Social Islami Bank Limited

Market disclosures on Risk Based Capital Adequacy under Pillar III (Basel-II)

For the year ended 31 December 2011

Background:

In order to comply with the "Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel II)" published on December 2010 and BRBD Circular-35, dated 29/12/2010, these disclosures are made Under Pillar-III of Basel-II framework.

Validation & Consistency:

The disclosures (qualitative and quantitative) under the revised Risk Based Capital Adequacy (RBCA) framework as advised by Bangladesh Bank, is based on the audited financial position of the bank as of 31 December 2011. Since these disclosures are based on audited financial statements, these are easily verifiable.

Scope of Application:

The name of the corporate entity to which these guidelines applies is ***Social Islami Bank Limited (Both on 'Solo' and 'Consolidate' basis).***

Capital Structure:

The Bank complied with all the required conditions for maintaining regulatory capital as stipulated in the RBCA guidelines by Bangladesh Bank as per following details:

• The amount of Tier II capital will be limited to 100% of the amount of Tier I capital:

We reported Tier-I capital for an amount of BDT 827.37 crore whereas Tier-II capital was BDT 126.08 crore as on 31 December 2011, which is only 15.24% of Tier-I capital: Status for compliance: ***Complied.***

• Fifty percent (50%) of Assets Revaluation Reserves shall be eligible for Tier II or Supplementary Capital:

Revaluation reserve for fixed assets was BDT 113.85 crore as on 31 December 2011 whereas only 50% or BDT 56.92 crore was accounted for as Tier-II capital: Status for compliance: ***Complied.***

• A minimum of about 28.5% of market risk needs to be supported by Tier I capital. Supporting of Market Risk from Tier III capital shall be limited up to a maximum of 250% of a bank's Tier I capital available after meeting credit risk capital requirements:
Capital required for meeting credit risks was BDT 658.28 crore, so the core (Tier I) capital after meeting credit risk was BDT 169.09 crore. Capital required for meeting 28.5% of market risks was BDT 68.75 crore as on the reporting dates: Status for compliance: ***Complied.***

• Up to 10% of revaluation reserves for equity instruments shall be eligible for Tier-II Capital:

No revaluation reserve for equity instrument maintained: Status for compliance: ***Complied.***

• Subordinated Debt shall be limited to a maximum of 30% of the amount of Tier I capital:

SIBL did not have any Subordinated Debt as on the reporting dates: Status for compliance: ***Complied.***

As on the reporting date (31 December 2011), the Bank had a total capital of BDT 953.45 crore comprising Tier-I capital of BDT 827.37 crore and Tier II capital of BDT 126.08 crore. (SIBL had no Tier III element in its capital structure) as on the reporting dates. Details are given below:

Total Capital as on 31 December 2011

		Bank (Solo)	Consolidated
	1. Tier-1 (Core Capital)	**Tk. In Crore**	**Tk. In Crore**
1.1	Fully Paid-up Capital/Capital Deposited with BB	639.39	639.39
1.2	Statutory Reserve	116.85	116.85
1.3	Non-repayable Share premium account	-	-
1.4	General Reserve	-	-
1.5	Retained Earnings	71.13	65.74
1.6	Minority interest in Subsidiaries	-	-
1.7	Non-Cumulative irredeemable Preferences shares	-	-
1.8	Dividend Equalization Account	-	-
1.9	Other (if any item approved by Bangladesh Bank)	-	-
1.10	**Sub-Total: (1.1 to 1.9)**	**827.37**	**821.98**

Deductions from Tier-1 (Core Capital)

