



South Bangla Agriculture and Commerce Bank Ltd

Disclosures under Risk Based Capital (Basel II)

For the year ended on 31 December 2014

Background: These disclosures under Pillar III of Basel II are made according to revised 'Guidelines on Risk Based Capital Adequacy (RBCA)' for banks issued by Bangladesh Bank (Central Bank of Bangladesh) in December 2010. These quantitative and qualitative disclosures are intended to complement the Minimum Capital Requirement (MCR) under Pillar I and the Supervisory Review Process (SRP) under Pillar II of Basel II.

The purpose of market discipline in the Revised Capital Adequacy Framework is to disclose relevant information on capital adequacy in relation to various risks of the bank so that stakeholders can assess the position of a bank regarding holding of assets, identify the risks relating to the assets and capital adequacy and can make economic decision. The disclosures under Pillar-III of Basel II framework of the bank as on 31 December 2014 are as under:

- A) Scope of Application
- B) Capital Structure
- C) Capital Adequacy
- D) Credit Risk
- E) Equities: Disclosures for Banking Book Positions
- F) Interest Rate Risk in Banking Book (IRRBB)
- G) Market Risk
- H) Operational risk



A) Scope of Application

Qualitative Disclosures:	
a) The name of the top corporate entity in the group to which this guidelines applies.	South Bangla Agriculture and Commerce Bank Ltd. (the Bank)
b) An outline of differences on 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 credit is risk-weighted).	The Risk Based Capital Adequacy framework applies to South Bangla Agriculture and Commerce Bank Limited on "Solo Basis" as there are no subsidiaries of the bank on reporting date.
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable
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



B) Capital Structure

Qualitative Disclosures:		
a)	Summary information on the terms and condition of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier I or Tier II.	<p>Regulatory capital, as stipulated by the revised RBCA guidelines by Bangladesh Bank, is categorized into three tiers according to the order of quality of capital (Tier I, II & III).</p> <p>i) Tier-I capital called 'Core Capital' comprises of highest quality of capital elements that consists of paid up capital, statutory reserves, general reserve eligible for inclusion in Tier-I capital that comply with requirement specified by Bangladesh Bank.</p> <p>ii) Tier-II capital called 'Supplementary Capital' represents other elements, which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank and consists of revaluation reserve, general provision etc.</p> <p>iii) Tier-III capital called 'Additional Supplementary Capital' consists of short-term subordinated debt, which would be solely for the purpose of meeting a proportion of the capital requirements for market risk. The Bank complied with all the required conditions for maintaining regulatory capital as stipulated in the revised RBCA guidelines by Bangladesh Bank as per following details:</p> <p>1) Requirements: The amount of Tier II capital will be limited to 100% of the amount of Tier I capital. Status of Compliance: Complied</p> <p>2) Requirements: 50% of revaluation reserves for fixed assets and securities eligible for Tier II capital. Status of Compliance: Complied</p> <p>3) Requirements: 10% of revaluation reserves for equity instruments eligible for Tier II capital. Status of Compliance: There was no revaluation reserve from quoted equities as on the reporting date.</p> <p>4) Requirements: Subordinated debt shall be limited to a maximum of 30% of the amount of Tier-I capital. Status of Compliance: As on the reporting date there was no subordinated debt in the capital structure of South Bangla Agriculture and Commerce Bank Ltd.</p> <p>5) Requirements: Limitation of Tier III: 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 maximum of 250% of a bank's Tier-I capital that is available after meeting credit risk capital requirement. Compliance Status: As on the reporting date there was no subordinated debt in the capital structure of South Bangla Agriculture and Commerce Bank Ltd.</p>



Quantitative Disclosures: As on reporting date, the Bank had a total capital of BDT 436.47 Crore comprising Tier-I capital of BDT 419.87 Crore and Tier-II capital of BDT 16.60 Crore (South Bangla Agriculture and Commerce Bank had no Tier III element in its capital structure). Following table presents component wise details of capital as on reporting date i.e. 31 December 2014:

Amount in crore Tk.

