IFIC BANK LIMITED

MARKET DISCLOSURES UNDER BASEL-II

(As on 31ST December, 2009)

The Qualitative and Quantitative disclosures under Market Disclosure are provided in accordance with Bangladesh Bank's directives on Risk-based Capital Adequacy under Basel-II vide BRPD circular nos. 09 dated 31st December, 2008. These disclosures are intended to give key information to the stakeholders on the Bank's performance and its exposure to risks and to provide a consistent and understandable framework for easy comparison among banks within the peer group operating in the market.

The Qualitative and the Quantitative Disclosures under Market Disclosure framework of the Bank on the key factors viz. Assets, Credit Risk, Market Risk, Operational Risk, Specific Provisions, Regulatory Capital and Capital Adequacy as of 31st December, 2009 are presented as per the prescribed format of Bangladesh Bank as follows:-

A. ASSETS:

Qualitative Disclosure

- **Views of BOD on assets lying with the Bank.**

In broad categories asset composition of IFIC Bank mainly consists of the following:-

i. Banking Book Assets
ii. Trading Book Assets

Generally, investments under 'Held for Trading' portfolios are part of the Trading Book. All others assets of the Balance Sheet are under Banking Book.

The Board of Directors of IFIC Bank Limited are of the view that the Trading Book assets are being managed by the Bank's officials in a systematic manner ensuring maximum returns.

The Banking Book assets are also being managed quite systematically giving due emphasis on maximum returns and minimization of risks. However, classified assets need to be recovered/ regularized on priority basis.

- **Comments on nature of assets (i) Earning Assets (Trading Book Assets & Banking Book Assets) and (ii) Non-Earning Assets (Cash, Cash reserve with BB, etc.)**

The detailed break-up of Assets alongwith percentage of total assets of the Bank is given as follows:-

(i) Earning Assets:

(Figs. in core Tk.)

(a) Trading Book Assets	796.02		
(b) Banking Book Assets:			
Loans and advances to customers excluding NPL	3467.79		
Investments in securities	240.28		
Money at call and short notice	20.00		
Balance with other banks and financial institutions.	783.25		
Total Earning Assets		5307.34	83.61%

(ii) Non-Earning Assets:

Balance with Bangladesh Bank	311.15		
Cash-in-Hand	64.76		
Fixed Assets	120.72		
Non- Performing Loans	311.60		
Other Assets.	232.48		
Total Non-Earning Assets		1040.71	16.39%
Total Assets		6348.05	100.00%

Efforts are being made at all levels to reduce the proportion of Non-Earning assets in the total Assets size of the Bank. Assets are being monitored on a regular basis to cope-up with the inherent risks. Assets Liability Committee (ALCO) monitors and reviews the asset portfolio frequently as per directives of Bangladesh Bank with a view to earn profit by taking minimum risks.

- **Definition of Default and Classified Assets**

  Loans and Advances are the major Assets of the Bank but the loans and advances which are not repaid as per schedule are known as 'default loans'. Borrowers who do not maintain discipline in repayment of their loans in time are closely monitored.

  Classified Assets are portion of loans, advances and other assets which have already become overdue and provisions against which are calculated as per directives of Bangladesh Bank. These need to be carefully monitored and periodically reviewed.

- **Addition/Reduction in Classified Assets:**

  Ratio of classified loans to total loans stood at 6.14% as on 31st December, 2009 as against 6.10% as on 31st December, 2008 i.e. the ratio has increased by 0.04%.

- **Policies and procedures for protecting the assets of the Bank against Core Risks inherent with Banking activities:**

The ALCO reviews on a monthly basis the Bank's overall assets and liability position, the bank's liquidity position; Balance Sheet risk, interest rate risk and the country's overall economic situation and takes necessary steps as and when required for minimizing the risks. The Bank also has a Risk Management Unit for protecting the assets of the Bank against the Core Risks inherent in the Banking activities.