1.11	Book value of Goodwill and value of any contingent assets which are shown as assets.	-	-
1.12	Shortfall in provisions required against classified assets	-	-
1.13	Shortfall in provisions required against investment in shares	-	-
1.14	Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities.	-	-
1.15	Reciprocal crossholdings of bank capital/subordinated debt	-	-
1.16	Any investment exceeding the approved limit under section 26(2) of Bank Company Act, 1991.	-	-
1.17	Investment in subsidiaries which are not consolidated-50%	-	-
1.18	Other if any	-	-
1.19	Sub Total (1.10-1.18)	-	-
1.20	**Total Eligible Tier-1 Capital (1.10-1.19)**	**827.37**	**821.98**

2 .Tier-2 (Supplementary Capital)		Tk. In Crore	Tk. In Crore
2.1	General Provision (Unclassified loans +SMA+ off Balance Sheet exposure)	69.16	69.16
2.2	Assets Revaluation Reserves up to 50%	56.92	56.92
2.3	Revaluation Reserves for securities up to 50%	-	-
2.4	Revaluation Reserves for equity instruments up to 10%	-	-
2.5	All other preference shares	-	-
2.6	Subordinated debt	-	-
2.7	Other (if any item approved by Bangladesh Bank)	-	-
2.8	Sub-Total (2.1 to 2.7)	**126.08**	**126.08**
2.9	Deductions if any	-	-
2.10	Investment in subsidiaries which are not consolidated-50%	-	-
2.11	**Total Eligible Tier-2 Capital (2.8-2.9)**	**126.08**	**126.08**

3. Tier-3 (eligible for market risk only)			
3.1	Short-term subordinated debt	-	-

4	Total Supplementary Capital (2.11+3.1) (Maximum up to 100% of Total eligible tier-1 Capital)	**126.08**	**126.08**
5	Total Eligible Capital (1.20+4)	**953.45**	**948.06**

(amount in crore Tk)

Maintenance of Regulatory Capital	**31.12.2011**	**31.12.2011**
Quantitative Disclosure :		
A) Amount of Tier -1 Capital	827.37	821.98
Fully Paid-up Capital/Capital Deposited with BB	639.39	639.39
Statutory Reserve	116.85	116.85
Retained Earning	71.13	65.74
B) Amount deducted from Tier-1 Capital	-	-
Goodwill	-	-
Shortfall	-	-
Others	-	-
C) Total amount of Tier-2 capital (net of deductions from Tier 2 capital)	126.08	126.08
d) Total eligible capital	953.45	948.06

Capital Adequacy:

SIBL has adopted standardized approach for computing capital charge for credit risk & market risk and basic indicator approach for operational risk. Assessment for capital adequacy is carried out in conjunction with the guidelines and regulations by Bangladesh Bank from time to time.

SIBL has been generating most of its incremental capital from retained profit (stock dividend, right share issue and statutory reserve transfer etc.) to support incremental growth of Risk Weighted Assets (RWA). Therefore, the Bank's Capital Adequacy Ratio (CAR) remained consistently within the comfort zone under Basel II during 2011. (This was 13.17% against required MCR of 10.00% in December, 2011).

Assessing regulatory capital in relation to overall risk exposures of a bank is an integrated and comprehensive process. SIBL, through its SRP team, is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to. Assessment of Regulatory Capital will be in alignment with the findings of these exercises.

Overall capital position of the bank to meet certain risks:

Capital Adequacy	Bank (Solo) 31.12.2011 (Tk in Crore)	Consolidated 31.12.2011 (Tk in Crore)
A) Amount of Regulatory Capital to meet unforeseen loss	-	-
Amount to meet Credit risk	658.28	659.91
Amount to meet Market Risk	24.12	24.12
Amount to meet Operational Risk	41.49	41.49
B) Additional capital over MCR maintained by the bank	**229.56**	**222.54**

The details of Capital and capital adequacy ratio are given below:

