Disclosures on Risk Based Capital (Basel III)

As on 31 December, 2017

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 apply:	**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 (i) 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 (including Off-Shore Banking Unit (OBU). (ii) Islami Bank Securities Limited (iii) Islami Bank Capital Management Limited 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.20,000 million and Tk. 16,099.91 million as on December 31, 2017. Presently the Bank is operating its business through Head Office having 332 Branches (including 30 SME/ Agriculture Branches) and 562 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, 2017. 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. **iii) 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-Re-payable Share Premium Account (v) Retained earnings (vi) Dividend equalization reserve and (vii) Minority interest in subsidiaries. Additional Tier-1 consists of Subordinated Debt (Mudaraba Perpetual Bond) (up to max. 1.5% of the Total RWA or 33.33% 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)(ii) Assets Revaluation Reserves up to 20%, (iii) Revaluation Reserve for Securities up to 20% and (iv) Revaluation Reserve for equity instruments up to 4% (v) All Other Preference Shares.

Quantitative Disclosures			
Sl No.	Particulars	BDT in million	
		Solo	Consolidated
	A) Tier 1 Capital:		
i	Fully paid-up-capital (PuC)	16,099.91	16,099.91
ii	Statutory Reserve	16,735.47	16,735.47
iii	Non-repayable share premium account	1.99	1.99
iv	General reserve	6,546.76	6,546.76
v	Retained earnings	1,609.99	1,944.90
vi	Non-controlling interest in subsidiaries	-	0.23
vii	Dividend equalization fund	32.00	32.00
viii	Non-cumulative irredeemable preference share	-	-
A.	**Sub-total (Common Equity Tier-1 Capital) A (i to viii)**	**41,026.12**	**41,361.26**
B.	**Additional Tier-1 (AT1) (Mudaraba Perpetual Bond)**	**3,000.00**	**3,000.00**
C.	**Total Tier-1 Capital (Going Concern Capital) A+B**	**44,026.12**	**44,361.26**
i	General Provision (Unclassified investment, SMA and off-balance sheet exposure)	6,615.87	6,615.87
ii	Assets revaluation reserves up to 20%	2,299.79	2,299.79
iii	Revaluation reservs of securities up to 20%	16.30	16.30
iv	All other preference shares		
v	Subordinated debt (Non-Convertible Subordinated Bond)	5,000.00	5,000.00
D.	**Total eligible Tier-2 Capital**	**13,931.96**	**13,931.96**
E.	**Total eligible capital (Regulatory Capital) (C+D)**	**57,958.08**	**58,293.22**

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 11.50% & 11.30% on the basis of "Consolidated" and "Solo" respectively as against the minimum regulatory requirement of 10% plus Capital Conservation Buffer of 1.25% totaling of 11.25%. Tier-1 capital adequacy ratio under "Consolidated" basis is 8.75% and "Solo" basis is 8.58% as against the minimum regulatory requirement of 6.00%. 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.

Qualitaive Disclosures

Sl No.	Particulars	BDT in million	
		Solo	Consolidated
a	Capital requirements for Investment risk	45,468.30	44,822.49
b	Capital requirements for Market risk	1,133.63	1,133.63
c	Capital requirements for Operational risk	4,707.86	4,715.07
d	**Total Capital Requirement (a+b+c)**	**51,309.79**	**50,671.19**
	Capital Conservation Buffer (CCB)	1.25%	1.25%
	Capital to Risk-weighted Assets Ratio (CRAR)		
	Total CRAR	11.30%	11.50%
	CET-1 Ratio	8.00%	8.16%
	Tier-1 Ratio	8.58%	8.75%
	Tier-2 Ratio	2.72%	2.75%

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 3(three) months or beyond but less than 6 months;
- 'Doubtful' if it is past due/over due for 6 (six) months or beyond but less than 9 (nine) months;
- 'Bad/Loss' if it is past due/over due for 9 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 Install ment is equal to or more than the amount of installment(s) due within 6 (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 9 (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 Invest ment/loan will be classified as ''Bad/Loss''.

	b) In case of any installment(s) or part of install ment(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 Install ment is equal to or more than the amount of installment(s) due within 3 (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 6 (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 install ment(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 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 maintain @ 2% on the unclassified amount for 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.) **a) 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% **b) Provision for Short-term Agricultural & Micro Investments:** (1) 'Unclassified and SMA' : @ 2.5% (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 exposures broken down by major types of Investment modes.

