DISCLOSURE ON RISK BASED CAPITAL BASEL III

Executive Development Programme on BASEL III implementation

The purpose of Market Discipline in Basel III is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a Bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. For the said purpose, this "Disclosures on Risk Based Capital (Basel III)" is made as per Bangladesh Bank's Guideline.

Scope of Application	
Qualitative Disclosures	
a) The name of the top corporate entity in the group to which this guidelines applies:	**Islami Bank Bangladesh 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	The Consolidated Financial Statements of the bank include the financial statements of (i) Islami Bank Bangladesh Limited (including Off-Shore Banking Units (OBUs). (ii) Islami Bank Securities Limited (iii) Islami Bank Capital Management Limited
(i) that are fully consolidated; (ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk - weighted).	A brief description of the Bank (Main Operation) and its subsidiaries are given below: **Islami Bank Bangladesh Limited** Islami Bank Bangladesh Limited was incorporated on March 13, 1983 as a Public Limited Company (Banking Company) with limited liability under the Companies Act 1994 as interest free Islamic Shari'ah based commercial bank and commenced its operation on March 30, 1983 with the permission of Bangladesh Bank. The authorized and paid up capital of the bank respectively stood at Tk.200,000 million and Tk. 16,099.91 million as on December 31, 2015. Presently the Bank is operating its business through Head Office having 304 Branches (including 30 SME/ Agriculture Branches) and 487 own ATM booths all over Bangladesh. The shares of the Bank are listed with both the Stock Exchanges of the country, i.e. Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited.

	Subsidiary Companies **i) Islami Bank Capital Management Limited (IBCML)** IBCML is a fully owned subsidiary of IBBL. IBCML was established in April 2010 under the Companies Act 1994 as a Public Limited Company with Authorized Capital of Tk.1,000.00 million & Paid-Up Capital of Tk.300.00 million. The Company was established as per Bangladesh Bank Letter No. BRPD(R-1)717/2010-47 dated 07 February 2010. The registered Office of IBCML is located at 20, Dilkusha C/A in Dhaka, Bangladesh. **ii) Islami Bank Securities Limited (IBSL)** IBSL is also a fully owned subsidiary of IBBL. IBSL was incorporated in March 2010 as a Public Limited Company under Companies Act, 1994 with the objectives to carry out business of Stock Broker & Dealer in the capital market. The authorized and paid up capital of the company stood at Tk.5,000 million and Tk.2,700 million respectively as on December 31, 2015. The overall increase of activities in Brokerage operation plays an important role in the improvement of capital market of the country and enhances earning capability of IBBL through corporate declaration. **Off-shore Banking Unit (OBU)** Off-shore Banking Unit is a separate business unit governed by the applicable rules & regulations and guidelines of Bangladesh Bank. IBBL got permission to operate Off Shore Banking unit in its 3 Branches under International Banking Wing.
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not Applicable.
Quantitative Disclosures	
d) The aggregate amount of capital surplus capital of insurance subsidieries included in the capital of the consolidated group.	Not Applicable.
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 CET1, Additional Tier 1 or Tier 2	As per the guidelines of Bangladesh Bank, CET-1 Capital of IBBL consists of (i) Fully Paid-up Capital, (ii) Statutory Reserve, (iii) General Reserve (iv) Non-Repayable Share Premium Account (v) Retained Earnings (vi) Dividend Equalization Account and (vii) Minority Interest in Subsidiaries (viii) Non-Cumulative irredeemable Preference Share. Additional Tier 1 consists of Subordinated Debt (Mudaraba Perpetual Bond) (up to max. 1.5% of the Total RWA or 88.89% of CET1, whichever is higher). Tier-2 Capital consists of applicable amount of (i) General Provision (against Un-classified Investments, Off-Balance Sheet exposure & Off-Shore Banking Units)(Limited to maximum 1.25% of RWA of Credit Risk)(ii) Assets Revaluation Reserves up to 40%, (iii) Revaluation Reserve for Securities up to 40% and (iv) Revaluation Reserve for equity instruments up to 8% (v) All Other Preference Shares.