Particulars	Bank (Solo) Tk. in Crore	Consolidated Tk. in Crore
A. Eligible Capital :		
1. Tier-1 (Core Capital)	827.37	821.98
2 .Tier-2 (Supplementary Capital)	126.08	126.08
3. Tier-3 (eligible for market risk only)	-	-
4. Total Eligible Capital (1+2+3) :	**953.45**	**948.06**
B. Total Risk Weighted Assets (RWA):	7,238.94	7,255.24
C. Capital Adequacy Ratio (CAR) (A_4 / B)*100	13.17%	13.07%
D. Core Capital to RWA (A_1 / B)*100	11.43%	11.33%
E. Supplementary Capital to RWA (A_2 / B)*100	1.74%	1.74%
F. Minimum Capital Requirement (MCR)	**723.89**	**725.52**

Credit Risk:

a) Definition of default and classified Investments:

The Bank has been making classification and provisions on classified investment thereof as per BRPD circular 05, dated 05 June 2006 and subsequent circulars issued by Bangladesh Bank for the time being in force.
Basis for Investment classification has been divided into two categories namely:

i. **Objective criteria**
ii. **Qualitative judgment**.

Base for classification of investment is discussed below.

Basis for Investment Classification

i. Objective Criteria

(1) Past Due/Over Due

(i) 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.

(ii) 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.

iii) 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.

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

(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 Investments other than Special Mention Account (SMA) will be treated as **Standard**.

(3) A Continuous credit, Demand Investment or a Term Investment which remain overdue for a period of 90 days or more, are put into the **"Special Mention Account(SMA)"** and interest accrued on such Investment is credited to Interest Suspense Account, instead of crediting the same to Income Account.

(4) Any **continuous Investment** is classified as:

'Sub-standard' if it is past due/overdue for 6 months or beyond but less than 9 months. **`Doubtful'** if it is past due/overdue for 9 months or beyond but less than 12 months **`Bad/Loss'** if it is past due/ overdue for 12 months or beyond.

(5) Any **Demand Investment** is classified as:

'Sub-standard' if it remains past due/overdue for 6 months or beyond but not over 9 months from the date of claim by the bank or from the date of creation of forced Investment.

`Doubtful' if it remains past due/overdue for 9 months or beyond but not over 12 months from the date of claim by the bank or from the date of creation of forced Investment.

`Bad/Loss' if it remains past due/overdue for 12 months or beyond from the date of claim by the bank or from the date of creation of forced Investment.

(6) 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) is termed as `defaulted installment'.

(6.1) In case of **Fixed Term Investments**, which are repayable within **maximum five years of time**:
If the amount of **'defaulted installment'** is equal to or more than the amount of installment(s) due within 6 (six) months, the entire Investment is classified as **''Sub-standard''**.

If the amount of **'defaulted installment'** is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire Investment is classified as **''Doubtful''**.
If the amount of **'defaulted installment'** is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire Investment is classified as **''Bad/Loss''.**
(6.2) In case of **Fixed Term Investments**, which are repayable in **more than five years** of time: -

If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire Investment is classified as **''Sub-standard''**.

If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire Investment is classified as **''Doubtful''**.

If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 24 (twenty four) months, the entire Investment is classified as **''Bad/Loss''.**

(7) The **Short-term Agricultural and Micro-Credit** is 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 Investment agreement.

ii. Qualitative Judgment:

If any uncertainty or doubt arises in respect of recovery of any Continuous Investment, Demand Investment or Fixed Term Investment, the same is classified on the basis of qualitative judgment whether it is classifiable or not on the basis of objective criteria. If any situational changes occur in the stipulations in terms of which the Investment was extended or if the capital of the borrower is impaired due to adverse conditions or if the value of the securities decreases or if the recovery of the Investment becomes uncertain due to any other unfavorable situation, the Investment is classified on the basis of qualitative judgment.

Besides, if any Investment is illogically or repeatedly re-scheduled or the norms of re-scheduling are violated or instances of (propensity to) frequently exceeding the Investment-limit are noticed or legal action is lodged for recovery of the Investment or the Investment is extended without the approval of the competent authority, it will have to be classified on the basis of qualitative judgment.

