

ICB Islamic Bank Limited (ICBIBL)
Head Office, Dhaka

ANNUAL DISCLOSURE UNDER PILLAR-III OF BASEL II AS OF DECEMBER 31, 2011

Scope and purpose

The purpose of disclosures in pursuance of the Market Discipline as required by the Revised Capital adequacy Framework under Basel II is to complement the minimum capital requirements and the supervisory review process. The aim of such disclosure is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of the Bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet plausible loss of assets. For the said purpose, the Bank developed the set of disclosure containing the key pieces of information on the assets, risk exposures, risk assessment processes, and hence the capital adequacy to meet the risks.

The Bank is in a process of obtaining approval by the Board of Directors of a formal disclosure framework which will include the validation and frequency of such disclosure.

Relations with accounting disclosures

a) The disclosure framework does not conflict with requirements under accounting standards as set by Bangladesh Bank from time to time. Moreover, Bank's disclosures are consistent with how senior management and the Board of Directors make assessment and manage the risks of the Bank.

b) Under Minimum Capital Requirement, Bank used specified approaches/ methodologies for measuring the various risks they face and the resulting capital requirements. It is believed that providing disclosures that are based on a common/ harmonized framework is an effective means of informing the stakeholders about the Bank's exposure to those risks and provides a consistent and comprehensive disclosure framework of risks and its management that enhances comparability

c) The disclosure has adequate validation and is consistent with the audited Financial Statements.

Materiality of disclosure

The Bank disclosures all relevant and material Information individually or in aggregate whose omission or misstatement could change or influence the assessment or decision of an user relying on such information for the purpose of making economic decision.

Frequency of disclosure

a) The Bank provided all required disclosures in both qualitative and quantitative forms annually, as at end of March every year along with the annual financial statements. The Bank also submits a copy of the disclosures to the Department of Off-site Supervision of Bangladesh Bank. The Bank made the annual disclosures in the official website of the Bank: www.icbislamic-bd.com. Qualitative disclosures provide a general summary of the Bank's risk management objectives and policies, reporting system and definitions.

b) The disclosure on the websites is made in a web page titled "Disclosures on Risk Based Capital (Basel II)" and the link to this page prominently provides on the home page of the bank's website.

Each of these disclosures pertaining to a financial year is available on the websites until disclosure of the 4th subsequent annual (as on March 31) disclosure is made.

Disclosure framework

According to the revised Risk Based Capital Adequacy Guidelines the Bank requires general qualitative disclosure for each separate risk area (e.g. Investment, market, operational, banking book interest rate risk, equity). The Bank must describe their risk management objectives and policies, including:

- Strategies and processes;
- The structure and organization of the relevant risk management function;
- The scope and nature of risk reporting and/or measurement systems;
- Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigations.

The following components set out in tabular form are the disclosure requirements:

- a) Scope of application
- b) Capital structure
- c) Capital adequacy
- d) Investment Risk
- e) Equities: disclosures for banking book positions
- f) Interest rate risk in the banking book (IRRBB)
- g) Market risk
- h) Operational risk

Table as per Disclosure Framework – 1	Scope of application
Qualitative Disclosures	
(a) The name of the top corporate entity in the group to which this guidelines applies.	(a) The Bank is incorporated in the Registered Joint Stock Companies of Bangladesh. ICB Financial Holdings AG holds Majority Shares (52.76%).
(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).	Presently the Bank neither has any associates or subsidiary; nor is operating under any joint venture.
(c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	The Bank is running under the Directive of Bangladesh Bank and transfer of Regulatory Capital requires prior approval of Bangladesh Bank.
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.	Not Applicable

