

Market Disclosure under Basel - II

As on 31 December 2013 (As per Guideline of Bangladesh Bank)
(Consolidated basis)

a) Scope of application

Qualitative Disclosures	(a)	The name of the top corporate entity in the group to which this guidelines applies.	International Finance Investment & Commerce Bank Limited (IFIC Bank Limited)
	(b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	<p>IFIC Bank Limited has two wholly owned Subsidiary Companies viz. (i) IFIC Securities Limited and (ii) IFIC Money Transfer (UK) Limited.</p> <p>A brief description of the Bank and its subsidiaries are given below:</p> <p>IFIC Bank Limited</p> <p>International Finance Investment and Commerce Bank Limited (IFIC Bank) is banking company incorporated in the People's Republic of Bangladesh with limited liability. It was set up at the instance of the Government in 1976 as a joint venture between the Government of Bangladesh and sponsors in the private sector with the objective of working as a finance company within the country and setting up joint venture banks/financial institutions aboard. In 1983 when the Government allowed banks in the private sector, IFIC was converted into a full fledged commercial bank. All types of commercial banking services are provided by the Bank within the stipulations laid down by Bank Companies Act 1991 and directives as received from Bangladesh Bank from time to time. It has 112 branches all over Bangladesh, undertook massive expansion program of ATM and opened 4 new ATMs in 2013 raising the total ATM to 50. The Bank obtained the Off-shore Banking Unit permission vide letter no. BRPD (P-3) 744 (104)/2009-4233 dated 17 November 2009. The Bank commenced operation of this unit from May 06, 2010. Presently the bank has 01 (one) Off-shore Banking Unit in Bangladesh. The Off-shore Banking Unit is governed under the rules and guidelines of Bangladesh Bank.</p> <p>The principal activities of the Bank are to provide all kinds of commercial banking services to its customers through its branch in Bangladesh.</p>

		<p>Subsidiaries of IFIC :</p> <p>i) IFIC Securities Limited : IFIC Securities Limited a subsidiary company of IFIC Bank Limited was incorporated on 02 November 2010 as a Public limited company under the Companies Act 1994 vide certificate of incorporation no. C-87904/10. The main objective of the company is to carry on business of stock brokers/ dealers in relation to shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the company. The operation of the company started on 10 March 2011.</p> <p>ii) IFIC Money Transfer (UK) Limited: IFIC Money Transfer (UK) Limited, a fully owned subsidiary exchange company of IFIC Bank Limited was incorporated in UK and commenced its operation on 31st August, 2011 to facilitate inward foreign remittance from United Kingdom. It was incorporated as a private limited company with Companies House of England and Wales under registration no. 07379137 on 16th September 2010. The company is a wholly owned subsidiary of IFIC Bank Limited. IFIC Bank Limited got permission from Bangladesh Bank for opening a fully owned subsidiary in UK. IFIC Money Transfer (UK) Limited obtained Money Laundering registration on 17 January 2011 issued by HM Customs and Excise. The company got registration from Financial Services Authority (FSA) on 16th June 2011 under Payment Services Regulations 2009. The company commenced its operation on 31 August 2011. The registered office is located at Ferrari House, 2nd Floor, 102 College Road, Harrow, Middlesex, United Kingdom HAI IES, London, UK.</p>	
	(c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Transfer of funds or regulatory capital can be performed as per directives of the regulatory bodies.
Quantitative Disclosures	(d)	The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	Nil

