, investing the excess liquid fund in highly marketable fixed income securities, and lending to other Banks, Financial Institutions and Reverse Repo to Central Bank. ii. The treasury will handle the liquidity shortfall if happened with increasing the core deposit of the Bank from the depositors for supporting the loans and advances portfolio of the Bank, and borrowing from other Banks, Financial Institutions and Central Bank. iii. The treasury will assess the level of interbank borrowing capacity and raise funds to meet liquidity from the most reliable sources. ▪ To maintain SLR: Statutory Liquidity Requirement (SLR) is maintained as per directives of Bangladesh Bank from time to time by way of investment in approved securities. ▪ To maintain NOP: The treasury manages the necessary foreign currency required by the Bank by using its own intelligence and skill and they do the following trade- Spot, Forward, Swap, Other Foreign Exchange Deals by using different hedging techniques. ▪ To maintain Advance-to-Deposit Ratio (ADR): The business of the Bank is forecasted based on the current loan, investment and funding strategies, and anticipated funding need. ▪ To maintain LCR: Liquidity coverage is maintained by- <ul style="list-style-type: none"> i. Increasing investment in T-bills, BGTB, BB Bill, Reverse Repo ii. Additional investment in Govt. Security shall be made in short/mid/long combination to meet liquidity as well as optimize the return iii. Balance in FC Accounts with BB to be increased iv. Deposit from FIs and Borrowing are to be reduced and replaced by increasing Customer Deposit, and v. Lending/Placement with FI should be more preferable than lending to others. ▪ To maintain NSFR: Stable Funding is maintained by increasing Capital, increasing stable customer Deposits, increasing Mortgage Loan and Lending having 50% risk weight, decreasing Investment in Capital Market, and controlling growth of Fixed Assets.
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Quantitative Disclosures	
(b)	<i>In Million BDT</i>
Liquidity Coverage Ratio	101.17%
Net Stable Funding Ratio (NSFR)	104.80%
Stock of High quality liquid assets	35,078.28
Total net cash outflows over the next 30 calendar days	34,673.32
Available amount of stable funding	138,491.31
Required amount of stable funding	132,150.45

J) LEVERAGE RATIO

Qualitative Disclosures	
(a)	<p>Views of BOD on system to reduce excessive leverage</p> <p>An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while apparently maintaining strong risk-based capital ratios. The BOD of IFIC Bank manages leverage risk and are conscious to address the risk of excessive leverage in a precautionary manner by taking due account of potential increases in the risk of excessive leverage caused by reductions of the bank's own funds through expected or realized losses, depending on the applicable accounting rules. The BOD primarily views on the growth of On and Off balance sheet exposures commensurate with its expected capital growth so that the excessive leverage is reduced. Within the On-balance components, again, the Board emphasizes on the growth of the prime component i.e. the loans and advances and maintaining good asset quality so as to maximize the revenue as well as the capacity to generate capital internally (in the form of retained earnings) to trade-off the excessive leverage supposed to be caused by asset growth.</p>
	<p>Policies and processes for managing excessive on and off-balance sheet leverage</p> <p>In order to avoid building-up excessive on- and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced by the Basel Committee. A minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives- (a) constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy, and (b) reinforce the risk based requirements with an easy to understand and a non-risk based measure. Predominantly, Bank's policy is to maintain the Leverage Ratio well above the regulatory requirement. To this end, the striking components of balance sheet, namely, the deposits & borrowing, loans & advances, other liquid assets (treasury bills, bonds, fund placements) are analyzed. Measures are taken to contain the growth of overall size of balance sheet considering short term outlook of the industry indicators as well as possible growth of equity (Tier 1 capital) of the Bank on quarterly rest. With regard to managing the excessive leverage, the regulatory stance through the monetary policy initiatives i.e. the scope of expected business potential (growth), estimated money supply, inflation, resulting the estimated overall liquidity of the industry as well as the Bank in particular is also considered.</p>