Table as per Disclosure Framework – 2	Capital structure	
Qualitative Disclosures		
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.	As per the guidelines of Bangladesh Bank, Tier-1 capital of ICIBL consists of Share capital, free reserves, retained earnings. Tier-2 capital consists of general provision against unclassified investment and off balance sheet items; and 50% of assets revaluation reserve.	
Quantitative Disclosures		
Particulars	Taka in Crore	
Tier-1 (Core Capital)		
Fully Paid-up Capital/Capital lien with BB	664.70	
Statutory Reserve	7.88	
Non-repayable Share premium account	0	
General Reserve	0.11	
Retained Earnings	(1,487.62)	
Minority interest in Subsidiaries	0	
Non-Cumulative irredeemable Preferences shares	0	
Dividend Equalization Account	0	
Other (if any item approved by Bangladesh Bank)	0	
Sub-Total: (1.1 to 1.9)	(814.93)	
Deductions from Tier-1 (Core Capital)		
Book value of goodwill and value of any contingent assets which are shown as assets		
Shortfall in provisions required against classified assets	13.58	
Shortfall in provisions required against investment in shares		
Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities.		
Reciprocal crossholdings of bank capital/subordinated debt		
Any investment exceeding the approved limit under section 26(2) of Bank Company Act, 1991.		
Investments in subsidiaries which are not consolidated		
Other if any		
Sub Total (1.11 to 1.18)	13.58	
Total Eligible Tier-1 Capital (1.10-1.18)	(828.51)	
Tier-2 (Supplementary Capital)		
General Provision (Unclassified + SMA + Off Balance Sheet exposure)	4.11	
Assets Revaluation Reserves up to 50%	27.65	
Revaluation Reserve for Securities up to 50%		
Revaluation Reserve for equity instruments up to 10%		
All other preference shares		
Subordinated debt		
Other (if any item approved by Bangladesh Bank)		
Sub-Total (2.1 to 2.7)	31.76	
Deductions if any	-	
Total Eligible Tier-2 Capital (2.8-2.9)	31.76	
Tier-3 Capital	-	
Total Eligible Capital (1+2+3)	(796.76)	

Table as per Disclosure Framework – 3	Capital Adequacy
Qualitative Disclosures	
<p>Bangladesh Banking sector has entered into the regime of Basel II implementation in order to have a stabilized financial system in the country. According to the Bangladesh Bank Guidelines latest Minimum Capital Requirement (MCR) has been fixed at 10% (since 1 July 2011 instead of 9%) of risk weighted assets or BDT 400 crore (since 11 August 2011 instead of BDT 200 crore) whichever is higher. ICIBL is currently running with capital deficit of BDT 1,196.76 crore as of 31 December 2011.</p> <p>As per BB directive, ICIBL is following Standardized approach (SA) for Investment risk, Standardized Duration approach (SDA) for market risk and Basic Indicator Approach (BIA) for operational risk.</p> <p>ICIBL is going through a reconstruction phase as per stipulation of “The Oriental Bank (Reconstruction) Scheme 2007”, since February 28, 2008, when the Bank came under the ICB Management and the Bank has been exempted for maintaining the Minimum Capital till December 2012.</p> <p>ICB Financial Holdings AG is in transition of transfer of their share to a local group. This process depends on the resolution of the emerging legal issues relating to the relinquishment of previous majority share holders ownership which is pending for decision of the Honorable High Court which impedes the replenishing of the capital shortfall. However, the Bank will be able to come up with a particular capital plan including the replenishment of the capital shortfall as soon as the legal issues get resolved.</p>	
Quantitative Disclosures	
Particulars	Taka in Crore
Capital Requirements for Investment Risk	147.27
Capital Requirements for On- Balance sheet exposure	145.75
Capital Requirements for Off-Balance sheet exposure	1.52
Capital Requirements for Market Risk	0.36
Capital Requirements for Operational Risk	28.69
Total Capital Requirements	176.32

Table as per Disclosure Framework – 4	Investment Risk: General Disclosure
Qualitative Disclosures	
<p>(a) Definition of Past Due and Impaired Investments: ICIBL is following the Bangladesh Bank guidelines and definition of past due and impaired investments for accounting purposes as below:</p> <p>(1) Past Due/Over Due</p> <ul style="list-style-type: none"> Any Continuous Investment if not repaid/renewed within the fixed expiry date for repayment will be treated as past due/overdue from the following day of the expiry date. 	

- Any **Demand Investment** if not repaid/rescheduled within the fixed expiry date for repayment will be treated as past due/overdue from the following day of the expiry date.
- In case of any installment(s) or part of installment(s) of a **Fixed Term Investment (not over five years)** 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.
- In case of any installment(s) or part of installment(s) of a **Fixed Term (over five years)** is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due / overdue after six months of the expiry date.
- 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.

(2) Impaired investments:

BB has directed 5 classification criterion based on objective judgment. These are - STD, SMA, SS, DF & BL. The term 'Impaired accounts' encompasses all accounts classified as risk grades SS, DF and BL. However, classification criterion on objective basis is different for different types of investments as below:

- Any **continuous investment** will be classified if it past due/ overdue for 6 months or more
- Any **Demand Investment** will be classified if it remains past due/ overdue for 6 months or more.
- Any **Fixed term investment repayable within 5 years** will become classified if the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 6 (six) months.
- Any **Fixed term investment repayable in more than 5 years** will become classified if the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months.
- **Short-term agricultural and Micro Credit** will be classified after a period of 12 months.

