ICB Islamic Bank Limited (ICBIBL)
Head Office, Dhaka

ANNUAL DISCLOSURE UNDER PILLAR-III OF BASEL II AS OF DECEMBER 31, 2012

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 ICBIBL 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. However, Tier-2 Capital of the Bank has considered as **Nil** since Tier-1 Capital is negative.

Quantitative Disclosures

Particulars	Crore Taka
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	(1,594.17)
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)	(921.48)
Deductions from Tier-1 (Core Capital)	
Book value of goodwill & value of any contingent assets which are shown as assets	
Shortfall in provisions required against classified assets	
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)	
Total Eligible Tier-1 Capital (1.10-1.18)	(921.48)
Tier-2 (Supplementary Capital)	
General Provision (Unclassified + SMA + Off Balance Sheet exposure)	9.51
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)	**37.16**
Deductions if any (being the tier - I Capital less than Zero)	(37.16)
Total Eligible Tier-2 Capital (2.8-2.9)	**-**
Tier-3 Capital	**-**
Total Eligible Capital (1+2+3)	**(921.48)**

Table as per Disclosure Framework – 3	Capital Adequacy

Qualitative Disclosures

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% of risk weighted assets or BDT 400 Crore whichever is higher. ICBIBL is currently running with capital deficit of BDT 1,321.48 Crore as of 31 December 2012.

As per BB directive, ICBIBL is following Standardized approach (SA) for Investment risk, Standardized Duration approach (SDA) for market risk and Basic Indicator Approach (BIA) for operational risk.

ICBIBL 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. However, the Bank has already submitted a detailed capital plan a request for extension for the exemption till 2017.

Quantitative Disclosures

Particulars	Taka in Crore
Capital Requirements for Investment Risk	107.64
Capital Requirements for On- Balance sheet exposure	106.22
Capital Requirements for Off-Balance sheet exposure	1.42
Capital Requirements for Market Risk	0.62
Capital Requirements for Operational Risk	17.40
Total Capital Requirements	125.66

Table as per Disclosure Framework – 4	Investment Risk: General Disclosure

Qualitative Disclosures

(a) **Definition of Past Due and Impaired Investments:** ICBIBL is following the Bangladesh Bank guidelines and definition of past due and impaired investments for accounting purposes as below:

(1) Past Due/Over Due:

(i) Any **Continuous Investment** 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.

(ii) Any **Demand Investment** 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.

(iii) In case of any installment(s) or part of installment(s) of a Fixed Term Investment 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.

(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.

(2) All **unclassified Investment** other than Special Mention Account (SMA) will be treated as Standard.

(3) A **Continuous Investment**, Demand Investment 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)". This will help banks to look at accounts with potential problems in a focused manner and it will capture early warning signals for accounts showing first sign of weakness. Investments in the "Special Mention Account (SMA)" will have to be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

(4) Investment except Short-term Agricultural & Micro-Credit in the "Special Mention Account" and "Sub-Standard" will not be treated as defaulted Investment for the purpose of section 27KaKa(3) [read with section 5(GaGa)] of the Banking Companies Act, 1991.

(5) Any **continuous Investment** will be classified as: i. 'Sub-standard' if it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months. ii. 'Doubtful' if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months iii. 'Bad/Loss' if it is past due/overdue for 09 (nine) months or beyond.

(6) Any **Demand Investment** will be classified as: i. 'Sub-standard' if it remains past due/overdue for 03 (three) months or beyond but not over 06 (six) months from the date of expiry or claim by the bank or from the date of creation of forced investment. ii. 'Doubtful' if it remains past due/overdue for 06 (six) months or beyond but not over 09 (nine) months from the date of expiry or claim by the bank or from the date of creation of forced investment. iii. 'Bad/Loss' if it remains past due/overdue for 09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation of forced investment.

(7) In case of any installment(s) or part of installment(s) of a **Fixed Term Investment** is not repaid within the due date, the amount of unpaid installment(s) will be termed as "past due or overdue installment". In case of Fixed Term Investments: - i. If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire Investment will be classified as ''Sub-standard''. ii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire Investment will be classified as ''Doubtful". iii. If the amount of 'past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire Investment will be classified as ''Bad/Loss''.
Explanation: If any Fixed Term Investment is repayable on monthly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 06 monthly installments. Similarly, if the Investment is repayable on quarterly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 2 quarterly installments.