Particulars	BDT in million
Bai-Murabaha	388,277.72
Bai-Muajjal	46,367.48
Hire Purchase under Shirkatul Melk	167,329.18
Bai-Murabaha Import Bills	3,787.07
Baim FC Bills	13,230.76
Musharaka	510.66
Mudaraba Investments	5,000.03
Bai-Salam	10,477.15
Mudaraba Foreign Currency Investments	13,597.10
Quard	19,983.40
Investment in Khidmah Card	171.39
Bill Purchased and Discounted	41,996.99
Total Investments	**710,728.93**

c) Area wise distribution of exposures of Investments/credit exposure:

Particulars	BDT in million
In Rural Areas	61,913.62
In Urban Areas	648,815.31
Outside Bangladesh	-
Total	**710,728.93**

d) Division wise distribution of Investment/credit exposures of the bank:

Particulars	BDT in million
Dhaka Division	392,449.17
Chittagong Division	146,451.65
Khulna Division	48,056.95
Rajshahi Division	61,648.76
Barisal Division	10,944.40
Sylhet Division	16,022.99
Rangpur Division	24,333.86
Mymensing Division	10,821.15
Total Investments	**710,728.93**

e) Major industry type distribution of exposures of investment/credit:

Particulars	BDT in million
Economic purpose wise investment	
Investment to Directors	-
Investment to CEO & other Sr. Executives	1,073.40
Trade & Commerce	217,078.12
Real Estate	50,625.56
Transport	8,374.34
Agriculture (including fertilizer & agriculture implements)	16,943.70
Industrial investment*	382,066.39
Others	34,567.42
Total	**710,728.93**
***Industrial Investment**	
Textile-Spinning, weaving & dyeing	113,813.51
Garments & garments accessories	32,175.18
Steel, re-rolling & engineering	21,371.75
Agro-based Industry	97,241.99
Food & Beverage	9,433.75
Cements Industry	9,398.33
Pharmaceuticals	6,643.65
Poultry, Poultry feed & Hatchery	2,437.92
Sanitary Wares	191.96
Chemicals, Toiletries & Petrolium	4,996.11
Printing & Packaging	2,134.84
Power (Electricity)	3,406.68

Ceramic & Bricks	5,880.34
Healthcare (Hospital & Others)	5,239.26
Plastic Industries	2,974.24
Petrol Pump, & CNG Filling Station	599.07
Information Technology	278.14
Hotel & Restaurant	977.72
Other Industries	62,871.95
Total	**382,066.39**

f) Residual contractual maturity breakdown of the whole portfolio excluding Bill purchased and discounted, broken down by major types of investment/credit exposures:

Particulars	BDT in million
Repayable on Demand	-
Up to 1 month	109,462.84
Over 1 month but not more than 3 months	113,916.12
Over 3 months but not more than 1 year	189,463.03
Over 1 year but not more than 5 years	131,478.80
Over 5 years	124,411.15
Total	**668,731.94**

g) By major industry or counterparty type Amount of impared Investment/ loans and if available, past due due investment/loans provided separately:

Particulars	BDT in million
Special Mention Account (SMA)	28,152.26
Sub-Standard (SS)	2,447.00
Doubtful (DF)	1,990.93
Bad & Loss (B/L)	21,080.67
Total	**53,670.86**

Specific & General Provisions Specific and General Provision were made on the amount of calssified and unclassified investments/loans, Off-Balance Sheet exposure of the bank according to Bangladesh Bank guidelines:

Particulars	BDT in million
Unclassified Investments	685,210.32
Classified Investments	25,518.61
Off-Balance Sheet Exposures	169,749.30
Total	**880,478.23**