Description of approaches followed for specific and general allowances and statistical methods:

ICBIBL is following the general and specific provision requirement as prescribed by Bangladesh Bank time to time.

Investment Risk Management Policies :

The Bank has put in place a well-structured Investment Risk Management Policy known as Investment Policy Manual (IPM) approved by the Board in 2008. The Policy document defines organization structure, role and responsibilities and, the processes whereby the Investment 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.

Besides the IPM, ICBIBL also frames Product Program Guidelines (PPG) as and when necessary to address any regulatory issues or establish control points. Bank also has a system of identifying and monitoring problem accounts at the early stages of their delinquency through implementation of Sales Routine so that timely corrective measures are initiated.

The Bank manages its Investment risk through continuous measuring and monitoring of risks at each obligor (client) and portfolio level. The Bank is following the Bangladesh Bank prescribed Credit Risk Grading modules (CRGM) and has internally developed well-established Investment appraisal/approval processes. The CRGM capture quantitative and qualitative issues relating to management risk, business risk, industry risk, financial risk and project risk. Besides, such ratings consider transaction specific Investment features while assessing the overall rating of a client. ICIBL is also considering credit ratings of the client assessed by ECAs while initiating any Investment decision. A well structured Delegation and Sub-delegation of Investment Approval Authority is prevailing at ICIBL for ensuring goods governance and better control in Investment approval and monitoring

Quantitative Disclosures

Total gross Investment risk exposures broken down by major types of Investment exposure:

Taka in Crore

Exposure type	Exposure	RWA
Claims categorized as retail portfolio & Small Enterprise (excluding consumer finance)	10.67	8.00
Consumer finance	46.49	46.49
Claims fully secured by residential property	89.11	44.56
Where specific provisions are less than 20 percent of the outstanding amount of the past due claim	189.53	284.30
Where specific provisions are no less than 20 percent of the outstanding amount of the past due claim	130.64	130.64
Where specific provisions are more than 50 percent of the outstanding amount of the past due claim	545.80	272.90
Claims on Corporate (Unrated)	385.06	481.33
Claims under Credit Risk Mitigation	21.15	5.44

Geographical distribution of exposures, broken down in significant areas by major types of Investment exposure:

Taka in Crore

Division-wise Classification	Exposure
Dhaka	1,265.68
Chittagong	110.44
Khulna	30.37
Rajshahi	2.65
Barishal	4.85
Sylhet	8.25
Total	1,422.24

Industry or counterparty type distribution of exposures, broken down by major types of Investment exposure:

Taka in Crore

Investments to customer groups:	
Export financing	39.12
House building loan	118.27
Consumers credit scheme	382.66

Small and medium enterprises	162.75
Staff loan	3.83
Other Investments	294.39
Sub Total	1,001.02
Industrial Investments	
Agricultural industries	3.01
Textile industries	5.22
Food and allied industries	56.48
Leather, chemical, cosmetics, etc.	5.93
Service Industries	284.17
Transport and communication industries	66.41
Sub Total	421.22
Grand Total	1,422.24

Residual contractual maturity breakdown of the whole portfolio, broken down by major types of Investment exposure:

Taka in Crore

Repayable on demand	42.67
With a residual maturity of	
Not more than 3 months	71.11
Over 3 months but not more than 1 year	284.45
Over 1 year but not more than 5 years	853.34
More than 5 years	170.67
Total	1,422.24

By major industry or counterparty type: • Amount of impaired investments and if available, past due investments, provided separately; • Specific and general provisions; and • Charges for specific allowances and charge-offs during the period:

Major Counterparty	NPLs (Taka in Crore)	Specific Provision	Remarks
Corporate and Individuals	814.54	507.78	The Bank is running under the DOBB. There is a shortfall against specific provision for BDT 13.58 crore which are provided as per the guidelines of the DOBB.
Financial institutions & Banks	-		
Public Enterprise & Govt. Depts.	-		
	814.54		

Gross Non Performing Assets (NPAs)	814.54
Non Performing Assets (NPAs) to Outstanding Investments & advances	57.27%
Movement of Non Performing Assets (NPAs)	Taka in Crore
Opening balance	856.60
Additions	-
Reductions	42.06
Closing balance	814.54

Movement of specific provisions for NPAs	Taka in Crore
Opening balance	325.71
Add: Provisions made during the period	182.27
Less: Write-off	0.20
Add: Write-back of excess provisions	0
Closing balance	507.78