Quantitative Disclosures

b) The Amount of Tier 1 Capital, with break-up

	Particulars	As on December 31,2015 (In million Taka)	
		Solo	Consolidated
A.	**Tier-I (Going Concern Capital) Common Equity Tier-1(CET)**		
I	Fully paid-up Capital	16,099.91	16,099.91
Ii	Statutory Reserve	16,099.91	16,099.91
Iii	Non-repayable Share Premium account	1.99	1.99
Iv	General Reserve	196.06	196.06
V	Retained Earnings	3,219.98	3,312.95
Vi	Minority interest in Subsidiaries		.06
Vii	Divident Eqilization Account	32.00	32.00
Viii	Acturial gain/ Loss		
Ix	Any others(if approved by the Bangladesh Bank)		
(A)Sub-Total (Common Equity Tier 1 Capital A (i to ix)		35,649.85	35,742.88
B.	**Additional Tier 1 Capital**		
	(i) Instrumensts issued by the Banks that meet the quialfying criteria for AT1(Mudaraba Perpetual Bond)	3,000.00	3,000.00
	(ii) Non-cumulative Irredemable Preference Share	0.00	0.0
	(B) Sub-Total (Additional Tier-1 Capital) (i to ii)	3,000.00	3,000.00
C	**Total Tier 1 Capital (Going Concern Capital) (A+B)**	**38,649.85**	**38,742.88**

D.	**Tier 2 Capital (Going Concern Capital)**		
(i)	General Provision (against Un-classified Investments, Off-Balance Sheet exposure & Off-Shore Banking Units & limited to 1.25% of Risk Wighted Assets for Credit Risk	4,563.29	4,540.05
(ii)	Assets Revaluation Reserves up to 40%	4,599.59	4,599.59
(ii)	Revaluation Reserve for Securities up to 40%	32.60	32.60
(D)	Total Tier 2 Capital	9,195.48	9,172.23
c)	Other deductions from capital		
d)	**Total Eligible Capital (C+D)**	**47,845.33**	**47,915.11**

Capital Adequacy

Qualitative Disclosures	
a) A summary discussion of the Bank's approach to assess the adequacy of its capital to support current and future activities.	The Bank has adopted Standardized Approach (SA) to computation of capital charge for investment risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to Bangladesh Bank. The Bank has maintained Capital to Risk Weighted Assets Ratio (CRAR) at 11.72% & 11.66% on the basis of "Consolidated" and "Solo" respectively as against the minimum regulatory requirement of 10%. Tier-I capital to Risk Weighted Assets Ratio under "Consolidated" basis is 9.48% and "Solo" basis is 9.42% as against the minimum regulatory requirement of 5.50%. The Bank's policy is to manage and maintain strong Capital to Risk Weighted Assets Ratio (CRAR) through investing high rating grade investment clients. The Bank maintains adequate capital that is sufficient to absorb all material risks associated with the Bank. The Bank also ensures that the levels of capital comply with regulatory requirements and satisfy the external rating agencies and other all stakeholders including depositors.

Quantitative Disclosures

	Particulars	As on December 31, 2015 (In million Taka)	
		Solo	**Consolidated**
b)	Capital requirements for Investment (Credit) Risk:	365063.65	363203.78
c)	Capital requirements for Market Risk	5,322.05	5,322.05
d)	Capital requirements for Operational Risk	39,946.58	40,182.07
e)	**Total Capital Requirement**	**410,332.28**	**408,707.90**
f)	Capital Conservation Buffer	N/A	N/A
	Capital Adequacy Ratio: Total CRAR	11.66%	11.72%
	CET1 CRAR	8.69%	8.75%
	Tier-I CRAR	9.42%	9.48%
	Tier-II CRAR	2.24%	2.24%
g)	Avilable Capital under Piller 2 Requirment		

Investment (Credit) Risk

Qualitative Disclosures

a) The General Qualitative disclosure requirement with respect to credit risk, including:

i) Definitions of past due and impaired (for accounting purposes):	- As per Bangladesh Bank guidelines, any Investment if not repaid within the fixed expiry date will be treated as Past Due/ Overdue. Bangladesh Bank issued Circulars from time to time for strengthening Investment (Credit) discipline and brings provisioning. All Investments/ loans &advances will be grouped into four (4) categories for the purpose of classification, namely (a) Continuous Investment/Loan (b) Demand Investment/Loan (c) Fixed Term Investment/Loan & (d) Short-term Agricultural & Micro Investment. The above Investment (Credit) are classified as follows:

Continuous and Demand Investment/ loan are classified as:

- 'Sub-standard' if it is past due/over due for 03(three) months or beyond but less than 06 months;
- 'Doubtful' if it is past due/over due for 06 (six) months or beyond but less than 09 (nine) months;
- Bad/Loss' if it is past due/over due for 09 months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan.