Sl No.	Particulars	Solo
1	Elements of Tier-I Capital:	
2	Paid up capital	408.96
3	Statutory Reserve	6.04
4	Non-repayable Share Premium Account	-
5	General Reserve	-
6	Retained Earnings	4.86
7	Minority Interest in Subsidiaries	-
8	Non-Cumulative Irredeemable Preferences shares	-
9	Dividend Equalization Account	-
10	Other (if any item approved by Bangladesh Bank)	-
11	Sub Total(1+2+-----+10)	419.87
12	Deductions from Tier-I Capital	-
13	Total eligible Tier -I Capital (Core Capital) (11-12)	419.87
14	Total amount of Tier-II Capital	16.60
15	Total amount of Tier-III Capital	-
16	Other deductions from Capital	-
17	Total Eligible Capital (13+14+15-16)	436.47



C) Capital Adequacy

Qualitative Disclosures:		
a)	A summary discussion of the bank's approach to assess the adequacy of its capital to support current and future activities.	<p>In terms of RBCA guidelines on Basel-II framework issued by Bangladesh Bank, the bank has adopted the standardized approach for credit risk, standardized (rule based) approach for market risk and basic indicator approach for operational risk. As per capital adequacy guidelines, the bank is required to maintain a minimum CAR of 10.00% with regards to Risk Weighted Assets.</p> <p>South Bangla Agriculture and Commerce Bank Ltd. focuses on strengthening and enhancing its risk management culture and internal control processes rather than increasing capital to cover up weak risk management and control practices. The bank is able to maintain capital adequacy ratio (CAR) at 29.54% on solo basis against the regulatory minimum level of 10.00%. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.</p>

b) Quantitative Disclosures:

Amount in crore Tk

Sl No.	Particulars	Solo
1	Capital Requirement for Credit Risk	112.99
2	Capital Requirement for Market Risk	25.87
3	Capital Requirement for Operational Risk	8.91
4	Total and Tier I Capital Ratio	28.41%
5	Minimum Capital Requirement	400.00
6	Total Risk Weighted Assets (RWA)	1,477.66
7	Total CAR	29.54 %
8	Tier-I CAR	28.41 %
9	Tier-II CAR	1.13%

D) Credit Risk

Qualitative Disclosures		
a) The general qualitative disclosures:		
i)	Definitions of past due and impaired (for accounting purposes)	<p>As per relevant Bangladesh Bank guidelines, the Bank defines the past due and impaired loans and advances for strengthening the credit discipline and mitigating the credit risk of the Bank. The impaired loans and advances are defined on the basis of (i) Objective / Quantitative Criteria and (ii) Qualitative judgment. For this purposes, all loans and advances are grouped into four (4) categories namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural & Micro Credit.</p> <p>Definition of past due/overdue:</p> <p>i) Any Continuous Loan 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;</p> <p>ii) Any Demand Loan 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;</p> <p>iii) In case of any installment(s) or part of installment(s) of a Fixed Term Loan 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;</p> <p>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.</p> <p>However, a continuous loan, demand loan or a term loan which will remain overdue for a period of 02 (two) months or more, will be put into the "Special Mention Account (SMA)", the prior status of becoming the loan into impaired/classified/non-performing.</p> <p>Definition of impaired / classified / non-performing loans and advances are as follows:</p> <p>Continuous loan are classified are as follows:</p> <ul style="list-style-type: none"> • Substandard: If it is past due /overdue for 3 (three) months or beyond but less than 6 (six) months; • Doubtful: If it is past due / overdue for 6 (six) months or beyond but less than 9 (nine) months; • Bad / Loss: If is past due / overdue for 9 (nine) months or beyond <p>Demand loan are classified are as follows:</p> <ul style="list-style-type: none"> • Substandard: If it remains past due / overdue for 3 (three) months or beyond but not over 6 (six) months from the date of expiry or claim by the Bank or from the date of creation of forced loan; • Doubtful: If it remains past due / overdue for 6 (six) months or beyond but not over 9 (nine) months from the date of expiry or claim by the Bank or from the date of creation of forced loan; • Bad / Loss: If it remains past due / overdue for 9 (nine) months or beyond from the date of expiry or claim by the Bank or from the date of creation of forced loan. <p>Fixed Term Loans are classified are as follows:</p> <p>a) In case of any installment (s) or part of installment (s) of a Fixed Term Loan amounting upto Taka 10 lacs is not repaid within the due date, the classification is as under:</p>



