Market Disclosure under Pillar III of Basel II

The purpose of Market Discipline in Basel II 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 II)" 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 on 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).	The Consolidated Financial Statements of the bank include the financial statements of (i) Islami Bank Bangladesh Limited (ii) Islami Bank Securities Limited (iii) Islami Bank Capital Management Limited (including Off-Shore Banking Units (OBUs). 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. 14,636 million as on December 31, 2013. Presently the Bank is operating its business through Head Office having 286 Branches (including 30 SME/ Agriculture Branches) and 300 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.1000.00 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 the company 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, 2013. 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 impediment, on transfer of funds or regulatory capital within the group

- **Not Applicable.**

Quantitative Disclosures

d) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and name(s) of such subsidiaries.	**- 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 Tier 1 or Tier 2.	As per the guidelines of Bangladesh Bank, Tier-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. Tier-2 Capital consists of applicable amount of (i) General Provision (against Un-classified Investments, Off-Balance Sheet exposure & Off-Shore Banking Units) (ii) Assets Revaluation Reserves up to 50%, (iii) Revaluation Reserve for Securities up to 50% and (iv) Subordinated Debt (Mudaraba Perpetual Bond) (up to max. 30% of eligible Tier-I capital). (v) Revaluation Reserve for equity instruments up to 10% (vi) All Other Preference Shares.

Quantitative Disclosures

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

	Particulars	**As on December 31, 2013 (In million Taka)**	
		Solo	**Consolidated**
	Tier-I (Core Capital)		
i	Fully paid-up Capital	14,636.28	14,636.28
ii	Statutory Reserve	14,638.61	14,638.61
iii	Non-repayable Share Premium account	1.99	1.99
iv	General Reserve	278.98	278.98
v	Retained Earnings	2,634.53	2,637.86
vi	Minority interest in Subsidiaries		.06
vii	Non-cumulative irredeemable preference shares	-	-
viii	Dividend equalization account	32.00	32.00
ix	Other (if any item approved by Bangladesh Bank)	-	-
	Sub-Total (Core Capital) A (i to ix)	**32,222.39**	**32,225.78**

a)	**Tier 2 and Tier 3 capital**		
i	Tier 2 capital	**13,289.59**	**13,289.59**
ii	Tier-3 (Eligible for market risk only)	-	-
	Sub Total (Suplementary Capital) B (i+ii)	**13,289.59**	**13,289.59**
b)	Other deductions from capital	**-**	-
e)	**Total Eligible Capital (A+B)**	**45,511.98**	**45,515.37**

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 adequacy ratio at 14.27% & 14.26% on the basis of "Consolidated" and "Solo" respectively as against the minimum regulatory requirement of 10%. Tier-I capital adequacy ratio under "Consolidated" basis is 10.10% and "Solo" basis is 10.09% as against the minimum regulatory requirement of 5.00%. The Bank's policy is to manage and maintain strong Capital Adequacy Ratio 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, 2013 (In million Taka)**	
		Solo	**Consolidated**
b)	Capital requirements for Investment (Credit) Risk:	28,769.55	28,720.74
c)	Capital requirements for Market Risk	74.42	74.42
d)	Capital requirements for Operational Risk	3,077.61	3,096.20
e)	**Total Capital Requirement**	**31,921.58**	**31,891.36**
	Capital Adequacy Ratio: Total CAR	14.26%	14.27%
	Tier- I CAR	10.09%	10.10%
	Tier-II CAR	4.17%	4.17%

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).

ii) Description of approaches followed for specific and general allowances and statistical method;

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

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) All Investment (credit) except 'Bad/Loss' (i.e. 'Doubtful', 'Sub-standard', irregular and regular Investment accounts) : 5%
(2) '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

a) 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, 2013 (In million Taka)
Mode wise Investment	
Bai – Murabaha	223,243.72
Bai - Muajjal	24,052.60
Hire Purchase under Shirkatul Melk	95,481.08
Purchase & Negotiation	11,492.42
Bai- as- Sarf (FDB)/FCD	1,980.01
Musharaka Documentary Bill (MDB)	13,410.77
Musharaka	427.68
Mudaraba	16,213.48
Bai – Salam	4,200.40
Murabaha Foreign Currency Investment	2, 632.52
Quard	13,669.87
Total	**406,804.55**

b) 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, 2013 (In million Taka)
In Rural Areas	57,950.73
In Urban Areas	348,853.82
Total	**406,804.55**

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

Name of Division	As on December 31, 2013 (In million Taka)
Dhaka Division	238,916.31
Chittagong Division	82,622.00
Khulna Division	27,662.71
Rajshahi Division	33,602.06
Barisal Division	4,963.02
Sylhet Division	8,298.81
Rangpur Division	10,739.64
Total	**406,804.55**

c) 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, 2013 (In million Taka)
Economic purpose wise Investment	
Trade & Commerce	125,788.55
Real Estate	27,126.96
Transport	6,679.24
Agriculture (including fertilizer & agriculture implements)	20,384.77
Industrial investment	197,159.63
Others	29,665.40
Total	**406,804.55**

Particulars	As on December 31, 2013 (In million Taka)
Industrial Investment	
Textile- Spinning, Weaving & Dyeing	68,986.15
Steel, Re-Rolling & Engineering	29,987.98
Agro-based Industry	19,794.83
Garments & Garments Accessories	12,795.66
Food & Beverage	8,813.03
Cements Industry	2 ,109.61
Pharmaceuticals	2,405.35
Poultry, Poultry Feed & Hatchery	946.37
Sanitary Wares	295.74
Chemicals, Toiletries & Petroleum	8,497.58
Printing & Packaging	3,470.01
Power (Electricity)	4,514.95
Ceramic & Bricks	2,898.25
Health care (Hospital & Others)	2,149.04
Plastic Industries	1,951.88
Petrol Pump & CNG Filling Station	1,104.09
Information Technology	492.90
Hotel & Restaurant	788.64
Other Industries	25,157.57
Total	**197,159.63**

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

Residual contractual maturity breakdown of the whole portfolio, broken down by major types of investment/credit exposure of the Bank.

