First Security Islami Bank Ltd
Disclosure on Risk Based Capital under Basel II
Risk Based Capital Adequacy as on 31.12.2011

Risk Management

Capital Management

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings. Strategic business and capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank to support the strategy. The capital plan takes the following into account:

- regulatory capital requirements;
- forecast demand for capital to support the credit ratings;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- Internal controls and governances for managing the Bank's risk and performance.

The Bank assesses the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed; relevant mitigates considered and appropriate levels of capital determined. The capital adequacy is a key part of the Bank's management disciplines.

Pillar–2 (Supervisory Review Process) intends to ensure that the banks have adequate capital to address all the risks in the business commensurate with Bank's risk profile and control environment. As required, the bank has put in place a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP).

Pillar-3 refers to market discipline. As directed by the Risk Based Capital Adequacy (RBCA) guide lines on Basel II framework, a set of disclosures (both qualitative & quantitative) as per Basel-II guideline are annexed with regard to risk management in the bank, which will enable market participants to access key information on the scope of application, capital risk exposures, risk assessment processes, bank's risk profile and level of capitalization etc. This would also provide the market participants with the necessary data to evaluate the performance of the bank in various parameters.

(a) Scope of Application

Qualitative Disclosures:

a)	The name of the top corporate entity in the group to which this guidelines applies	The Bank does not belong to any group.
b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities*1 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).	First Security Islami Bank Limited prepared its Basel-II report on 'Solo' basis because the subsidiaries were not in operation on the reporting date.
c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not applicable.

Quantitative Disclosures:

a)	The aggregate amount of capital deficiencies*2 in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries	There is no deficiency of the Capital in any Subsidiary.

b) Capital Structure

Qualitative Disclosures:

a)	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.	Bangladesh Bank has released guideline for issuing subordinated debt. We have already taken effective steps for issuance of subordinated debt / bond, which will be Included in Tier 2 Capital as per Bangladesh Bank guidelines.

Quantitative Disclosures:

Eligible Capital

As on 31 December 2011 **Taka in Crore**

1. Tier-1 (Core Capital)		**Solo**	Cons
1.1	Fully Paid-up Capital/Capital Deposited with BB	340.03	340.03
1.2	Statutory Reserve	70.42	70.42
1.3	Non-repayable Share premium account	-	-
1.4	General Reserve	2.40	2.40
1.5	Retained Earnings	37.16	37.17
1.6	Minority interest in Subsidiaries	-	4.89
1.7	Non-Cumulative irredeemable Preferences shares	-	
1.8	Dividend Equalization Account	-	
1.9	Other (if any item approved by Bangladesh Bank)	-	
1.9	**Sub-Total: (1.1 to 1.8)**	**450.01**	**454.91**
Deductions from Tier-1 (Core Capital)		-	-
1.10	Book value of Goodwill and value of any contingent assets which are shown as assets		
1.11	Shortfall in provisions required against classified assets irrespective of any relaxation allowed	-	
1.12	Deficit on account of revaluation of investment in AFS Category	-	
1.13	Any increase in equity capital resulting from a securitization transaction	-	
1.14	Any investment in TFCs of other banks exceeding the prescribed limit	-	
1.15	Eligible Capital	-	
1.16	**Sub Total (1.10-1.16)**	**-**	
1.17	**Total Eligible Tier-1 Capital (1.9-1.16)**	**450.01**	**454.91**

Taka in Crore

2 .Tier-2 (Supplementary Capital)		Solo	Cons
2.1	General Provision (Unclassified loans +SMA+ off Balance Sheet exposure) Limited to 1.25% of RWA	90.04	90.04
2.2	Assets Revaluation Reserves up to 50%		
2.3	Revaluation Reserves for Securities up to 50%		
2.4	Revaluation Reserve for equity instruments upto 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)**	**90.04**	**90.04**
2.9	Deductions if any		
2.10	**Total Eligible Tier-2 Capital (2.6-2.7)**	**90.04**	90.04

3. Tier-3 (eligible for market risk only)		Solo	Cons
3.1	Short-term subordinated debt	-	-
4.0	Total Supplementary Capital (2.10+3.1) (Maximum up to 100% of Total eligible tier-1 Capital)	**90.04**	90.04
5.Total Eligible Capital (1.17+4)		**540.05**	**544.95**

c) Capital Adequacy

Qualitative Disclosures:

a. A summary discussion of the bank's approach to assessing the adequacy of its capital:

As banks in Bangladesh are now in a stage of developing risk management models, BB suggested the banks for using Standardized Approach for credit risk capital requirement for banking book and Standardized (rule based) Approach for market risk capital charge in their trading book. FSIBL used the Basic Indicator Approach (BIA), as prescribed by Bangladesh Bank in determining capital charge against operational risk. Under the Basic Indicator Approach (BIA), the capital charge for operational risk is a fixed percentage (denoted by alpha) of average positive annual gross income of the bank over the past three years.