		<p>Substandard: If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 (six) months, the entire loan will be classified as "Sub- standard";</p> <p>Doubtful: If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 (nine) months, the entire loan will be classified as "Doubtful";</p> <p>Bad / Loss: If the amount of past due installment is equal to or more than the amount of installment (s) due within 12 (twelve) months, the entire loan will be classified as "Bad/Loss";</p> <p>b) In case of any installment (s) or part of installment (s) of a Fixed Term Loan amounting more than Taka 10 lacs is not repaid within the due date, the classification is as under:</p> <p>Substandard : If the amount of past due installment is equal to or more than the amount of installment (s) due within 3 (three) months, the entire loan will be classified as "Sub- standard";</p> <p>Doubtful: If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 (six) months, the entire loan will be classified as "Doubtful";</p> <p>Bad / Loss: If the amount of past due installment is equal to or more than the amount of installment(s) due within 9 (nine) months, the entire loan will be classified as "Bad/Loss".</p> <p>Short-term Agricultural and Micro-Credit: The Short-term Agricultural and Micro-Credit will be considered irregular if not repaid within the due date as stipulated in the loan agreement. If the said irregular status continues, the credit will be classified as "Sub-standard" 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</p>
ii)	Description of approaches followed for specific and general allowances and statistical methods	<p>The Bank follows the relevant Bangladesh Bank guideline for determination of general and specific allowances for loans and advances. Firstly, the base for provision for the unclassified and classified loans are calculated as under:</p> <p>a) Calculation of base for provision for unclassified /standard loans: Outstanding amount less suspended interest, if any;</p> <p>b) Calculation of base for provision for the classified loans, the higher of the following two amounts: i. Outstanding amount less suspended interest less value of eligible securities; or ii. 15% of outstanding amount.</p> <p>Secondly, the following rates are applied on base for provision for determination of general and specific allowances for loans:</p>