Approach for calculating exposure	<p>The Bank follows the accounting measure of exposure for the leverage ratio. In order to measure the exposure consistent with financial accounts, the Bank applies following:</p> <ol style="list-style-type: none"> i. On balance sheet, non-derivative exposures will be net of specific provisions and valuation adjustments. ii. Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure. iii. Netting of loans and deposits is not allowed. <p>The formula for Leverage Ratio is as follows:</p> $\text{Leverage Ratio} = \frac{\text{Tier-1 Capital (considering all regulatory adjustments)}}{\text{Total Exposure}}$ <p>Where, Tier-1 Capital (considering all regulatory adjustments) = On-Balance Sheet Exposure + Off-Balance Sheet Exposure - Total Deduction from On and Off-Balance Sheet Exposure/Regulatory adjustments made to Tier 1 capital</p> <ul style="list-style-type: none"> ▪ On-Balance Sheet Items: The Bank includes items using its accounting balance sheet for the purposes of the leverage ratio. Total On balance sheet exposure can be derived by deducting ‘Total Specific Provision’ from ‘Total On-Balance Sheet Assets’. ▪ Off-Balance Sheet Items: The Bank calculates the off-balance sheet (OBS) items specified in Credit Risk chapter (Table 12) of 'Guidelines on Risk Based Capital Adequacy (RBCA) - Revised Regulatory Capital Framework for banks in line with Basel III' under the section of “Risk Weights Off-Balance Sheet Exposure” by applying a uniform 100% credit conversion factor (CCF). For any commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is being applied.
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Quantitative Disclosures

		<i>In Million BDT</i>
(b)		
	Leverage Ratio	5.80%
	On balance sheet exposure	177,328.16
	Off B/S exposure	17,474.09
	Total exposure	193,812.38

K) REMUNERATION

Qualitative Disclosures

(a)	Information relating to the bodies that oversee remuneration.	
	Name, composition and mandate of the main body overseeing remuneration.	The Board of Directors sets the remuneration structure. Based on approval of pay package from the Board, Human Resource Management Division disburses remuneration centrally which is supervised by the Management.
	External consultants whose advice has been sought, the body by which	No external body/consultants is involved yet whose advice has been sought. For market research, external data are collected informally while setting remuneration structure.

	they were commissioned, and in what areas of the remuneration process.	
	A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.	Bank's remuneration policy governs the IFIC Bank Ltd, IFIC Securities Ltd. for employees regardless of cost centers/business lines. Separate remuneration package is practiced in case of foreign subsidiaries.
	A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	Generally MANCOM members or Strategic Management Team (SMT) members are considered as material risk takers and the grade of Senior Vice President (SVP) and above are considered as senior managers.
(b)	Information relating to the design and structure of remuneration processes.	
	An overview of the key features and objectives of remuneration policy.	The remuneration structure of the Bank is primarily designation wise range based which is designed to be market competitive to attract and retain talents. It is directly linked to the annual performance of an employee. Based on annual performance rating of the employees, yearly increment (Inflationary adjustment & Performance Pay) is given to the employees. For example, in case of outstanding rating, basic salary may be increased by 8 percent and in case of Good rating, basic salary may be increased by 6 percent.
	Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.	There is no specific remuneration committee to review the policy. Since the remuneration structure is linked to performance, management of the Bank decides every year to adjust the pay structure with national inflation and individual performance to make it more market competitive with the approval of the Board of Directors. In 2015, 5 percent Basic salary was enhanced due to national inflation and 2% - 5% salary enhancement was done based on individual performance.
	A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	Employees' remuneration is fully co-related with individual performance. At the beginning of the year, mutually agreed business targets/objectives are set for each employee irrespective of place of posting or cost center and end of the year employee performance is evaluated by immediate supervisor. The evaluation process is overviewed by "Performance Evaluation Review Committee". Hence, a fair performance evaluation is ensured that risk and compliance employees are remunerated independently of the businesses they oversee.
(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes.	
	An overview of the key risks that the bank takes into account when implementing remuneration measures.	The business risk including credit/default risk, compliance & reputational risk are mostly considered when implementing the remuneration measures for each employee/group of employee. Financial and liquidity risks are also considered.