b) Capital structure

<p>Qualitative Disclosures</p>	<p>(a)</p>	<p>Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Tier 2.</p>	<p>Paid-up Capital of the Bank is already above minimum requirement of Tk. 200.00 crore to be raised before August, 2011 as per the directives of Bangladesh Bank under Tier-I Capital. The Government of the People's Republic of Bangladesh now holds 32.75% of the share capital of the Bank. Directors and Sponsors having vast experience in the field of trade and commerce own 11.31% of the share capital and the rest is held by the general public. The Bank has the option of raising capital by issuing Right Shares or Subordinate Bonds. Moreover, the bank has statutory reserve required as per the directives of Bangladesh Bank, general reserve, and retained earnings under Tier-I Capital. In addition, Tier-II capital includes general provision as per directives of Bangladesh Bank, asset and securities revaluation reserve up to 50%, provision for Off-Balance Sheet exposure.</p>
<p>Quantitative Disclosures</p>	<p>(b)</p>	<p>The amount of Tier 1 capital, with separate disclosure of:</p> <p>Paid up capital</p> <p>Non-repayable share premium account</p> <p>Statutory reserve</p> <p>General reserve</p> <p>Retained earnings</p> <p>Minority interest in subsidiaries</p> <p>Non-cumulative irredeemable preference shares</p> <p>Dividend equalization account</p>	<p style="text-align: right;"><i>Figs in crore Tk.</i></p> <p style="text-align: right;">380.65</p> <p style="text-align: right;">0.00</p> <p style="text-align: right;">337.41</p> <p style="text-align: right;">5.58</p> <p style="text-align: right;">186.81</p> <p style="text-align: right;">0.00</p> <p style="text-align: right;">0.00</p> <p style="text-align: right;">0.00</p>
	<p>(c)</p>	<p>The total amount of Tier 2 and Tier 3 capital.</p>	<p style="text-align: right;">130.67</p>
	<p>(d)</p>	<p>Other deductions from capital.</p>	<p style="text-align: right;">64.23</p>
	<p>(e)</p>	<p>Total eligible capital.</p>	<p style="text-align: right;">976.88</p>

c) Capital Adequacy

<p>Qualitative Disclosures</p>	<p>(a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.</p>	<p>According to BB Guidelines IFIC Bank is assessing Risk Based Capital Adequacy under Basel-II from 01 January 2010. Under Basel-II framework the capital requirement is determined for Credit Risk and Market Risk under Standardized Approach and Operational Risk under Basic Indicator Approach and summed-up to determine total Risk Weighted Assets and thereafter the Minimum Capital Requirement (MCR). IFIC Bank has maintained Capital Adequacy Ratio of 10.32% as on 31 December 2013, whereas Minimum Capital Requirement (MCR) is 10% from 01 July 2011 as per BRPD circular No.10 dated 10 March 2010. The Bank has thus maintained some excess capital than the minimum requirement of 10%. However, the Bank is continuously evaluating its capital position in comparison to its risk weighted assets position and exploring ways and means to raise capital both internally and externally.</p>
<p>Quantitative Disclosures</p>	<p>(b) Capital requirement for Credit Risk</p> <p>(c) Capital requirement for Market Risk</p> <p>(d) Capital requirement for Operational Risk</p> <p>(e) Total and Tier 1 capital ratio:</p> <ul style="list-style-type: none"> • For the consolidated group; and • For stand alone 	<p style="text-align: right;"><i>Figs in crore Tk.</i></p> <p style="text-align: right;">794.40</p> <p style="text-align: right;">65.72</p> <p style="text-align: right;">86.62</p> <p style="text-align: right;">86.62%</p> <p style="text-align: right;">86.43%</p>

d) Credit Risk

<p>Qualitative Disclosures (a)</p>	<p>The general qualitative disclosure requirement with respect to credit risk, including:</p> <ul style="list-style-type: none"> • Definitions of past due and impaired (for accounting purposes); 	<p>As per relevant Bangladesh Bank guidelines, the Bank defines the past due and impaired loans and advances for strengthening the credit discipline and mitigating the credit risk of the Bank. The impaired loans and advances are defined on the basis of (i) Objective / Quantitative Criteria and (ii) Qualitative judgment. For this purposes, all loans and advances are grouped into four (4) categories namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural & Micro Credit.</p> <p>Definition of past due/over due:</p> <p>i) Any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/ overdue from the following day of the expiry date;</p> <p>ii) Any Demand Loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date;</p> <p>iii) In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue from the following day of the expiry date;</p> <p>iv) The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date. However, a continuous loan, demand loan or a term loan which will remain overdue for a period of 02 (two) months or more, will be put into the “Special Mention Account (SMA)”, the prior status of becoming the loan into impaired/classified/ nonperforming.</p>
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Definition of impaired / classified /non-performing loans and advances are as follows:

Continuous loan are classified are as follows:

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

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

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

Demand loan are classified are as follows:

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

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

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

Fixed Term Loans are classified are as follows:

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

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

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

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

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

The Bank follows the relevant Bangladesh Bank guideline for determination of general and specific allowances for loans and advances. Firstly, the base for provision for the unclassified and classified loans are calculated as under:

a) Calculation of base for provision for unclassified / standard loans: Outstanding amount less suspended interest, if any;

b) Calculation of base for provision for the classified loans, the higher of the following two amounts:

i. Outstanding amount less suspended interest less value of eligible securities; or

ii. 15% of outstanding amount.