(Figs in crore Tk)

Quantitative Disclosure

(A) Banking Book Assets

1. Cash in hand & Balance with BB (excluding FC)		375.91
2. Money at call		20.00
3. Investment (HTM):		1023.53
(a) Government	239.78	
(b) Qualifying (banks, etc)	-	
(c) Others (Including other Banks)	783.75	
4. Loans & advances		3779.39
(a) Classified	311.60	
SMA	79.57	
SS	25.02	
DF	35.66	
BL	171.35	
(b) Unclassified	3467.79	
5. Risk Weighted Assets	3959.37	
(a) Below 100%	834.92	
(b) 100% RW	1156.23	
(c) Above 100% RW	1968.22	
6. Rated Status		
(a) Rated Assets	2032.71	
(b) Unrated Assets	1926.66	
7. Other assets (Including Fixed Assets)		353.20
A. Total Baking Book Assets (1+2+3+4+7)		5552.03

(B) Trading Book Assets

1. FC held in hand		2.31
2. FC held in BB & Nostro account		180.36
3. Investment (trading)		
(a) Govt. (part of Govt. HTM if held above the SLR amount		
(b) HFT	544.57	
(c) Equity Position	68.78	
Total Investment (trading)		613.35
B. Total Trading Book Assts (1+2+3)		796.02
Total Assets (A + B)		**6348.05**

B. CREDIT RISK ON BANKING BOOK

Qualitative Disclosure

- **Views of BOD on Credit Risk**

Credit Risk Management (CRM) Policy Guidelines was formulated as per Bangladesh Bank's guidelines in order to segregate the lending function and to mitigate credit risk which was duly approved by the Board. The CRM Policy Guidelines is being followed meticulously in the Bank for managing the Credit portfolio. The Board views that the credit portfolio of the Bank is being handled efficiently and is being supervised very closely.

- **Methods used to measure Credit Risk**

Analysis of the methods used to measure Credit Risk is divided into four parts:-

(i) Business Risk

To find out level of business risk SWOT analysis of the business units is performed based on nature of Industry, Size, Maturity, Production, Distribution, Vulnerability to competition, new Demand-supply situation and Market reputation.

(ii) Management Risk

To find out level of risk assessment ability of the management of the companies, previous track records of the management, capability of second line of management to run the business efficiently etc. are also analyzed alongwith experience and technical knowhow.

(iii) Security Risk

To find out the level of security risk, expected security cover strength of the Primary, Collateral and other types of security is being analyzed by looking into:-

a) Type of security
b) Expected realizable value at liquidation
c) Expected time for liquidation (years)
d) Present value of security
e) Current exposure (Principal + interest)
f) Security cover (100 x present value/current exposure)

(iv) Account Performance Risk

Account performance risk is analyzed by looking into whether current balance on any account is above the sanctioned limit, whether any interest or principal payments are more than 30 days old, whether turnover in the account is satisfactory or not, etc.

- **<u>Credit Risk Management System</u>**

IFIC Bank adopts segregation of credit risk functions in line with Bangladesh Bank's CRM Policy Guidelines and accordingly the following lending functions have been segregated:-

(i) Credit Approval/Risk Management
(ii) Relationship Management/Marketing
(iii) Credit Administration

The segregated functions of Credit Risk Management are aimed at maximization of earnings through creation of a quality loan portfolio. Credit Policy of the Bank works within the framework of three main objectives, namely maintenance and improvement of quality of assets, recovery on time and building-up of an efficient customer oriented credit delivery system. The functions and responsibility of Relationship and Credit Administration at the Branch level are clearly defined. The limits are activated by Head Office Credit Administration Department only after receiving Loan Documentation Check List (LDCL) certified by the respective Branch Credit Administration Department that all documentation, terms and conditions as per Head Office sanction letter have been complied with. Risk Management through diversification of the credit exposure is an ongoing process in IFIC Bank. The credit portfolio includes working capital financing, SME financing, Import-Export financing and domestic trade financing etc. Thrust has been given to the SME sector by introducing fifteen loan products including one specifically for women entrepreneurs.

- **<u>Policy and processes for collateral valuation and Management</u>**

(i) Description of the main types of collateral taken by the Bank:

- Legal mortgage of land, building and machineries.
- Pledge/Lien of financial instruments/obligations.
- Personal guarantee/corporate guarantee.
- Assignment of bills receivables.
- Lien on Sinking Fund to be built-up.