Fixed Term Investment (Loans), which are repayable by installment(s) are classified as: -

a) In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting upto Tk.10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or over due installment'. In case of such types of Fixed Term Loans:

- 'Sub-standard' 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 Investment (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 09 (nine) months, the entire Investment (loan) will be classified as "Doubtful";
- 'Bad/Loss' if the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire Investment/loan will be classified as "Bad/Loss".

b) In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than Tk.10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or over due installment'. In case of such types of Fixed Term Loans:

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

Short-term Agricultural and Micro-Investment are classified as:

If not repaid within the due date as stipulated in the Investment (loan) agreement. If the said irregular status continues, the Investment (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 Investment (loan) agreement.

A continuous Investment, Demand or a Term Investment which will remain overdue for a period of 02 (two) months or more will be put into the Special Mention Account (SMA).

The Bank follows the specific and general provision for investment/ loan on the basis of Bangladesh bank Guidelines issued from time to time.

ii)	**Description of approaches followed for specific and general allowances and statistical method;**	**The rate of provision are given below:** **a) General Provision:** The Bank maintains General Provision in the following way : (1) @ 0.25% against all unclassified loans of Small and Medium Enterprise (SME) as defined by the SME & Special Programmes Department of Bangladesh Bank from time to time and @ 1% against all unclassified Investments (other than Investments/loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock dealers etc., Special Mention Account as well as SME Financing.) (2) @ 5% on the unclassified amount for Consumer Financing whereas it has to be maintained @ 2% on the unclassified amount for (i) Housing Finance and (ii) Investments/Loans for Professionals to set up business under Consumer Financing Scheme. (3) @ 2% on the unclassified amount for Investments/Loans to Brokerage House, Merchant Banks, Stock dealers, etc. (4) @ 5% on the outstanding amount of Investments/loans kept in the 'Special Mention Account'. (5) @1% on the off-balance sheet exposures. (Provision will be on the total exposure and amount of cash margin or value of eligible collateral will not be deducted while computing Off-balance sheet exposure.) **b) Specific Provision:** Banks will maintain provision at the following rates in respect of classified Continuous, Demand and Fixed Term Investments/Loans: (1) Sub-standard : 20% (2) Doubtful : 50% (3) Bad/Loss : 100% **c) Provision for Short-term Agricultural and Micro-Investments:** (1) 'Unclassified and SMA' @2.50% (2) 'Sub-standard' and 'Doubtful' @ 5% (3) 'Bad/Loss' : 100%
iii)	**Decision of the Bank's Investment (Credit) Risk Management Policy;**	The Bank has put in place a well-structured Investment/Credit Risk Management Policy known as Investment Risk Manual approved by the Board. The Policy document defines organization structure, role and responsibilities and, the processes whereby the Investment (Credit) Risks carried by the Bank can be identified, quantified and managed within the framework that the Bank considers consistent with its mandate and risk tolerance. Authorities are properly delegated ensuring check and balance in investment operation at every stage i.e. screening, assessing risk, identification, management and mitigation of investment risk as well as monitoring, supervision and recovery of investments with provision for Early Warning System and Grading of Investment clients as Blue, Green, Grey, Yellow, Red and Brick Red. Bank has framed Investment Policy, Investment (Credit) Assessment & Risk Grading, Approval Authority, Internal Audit Approval Process, Investment (Credit) Administration, Investment (Credit) Monitoring, Investment (Credit) Recovery etc. which forms integral part in monitoring of Investment (Credit) Risk in the Bank. Status of investments is regularly reported to the Board /Executive Committee of the Bank

Quantitative Disclosures

b) Total gross Investment/ Credit risk exposures broken down by major types of Investment exposure.