	An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed).	Performance based remuneration is a justified way to ensure equity in remuneration. The motto of "Performance Based Remuneration" is to attract talented & skilled workforce, increase employee motivation, productivity and reduce employee turnover.
	A discussion of the ways in which these measures affect remuneration.	While evaluating the performance of each employee annually, all the financial and non-financial indicators as per pre-determined set criteria are considered; and accordingly the result of the performance varies from one to another and thus affect the remuneration as well.
	A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.	The performance based pay package is offered to the suitable employees based on individual performance from the year 2015. This system has been introduced to motivate the talented staff and to attract the suitable resources.
(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.	
	An overview of main performance metrics for bank, top-level business lines and individuals.	Based on Key Performance Indicators (KPI) for the Bank, Management segregates the target to the individual branches and division which ultimately helps in setting individual KPI at branch and head office level. The most common KPIs are the achievement of loan, deposit and profit target with the threshold of NPL ratio, cost-income ratio, cost of fund, yield on loans, provision coverage ratio, capital to risk weighted asset ratio (CRAR), ROE, ROA, liquidity position (maintenance of CRR and SLR) etc.
	A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.	As part of yearly increment, performance pay (Individual performance & bank's performance) is adjusted through giving certain percentage load on basic salary to the eligible employees in addition to inflationary adjustment.
	A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.	In case of weak performance, the amount of yearly increment will not insignificant. For instance, inflationary adjustment is given for 'average' and 'above average' rating but nothing is adjusted for 'below average' rating.
(e)	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.	
	A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of	In case of deferred benefits, gratuity amount is relatively increased with longer period based on service tenure. Additionally, provident fund amount is also affected positively with the cumulative interest applied on the fund balance.

	employees, a description of the factors that determine the fraction and their relative importance.	
	A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.	Not applicable.
(f)	Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms.	
	An overview of the forms of variable remuneration offered (ie cash, shares and share-linked instruments and other forms.	Variable remuneration is offered in case of yearly increment application. Moreover, bonus may be variable based on approval from the Board.
	A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.	No other variable remuneration except yearly increment which is done based on performance.
Quantitative Disclosures		
The quantitative disclosures detailed below covers only senior management and other material risk takers.		
(g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	N/A*
(h)	Number of employees having received a variable remuneration award during the financial year.	32
	Number and total amount of guaranteed bonuses awarded during the financial year.	02 Festival Bonuses for each BDT 12.00 Million
	Number and total amount of sign-on awards made during the financial year.	Nil
	Number and total amount of severance payments made during the financial year.	Nil

(i)	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	<i>In Million BDT</i>	
		Cash	65.30
		Shares	Nil
		Share-linked instruments	Nil
		Other forms	Nil
	Total amount of deferred remuneration paid out in the financial year.		29.00
(j)	Breakdown of amount of remuneration awards for the financial year to show:		
	▪ fixed and variable.		272.90
	▪ deferred and non-deferred.		12.20
	▪ different forms used (cash, shares and share linked instruments, other forms).		Nil
(k)	Quantitative information about employees' exposure to implicit (eg fluctuations in the value of shares or performance units) and explicit adjustments (eg clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:		
	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	Not applicable	
	Total amount of reductions during the financial year due to ex post explicit adjustments.	Not applicable	
	Total amount of reductions during the financial year due to ex post implicit adjustments.	Not applicable	

* Management generally oversees remuneration on monthly basis.

ANNEXURE

Annexure – I: Rate of general and specific provision for loans and advances as per Bangladesh Bank guideline

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 loans	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 loans	1.00%
<i>Off-shore banking unit</i>	
Unclassified loans	1.00%
Special mention 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%

Annexure – II: Total gross credit risk exposures broken down by major types of credit exposure

Particulars	In Million BDT
Claims on Corporate	39,717.59
Claims on Banks and NBFIs	9,213.31
Claims fully secured by Commercial real estate	2,168.36
Claims fully secured by residential property	26,472.33
Claims categorized as retail portfolio & SME	12,640.94
Claims on Bangladesh Government and Bangladesh Bank	23,627.17
All other assets	8,015.84
Claims under Credit Risk Mitigation	7,579.34
Past Due Claims	8,044.80
Investments in premises, plant and equipment and all other fixed assets	3,244.88
Claims on OBU	2,042.39
Capital Market Exposure	3,694.75
Cash	1,648.73