*** Charges for specific allowances and charge-off as on 31.12.2017: Cumulative specific and general provision as on 31.12.2017 were made on the amount of classified investment, Unclassified Investment and Off-Balance Sheet Exposures:**

Particulars	BDT in million
General Provision for Unclassified Investment	4,918.37
General Provision for Off-Balance Sheet Exposures	1,697.50
Specific Provision for Classified Investment	24,746.52
Total General & Specific Provision	**31,362.39**

Gross Non-Performing Assets

Movement of Non-Performing Assets (NPAs):

Particulars	BDT in million
Opening Bsalance	23,601.59
Addition	28,932.49
Reduction	27,015.47
Closing Balance	**25,518.61**

Movement of specific provisions for NPAs:

Particulars	BDT in million
Opening Balance	20,553.83
Recovery amount previously written-off	78.27
Provisions made during the period	4,139.66
Fully provided Investment write-off/waived/transferred	(25.24)
Closing Balance	**24,746.52**

Provision made during the period includes provision made against subjective judgement

E) Equities: 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). 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 when right to receive is 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.

Sl No.	Quantitative Disclosures	BDT in million	
		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.	1,078.11	2,610.51
b	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	-	-
c	Total unrealized gains (losses).	40.68	43.39
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	105.81	105.81
	General Market Risk	105.81	105.81

F) 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.

Quantitative Disclosure`s

BDT in million

	Particulars	1-90 days	Over 3 Months to 6 Months	Over 6 Months to 9 Months	Over 9 Months to 12 Months
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)	Rate Sensitive Assets	291,456	84,384	48,471	37,333
	Rate Sensitive Liabilities	274,259	80,984	47,268	36,230
	GAP	17,197	3,400	1,203	1,103
	Cumulative Gap	17,197	20,597	21,800	22,903
	Adjusted profit rate changes (PRC)	1%	1%	1%	1%
	Quarterly earnings impact (Cum. Gap*PRC)	42.40	50.79	53.75	56.47
	Accumulate earning impact to date	42.40	93.19	146.94	203.41

G) Market Risk

Qualitaive Disclosure	
a) i) Views of BOD on trading / investment activities	The Board approves all necessary policies related to market risk, sets various internal limits to monitor and reviews compliance on a regular basis. The objective of market risk management is to minimize the impact of losses on bank's earnings and shareholders' equity.
ii) Methods used to measure Market risk	The Bank measures impact on profitability and impact on asset prices under market risk through Maturity GAP Analysis, Sensitivity Analysis, VaR, and Mark to Market. Capital requirement under market risk as per Standardized rule based approach of Basel-III, 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 Bank has its own Market Risk Management System, which includes Asset Liability Risk Management (ALM) and Foreign Exchange Risk Management under core risk management guidelines. The Treasury Division manages market risk covering liquidity, profit rate, foreign exchange and equity price risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director & CEO. ALCO meets at least once in a month to monitor and oversee among others the overall market risks.
iv) Policies and processes for mitigating market risk	The bank has put its Asset Liability Management policy by setting various risk limits for effective management of market risk and ensuring that the operations are in line with bank's expectation of return to market risk through proper Asset Liability Management. The effectiveness of approved policies is monitored on an on-going basis. Forex Open Position limits (Day limit / Overnight limit), Deal-wise cut-loss limits, Stop-loss limit, Profit / Loss in respect of cross currency trading are properly monitored and exception reporting is regularly carried out. Holding of equities is monitored regularly so that the investment remains within the limit as set by Bangladesh Bank. Asset Liability Management Committee (ALCO) analyzes market and determines strategies for mitigating market risks. Reconciliation of foreign currency transactions is also carried out regularly.