Total gross Investment/ Credit risk exposures broken down by major types of Investment exposure of the Bank are as under:

Particulars	As on December 31, 2015 (In million Taka)
Bai – Murabaha	288,774.51
Bai - Muajjal	33,658.17
Hire Purchase under Shirkatul Melk	122,009.07
Bai- Murabaha Import Bills	4,729.98
Baim FC Bills	8,728.14
Musharaka	393.46
Mudaraba Investment	5,000.02
Bai – Salam	5,320.26
Murabaha Foreign Currency Investment	9,955.16
Quard	14,564.66
Investment in Khidmah Card	64.68
Overseas Investment (outside in Bangladesh)	591.18
Bills Purchased and Discounted	36,405.20
Total	**530,194.50**

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

Geographical Distribution of exposures, broken down in significant areas by major types of Investment/ credit exposure of the Bank are as under:

Particulars	As on December 31, 2015 (In million Taka)
In Rural Areas	29,298.05
In Urban Areas	500,305.27
Outside Bangladesh	591.18
Total	**530,194.50**

Division wise distribution of Investment/ credit exposure of the Bank are as under:

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

d) Industry or counterparty type distribution of exposures, broken down by major types of investment/ credit exposure.	Industry or counterparty type distribution of exposures, broken down by major types of investment/credit exposure of the bank are as under:	
	Particulars	As on December 31, 2015 (In million Taka)
	Economic purpose wise Investment	
	Investment to Directors	308.48
	Investment to CEO & Sr Executives	996.27
	Trade & Commerce	153,812.67
	Real Estate	41,788.24
	Transport	6,820.44
	Agriculture (including fertilizer & agriculture implements)	14,756.79
	Industrial investment*	271,210.90
	Others	40,500.71
	Total	**530,194.50**
	*Industrial Investment	
	Textile- Spinning, Weaving & Dyeing	84,858.58
	Steel, Re-Rolling & Engineering	23,120.28
	Agro-based Industry	68,751.56
	Garments & Garments Accessories	22,004.02
	Food & Beverage	16,217.89
	Cements Industry	4,642.24
	Pharmaceuticals	4,657.51
	Poultry, Poultry Feed & Hatchery	1,021.51
	Sanitary Wares	7.33
	Chemicals, Toiletries & Petroleum	7,457.08
	Printing & Packaging	1,455.36
	Power (Electricity)	4,123.48
	Ceramic & Bricks	3,088.66
	Health care (Hospital & Others)	1,381.03
	Plastic Industries	3,004.82
	Petrol Pump & CNG Filling Station	503.13
	Information Technology	377.75
	Hotel & Restaurant	87.68
	Other Industries	24,450.99
	Total	**271,210.90**

	Particulars	As on December 31, 2015 (In million Taka)
e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of investment/ credit exposure.	Repayable on Demand	-
	Upto 1 month	71,762.61
	Over 1 month but not more than 3 month	82,939.46
	Over 3 months but not more than 1 year	137,251.32
	Over 1 year but not more than 5 years	1,06,267.16
	More than 5 years	95,568.75
	Total	**493,789.30**

f) By major industry or counterparty type

i) Amount of impaired Investment/ loans and if available, past due investment/ loans provided separately

The amount of classified/ past due investment of the bank is as under:

Particulars	As on December 31, 2015 (In million Taka)
Past Due	
Special Mention Account (SMA)	17,561.44
Sub Standard	1,839.66
Doubtful	2,392.06
Bad & loss	18,309.52
Total	**40,102.68**

ii) Specific and General Provision

Specific and General Provisions were made on the amount of classified and unclassified investments/ loans, Off-balance Sheet exposure of the bank according to Bangladesh Bank guidelines.

Particulars	As on December 31, 2015 (In million Taka)
Unclassified Investment	507,653.26
Classified Investment	22,541.24
Off Balance Sheet Exposure	133,379.93
Total	**663,574.43**

iii) Charges for specific allowances and charge - offs during the period

During the period the specific and general provision were made on the amount of classified investment, Unclassified Investment and Off Balance sheet exposures.