Despite the probability of any Investment being affected due to the reasons stated above or for any other reasons, if there exists any hope for change of the existing condition by resorting to proper steps, the Investment, on the basis of qualitative judgment, is classified as 'Sub-standard '. But even if after resorting to proper steps, there exists no certainty of total recovery of the Investment, it is classified as ' Doubtful ' and even after exerting the all-out effort, there exists no chance of recovery, it is classified as ' Bad/Loss 'on the basis of qualitative judgment.

A summary is given below:

Nature of Investments	**Sub Standard**	**Doubtful**	**Bad/Loss**
	Months	**Months**	**Months**
1. Continuous Investment	06 months or beyond but less than 09 months	06 months or beyond but less than 09 months	06 months or beyond but less than 09 months
2. Demand Investment	06 months or beyond but not over 09 months from the date of claim by the bank or from the date of creation of forced Investment.	09 months or beyond but not over 12 months from the date of claim by the bank or from the date of creation of forced Investment.	12 months or beyond from the date of claim by the bank or from the date of creation of forced Investment.
3. Fixed Term Investment ***a) Repayable within maximum five (5) years of time***	If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 6 (six) months	If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months	If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 18 (eighteen) months
a) Repayable in more than five (5) years of time	If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months	If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 18 (eighteen) months	If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 24 (Twenty four) months

Management is very keen to manage the credit risk with utmost caution and care in all spheres of the Bank. According to the core risk management system suggested by Bangladesh Bank, SIBL has a detailed guideline for managing credit risk associated with investment (lending) operations.

The policy covers corporate, small and medium enterprise, retail exposures. We have a comprehensive credit appraisal procedure that covers Industry/Business risk, management risk, financial risk, security risk and reputation risk.

The Board has delegated the authority to accept exposures of various categories and of various amounts respectively to the Managing Director of the Bank who is also authorized to sub delegate such authority.

Summary position of classification of Investments:

	Year 2011	**Year 2010** (fig in crore)
Unclassified	5,178.69	3,485.99
Special Mentioned Account	0.56	7.49
Substandard	8.50	9.35
Doubtful	24.54	17.42
Bad or Loss	178.56	147.79
Total Investment	**5,390.86**	**3,668.03**

Movement of Classified Investments:

	Year 2011	**Year 2010** (fig in crore)
Balance at the beginning of the year	174.56	84.89
Addition during the year	99.21	104.43
Write off/waiver during the year	62.16	14.76
Balance as at year end	211.61	174.56

Credit risk management:

We have adopted a credit risk management policy to safeguard bank's assets. A separate team is working on it throughout the year for maintaining standard of assets in terms of recovery and disbursement.
Credit exposure of the Bank is monitored by quarterly MIS on portfolio, which is submitted to Managing Director. Bank complies with related norms on exposure stipulated by Bangladesh Bank.

Policies and procedures for collateral valuation and management:

Collateral valuation and management is an indispensable part of banking business activities as bank largely relies on the investment income. Investments are to be secured by collateral and guarantees.
Collateral as a tool for risk mitigation is defined as the assets or rights provided to the Bank by the borrower or a third party in order to secure a credit facility. In case of corporate and medium enterprises, fixed assets are generally taken as security for long tenor investments and current assets for working capital finance. For project finance, present and future assets of the underlying project are generally accepted. Housing loans and automobile loans are secured by the property/automobile being financed.

Acceptable collateral for investments are cash or cash equivalent equity/stock of listed companies traded in major stock exchanges, mutual funds, unit certificates, permissible government bonds, real estate, bank guarantees.

The decision on the type and quantum of collateral for each transaction is taken by the credit approving authority as delegated by the Board of Directors.

The Bank while calculating regulatory capital under Basel II framework, credit exposure to counterparty is reduced to the extent of risk mitigation provided by the eligible collateral after 'haircuts' as directed by Bangladesh Bank.