Sl No.	Quantitative Disclosures	BDT in million	
		Solo	Consolidated
	Capital Requirement for		
a	Profit (Interest) Rate Risk	-	-
b	Equity Position Risk	211.62	211.62
c	Foreign Exchange Risk	922.01	922.01
d	Commodity Risk	-	-
e	**Total Capital Requirement for Market Risk**	**1,133.63**	**1,133.63**

H) 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. The policy for measuring and managing 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 all operational risks. As a part of continued surveillance, the Management Committee (MANCOM), Risk Management Co-ordination Committee (RMCC), Risk Management Committee (RMC) of Board and Risk Management Wing (RMW) regularly review different aspects of operational risks and suggest to formulate appropriate policies, tools & techniques for mitigation of 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. It recognizes the importance of having the right people at right positions to achieve organizational goals. The learning and development strategy puts special focus on continuous professional development to strengthen individuals' skill set by removing weaknesses to perform the assigned job with perfection. The strong brand image of IBBL 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 policies for operational risks including internal control & compliance risk are approved by the Board taking into account relevant guidelines of Bangladesh Bank. The bank has put its policy guidelines on Risk Based Internal Audit (RBIA) system with a view to rating the branches. As per provision of RBIA, branches are rated according to their risk grading/scoring. Subsequently, Audit Division prepares their audit plan, procedure and frequency of audit to be conducted on Branches. All the business units and supporting units of Head Office primarily identifies operational risk issues through Departmental Control Function Check List (DCFCL) and Audit Division regularly reviews the reports and ensure implementation of the same. Bank's anti money laundering activities are continuously monitored by Chief Anti Money Laundering Compliance Officer (CAMLCO). The activities of Money Laundering and Terrorist Financing Division (MLTFPD) are devoted to protect 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 last three years:

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

Sl No.	Capital Requirement	BDT in million	
		Solo	Consolidated
a	Operational Risk	4,707.86	4,715.07

I) Liquidity Risk

Qualitative Disclosure	
i) Views of BOD on system to reduce liquidity risk	The Board approves the significant policies, sets tolerance limit for various liquidity risk indicators and risk appetites for liquidity risk management. The BOD also reviews the related policies and guidelines of liquidity risk and ensures necessary steps taken by management to identify, measure, monitor and control liquidity risk
ii) Methods used to measure Liquidity Risk	At a very basic level, liquidity measurement involves assessing of Bank's all cash inflows and its all cash outflows to identify the potential net surplus/(shortfall). Cash outflows also include funding requirements for off balance sheet commitments. IBBL uses two approaches/methods to measure Liquidity risk. (a) Time bucket analysis: Time bucket analysis is an assessment of cash flow mismatches and is done through preparation of Structural Liquidity Profile of on balance sheet and off balance sheet exposure. Appropriate tolerance levels/prudential limits have been stipulated for mismatches in different time buckets. (b) Ratio analysis: Under ratio analysis, various ratios are prescribed with appropriate limits. Several key liquidity risk indicators are being used to identify, measure, monitor and control liquidity position on regular basis. The key liquidity risk indicators are: Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR), Investment to Deposit Raito (IDR) 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).
iii) Liquidity Risk management system	Responsibility of managing liquidity lies with Asset Liability Committee (ALCO) of the Bank which meets at least once in every month. Asset and Liability Management (ALM) desk closely monitors and controls liquidity requirements on a daily basis by proper coordination of funding activities. A monthly projection of fund flows is reviewed in ALCO meeting regularly. 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: (i) a reasonable amount of liquid assets are maintained; (ii) measurement and projection of funding requirements during various scenarios; and (iii) 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	A structural maturity ladder or profile is prepared periodically following the guidelines of the Bangladesh Bank DOS circular no. 02 dated 29 March 2011. Maturity ladder of cash inflows and outflows is an effective tool to determine bank's liquidity position. It 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 times 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.