• Description of approaches followed for specific and general allowances and statistical methods;

Secondly, the following rates are applied on base for provision for determination of general and specific allowances for loans:

General provisions for unclassified loans and advances:	Rates
All unclassified loans (Other than loans under special mention account, short term agricultural credit, loans to Brokerage Houses (BHs) / Merchant Banks (MBs) / Stock Dealers (SDs) against Shares, consumer financing, small and medium enterprise financing, and staff loans)	1.00%
Small and medium enterprise financing	0.25%
Consumer financing (other than housing finance and loans for professionals under consumer financing scheme)	5.00%
Consumer financing (for housing finance)	2.00%
Consumer financing (for professionals)	2.00%
Loans to Brokerage Houses (BHs) / Merchant Banks (MBs) / Stock Dealers (SDs) against Shares etc.	2.00%
Short term agricultural credit	5.00%
Special mention account	5.00%
Specific provision for classified loans and advances:	Rates
Substandard	20.00%
Doubtful	50.00%
Bad/loss	100.00%

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

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

		<p>monitoring and recovery of irregular loans. Internal control & compliance division independently assess quality of loans and compliance status of loans at least once in a year.</p> <p>Above all, the risk management division is regularly guiding the credit risk management division(s) on increasing the collateral coverage, product/sector specific diversification of credit exposures, conducting credit rating of the borrowers to minimize the capital charge against credit risk of the Bank.</p> <p>Adequate provision is maintained against classified loans as per Bangladesh Bank Guidelines. Conditions of loans are regularly reported to Board/ Executive Committee of the Board.</p>
<p>Quantitative Disclosures</p>	<p>(b) Total gross credit risk exposures broken down by major types of credit exposure.</p> <p>(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.</p> <p>(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.</p> <p>(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.</p>	<p>Details in Annexure-1</p> <p>Details in Annexure-2</p> <p>Details in Annexure-3</p> <p>Details in Annexure-4</p>

		<i>Figs in crore Tk.</i>
(f)	• Amount of impaired loans and if available, past due loans, provided separately;	SMA- 78.19
		SS- 48.32
		DF- 35.92
		B/L- 232.57
	• Specific and general provisions; and	243.24
	• Charges for specific allowances and charge-offs during the period.	-
(g)	Gross Non Performing Assets (NPAs)	316.81
	Non Performing Assets (NPAs) to Outstanding Loans & advances	3.77%
	Movement of Non Performing Assets (NPAs)	
	Opening balance	409.55
	Additions	363.08
	Reductions	-455.83
	Closing balance	316.81
	Movement of specific provisions for NPAs	
	Opening balance	221.03
	Provisions made during the period	-
	Write-off	-

	Write-back of excess provisions	-
	Closing balance	162.01

e) Equities: Disclosures for Banking Book Positions

<p>Qualitative Disclosures (a)</p>	<p>The general qualitative disclosure requirement with respect to equity risk, including:</p> <ul style="list-style-type: none"> Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices. 	<p>Differentiation between holdings of equities for capital gain and those taken under other objectives is being clearly identified. Investment in equity securities are broadly categorized into two parts:</p> <p>i) Quoted Securities (Common or Preference Shares & Mutual Fund) that are traded in the secondary market (Trading Book Assets).</p> <p>ii) Unquoted securities are categorized as banking book equity exposures which are further sub-divided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future i.e. held to maturity (HTM), and securities those are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Unquoted securities are valued at cost.</p> <p>The equity positions are reviewed periodically by the senior management.</p> <p>Important policies covering equities valuation and accounting of equity holdings in the Banking Book are based on use of the cost price method for valuation of equities. The primary aim is to investment in these equity securities for the purpose of capital gain by selling them in future or held for dividend income. Dividends received from these equity securities are accounted for as and when received. Both Quoted and Un-Quoted equity securities are valued at cost and necessary provisions are maintained if the prices fall below the cost price. As per to Bangladesh Bank guidelines, the HFT equity securities are revalued once in each week using marking to market concept and HTM equity securities are amortized once a year according to Bangladesh Bank guideline. The HTM equity securities are</p>
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		also revalued if any, are reclassified to HFT category with the approval of Board of Directors. Preference is given to purchase of shares of strong companies at face value through placement/ IPO.
Quantitative Disclosures	<p>(b) Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.</p> <p>(c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.</p> <p>(d) • Total unrealized gains • Total unrealized losses • Any amounts of the above included in Tier 2 capital.</p> <p>(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.</p>	<p style="text-align: right;"><i>Figs in crore Tk.</i></p> <p>Cost price of quoted shares : 360.85</p> <p>Fair value of quoted shares : <u>304.05</u></p> <p>Decrease value : (56.80)</p> <p style="text-align: right;">=====</p> <p>Realized Gains from sale of shares = 6.46 crore</p> <p style="text-align: right;">69.16</p> <p style="text-align: right;">127.11</p> <p style="text-align: right;">Nil</p> <p>Capital charge for Equity Exposure assessed for total amount without group segregation = 61.19</p>