Particulars	As on December 31, 2013 (In million Taka)
Repayable on Demand	-
Upto 1 month	58,597.42
Over 1 month but not more than 3 month	79,911.55
Over 3 months but not more than 1 year	106,200.64
Over 1 year but not more than 5 years	81,825.12

More than 5 years	80,269.82
Total	**406,804.55**

e)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, 2013 (In million Taka)
Past Due	
Special Mention Account (SMA)	16,713.72
Sub Standard	1,707.26
Doubtful	787.30
Bad & loss	12,416.13
Total	**31,624.41**

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, 2013 (In million Taka)
Unclassified Investment	3,371.60
Classified Investment	9,037.80
Off Balance Sheet Exposure	1,137.20
Total	**13,546.60**

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, Un classified Investment and Off Balance sheet exposures.

Particulars	As on December 31, 2013 (In million Taka)
Provision on Unclassified Investment	(564.30)
Provision on Classified Investment	3,543.18*
Provision on Off Balance Sheet Exposure	36.75
Total	**3,015.63**

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

f) Gross Non Performing Assets (NPAs)

i) Movement of Non Performing Assets (NPAs)

Particulars	**As on December 31, 2013 (In million Taka)**
Opening Balance	14,212.80
Additions	29,569.50
Reductions	28840.40
Closing Balance	**14,941.90**

ii) Movement of specific provisions for NPAs

Particulars	**As on December 31, 2013 (In million Taka)**
Opening Balance	6,054.40
Provisions made during the period	3,782.31*
Write-off/Wrtite-back of excess provisions	(100.40)
Recovery from write-off	(698.51)
Closing Balance	**9,037.80**

** 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, 2013
(In million Taka)

	Particulars	**Solo**	**Consolidated**
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.	89.76	89.76
b)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	-	-
c)	Total unrealized gains (losses).	62.33	62.33
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	8.26	8.26
	• General Market Risk	8.26	8.26

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	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

investment prepayments and behavior of non-maturity deposits, and frequency of PRRBB measurement.	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.

Quantitative Disclosures

As on December 31, 2013
(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 Months**	**Over 9 Months to 12 Month**
Rate Sensitive Assets	100,182.00	55,951.00	69,003.00	69,814.00
Rate Sensitive Liabilities	95,763.00	55,074.00	68,201.10	69,450.00
GAP	4,419.00	877.00	802.00	364.00
Cumulative Gap	4,419.00	5,296.00	6,098.00	6,462.00
Adjusted profit rate changes (PRC)	1.00%	1.00%	1.00%	1.00%
Quarterly earnings impact (Cum. Gap*PRC)	1,104.75	1,324.00	1,524.50	1,615.50
Accumulate earning impact to date	1,104.75	2,428.75	3,953.25	5,568.75

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".

iv) 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, 2013**	
		(In million Taka)
	Solo	**Consolidated**
Profit (Interest) rate risk	**-**	
Equity position risk	16.52	16.52
Foreign exchange risk	57.90	57.90
Commodity risk.	-	
Total Capital Requirement	**74.42**	**74.42**

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**.

As on December 31, 2013 Figure in Million Tk.

Capital Requirement	Solo	Consolidated
Operational Risk	3,077.61	3,096.21

Stress Testing

Bangladesh Bank through their DOS Circular No. 01 dated 21.04.2010 and subsequent DOS Circular No. 01 dated 23.02.2012 introduced "Guidelines on Stress Testing" wherein Stress Testing has been stated as one of the sophisticated technique that is used to determine the reactions of different financial institutions under a set of exceptional, but plausible assumptions through a series of battery of tests. At institutional level, stress testing techniques provide a way to quantify the impact of changes in a number of risk factors on the assets and liabilities portfolio of the institution.

Bangladesh Bank also mentioned in the said circular that at the system level, stress tests are primarily designed to quantify the impact of possible changes in economic environment on the financial system. These tests help the regulators identify structural vulnerabilities and the overall risk exposure that could cause disruption of financial markets.

Bangladesh Bank Circular No. 01 dated 23.02.2012 introduced "Guidelines on Stress Testing" wherein advised that **"Banks shall carry out stress testing in line with the revised guideline on quarterly basis i.e. on March 31, June 30 September 30 and December 31 and submitted the same to Bangladesh Bank within 30 days of each quarter end"**.

IBBL has already prepared a stress testing report in line with the Bangladesh Bank's guidelines which initially focus on "Simple Sensitivity and Scenario Analysis" of the following five risk factors.

- Profit/ Interest rate;
- Forced sale value of collateral;
- Non- performing Investments (NPIs);
- Equity/Share prices ; and
- Foreign Exchange rate

The result of stress testing based on the financial performance of the bank as on December 31, 2013 has also been completed which shows that the bank has adequate capital to absorb minor and moderate individual shocks. However, some additional capital may be required under major level combined shocks, which is most unlikely.