Our Bank follows the central bank guidelines in allowing credit facilities to a single Product and party.

Total gross credit risk exposures broken down by major types of credit exposure (Balance sheet exposure):

(Tk. In Crore)

Sl.	Exposure Type	BB's Rating Grade*	Risk Weight	Exposure	Risk Weighted Asset
1.00	*2.00*	*3.00*	*4.00*	*5.00*	*6 = (4×5)*
a)	Cash and Cash Equivalents		0.00	106.56	-
b)	Claims on Bangladesh Government (other than PSEs) and Bangladesh Bank (denominated in domestic and foreign currency)		0.00	665.19	-
c)	Claims on other Sovereigns & Central Banks*				
d)	Claims on Bank for International Settlements, International Monetary Fund and European Central Bank		0.00		
e)	Claims on Multilateral Development Banks (MDBs):				
	i) IBRD , IFC, ADB, AfDB, EBRD, IADB, EIB, EIF, NIB, CDB, IDB, CEDB		0.00		
	ii) Other MDBs	1	0.20		
		2,3	0.50		
		4,5	1.00		
		6	1.50		
		Unrated	0.50		
f	Claims on Public Sector Entities (excluding equity exposure) in Bangladesh	1	0.20		
		2,3	0.50		
		4,5	1.00		
		6	1.50		
		Unrated	0.50		
g)	Claims on Banks and NBFIs:				
	(Denominated in domestic as well as foreign currency)				

	i) Original maturity over 3 months	1	0.20	222.53	44.51
		2,3	0.50	125.75	62.88
		4,5	1.00	-	-
		6	1.50	-	-
		Unrated	1.00	38.47	38.47
	ii) Original maturity less than 3 months		0.20	1,091.50	218.30
h)	Claims on Corporate (excluding equity exposure)	1	0.20	177.36	35.47
		2	0.50	403.13	201.57
		3,4	1.00	387.78	387.78
		5,6	1.50	-	-
		Unrated	1.25	1,298.34	1,622.92
i	Claims under credit risk mitigation	PSE	N/A		
	[From Work Sheet -1(a)]:	Banks & NBFIs	N/A		
		Corporate	1.25	84.80	106.00
		Retail and Small	1.25	12.96	16.21
		Consumer Finance	N/A		
		Residential Property	N/A		
		Commercial real estate	N/A		
j)	Claims categorized as retail portfolio & Small Enterprise (excluding consumer loan)		0.75	1,377.51	1,033.13
k)	Consumer Loan		1.00	88.61	88.61
l)	Claims fully secured by residential property		0.50	320.97	160.49
m)	Claims fully secured by commercial real estate		1.00	425.42	425.42
n)	1.Past Due Claims (Risk weights are to be assigned net of specific provision):				
	- Where specific provisions are less than 20 per cent of the outstanding amount of the past due claim ;		1.50	54.01	81.02
	- Where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.		1.00	38.48	38.48
	- Where specific provisions are more than 50 percent of the outstanding amount of the past due claim.		0.50	21.46	10.73

	2. Claims fully secured against residential property that are past due for more than 90 days and/or impaired specific provision held there-against is less than 20% of outstanding amount	1.00	26.04	26.04
	3. Loans and claims fully secured against residential property that are past due by 90 days and /or impaired and specific provision held there-against is more than 20% of outstanding amount	0.75	3.12	2.34
o)	Capital Market Exposure	1.25	-	-
p)	Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book	1.25	100.44	125.55
o)	Investments in venture capital	1.50	148.00	222.00
q)	Investments in premises, plant and equipment and all other fixed assets	1.00	213.49	213.49
r)	Claims on all fixed assets under operating lease	1.00	-	
r)	All other assets		-	
	i) Claims on GOB & BB (eg. Advanced income tax, reimbursement of pratirakka/shdharon sanchay patra, etc.)	0.00	146.43	-
	ii) Staff loan/Investment	0.20	42.29	8.46
	iii)Cash items in process for collection	0.20	-	-
	iv)claims on Off-shore Banking Units (OBU)	1.00		
	iv) Other assets (net off specific provisions)	1.00	16.86	16.86
Subtotal			**3,023.12**	**2,452.61**
Total:			**7,637.49**	**5,186.70**