f) Interest rate risk in the banking book (IRRBB)

<p>Qualitative Disclosures (a)</p>	<p>The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.</p>	<p>Interest Rate Risk is managed through use of Gap analysis of rate sensitive assets and liabilities and monitored through prudential limits and stress testing. The IRRBB is monitored in movements/changes on a monthly basis and the impact on Net Interest Income is assessed. Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as well as the net worth of the bank (economic value perspective). Re-pricing risk is often the most apparent source of interest rate risk for a bank and is often gauged by comparing the volume of a bank's assets that mature or re-price within a given time period with the volume of liabilities that do so. The short term impact of changes in interest rates is on the bank's Net Interest Income (NII). In a longer term, changes in interest rates impact the cash flows on the assets, liabilities and off-balance sheet items, giving rise to a risk to the net worth of the bank arising out of all re-pricing mismatches and other interest rate sensitive position. The ALCO formulates the policy and strategy depending on the market conditions to maximize Net Interest Income.</p>
<p>Quantitative Disclosures (b)</p>	<p>The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).</p>	<p style="text-align: right;"><i>Figs in crore Tk.</i></p> <p>1) At 1% increase in Interest Rate, fall in MVE (Market Value of Equity)=47.24</p> <p>2) At 2% increase in Interest Rate, fall in MVE (Market Value Equity) = 94.49</p> <p>3) At 3% increase in Interest Rate, fall in MVE (Market Value Equity) = 141.73</p>