Quantitative Disclosures: **Taka in Crore**

Sl. No.	Particulars	Solo	Cons	
b.	Capital requirement for Credit Risk	556.98	556.48	
c.	Capital requirement for Market Risk	12.02	13.36	
d.	Capital requirement for Operational Risk	31.12	31.12	
e	Total and Tier 1 capital ratio (For stand alone)	**Total CAR**	**9.00%**	**9.07%**
		Tier-I CAR	**7.50%**	**7.57%**
		Tier-II CAR	**1.50%**	**1.50%**

d) Investment (Credit Risk)

Qualitative Disclosures:

1. Investment (Credit) Risk:

Investment (Credit) risk is the risk of loss that may occur from the failure of any counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments. Investment (Credit) Risk is broadly the possibility of losses associated with iminution in the credit quality of borrowers or counterparties.

Investment (Credit) Risk or default risk involves inability or unwillingness of a customer or counterparty to meet commitments in relation to investing, trading, settlement and other financial transactions. The Investment (Credit) Risk is generally made up of transaction risk or default risk and portfolio risk.

Past due is the unsecured portion of any claim or exposure (other than claims secured by residential property) that is past due for 90 days or more, net of specific provisions (including partial write-off). For the purpose of defining the net exposure of the past due investment, eligible financial collateral (if any) may be considered for Investment (Credit) Risk Mitigation. General provision maintained against Special Mention Account (SMA) investment will not be eligible for such net off.

2. Investment (Credit) Risk Management Policies

Credit risk is one of the major risks faced by the Bank. This can be described as potential loss arising from the failure of a counter party to perform according to contractual arrangement with Bank. The failure may arise due to unwillingness of the counter party or decline in economic condition etc. Bank's risk management has been designed to address all these issue.

FSIBL recognizes the importance in having effective risk management systems to address these risks. The system involves a framework for measuring and monitoring profit rate, liquidity, investment and foreign currency risk on a continuous basis. It involves the assessment of the risk and altering the assets and liability portfolio to confirm to exposure and tolerance levels set by the management committee.

Quantitative Disclosures:

SL. No.	**Particulars**	**Figure in Crore**
1	Total gross Investment (Credit) risk exposures, Fund based and Non-fund based separately.	
	1.1 Fund Based	6098.54
	1.2 Non Fund Based	238.46
2	Geographic distribution of exposures	
	2.1 Overseas:	-
	2.1.1 Fund Based	-
	2.1.2 Non-Fund Based	-
	2.2 Domestic:	-
	2.2.1 Fund Based	6098.54
	2.2.2 Non-Fund Based	238.46
3	Amount of Non Performing Assets (NPAs)	
	3.1 SMA	-
	3.2 Substandard	39.98
	3.3 Doubtful	4.42
	3.4 Bad & Loss	90.17
4	Non Performing Assets (NPAs) to outstanding Investments	1.94%
5	Movement of Non Performing Assets (NPAs)	
	5.1 Opening balance	83.05
	5.2 Additions	47.38
	5.3 Reductions	4.14
	5.4 Closing balance	134.57
6	Movement of specific provisions for NPAs	
	6.1 Opening balance	54.29
	6.2 Provisions made during the period	7.00
	6.3 Write-off/Write-back of excess provisions	-
	6.4 Recovery from write-off	-
	6.5 Closing Balance	61.29

e) Equity Position Risk

Qualitative Disclosures:

Equity risk: Equity risk is the risk that one's investments will depreciate because of stock market dynamics causing one to lose money. The capital charge for equities would apply on their current market value in bank's trading book. This capital charge for both specific risk and the general market risk will be at the rate of the required minimum capital adequacy ratio. This is applied to all instruments that exhibit market behaviour similar to equities. The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, for example: units of mutual funds, and commitments to buy or sell equity.