Particulars	As on December 31, 2015 (In million Taka)
Provision on Unclassified Investment	544.23
Provision on Classified Investment	4,643.48
Provision on Off Balance Sheet Exposure	205.60
Total	**5,393.31**

**Provision for Classified investment includes provision made against subjective judgement*

g) Gross Non Performing Assets (NPAs)

i) Movement of Non Performing Assets (NPAs)

	Particulars	As on December 31, 2015 (In million Taka)
	Opening Balance	22,807.24
	Additions	32,034.53
	Reductions	32,300.53
	Closing Balance	**22,541.24**

ii) Movement of specific provisions for NPAs

	Particulars	As on December 31, 2015 (In million Taka)
	Opening Balance	13,354.72
	Recovery amount previously written off	39.91
	Provisions made during the period	4,643.48
	Fully provided Investment write-off	(286.62)
	Closing Balance	**17,751.49**

** Provision made during the period includes provision made against subjective judgement*

Equities: Disclosures for Banking Book Positions

Qualitative disclosures

a) The general qualitative disclosures 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	Investment in equity securities are broadly categorized into two parts: i) Quoted Securities (common or preference share & mutual fund) that are traded in the secondary market (Trading Book Assets). 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.
• 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.	The primary objective is to investment in 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 and right to receive when established. 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 Bangladesh Bank guidelines, the HFT equity securities are revaluated 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 revaluated if any, are reclassified to HFT category with the approval of Board of Directors.

	Quantitative Disclosures	As on December 31, 2015 (In million Taka)	
		Solo	Consolidated
	Particulars		
a)	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.	66.48	66.48
b)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	-	-
c)	Total unrealized gains (losses).	46.48	46.48
d)	Total latent revaluation gains (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.		
	• Specific Market Risk	6.65	6.65
	• General Market Risk	6.65	6.65

Profit Rate Risk in the Banking Book

Qualitative Disclosures	
a) The general qualitative disclosure requirement including the nature of Profit Rate Risk in the Banking Book (PRRBB) and key assumptions, including assumptions regarding investment prepayments and behavior of non-maturity deposits, and frequency of PRRBB measurement.	Profit rate risk is the risk where changes in market profit rates might adversely affect bank's financial condition. Changes in profit 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 profit 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 profit rates is on the bank's Net Investment Income (NII). In a longer term, changes in profit 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 profit rate sensitive position.

Quantlitative Disclosures					
					As on December 31, 2015) *(In million Taka)*
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 PRRBB, broken down by currency (as relevant)	**Particulars**	**1-90 days**	**Over 3 Months to 6 Months**	**Over 6 Months to 9 9 Months**	**Over 9 Months to 12 Months**
	Rate Sensitive Assets	146,500	76,020	204,670	157,590
	Rate Sensitive Liabilities	139,210	71,900	193,580	148,400
	GAP	7,290	4,120	11,090	9,190
	Cumulative Gap	7,290	11,410	22,500	31,690
	Adjusted profit rate changes (PRC)	1%	1%	1%	1%
	Quarterlyearningsimpact(Cum.Gap*PRC)	1,822.50	1,030.00	2,772.50	2,297.50
	Accumulate earning impact to date	1,072.50	2,852.50	5,625.00	7,922.50

Market Risk

Qualitative disclosures	
a) i)Views of BOD on trading / investment activities	The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance asset growth and trade related transactions.
ii) Methods used to measure Market risk	Standardized rule based approach has been used to measure the Market risk. 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".
iii) Market Risk Management system	The Treasury Division manages market risk covering liquidity, profit rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meets at least once in a month.
iv) Policies and processes for mitigating market risk	There are approved limits for credit deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items and borrowing from money market and foreign exchange position. The limits are monitored and enforced on a regular basis to protect the market risks. The exchange rate of the Bank is monitored regularly and the prevailing market condition, exchange rate, foreign exchange position and transactions are reviewed to mitigate foreign exchange risks.