g) Market risk

<p>Qualitative Disclosures</p>	<p>(a) Views of BOD on trading/investment activities</p>	<p>The trading/investment activities in IFIC Bank Limited are managed cautiously so that maximum returns are obtained without taking undue risks. The Board approves all policies related to market risk, set limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance assets growth and trade related transactions. Market risk is the possibility of losses of assets in balance sheet and off-balance sheet positions arising out of volatility in market</p>
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	<p>Methods used to measure Market risk</p>	<p>variables i.e., interest rate, exchange rate and price. Allocation of capital is required in respect of the exposure to risks deriving from changes in interest rates and equity prices in the bank's trading book, in respect of exposure to risks deriving from changes in foreign exchange rates and commodity price in the overall banking activity.</p> <p>The market risk covers the followings risks of the Bank's balance sheet:</p> <ul style="list-style-type: none"> i) Interest rate risk; ii) Equity price risk; iii) Foreign exchange risk; and iv) Commodity price risk <p>The Bank uses the Standardized (rule based) Approach to calculate the Market Risk for Trading Book Exposures. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the 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'.</p> <p>Maturity Method has been prescribed by Bangladesh Bank in determining capital against market risk. In the maturity method, long or short positions in debt securities and other sources of interest rate exposures, including derivative instruments, are slotted into a maturity ladder comprising 13 time-bands (or 15 time-bands in case of low coupon instruments). Fixed-rate instruments are allocated according to the residual term to maturity and floating-rate instruments according to the residual term to the next re-pricing date.</p> <p>In Standardized (rule based) Approach the capital requirement for various market risks (interest rate risk, price, and foreign exchange risk) are determined separately.</p> <p>The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. e.g.:</p> <ul style="list-style-type: none"> a) Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;
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	<p>Market Risk Management system</p>	<p>b) Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;</p> <p>c) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk;</p> <p>d) Capital Charge for Commodity Position Risk = Capital charge for general market risk.</p> <p>The Asset Liability Management Policy of the Bank as approved by the Board ensures effective management of the Market Risk through a well-structured Treasury function which includes a Front Office, Mid Office and Back Office and an ALCO body. The aim of the Market Risk Management System is to minimize the impact of losses on earnings due to market fluctuations.</p>
	<p>Policies and processes for mitigating market risk</p>	<p>The policy contains sound Portfolio management procedures and good practices such as minimizing risks through diversification of portfolio. Policy for managing Market Risk has been set out by the Board of Directors of the Bank where clear instructions has been given on Loan Deposit Ratio, Whole Sale Borrowing Guidelines, Medium Term Funding, Maximum Cumulative Outflow, Liquidity Contingency Plan, Local Regulatory Compliance, Recommendation / Action Plan etc. Furthermore, special emphasis has been put on the following issues for mitigating market risk:</p> <p>Interest Rate Risk Management</p> <p>Treasury Division reviews the risks of changes in income of the Bank as a result of movements in market interest rates. In the normal course of business, the Bank tries to minimize the mismatches between the duration of interest rate sensitive assets and liabilities. Effective Interest Rate Risk Management is done as under:</p> <ul style="list-style-type: none"> • Market Analysis Market analysis over interest rate movements are reviewed by the Treasury Division of the Bank. The type and level of mismatch interest rate risk of the Bank is managed and monitored from two perspectives, being an economic value perspective and an earning perspective. • Gap Analysis ALCO has established guidelines in line with central Bank’s policy for the management of assets and liabilities, monitoring and minimizing interest rate risks at an acceptable level. ALCO in its regular monthly meeting analyzes Interest Rate

Sensitivity by computing GAP i.e. the difference between Rate Sensitive Assets and Rate Sensitive Liability and take decision of enhancing or reducing the GAP according to prevailing market situation aiming to mitigate interest rate risk.

Foreign Exchange Risk Management

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

- **Continuous Supervision**

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

- **Treasury Back Office separated from Treasury Front Office**

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

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

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

- **Nostro Accounts**

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

		<p>Equity Risk Management</p> <p>Equity Risk is the risk of loss due to adverse change in market price of equities held by the Bank. Equity Risk is managed by the following fashion:</p> <ul style="list-style-type: none"> • Investment Portfolio Valuation Mark-to-Market valuations of the share investment portfolio is followed in measuring and identifying risk. Mark-to-Market valuation is done against a predetermined cut loss limit. • Diversified Investment to minimize Equity Risk IFIC minimizes the Equity Risks by Portfolio diversification as per investment policy of the Bank. • Margin Accounts are monitored very closely Where Margin loan is allowed, security of investment, liquidity of securities, reliability of earnings and risk factors are considered and handled professionally.
Quantitative Disclosures	<p>(b) The capital requirements for:</p> <p>Interest rate risk;</p> <p>Equity position risk;</p> <p>Foreign exchange risk; and</p> <p>Commodity risk.</p>	<p><i>Figs in crore Tk.</i></p> <p>0.80</p> <p>61.19</p> <p>3.73</p> <p>0.00</p>

h) Operational risk

Qualitative Disclosures	<p>(a) Views of BOD on system to reduce Operational Risk</p>	<p>IFIC Bank manages its operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events and implementing any additional procedures required for compliance with regulatory requirements. The following procedures are maintained in the Bank:</p> <p>Operational risk management responsibilities are assigned to the senior management.</p> <p>Internal auditors are assigned for recording, identification and assessment of operational risks and to prepare reports for the Audit Committee.</p> <p>Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external</p>
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		<p>events. This definition includes legal risk but excludes strategic and reputation risk. It is inherent in every business organization and covers a wide spectrum of issues. The Board of Director (BOD) of the Bank and its Management firmly believe that this risk through a control based environment in which processes are documented, authorization is independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the group stays in line with industry best practice and takes account of lessons learned from publicized operational failures within the financial services industry.</p> <p>The BOD has also modified its operational risk management process by issuing high level standards, supplemented by more detailed formal guidance. This explains how the bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that any branch of the bank is affected by a business disruption event, to incorporate lessons learned in the operational recovery from those circumstances. Plans have been prepared for the continued operation of the bank's business, with reduced staffing levels.</p> <p>Operational risk loss data is collected and reported to the senior management. Identifying, monitoring and recording of fraud, irregularities, unauthorized works, system break down etc. are done by the Management and details of the untoward incidents are reported to the Bank's Audit Committee.</p>
	<p>Performance gap of executives and staffs</p>	<p>Human Resources</p> <p>Human Resources Development is focused on recruitment and in-house training for both on the job and off the job Bank staff members through the Bank's Academy. IFIC Bank Academy – the oldest institution in the private sector – was conceived of as an in-house training center to take care of the training needs of the Bank internally.</p> <p>Academy is fully equipped with a professional library, modern training aids and professional faculty. Library has about 4941 books on banking,</p>