Assessment of value of Security:

- Value of stock shall be assessed by the Relationship Manager/Authorized Officer taking into consideration the Procurement cost/market value which ever is lower.
- Value of Fixed assets/property (land, building and machinery) should be assessed by Banks **enlisted/recognized surveyor/valuator** and also jointly by the RM and another authorized officer of the Branch.
- Generally, expected **realizable value** of the tangible security (ies) should be **120%** of the sanctioned loan amount. There may be exceptions on Low Risk graded accounts.

(ii) The main type of guarantor counterparty and their credit worthiness.

Other financial institutions, correspondents, corporate borrower, credit rating, CRG score etc are assessed to evaluate credit worthiness.

(iii) Information about market or credit risk concentrations with the mitigation measures taken.

Credit portfolio is being analyzed in respect of the large exposure and credit risk, concentration, and effort are made to diversify the credit portfolio and for introduction of new products etc. as mitigation measures.

(Figs. in crore Tk.)

Quantitative Disclosure

A) Total Exposures of Credit Risk		5643.60
1. Funded		5305.03
a) Domestic	5305.03	
b) Overseas	-	
2. Non-Funded		338.57
a) Domestic	338.57	
b) Overseas	-	
3. Distribution of risk exposure by claims		
• Claims on sovereigns and central banks		-
• Claims on other official entities(Public)		8.20
• Claims on banks and securities firms		955.19
• Claims on corporate (Medium Enterprise loans to be shown separately)		1218.28
• Claims included in the retail portfolio & small enterprises (consumer loan to be shown separately)	429.86	
Retail & Small		388.37
Consumer		41.49
• Claims secured by residential property		399.59
• Claims secured by commercial real estate		603.47
• Other Categories:		
– Past due loans/NPL		311.60
– Off-balance sheet items		338.57
4. Credit Risk Mitigation		
• Claims secured by financial collateral		425.32
• Net exposure after the application of haircuts.		41.32
• Claims secured by eligible Guarantee		-

C. MARKET RISK ON TRADING BOOK

Qualitative Disclosure

- **Views of BOD on Trading/Investment activities**

  The trading/ investment activities in IFIC Bank Limited are managed very cautiously so that maximum returns are obtained without taking undue risks.

- **Methods used to measure Market risk**

  The Bank uses the standardized approach to calculate the market risk for Trading Book Exposures.

- **Market Risk Management System**

  Capital charge is required to be held for an exposure to a relevant market risk which, if multiplied by 10.00, becomes the risk-weighted amount of that exposure for market risk.

  The market portfolios are maintained keeping in mind diversification of portfolio, avoiding speculative ventures and by keeping the securities in marketable forms.

- **Policies and processes for mitigating market risk**

  Foreign Exchange Risk may be defined as the risk of loss that a bank may suffer as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

  Equity position risk is due to changes in the price of a security in the market. Portfolio management and good practices such as to minimize risks through diversification of portfolio are followed.

(Figs. in crore Tk.)

Quantitative Disclosure

Market risk on Trading Book

The capital requirements for:	
- Interest rate risk;	19.47
- Equity position risk;	24.00
- Foreign exchange risk; and	5.55
- Commodity risk	-
Total capital requirement for Market Risk	49.02

D. OPERATIONAL RISK

Qualitative Disclosure

- **Views of BOD on system to reduce Operational Risk**

IFIC Bank manages its operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events and implementing any additional procedure required for compliance with regulatory requirements. The following procedures are maintained by the Bank:

- Operational risk management responsibilities is assigned to senior management within the business operation;
- Internal auditors are assigned to record identification and assessment of operational risks and to prepare reports for the Audit Committee;
- Operational risk loss data is collected and reported to senior management. Identifying, monitoring and recording in details of fraud, irregularities, unauthorized works, system break down and details of incidents etc are reported to the banks Audit Committee;

- **Approach for calculating Capital Charge for Operational Risk**

The Bank uses the 'Basic Indicator Approach' to calculate its operational risk as per Bangladesh Bank's Guidelines on Basel-II framework. Capital charge is required to be held for an exposure to a relevant risk which, if multiplied by 10.00 becomes the risk weighted amount of that exposure for operational risk.

Quantitative Disclosure

Capital Charge for Operational Risk is Tk. 46.99 crore. RWA for Operational Risk stands at Tk. 469.90 crore as on 31st December, 2009.