Risk Weighted Assets as per Risk weight grading

(amount in Taka)

Risk Weights	31.12.2011		31.12.2010	
(Both B/S & Off-B/S)	**Principal amount**	**Risk Weighted Assets**	**Principal amount**	**Risk Weighted Assets**
0%	9,181,800,000	-	6,344,090,991	-
20%	15,339,800,000	3,067,960,000	8,793,840,182	1,758,768,036
50%	9,258,000,000	4,629,000,000	2,399,700,000	1,199,850,000
75%	17,593,600,000	13,195,200,000	9,199,100,000	6,899,325,000
100%	13,812,931,000	13,812,931,000	9,750,800,000	9,750,800,000
125%	22,474,000,000	28,092,500,000	18,839,300,000	23,549,125,000
150%	2,020,100,000	3,030,150,000	1,980,900,000	2,971,350,000
Total	**89,680,231,000**	**65,827,741,000**	**57,307,731,173**	**46,129,218,036**

Geographical distribution of exposures:

(amount in Taka)

Division	As at 31 December 2011		As at 31 December 2010	
	Amount	Composition	Amount	Composition
Dhaka	37,100,282,799	68.82%	22,758,970,685	62.05%
Chittagong	11,592,344,131	21.50%	10,530,971,491	28.71%
Sylhet	251,249,450	0.47%	206,358,577	0.56%
Rajshahi	2,814,042,078	5.22%	2,652,554,815	7.23%
Khulna	1,904,802,487	3.53%	531,430,377	1.45%
Rangpur	245,250,052	0.45%	-	-
Barisal	604,775	0.001%	-	-
Total	**53,908,575,772**	**100.00%**	**36,680,285,945**	**100.00%**

Customer group and industry wise classification of Investment

(amount in Taka)

Sector	As at 31 December 2011		As at 31 December 2010	
	Amount	Composition	Amount	Composition
Commercial lending	17,260,836,896	32.02%	0,169,219,457	27.72%
Export Financing	4,458,018,423	8.27%	3,006,972,542	8.20%
House Building Investment	2,501,584,455	4.64%	1,603,579,779	4.37%
Consumer Investment Scheme	4,027,654,013	7.47%	1,703,563,981	4.64%
Small and Medium Enterprises	90,675,497	0.17%	157,310,495	0.43%
Micro Investment	17,141,365	0.03%	27,962,499	0.08%
Other Investments	4,173,833,140	7.74%	4,839,101,019	13.19%
Allied concern of Directors of SIBL	13,754,000	0.03%	15,773,000	0.04%
Executives & Staffs of SIBL	554,328,324	1.03%	43,068,560	0.12%
Agricultural Industries	1,206,903,987	2.24%	875,085,234	2.39%
Textile Industries	5,358,306,425	9.94%	3,574,398,260	9.74%
Food & Allied Industries	1,711,630,445	3.18%	1,369,304,356	3.73%
Pharmaceutical Industries	1,389,103,673	2.58%	1,375,349,850	3.75%
Leather, Chemical, Cosmetic etc.	242,702,156	0.45%	58,943,563	0.16%
Construction Industries	1,785,602,245	3.31%	1,199,781,177	3.27%
Cement and Ceramic Industries	25,432,069	0.05%	19,179,329	0.05%
Service Industries	537,025,565	1.00%	391,445,726	1.07%
Transport and Communication Industries	1,066,803,846	1.98%	988,438,244	2.69%
Other Industries	7,487,239,248	13.89%	5,261,808,874	14.35%
Total	**53,908,575,772**	**100.00%**	**36,680,285,945**	**100.00%**

Maintenance of Specific Provision

SIBL strictly follows Bangladesh Bank Circulars and Guidelines for loan classification, write offs, provisioning and any other issues related to Non Performing Investments (NPL). We strictly follow BRPD circular 05 dated 05 June 2006.