Quantitative Disclosure

Particulars	BDT in million	
	Solo	Consolidated
Liquidity Coverage Ratio (LCR)	127.49%	127.49%
Net Stable Funding Ratio (NSFR)	108.47%	108.47%
Stock of High Quality Liquid Assets (HQLA)	111,675	111,675
Total net cash outflows over the next 30 calendar days	87,595	87,595
Available amount of Stable Funding	759,157	759,157
Required amount of Stable Funding	699,848	699,848

J) 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-balance sheet 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	Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III) as provided by BRPD of Bangladesh Bank is followed by IBBL while managing excessive on and off-balance sheet leverage of the bank. As per RBCA Guidelines, leverage ratio is being calculated as Tier I Capital divided by Total Exposure (on and off-balance exposures) after related deductions.
iii) Approach for calculating exposure	IBBL calculates the regulatory leverage ratio as per the guideline of Basel III leverage ratio framework as adopted by Bangladesh Bank where a minimum Tier 1 leverage ratio of 3% has been prescribed both at solo and consolidated level. IBBL has been maintaining leverage ratio more than minimum requirement of 3% applicable from 01 January 2015. The regulatory leverage ratio has been calculated considering the following: **1. Capital Measure:** The amount of capital (the numerator) for the leverage ratio is being calculated as per 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' **2. Exposure Measure:** General Measurement Principles: The amount of exposure (the denominator) for the leverage ratio is being calculated following the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following are being applied by the bank:
	i. On balance sheet, non-derivative exposures are being calculated by netting-off of specific provisions and valuation adjustment. **ii.** Physical or financial collateral, guarantee or credit risk mitigation purchased are not used for reducing on-bal ance sheet exposure. **iii.** No Netting of loans and deposits is done. **On-Balance Sheet Items:** Bank has included the accounting balance sheet item for the purposes of leverage ratio. **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 10% is appalied.

Quantitative Disclosur

Particulars	BDT in million	
	Solo	Consolidated
Leverage Ratio	4.76%	4.80%
On balance sheet exposure	875,213.01	874,852.38
Off balance sheet exposure	48,907.36	48,907.36
Total exposure	**924,120.37**	**923,759.74**

K) Remuneration

Qualitative Disclosures	
a) Name, composition and mandate of the main body overseeing remuneration.	Board of Directors of the Bank is 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 from any external consultant with regard to the remuneration process of the bank 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 (e.g. 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. IBBL follows uniform remuneration policy which 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.	No group of employees has been categorized as 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 features and objectives of remuneration policy.	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.
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	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:

	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
A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	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 complyess for their overseeing the business
c) An overview of the key risks that the bank takes into account when implementing remuneration measures.	Basically, 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.
An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (valued need not be disclosed)	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.

A discussion of the ways in which these measures affect remuneration.	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 remuneration.	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 main performance metrices for the bank, top-level business lines and individuals.	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 operating profit. However, employees may get accelareted promotion for extraorninary performance as well as may be awarded demotion for commiting violations that has a link with the remuneration process. In some case, due to non-fulfilment of desired criteria as set by the Board, a portion of incentive bonus to some employees were not allowed. In some cases the employee's commiting lapses and incurring financial losses, are not allowed the incentive bonus.
e) A discussion of bank's policy on deferral and vesting of variable remuneration and if, the fraction of variable remuneration that is deferred differes across employess or groups of employess, 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.
f) A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back 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 remuneration offered (i.e. cash, shares and share-linked instruments 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.
h) 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.	Not Applicable.
i) Number of meetings held by the main body overseeing remuneration during the financial year and the remuneration paid to its members.	Not Applicable.
j) Number of employess received a variable remuneration award during the financial year.	5 (five) Basic Pay as incentive bonus of which 4 (four) Were given to all employees and 1 (one) was given to employees who fulfilled criteria set by the Board of Directors
k) Number and total amount of guaranteed bonuses awarded during the fianancial year.	Not Applicable.
l) Number and total amount of sign-on awards made during the fianancial year	Not Applicable.
m) Number and total amount of termination payments made during the year.	Not Applicable.
n) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Not Applicable.
o) Total amount of deferred remuneration paid out in the financial year	Not Applicable.
i) Breakdown of the amount of remuneration awards for the financial year to show -Fixed and variable -deferred and non- deferred -different forms used (Cash, Shares and share-linked instruments and other forms).	Not Applicable.
k) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex-post explicit and/or Implicit adjustments.	Not Applicable.
l) Total amount of reductions during the financial year due to ex post explicit adjustments.	Not Applicable.
m) Total amount of reductions during the financial year due to ex-post implicit adjustments.	Not Applicable.