Quantitative Disclosures		
The Capital Requirements for	**As on December 31, 2015** *(In million Taka)*	
	Solo	**Consolidated**
Profit (Interest) rate risk	-	
Equity position risk	13.30	13.30
Foreign exchange risk	518.91	518.91
Commodity risk.	-	
Total Capital Requirement	532.21	532.21

Operational Risk

Qualitative Disclosures	
a) i) Views of BOD on system to reduce Operational Risk	Operational risk is the risk of loss or harm resulting from inadequate or failure of internal processes, people and systems or from external events. Capability to carry out a large number of transactions effectively and accurately while complying with applicable laws and regulations constitutes operational risk management activities of the bank. The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control & Compliance to protect against all operational risk.
ii) Performance gap of executives and staffs	IBBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. IBBL's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.
iii) Potential external events	-No potential external events are expected to expose the Bank to significant operational risk.
iv) Policies and processes for mitigating operational risk	- The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Policy guidelines on Risk Based Internal Audit (RBIA) system is in operation. As per RBIA branches are rated according to their risk grading/ scoring audit procedure and required frequent audit to the Branches are operated by the Audit Division. In addition, there is a Vigilance Cell established in the bank to reinforce operational risk management of the Bank and to minimize the same. Bank's anti money laundering activities are headed by (Chief Anti Money Laundering Compliance Officer) CAMLCO and their activities are devoted to protect against all money laundering and terrorist finance related activities. Apart from that, there is adequate check & balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.
v) Approach to calculating capital charge for operational risk	- Basic Indicator Approach is being used for calculating capital charge for operational risk as of the reporting date.

Quantitative Disclosures

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

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

Capital Requirement	**As on December 31, 2015** *(Figure in Million Tk.)*	
	Solo	**Consolidated**
Operational Risk	**39,946.58**	**40,182.06**

Liquidity Risk

Qualitative Disclosure

i. Views of BOD on system to reduce liquidity risk	The Board approves the strategy and significant policies related to the management of liquidity. In IBBL, the BOD guides on the level of appetite for liquidity risk and overall liquidity risk profile through reviewing various report and ensure necessary steps taken by management to identify, measure, monitor and control liquidity risk.
ii. Methods used to measure Liquidity Risk	An important aspect of measuring liquidity is making assumptions about future funding needs. Although certain cash inflows and outflows can be easily calculated or predicted, bank also makes assumptions about future liquidity needs, both for short-terms and long terms. One important factor to consider is the critical role a bank's reputation plays in its ability to access funds readily and at reasonable terms. Several key liquidity risk indicators have been identified for monitoring the liquidity position on regular basis.These are: Statutory Liquidity Requirement (SLR), Cash Reserve Ratio (CRR),Investment to Deposit Raito(ADR) Maximum Cumulative Outflow (MCO), Medium Term Funding Ratio (MTFR) ,Liquid Asset to Total Deposit Ratio, Liquid Asset to Short Term Liabilities, Liquidity Coverage Ratio (LCR) , Net Stable Funding Ratio(NSFR).
iiii. LiquidityRisk management system	In order to develop comprehensive liquidity risk management framework, Contingency Funding Plan (CFP) has been developed which is a set of policies and procedures that serves as a blueprint for the bank to meet its funding needs in a timely manner and at a reasonable cost. For day-to-day liquidity risk management, CFP ensures that the bank is well prepared to respond to an unexpected problem. In this sense, a CFP is an extension of ongoing liquidity management and formalizes the objectives of liquidity management by ensuring: A reasonable amount of liquid assets are maintained; Measurement and projection of funding requirements during various scenarios; and Management of access to funding sources. CFP also provides directions for plausible actions in distress and emergency situations. In case of a sudden liquidity stress, it is important for the bank to handle the same in an efficient and organized way to meet its obligations to the stakeholders. Since such a situation requires a spontaneous action, CFP will put the bank in better position by addressing the liquidity problem more efficiently and effectively. CFP ensures that bank management and key staff are ready to respond to any distress situation.

iv) Policies and processes for mitigating Liquidity Risk	Maturity ladder of cash inflows and outflows is an effective tool to determine bank's cash position. A maturity ladder estimates a bank's cash inflows and outflows and thus net deficit or surplus (GAP) both on a day to day basis and over a series of specified time periods can be estimated. A bucket wise (e.g. call, 2-7 days, 1 month, 1-3 months, 3-12 months, 1-5 years, over 5 years) maturity profile of assets and liabilities is prepared to understand mismatch in every bucket. A structural maturity ladder or profile is prepared periodically following guidelines of the Bangladesh Bank DOS circular no. 02 dated March 29, 2011.