		Particulars		Short Term Agriculture and Micro Credit	Consumer Financing			Small Enterprise Financing	Credits to BHs/MBs /SDs	All Other Credits																																																
					Other than HF & LP	HF	LP																																																			
	Unclassified	Standard	2.5%	5%	2%	2%	0.25%	2%	1%																																																	
		SMA	2.5%	5%	2%	2%	0.25%	2%	1%																																																	
	Classified	SS	5%	20%	20%	20%	20%	20%	20%																																																	
		DF	5%	50%	50%	50%	50%	50%	50%																																																	
		B/L	100%	100%	100%	100%	100%	100%	100%																																																	
	Discussion of the banks credit risk management policy.	Risk is inherent in all aspects of a commercial operation; however for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. To manage credit risk South Bangla Agriculture and Commerce Bank Ltd follows Bangladesh Bank's circulated "CREDIT RISK MANAGEMENT Guidelines".																																																								
b) Quantitative Disclosures:																																																										
	Total gross credit risk exposures broken down by major types of credit exposures	Major types of credit exposure as per disclosures in the audited financial statements as of 31 December 2014. <div>Amount in Crore Tk.</div> <table><tr><th>Sl.</th><th>Mode-wise Credit</th><th>Exposure</th><th>Mix (%)</th></tr><tr><td>1</td><td>Overdrafts</td><td>397.47</td><td>29.40</td></tr><tr><td>2</td><td>General loans</td><td>113.77</td><td>8.42</td></tr><tr><td>3</td><td>Cash credit</td><td>448.52</td><td>33.18</td></tr><tr><td>4</td><td>Loan against trust receipt</td><td>122.22</td><td>9.05</td></tr><tr><td>5</td><td>Time Loan</td><td>20.57</td><td>1.52</td></tr><tr><td>6</td><td>EDF Loan</td><td>62.92</td><td>4.65</td></tr><tr><td>7</td><td>Personal Loan</td><td>5.24</td><td>0.39</td></tr><tr><td>8</td><td>Lease finance</td><td>38.54</td><td>2.85</td></tr><tr><td>9</td><td>Staff loan</td><td>14.36</td><td>1.06</td></tr><tr><td>10</td><td>Inland bills purchased</td><td>128.19</td><td>9.48</td></tr><tr><td></td><td>Total</td><td>1,351.80</td><td>100.00</td></tr></table>									Sl.	Mode-wise Credit	Exposure	Mix (%)	1	Overdrafts	397.47	29.40	2	General loans	113.77	8.42	3	Cash credit	448.52	33.18	4	Loan against trust receipt	122.22	9.05	5	Time Loan	20.57	1.52	6	EDF Loan	62.92	4.65	7	Personal Loan	5.24	0.39	8	Lease finance	38.54	2.85	9	Staff loan	14.36	1.06	10	Inland bills purchased	128.19	9.48		Total	1,351.80	100.00
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	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure	Geographical distribution of credit exposures as per the disclosures in the audited financial statements as of 31 December 2014 are as follows: <div>Amount in Crore Tk</div> <table><tr><th>Sl.</th><th>Division-wise Loan</th><th>Exposure</th><th>Mix (%)</th></tr><tr><td>1</td><td>Dhaka</td><td>921.17</td><td>68.14</td></tr><tr><td>2</td><td>Chittagong</td><td>342.11</td><td>25.31</td></tr><tr><td>3</td><td>Khulna</td><td>80.25</td><td>5.94</td></tr><tr><td>4</td><td>Sylhet</td><td>3.77</td><td>0.28</td></tr><tr><td>5</td><td>Rajshahi</td><td>2.20</td><td>0.16</td></tr><tr><td>6</td><td>Barisal</td><td>2.30</td><td>0.17</td></tr><tr><td></td><td>Total</td><td>1351.80</td><td>100.00</td></tr></table>									Sl.	Division-wise Loan	Exposure	Mix (%)	1	Dhaka	921.17	68.14	2	Chittagong	342.11	25.31	3	Khulna	80.25	5.94	4	Sylhet	3.77	0.28	5	Rajshahi	2.20	0.16	6	Barisal	2.30	0.17		Total	1351.80	100.00																
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Industry or counterparty type distribution of exposures, broken down by major types of credit exposures.	Industry or counterparty type distribution of exposures, broken down by major types of credit exposures as per the disclosures in the audited financial statements as of 31 December 2014 are as follows:			
	Amount in Crore Tk			
	Sl.	Industry-wise Loans	Exposure	Mix (%)
	1	Agriculture, Fisheries, and Forestry	15.87	1.16
	2	Agro base processing industries	42.91	3.17
	3	Small and Medium Enterprise Financing(SMEF)	373.36	27.62
	4	RMG & Textile Industries	126.48	9.36
	5	Hospitals, Clinics & Medical Colleges	31.24	2.31
	6	Trade & Commerce	262.51	19.42
	7	Transport & Communications	61.04	4.52
	8	Rubber & Plastic Industries	34.15	2.53
	9	Iron, Steel & Aluminum Industries	87.06	6.44
	10	Other Manufacturing Industries	251.01	18.57
	11	Housing & Construction Industries	10.65	0.79
	12	Consumer Credit	6.61	0.49
13	Others	48.91	3.62	
	Total	1,351.80	100.00	
Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposures	Residual contractual maturity of exposures as per the disclosures furnished in the audited financial statements as of 31 December 2014 are as follows:			
	Amount in Crore Tk			
	Sl.	Item	Exposure	Mix (%)
	1	On demand	-	-
	2	Within one month	247.92	18.34
	3	Within one to three month	365.53	27.04
	4	Within three to twelve month	562.21	41.59
	5	Within one to five years	161.68	11.96
6	More than five years	14.46	1.07	
	Total	1,351.80	100.00	
By major industry or counterparty type:	No past dues against impaired Loans.			

Specific and general provisions	Amount in Crore Tk	
	Provision required	Provisions as on 31.12.2014
	Unclassified Loans	11.48
	Special mention accounts (SMA)	-
	Sub total	11.48
	Substandard	-
	Doubtful	-
	Bad/Loss	-
	Sub total	-
	Total	11.48

***Provision for off-balance sheet item- BDT 2.91 crore

E) Equities: Disclosures for Banking Book Positions

a) Qualitative Disclosures:	
The general qualitative disclosures requirement with respect to equity risk, including:	
Differentiation between Holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Not applicable
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.	Quoted and unquoted shares are valued at cost. Provisions are made for any loss arising from diminution in value of investment.



Quantitative Disclosures:

b)	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Amounting Core Tk.	
		At Cost	At Market Value
		4.09	2.94
c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting (31 December 2014) period.	0.89	
d)	• Total unrealized gains (losses)	(1.14)	
	• Total latent revaluation gains (losses)	-	
	• Any amounts of the above included in Tier II capital.	-	
e)	Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.	Capital charge on banking book equities has been BDT 5.11 crore, calculated by giving 125% risk weight.	