E. SPECIFIC PROVISION

Qualitative Disclosure

- **View of the Board**

The procedures and systems for specific provisioning against classified assets is quite satisfactory and adequate provisions are being made in the Bank. The Bank follows procedures for loan classification, provisioning and other issues relating to Non-Performing Loans (NPL) as per Bangladesh Bank's Guidelines. The Bank reviews classified loans and advances to assess the required provision in accordance with BRPD Circular No. 05(5 June 2006). The provisioning rates required, as updated by BRPD Circular No. 05 dated 29 April 2008 are as follows:

Specific provision on Special Mention Account (SMA)	-	05%
Specific provision on substandard loans and advances	-	20%
Specific provision on doubtful loans and advances	-	50%
Specific provision on bad / loss loans and advances	-	100%

(Figs. in crore Tk.)

Quantitative Disclosure

(a) Gross Non Performing Assets (NPAs) :	311.60
The ratio of NPAs to Outstanding Loans and Advances :	6.14%
(b) Movement of Non Performing Assets (NPAs)	
i. Opening balance	359.31
ii. Additions	-
iii. Reductions	47.71
iv. Closing balance	311.60
(c) Movement of specific provisions for NPAs	
i. Opening balance	74.59
ii. Provisions made during the period	21.64
iii. Write-off	-
iv. Write-back of excess provisions	-
v. Closing balance	96.23

F. MAINTENANCE OF REGULATORY CAPITAL

Qualitative Disclosure

The regulatory capital is broadly classified into three categories- Tier I, Tier II and Tier III. The computation of the amount of Core Capital (Tier I), Supplementary Capital (Tier II) and Additional Supplementary Capital (Tier III) capitals are subject to the following conditions:

i) Eligible Tier II plus Tier III capital shall not be exceed of Total Tier I capital.

ii) Fifty percent (50%) of Asset Revaluation Reserves shall be eligible for Tier II i.e. Supplementary Capital.

iii) A minimum of about 20% of Market Risk needs to be supported by Tier I capital. Supporting of Market Risk from Tier III capital shall be limited up to maximum of 250% of a Bank's Tier I capital i.e. available after meeting credit risk capital requirement.

iv) Up to 50% of Revaluation Reserves for Securities shall be eligible for supplementary capital.

v) Subordinated debt shall be limited to a maximum of 30% of the amount of Tier I capital and shall also include raised and listed subordinated debt instruments/bonds raised in the capital market. Tier I capital of the Bank includes paid up capital, reserves, share premium and retained earnings. Tier I capital, also called 'Core Capital' of the Bank.

(Figs. in crore Tk.)

Quantitative Disclosure

The details of capital structure are provided as under:

a) Amount of Tier-1 Capital		
Fully Paid-up Capital	174.39	
Statutory Reserve	154.54	
General Reserve	2.72	
Retained Earnings	72.83	
Total Tier - 1 Capital		404.48
b) Total amount of Tier 2 capital		
General Provision (UC + Off B/S exp)	73.13	
Revaluation Reserve for Securities @50%	12.16	
Balance of Exchange Equalization A/C	3.11	
Total Tier - 2 Capital		88.40
c) Total amount of Tier 3 capital		-
d) Total eligible capital. (a+b+c)		492.88

G. CAPITAL ADEQUACY

Qualitative Disclosure

Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk as per Guidelines of Bangladesh Bank. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank.

Bank has capital adequacy ratio of 10.02% as on 31st December, 2009 out of which Core Capital (Tier I) Capital adequacy ratio is 8.22% and Tier 2 and 3 i.e. Supplementary Capital adequacy ratio is 1.80% against the minimum regulatory requirement of 10.00%.

(Figs. in crore Tk.)

Quantitative Disclosure

The capital requirements assessed for credit, market and operational risks, and the position of capital available are mentioned below:-

a) Amount of Regulatory Capital	
Amount to meet Credit Risk :	395.94
Amount to meet Market Risk :	49.02
Amount to meet Operational Risk :	46.99
Total Capital required :	491.95
b) Amount of Capital Available :	492.88
c) Capital surplus over MCR (b - a) :	0.93