Quantitative Disclosure

As on December 31' 2015
(In million taka)

Capital Requirement for	Solo	Consolidated
Liquidity Coverage Ratio (LCR)	188.56%	188.56%
Net Stable Funding Ratio (NSFR)	127.37%	127.37%
Stock of High Quality Liquid Assets (HQLA)	151,578	1,51,578
Total net cash outflows over the next 30 calendar days	80,387	80,387
Available amount of Stable Funding	649,680	649,680
Required amount of Stable Funding	510,060	510,060

Leverage Risk

Qualitative Disclosure

i. Views of BOD on system to reduce excessive leverage	The Board approves all policies related to Leverage Ratio. 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 to constrain leverage in the banking sector.
ii. Policies and processes for mitigating excessive on and off-balance sheet leverage	There are approved limits for maintaining Regulatory Liquidity Indicators (RLIs) which will ensure asset quality and strong capital base. To achieve non-risk based regulatory leverage ratio We have taken the following steps: • Constrain leverage to mitigate the risk of the destabilizing deleveraging process which can damage the financial system and the economy; • Introducing additional safeguards against model risk and measurement error by supplementing the risk-based measure with simple, transparent, independent measure of risk.
iii. Approach for calculating exposure	A minimum Tier 1 Leverage ratio of 3% has been prescribed both at solo and consolidated level. IBBL has been maintaining leverage ratio.The calculation at each quarter end submitted to BB considering the following:
	1. Capital Measure: The capital measure for the leverage ratio will be based on the new definition of Tier 1 capital as specified in Chapter 3 of 'Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III')

iii. Approach for calculating exposure	2. Exposure Measure: General Measurement Principles: The exposure measure for the leverage ratio will generally follow the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following will be applied by the bank: i. On balance sheet, non-derivative exposure will be net of specific provisions and valuation adjustment. ii. Physical of financial collateral, guarantee of credit risk mitigation purchased in not allowed reducing on-balance sheet exposure. iii. Netting of loans and deposits is not allowed. On-Balance Sheet Items: Bank includes item using their accounting balance sheet for the purposes of leverage ratio. In addition, the exposure measure has been included the treatments of Securities Financing Transactions e.g. repo, reverse repo and derivatives etc.) Off-Balance sheet Item: Bank has calculated the off-balance sheet (OBS) items by applying a uniform 100% Credit Conservation Factor (CCF). For unconditionally cancellable commitments without prior notice, a CCF of 1% is applied.

As on December 31' 2015
(In million taka)

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

Remunaretion

Qualitative Disclosures

a) Name, composition and mandate of the main body overseeing remuneration.	Board of Directors of the Bank is actually the main body to oversee the remuneration. The Board, however, generally suggest the management to place proposal for revision of remuneration from time to time.
External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.	Generally, no advice with regard to the remuneration process of the bank from any external consultant is sought whatsoever and therefore no commission to this effect is paid to any agencies.
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.	The bank does not have any foreign subsidiary; rather it has branches as well as zonal offices throughout the country. The remuneration policy follows uniform rule and does not change due to the employees working at diversified geographical locations.
A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	Any group of the employees has not been categorized as the material risk taker as well as senior managers; rather the risks in different areas of operations of the bank are taken by the employees concerned as a team.