NPI ratio of SIBL was 3.93% and 4.76% as on the reporting dates, 31 December 2011 and 31 December 2010. Following is the status of Investment classification of the Bank as on the reporting dates.

Classified Investment

(amount in crore Taka)

		<u>**2011**</u>	<u>**2010**</u>
i)	Sub Standards	8.51	9.35
ii)	Doubtful	24.54	17.42
iii)	Bad/Loss	178.56	147.79
	Total	**211.61**	**174.56**

Equities: Disclosures for Banking Book Positions

The bank holds unquoted equities intent of which is not trading and the same are shown as banking book asset in balance sheet. As these securities are not quoted or traded in the bourses they are shown in the balance sheet at the cost price and no revaluation reserve has been created against these equities.

Investment in securities traded in the secondary market bears the risk on Equity Position. Capital charge is calculated for 'Specific Risk' and 'General Market Risk' on investment in equities.

Capital charge on equities

(amount in crore Taka)

Capital charge for	**Market Value**	**Weight**	**Required Capital Charge**
1	2	3	4= (2×3)
a) Specific Risk :	64.92	**10.00%**	6.49
b) General Market Risk:	64.92	**10.00%**	6.49

<u>**Investment in Shares (Quoted):**</u>

(amounts in Taka)

SL No	**Name of the Company**	**Cost price of Bank's investment in share**	**Market price of Bank's investment in share**
1	ICB 1st Mutual Fund	12,801,614	15,430,050
2	ICB 2nd Mutual Fund	1,108,992	1,365,350
3	ICB 3rd Mutual Fund	13,432,587	19,571,400
4	ICB 4th Mutual Fund	8,259,903	11,976,700
5	ICB 5th Mutual Fund	4,476,923	5,134,560
6	ICB 7th Mutual Fund	17,160,145	16,732,050

7	ICB 8th Mutual Fund	15,598,482	12,988,404
8	Al-Arafah Islami Bank Limited	48,345,984	40,824,000
9	AB Bank Limited	54,042,416	37,565,000
10	Square Pharmaceuticals Limited	13,432,625	11,855,000
11	Exim Bank Limited	32,205,526	22,518,000
12	Bank Asia Limited	26,382,302	22,461,600
13	Dhaka Bank Limited	34,856,688	31,592,330
14	Titas Gas Transmission and Distribution Co. Company Ltd.	44,078,416	31,535,400
15	City Bank Limited	11,376,776	10,520,000
16	Beximco Limited	25,248,318	15,820,000
17	MJ Bangladesh Limited	10,580	10,490
18	Shahjalal Islami Bank Limited	59,048,343	39,812,500
19	Islami Bank Mudaraba Perpetual Bond	285,076,438	301,523,850
	Total	**706,943,057**	**649,236,684**

Investment in Shares (unquoted):

Preference Shares

(amounts in Taka)

	Year 2011	**Year 2010**
Belhasha Accom JV Limited	**500,000,000**	**500,000,000**

Unqoted Shares

(amounts in Taka)

CDBL Share	4,416,700	4,416,700
Orion Pharma Limited	500,000,000	500,000,000
M. I. Cements Limited	-	3,608,921
MJ Bangladesh limited	-	6,125,261
Total	**1,004,416,700**	**1,014,150,882**

Investment in Share & Securities (Excluding Investment in Subsidiaries)