Claims on all fixed assets under operating leases	474.15
Consumer Loan	455.00
Claims on Public Sector Entities	20.00
Unlisted Equity Investment	161.64
Total	149,221.22

Annexure-III: Geographical distribution of exposures, broken down into significant areas by major types of credit exposure

Particulars	In Million BDT
Dhaka Division	95,187.26
Chittagong Division	16,068.89
Sylhet Division	883.82
Rajshahi Division	5,369.26
Khulna Division	2,930.92
Barisal Division	463.87
Rangpur Division	2,364.65
Total	123,268.67

Annexure-IV: Industry or counterparty type distribution of exposures, broken down by major types of credit exposure

Particulars	In Million BDT
Agriculture Industries	2,002.89
Jute Industries	1,296.30
Textile Industries	8,118.84
Garments Industries	18,336.36
Chemical and Chemical Products	372.24
Cement Industries	367.85
Bricks & Ceramic	887.34
Food Products & Processing	1,228.06
Engineering & Metal	5,593.86
Drugs & Pharmaceuticals	934.86
Hospital & Clinics	125.36
Paper & Paper Products Industries	296.10
Other Small Industries	11,498.32
IT Sector	3,243.00
Other Service Industries	4,890.00
Trade & Commerce	26,272.75
IFIC Securities Ltd.	1,295.38
Transport	895.57
Construction Firms/Companies	4,546.53
Housing Societies/Companies	9,908.21
Cold Storage	89.28
Non-Banking Financial Institutions	700.05
Consumer Finance	6,238.51
Energy	4,972.75
Telecommunication	5,525.09
Others	3,633.17
Total	123,268.67

Annexure-V: Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure

Particulars	In Million BDT
On demand	3,830.16
Up to 1 month	2,317.26
Over 1 month but not more than 3 months	2,054.61
Over 3 months but not more than 1 years	3,254.11
Over 1 year but not more than 5 years	2,480.11
Over 5 years	<u>9,345.01</u>
	114,236.13
Bill purchased and discounted	9,032.54
Total	123,268.67

Annexure-VI: Impaired/ Classified loans

(In Million BDT)		
Major industry/sector type	Outstanding	Mix (%)
Agriculture Industry	13.00	0.2
Small & Medium Enterprises (SME)	4,132.20	51.9
RMG Sector	536.40	6.7
Textile Mills	324.00	4.1
Ship Breaking Industry	870.30	10.9
Other Manufacturing Industry	106.60	1.3
Construction Sector	175.20	2.2
Commercial Real Estate Financing	104.10	1.3
Residential Estate Financing	153.10	1.9
Transport, Storage & Communication	407.00	5.1
Trade Service	686.00	8.6
Consumer Credit	195.00	2.4
Others	259.20	3.3
Total	7,962.10	100.0

Major Counterparty Type	Status-wise amount of impaired/ classified loans			Total
	Substandard	Doubtful	Bad/Loss	
Continuous Loan	182.00	473.90	2,325.10	2,981.00
Demand Loan	493.90	7.90	121.60	623.40
Term Loan	208.20	36.40	3,756.30	4,000.90
Other Loan	324.80	0.80	31.20	356.80
Total	1,208.90	519.00	6,234.20	7,962.10

Annexure-VII: Interest Rate Risk in the banking book

Particulars	In Million BDT		
Total Risk Sensitive Assets	98,308.60		
Total Risk Sensitive Liabilities	76,890.60		
Cumulative Gap			
< 3months	12,005.20		
3-6 months	18,296.00		
6-12 months	21,418.00		
CAR before Shock (%)	10.07%		
Assumed Change in Interest Rate (%)	1%	2%	3%
Net Interest Income and Repricing impact (%)			
CAR after Shock (%)	9.86%	9.65%	9.45%