Quantitative Disclosures:

Bank's Holdings of Shares

Sl. No.	**Particulars**	**Market Value of Shares**	**Total Liabilities**	**% of value of shares to Total Liabilities**
a)	Own Portfolio	56.41		0.76%
b)	Market value of liened shares	-		
c)	Custody	-		
	Total Holdings	**56.41**		

Capital requirements for equity position risk:

Sl. No.	**Particulars**	**Amount (Market Value)**		**Weight**	**Capital Charge**	
	1	2		3	4=(2X3)	
		Solo	Cons		**Solo**	Cons
a)	Specific Risk :	46.41	53.12	0.10	4.64	5.31
b)	General Market Risk:	46.41	53.12	0.10	4.64	5.31
	Total	**92.82**	**106.24**		**9.28**	**10.62**

f) Profit Rate Risk

Qualitative Disclosures:

Profit Rate Risk in the Banking Book:

Profit Rate Risk is the risk which affects the Bank's financial condition due to changes in the market Profit rates. Changes in Profit rates affect both the current earnings (earnings perspective) as also the net worth of the Bank (economic value perspective). The risk from earnings perspective can be measured as impact in the Net Investment Income (NII) or Net Investment Margin (NIM). Similarly, the risk from economic value perspective can be measured in the Economic Value of Equity (EVE).

The Bank identifies the risks associated with the changing Profit rates from short term (Earnings perspective). The impact on income (Earnings perspective) is measured through use of Gap analysis by applying notional rate shock.

g) Market Risk

Qualitative Disclosures:

Trading book consists of positions in financial instruments held with trading intent. A capital charge is applicable for financial instruments which are free from any restrictive covenants on tradability in line with Basel II guidelines issued by Bangladesh Bank.

Market Risk:
Market Risk is defined as the possibility of loss to a Bank caused by changes/movements in the market variables such as Profit rates, foreign currency exchange rates, equity prices and commodity prices. The objective of the market risk management is to minimize the impact of losses on earnings and equity.

Policies for Management of Market Risk:

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.

Asset Liability Management is the key success of any financial intermediary especially for Banks. Asset Liability Committee (ALCO) of the Bank monitors Balance Sheet Risk and liquidity risks of the bank. The Balance Sheet Risk encompasses most part of the Asset Liability risk and deal with change in earnings due to change in rate of profit, foreign exchange rates which are not of trading nature on the other hand, liquidity risk can be defined as the risk or chance of failure to meet up any withdrawal /disbursement request by a counterparty/customer. Asset Liability Committee (ALCO) reviews Liquidity requirement of the bank, the maturity of assets and liabilities, deposits and investments pricing strategy and the Liquidity contingency plan. The primary objective of the Asset Liability Committee (ALCO) is to monitor and avert significant volatility in Net Investments Income (NII), investment value and exchange earnings for the purpose of taking future action plan for better interest of the organization.

Quantitative Disclosures:

1	**The Capital Requirements for**	**Solo**	Cons
	1.1 Profit (Interest) rate risk	9.28	10.62
	1.2 Equity position risk	2.73	2.73
	1.3 Foreign exchange risk		

h) Operational Risk

Qualitative Disclosures:

Operational risk is FSIBL's exposure to potential losses that may be caused from inadequate internal processes or systems, inadequate employee performance, external events and may also cause from the breach of compliance, contracts or internal regulation.

Operational Risk includes:

- IT (back up), interface, information and other system failures and deficiencies, including viruses.
- Confidentiality or security breaches
- human error
- fraud and theft
- weakness in internal controls/supervision
- physical disasters involving people, premises or equipment
- delivery failures
- regulatory/ compliance requirements
- third party payments

Quantitative Disclosures:

In line with the final guidelines issued by Bangladesh Bank, the Bank has adopted the Basic Indicator Approach for computing capital for operation risk.

As per the guidelines, the capital for operational risk is equal to 15% of average positive annual Gross Income of the previous three years, as defined by the Bangladesh Bank.

Year	**Gross Income (GI)**	**Average (GI)**	**Capital charge @ 15% of Average Gross Income**
2011	281.20	207.49	31.12
2010	208.52		
2009	132.76		
Total	622.48		

END