	<p>Potential external events</p>	<p>economics, accounting, management, marketing and other related subjects.</p> <p>Main training activities consist of in-depth foundation programmes for entry level Management Trainees. Specialized training programmes in the areas like general banking, advance, foreign exchange, marketing and accounts etc. are also organized by the Academy depending on need.</p> <p>Frequently outreach programmes are organized to meet demand for new and specialized skills.</p> <p>During its 23 years of existence, Academy not only conducted courses, workshops and seminars as required by the Bank, but it also organized training programmes for the Bank of Maldives, Nepal Bangladesh Bank Limited and Oman International Exchange LLC. In addition, Academy has also the credit of organizing system of Bank of Maldives.</p> <p>In addition to conducting courses internally, The Academy also selects candidates for nomination to various courses conducted by distinguished training organizations in the country including Bangladesh Bank Training Academy and Bangladesh Institute of Bank Management.</p> <p>The Academy also re-designs its courses, programmes etc, regularly to meet the requirement of new skills arising out of various directives, guidelines of the Central Bank and significant changes in the banking sector from time to time.</p> <p>Performance goals are most often attained by executives and staff with a few exceptions. Every organization needs to effectively manage its human resources to get the maximum contribution from its employees.</p> <p>Losses from external events, such as a natural disaster that damages a firm's physical assets or electrical or telecommunications failures that disrupt business, are relatively easier to define than losses from internal problems, such as employee fraud and product flaws. It is needless to say that there are certain risk factors which are external in nature and can affect the business of the Bank. The factors discussed below can significantly affect the business:</p>
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- **External rules and regulations**

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

- **Damage to assets**

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

- **Safety and security**

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

- **External financial crime**

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

- **Political condition and general business**

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

- **Credit quality of borrowers**

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

- **Basel-II implementation**

Basel-II is fully effective from 2010 and IFIC needs to be complied with respect to credit risk management, its supervision and establishment of effective internal control. The grading of the borrowers and its link with capital requirement

may slow down the credit expansion. The establishment of effective control requires more investment in technology and operating expenses are likely to increase.

• Equity markets Volatility

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

• Changes in market conditions

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

• The litigation risk

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

Policies and processes for mitigating operational risk

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

	<p>Approach for calculating capital charge for operational risk</p>	<p>The Bank follows the Basic Indicator Approach (BIA). The BIA stipulates the capital charge for operational risk is a fixed percentage, denoted by α (alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula:</p> $K = [(GI_1 + GI_2 + GI_3) \alpha] / n$ <p>Where:</p> <p>K = the capital charge under the Basic Indicator Approach</p> <p>GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)</p> <p>α = 15 percent</p> <p>n = number of the previous three years for which gross income is positive.</p> <p>Besides, Gross Income (GI) is calculated as “Net Interest Income” plus “Net non-Interest Income”. The GI is also the net result of :</p> <ul style="list-style-type: none"> i) Gross of any provisions; ii) Gross of operating expenses, including fees paid to outsourcing service providers; iii) Excluding realized profits/losses from the sale of securities held to maturity in the banking book; iv) Excluding extraordinary or irregular items; v) Excluding income derived from insurance.
<p>Quantitative Disclosures</p>	<p>(b) The capital requirements for operational risk</p>	<p style="text-align: center;"><i>Figs in crore Tk.</i></p> <p style="text-align: center;">86.62</p>