Table as per Disclosure Framework – 5	Equities: Disclosures for Banking Book Positions								
Qualitative Disclosures									
<p>Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</p> <p>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>	<p>The Bank is currently not exposed in equity investments. The Bank holds shares of Bangladesh Commerce Bank Limited (BCBL) obtained at the time of reconstruction of BCBL. Besides, it holds shares of Central Depository Bangladesh Limited (CDBL). Both shares are not quoted in the stock market.</p>								
Quantitative Disclosures									
<p>Cost and book value of the investment in shares of the Bank:</p> <p style="text-align: right;">Taka in Crore</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="text-align: center;">Name of the Company</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td>Bangladesh Commerce Bank Limited (BCBL)</td> <td style="text-align: right;">0.90</td> </tr> <tr> <td>Central Depository Bangladesh Limited (CDBL)</td> <td style="text-align: right;">0.44</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">1.34</td> </tr> </tbody> </table>		Name of the Company	Amount	Bangladesh Commerce Bank Limited (BCBL)	0.90	Central Depository Bangladesh Limited (CDBL)	0.44	Total	1.34
Name of the Company	Amount								
Bangladesh Commerce Bank Limited (BCBL)	0.90								
Central Depository Bangladesh Limited (CDBL)	0.44								
Total	1.34								

Table as per Disclosure Framework – 6	Interest rate risk in the banking book (IRRBB)
Qualitative Disclosures	
<p>The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding investment prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.</p>	<p>The Bank presently does not have any exposure in interest rate related instruments.</p>
Quantitative Disclosures	
<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</p>	Nil

down by currency (as relevant).	
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Table as per Disclosure Framework – 7	Market risk
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Qualitative Disclosures

Market Risk is defined as the possibility of loss to a Bank caused by changes in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. Bank’s exposure to market risk arises from investments (interest related instruments and equities) in trading book [HFT categories] and the Foreign Exchange positions. The objective of the market risk management is to minimize the impact of losses on earnings and equity.

The Bank has put in place Board approved Asset Liability Management Policy for effective management of Market Risk in the Bank. In order to assess impact on capital due to adverse movement in trading book, ICBI calculated Stress Testing in accordance with the requirements of the Bangladesh Bank Guidelines. The Bank is going to finalize comprehensive Investment policy and also policy. The policies set 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 policies also deal with the reporting framework for effective monitoring of Market Risk.

The ALM Policy specifically deals with liquidity risk management and interest rate risk management framework. As envisaged in the policy, Liquidity Risk is managed through GAP & Duration analysis, based on residual maturity/behavioral pattern of assets and liabilities, on a daily basis based on best available data coverage, as prescribed by the Bangladesh Bank. Liquidity profile of the Bank is evaluated through various liquidity ratios.

The Asset Liability Management Committee (ALCO)/Board monitors adherence of prudential limits fixed by the Bank and determines the strategy in light of market conditions (current and expected) as articulated in the ALM policy. The Mid Office at the Treasury also monitors adherence of prudential limits on a continuous basis.

Qualitative Disclosures

Capital Allocation for Market Risk is calculated using Standardized Duration Analysis Model as below:

Particulars	Amount in Tk. Crore
Interest rate risk	-
Equity position risk	-
Foreign Exchange risk	0.36
Commodity risk	-
Total capital requirement against Market Risk	0.36

Table as per Disclosure Framework – 8	Operational risk
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Qualitative Disclosures

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputation risks.

Bank is still at the initiation stage of required policies and procedures for all areas of its operations. Bank strictly follows KYC norms for its customer dealings and other banking

operations. The Bank is going to frame Operational Risk Management Policy to be approved by the Board. Supporting policies already been adopted by the bank which deal with management of various areas of operational risk are (a) Operational Manual for General Banking (b) Compliance Risk Management Policy,(c) FX Risk Management Policy (d) Policy Document on Know Your Customers (KYC) and Anti Money Laundering (AML) Procedures (e) IT Business Continuity and Disaster Recovery Policy etc. The newly established Risk Management Unit and Risk Management Department are working on preparing risk inventory for Bank to introduce Risk Log as well as Risk Register.

For the current year Bank has adopted Basic Indicator approach to assess the capital under operational risk. In terms of new capital adequacy norms, Banks' operational risk capital charge has been assessed at 15% of positive annual average Gross Income over the previous three years as defined by BB.

Qualitative Disclosures

Capital Requirement for Operational Risk as of Dec 31, 2011:

Year	Gross Income (GI) (in Tk. Crore)	Average (GI) (in Tk. Crore)	Capital Charge @ 15% of Average Gross Income (in Tk. Crore)
2009	142.16	191.28	28.69
2010	196.88		
2011	234.79		