b) An overview of the key featureand objectives of remuneration policy.	The remuneration system of the bank has been designed to ensure optimum level of fairness in reward to the service of the employees in such a way so that they can satisfactorily manage the basic expenses concerning their household as well as get sufficient future benefits on attaining the superannuation. The key features of the remuneration system are as under:
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. A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee. Remuneration policy is based on attracting, retaining and motivating the employees to ensure that they perform in the best interests of the bank and its shareholders by growing and developing the business.	In consideration of the nature of works/responsibilities fixed remuneration has been established for the employees of a particular grade. However, the fixed remuneration differs from grade to grade and generally changes with the promotion/demotion to the higher/lower grades. The components of the fixed remuneration are basic pay, house rent, medical as well as conveyance allowances etc. The basic pay is increased at a fixed rate every year towards adjustment of the inflation. Employees may have additional remuneration by means of getting special increment, promotion for their extraordinary performance. Remuneration concerning the future benefits of the employees is paid in the form of Gratuity, Provident Fund and Superannuation Fund. The amount of such remuneration varies in terms of grade, basic pay as well as service length. Variable remuneration is paid to the employees in the form of Incentive Bonus on the basis of the performance resulting satisfactory annual profit of the bank. The overall performance of the employees is considered as the team performance without categorizing any 'Identified Staff as Risk Takers' and Incentive Bonus is allowed to them in proportion to their respective basic pay. The remuneration of the bank was not reviewed by the Board of Directors last year and consequently no change whatsoever has taken place in the remuneration process No segment of the employess has been categorized as the "risk and compliance employess" and therefore no scope is there to seperatly remunerate such type of comployess for their overssing the business
a) An overview of the key risks that the bank takes into account when implementing remuneration measures. An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure A discussion of the ways in which these measures affect measuers	Bsically, the 'fixed remuneration' process is being practiced and in some cases the adjustment of the losses, so incurred by the bank due to the employees' non-compliance of different rules & regulations is compensated from the fixed remuneration as well as deferred future benefits of the employees concerned through claw back process as a means of adjustment of the current and future risk. The risk of non-adherence to regulatory compliances as well as violations of different rules and procedures causing significant losses from the side of the employees is taken into consideration while implementing the remuneration measures. To avert the risks, the provisions with regard to partial payment of basic pay as well as non-disbursement of incentive bonuses and future benefits, claw back process from the monthly remunerations etc. are there. Various disciplinary measures ranging from the issuance of censure to dismissal from the service for committing the irregularities is there and such measures significantly affect the remuneration process.

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 remunaretion	Over the past years, due to committing various types of violations, remuneration of the individual employees has been changed but no change affecting the remuneration system has taken place.
d) An overview of the main oparetion mertrices for the bank , top level business lines and indiduals	The individual performance measurement metrics affecting the remuneration is strictly followed. Overall performance of the employees is considered as the team result. Variable remuneration in the form of Incentive Bonus is allowed to them in proportion to their respective basic pay which generally varies in relation with the profit. However, employees may get accelerated promotion for extraordinary performance as well as may be awarded demotion for committing violations that has a link with the remuneration process. In the case of weak performance of the employees, considering the performance as the team result, the incentive bonus may not be allowed or may be allowed less. In some cases the employees committing lapses and incurring financial losses, are not allowed the incentive bonus.
d) A dicsussion of bank's policy on deferrel and vesting of variable remunaretiomn and if, the fraction of variable remunaretion that is deffered across employess or groups of emloyess, a description of the factors that determine the fraction and their relative importance.	To ensure long-term retention of the employees remuneration concerning future benefits has been designed which includes Gratuity, Provident Fund, and Superannuation Fund etc.
A discussion of the bank's policy nad criteria for adjusting deffered remuration before vesting and (if permitted by national law) after vesting throuth clawback arrangements.	As per the prevailing practice, the incentive bonus, as variable remuneration, is to be completely paid to the eligible employees and any fraction thereof is not deferred with regard to the determination of their relative performance. Once the incentive bonus, as variable remuneration, is paid it cannot refunded through claw back arrangement.
g) An overview of the forms of variable remunaretion affere(i.e. cash, share and share-linked instrument and other forms)	No different form with regard to payment of variable remuneration is there. The remuneration of the employees is paid in the form of cash.
A discussion of the use of the different forms of variable remuretion and , if the mix of different forms of variable remuretion differes across employess or groups of employes) adiscriction the factors that determine the mix and their relative importance.	Not Applicable.

Qualitative Disclosures	
g) Number of meeting held by the main body overseeing remuretion during the financial tear and remuretion paid to its member	Not Applicable.
h)Number of employess received a variable remnaretion award during the financial year .	Not Applicable.
Number and total amount of guaranteed bonuses awarered during the fianacial year.	5 (Five) Basic Pay as incentive bonus amounting Tk. 1,517 million has been paid.
Number and total amount of sign-on awards made during the fianacial year	Not Applicable.
Number and total amount of servance payment made during the year.	Not Applicable.
i)Total amount of outstanding deffered remunaretion , split into cash,shares and share linked instruments and other form.	Not applicable
Total amount of deffered remunaretion paid out in the financial year.	Not applicable
j)Breakdown of amount of remuneration awars for the financial year -Fixed and variable -derreded and non-deffered -different forms used(Cash, Share and share linked instrument)	Not applicable
k)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 exposit implicit adjustments.	Not applicable