Annexure-1

**Quantitative Disclosures on
Major types of Credit Exposures
(As per Consolidated basis)
As on 31 December 2013**

Particulars	Amount in Crore Tk.
	2013
Claim on Corporate	3,424.81
Claims on Banks and NBFIs	1,321.83
Claims fully secured by Commercial real estate	857.94
Claims fully secured by residential property	863.47
Claims categorized as retail portfolio & SME	1,353.72
Claims on Bangladesh Government and Bangladesh Bank	1,816.41
All other assets	450.17
Claims under Credit Risk Mitigation	404.16
Past Due Claims	151.51
Investments in premises, plant and equipment and all other fixed assets	235.88
Claims on OBU	70.88
Capital Market Exposure	319.11
Cash	225.31
Claims on all fixed assets under operating lease	54.84
Consumer Loan	62.21
Claims on Public Sector Entities	11.00
Unlisted Equity Investment	4.88
Total:	11,628.13

**Quantitative Disclosures on Geographical
Distribution of Credit Exposures
As on 31 December 2013**

Division-wise	Amount in Crore Tk.	Percentage (%)
Urban		
Dhaka Division	5,904.09	70.19%
Chittagong Division	1,186.02	14.10%
Sylhet Division	46.90	0.56%
Rajshahi Division	360.49	4.29%
Khulna Division	160.62	1.91%
Barishal Division	37.91	0.45%
Rangpur Division	130.74	1.55%
Sub-Total (A)	7,826.77	93.05%
Rural		
Dhaka Division	282.58	3.36%
Chittagong Division	106.54	1.27%
Sylhet Division	10.56	0.13%
Rajshahi Division	78.20	0.93%
Khulna Division	50.93	0.61%
Barishal Division	-	0.00%
Rangpur Division	55.47	0.66%
Sub-Total (B)	584.27	6.95%
Grand Total (A+B)	8,411.04	100.00%

**Quantitative Disclosures on industry
type distribution of credit exposures
As on 31 December 2013**

Sl. No.	Name of the Sector/Industry	Amount in Crore Tk.	Percentage
1	Agriculture Industries	77.34	0.92%
2	Jute Industries	86.63	1.03%
3	Textile Industries	228.24	2.71%
4	Garments Industries	1,559.08	18.54%
5	Chemical and Chemical Products	44.76	0.53%
6	Cement Industries	39.91	0.47%
7	Bricks & Ceramic	91.24	1.08%
8	Food Products & Processing	170.41	2.03%
9	Engineering & Metal	266.56	3.17%
10	Drugs & Pharmaceuticals	33.72	0.40%
11	Hospital & Clinics	107.31	1.28%
12	Paper & Paper Products Industries	52.21	0.62%
13	Other Small Industries	458.19	5.45%
14	IT Sector	27.28	0.32%
15	Other Service Industries	407.44	4.84%
16	Trade & Commerce	2,118.02	25.18%
17	IFIC Securities Ltd.	128.07	1.52%
18	Transport	72.68	0.86%
19	Construction Firms/Companies	411.13	4.89%
20	Housing Societies/Companies	679.75	8.08%
21	Cold Storage	12.50	0.15%
22	Non-Banking Financial Institutions	35.59	0.42%
23	Consumer Finance	518.63	6.17%
24	Energy	232.93	2.77%
25	Telecommunication	128.95	1.53%
26	Others	422.48	5.02%
	Total	8,411.04	100.00%

**Quantitative Disclosures on
Residual maturity of Credit exposures
As on 31 December 2013**

Credit exposures	Amount in Crore Tk.	Percentage
Loans, cash credit, overdraft, etc.		
Receivable		
On demand	1,409.82	16.85%
Up to 1 month	515.72	6.16%
Over 1 month but not more than 3 months	1,466.23	17.52%
Over 3 months but not more than 1 years	2,673.77	31.94%
Over 1 year but not more than 5 years	1,198.34	14.31%
Over 5 years	535.06	6.39%
Sub-Total (A)	7,798.94	93.13%
Bill purchased and discounted		
Receivable		
On demand	85.83	0.99%
Up to 1 month	130.40	1.51%
Over 1 month but not more than 3 months	197.77	2.29%
Over 3 months but not more than 6 months	196.77	2.28%
Over 6 months	1.34	0.02%
Sub-Total (B)	612.10	7.09%
Grand Total (A+B)	8,411.04	100.00%