(amounts in Taka)

i)	Investment in Shares (Quoted)	706,943,057	485,575,711
ii)	Investment in Shares (unquoted)	1,004,416,700	1,014,149,282
iii)	Government Islami Mudaraba Bond (HTM)	1,050,000,000	1,050,000,000
	Total Investment in Share & Securities	**3,761,359,757**	**2,549,726,593**

Investment in subsidiaries

(amounts in Taka)

Investment in subsidiaries		**1,479,998,400**	**499,998,400**
i)	SIBL Securities Ltd.	1,229,999,000	249,999,000
ii)	SIBL Investment Ltd.	249,999,400	249,999,400

Interest (Profit) rate risk in the banking book (IRRBB):

Profit rate risk is the exposure of a bank's financial condition due to adverse movements in profit rates. Changes in profit rates affect a bank's earnings by changing its net profit income and the level of other profit sensitive income and operating income. Changes in profit rates also affect the underlying value of the bank's assets, liabilities and off-balance-sheet instruments because the economic value of future cash flows changes when profit rates change.

Sources and types of interest (Profit) rate risks in banking book are:

a) Gap or mismatch risk
b) Basis risk
c) Net interest (Profit) position risk
d) Embedded option risk etc.

Techniques and assumptions:

The bank regularly monitors the duration gap of balance sheet and also duration of investment portfolio. The bucket wise profit rate sensitive gap is also reviewed regularly.

Market risk:

Market risk is the risk of loss of asset value and therefore earnings and capital due to changes in market interest (Profit) rates, foreign currency (exchange) conversion rates and security prices etc.

The Bank uses the standardized approach to calculate market risk for trading book exposure. It has three components as per Bangladesh Bank guidelines:

Two defined approaches are applied in measuring capital charge for Interest Rate Risk under Standardized Approach. These are "Capital charge for specific risk" and "Capital charge for general market risk".

Equities

Investment in securities traded in the secondary market bears the risk on Equity Position. Capital charge is calculated for 'Specific Risk' and 'General Market Risk' on investment in equities.

Foreign exchange position

The foreign exchange position of the bank is calculated based on the bank's net open position (as prescribed by Bangladesh Bank) in each currency calculated by summing:

- Net spot position
- Net forward position

The overall foreign exchange exposure is computed on the sum of the net short positions or the sum of the net long positions, whichever is greater.

(amount in crore)

Market Risk on Trading Book (Solo basis)	**31.12.2011**	**31.12.2010**
Quantitative Disclosure : The Capital charge for:		
Interest rate risk	-	0
Equity Position Risk	12.98	8.84
Foreign Exchange Risk; and	11.03	7.78
Commodity Risk	-	
Total	**24.01**	**16.62**

Operational risk:

Operational Risk is the risk of loss arising from fraud, error, omission or external events. Operational risk is inherent in every business environment. SIBL is also exposed to the same risk of which our bank is cautious enough to mitigate and avoid possible and unexpected risk related to fraud, error or omission.

The key objectives of operational risk measurement and management include:

- Maintaining capital adequacy and safeguarding bank's assets from potential loss arising from operational risk.
- Ensuring that staffs are trained and have knowledge to perform their risk management roles and responsibilities actively.

The Bank uses the Basic Indicator Approach (BIA) to calculate its operational risk. Capital charge is 15% of the last three years average positive Gross Income or GI (Net Interest Income or NII plus Non-interest income) with few adjustments. RWA will be calculated by multiplying capital charge with the reciprocal of MCR percentage (10 if MCR is 10 %.).

Capital charge for operational risk:

(amount in crore Taka)

Particulars	**Total gross income (GI)**	**Average GI**	**15% of Average GI**
Total gross income on solo basis (3 Years)	829.89	276.63	41.49
Total gross income on consolidated basis (3 Years)	829.88	276.63	41.49

However, SIBL not only cares for these risk areas but also takes care of some other risk areas that might affect the financial position of the Bank in any unwanted situation. Liquidity Risk, Legal Risk, Reputational Risk etc. are one of those risk areas.

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