(8) The **Short-term Agricultural and Micro-Credit** will be considered irregular if not repaid within the due date as stipulated in the investment agreement. If the said irregular status continues, the 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 the Investment agreement.

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. ICBIBL is also considering credit ratings of the client assessed by ECAIs while initiating any Investment decision. A well structured Delegation and Sub-delegation of Investment Approval Authority is prevailing at ICBIBL 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)	25.53	19.15
Consumer finance	21.06	21.06
Claims fully secured by residential property	96.29	48.15
Where specific provisions are less than 20 percent of the outstanding amount of the past due claim	145.02	217.53
Where specific provisions are no less than 20 percent of the outstanding amount of the past due claim	93.42	93.42
Where specific provisions are more than 50 percent of the outstanding amount of the past due claim	450.47	225.24
Claims on Corporate (Unrated)	123.39	154.24
Claims under Credit Risk Mitigation	37.02	5.24

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

Taka in Crore

Division-wise Classification	Exposure
Dhaka	972.24
Chittagong	88.22
Khulna	26.80
Rajshahi	2.32
Barishal	3.40
Sylhet	7.94
Rangpur	-
Total	1,100.92

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

Taka in Crore .

Investments to customer groups:	
Export financing	11.68
House building investment	96.29
Consumers credit scheme	46.61
Small and medium enterprises	400.38
Staff investment	3.46
Other Investments	355.93
Sub Total	914.35
Industrial Investments	
Agricultural industries	29.75
Textile industries	0
Food and allied industries	96.75
Leather, chemical, cosmetics, etc.	5.50
Service Industries	40.36
Transport and communication industries	14.21
Sub Total	186.57
Grand Total	1100.92

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

Taka in Crore .

Repayable on demand	33.03
With a residual maturity of	
Not more than 3 months	55.05
Over 3 months but not more than 1 year	220.18
Over 1 year but not more than 5 years	660.55
More than 5 years	132.11
Total	1,100.92

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	669.10	384.14	Full Provision has been made in accordance with the latest Guidelines of Bangladesh Bank
Financial institutions & Banks	-		
Public Enterprise & Govt. Depts.	-		
	669.10		

Gross Non Performing Assets (NPAs)	669.10
Non Performing Assets (NPAs) to Outstanding Investments & advances	60.78%
Movement of Non Performing Assets (NPAs)	Taka in Crore
Opening balance	814.54
Additions	
Reductions	287.00
Closing balance	669.10

Movement of specific provisions for NPAs	Taka in Crore
Opening balance	507.78
Add: Provisions made during the period	110.07
Less: Write-off	(233.71)
Add: Write-back of excess provisions	0
Closing balance	384.14

Table as per Disclosure Framework – 5	**Equities: Disclosures for Banking Book Positions**
Qualitative Disclosures	
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.	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(s).
Quantitative Disclosures	

Cost and book value of the investment in shares of the Bank:

Taka in Crore

Name of the Company	**Amount**
Bangladesh Commerce Bank Limited (BCBL)	0.90
Central Depository Bangladesh Limited (CDBL)	0.16
Total	1.06

Table as per Disclosure Framework – 6	Interest rate risk in the banking book (IRRBB)
Qualitative Disclosures	
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.	The Bank presently does not have any exposure in interest rate related instruments.
Quantitative Disclosures	
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).	Nil

Table as per Disclosure Framework – 7	Market risk
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, ICBIBL 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	0.62
Commodity risk	-
Total capital requirement against Market Risk	0.62

Table as per Disclosure Framework – 8	Operational risk
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, 2012:

Year	Gross Income (GI) (in Tk. Crore)	Average (GI) (in Tk. Crore)	Capital Charge @ 15% of Average Gross Income (in Tk. Crore)
2010	150.91	115.98	17.40
2011	103.75		
2012	93.28		