F) Interest Rate Risk in Banking Book (IRRBB)

Qualitative Disclosure:		
a)	The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. The process of interest rate risk management by the bank involves determination of the business objectives, expectation about future macro variables and understanding the money markets and debt market in which it operates. Interest rate risk is the risk, which affects the Bank's financial condition due to changes in the market interest rates. Changes in interest rates affect both the current earnings (earnings perspective, traditional approach to interest rate risk assessment taken by many banks) as well as the net worth of the Bank (economic value perspective). The risk from earnings perspective measured as impact on the Net Interest Income (NII). Similarly, the risk from economic value perspective which affect the underlying value of the bank's assets, liabilities, and off- balance-sheet (OBS) instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change can be measured in the Economic Value of Equity (EVE). Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of banks. The Bank adopted traditional (earnings perspective) Duration Gap Analysis for assessing the impact on the Economic Value of Equity (Economic Value Perspective) by applying a notional Interest rate shock up from 100 bps to 300 bps under stress test practice at the bank.

Quantitative Disclosures:

The risk from earnings perspective can be measured as impact in the Net Interest Income (NII) due to changes in Interest rate. CAR before-shock (%) 29.54

Amount in crore Tk

Profit Rate Stress	Minor	Moderate	Major
Assumed change in Interest Rate	1%	2%	3%
Net interest income impact			
<12 months	2.43	4.86	7.30
Capital after-shock	438.90	441.33	443.77
CAR after-shock (%)	29.70	29.87	30.03
Change in CAR after-shock (%)	0.16	0.33	0.49

Impact of fluctuation in the interest rates on economic value of a financial institution is tested in the stress test. Economic value is affected both by changes in future cash flows and discount rate used for determining present value. To determine the impact of increase in interest rate risk 3 scenarios are tested, in minor level of shock of 1% increase in interest rate cause CAR to 29.70% from 29.54 % and 2% increase in interest rate cause CAR to 29.87%, finally a major shock of 3% increase in interest rate cause CAR to 30.03%.

Amount in crore Tk

Interest Rate Risk- Increase in Interest Rate	Minor Level of Shock	Moderate Level of Shock	Major Level of Shock
Magnitude of Shock	1%	2%	3%
Duration GAP (year)	0.82	0.82	0.82
Fall in MVE (on-balance sheet)	-17.36	-34.71	-52.07
Revised Capital	419.11	401.76	384.40
Revised RWA	1,476.68	1,476.68	1,476.68
Revised CAR (%)	28.38	27.21	26.03
Net Interest Income Impact (<12 Month)	2.43	4.86	7.30

*The stress testing was conducted considering CAR of 29.54% before finalizing the Financial Statement 2014.



G) Market Risk

a) Qualitative Disclosures:		
	Views of Board of Directors on trading/ investment activities:	<p>The Board approves all policies related to market risk, set limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance assets growth and trade related transactions. The market risk covers the followings risks of the Banks balance sheet:</p> <ul style="list-style-type: none"> i) Interest rate risk; ii) Equity price risk; iii) Foreign exchange risk; and iv) Commodity price risk.
	Methods used to measure Market risk:	<p>Methods used to measure Market risk as per relevant Bangladesh Bank guidelines, Standardize approach has been used to measure the Market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculate capital charges for "specific risk" and "general market risk".</p>
	Market Risk Management system:	<p>The Treasury Division of the Bank manages market risk covering liquidity, interest rate and foreign exchange risks with oversight from Assets-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meet at least once in a month.</p>
	Policies and processes for mitigating market risk:	<p>There are approved limits for credit deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items and borrowing from money market and foreign exchange position. The limits are monitored and enforced on a regular basis to protect against market risks. The exchange rate committee of the bank meets on a daily basis to review the prevailing market condition, exchange rate, foreign exchange position, and transactions to mitigate foreign exchange risks.</p>

**b) Quantitative Disclosures:**

Amount in crore Tk

Particulars	Total Capital Charge
Interest Rate Related Instruments	-
Equities Specific Risk - Market value of investment in equities BDT 388.96 Crore. Capital Charge at 10% of market value amounting BDT 0.00 Crore General Market Risk -Market value of investment in equities BDT 388.96 Crore. Capital Charge at 10% of market value amounting BDT 25.19 Crore.	25.19
Foreign Exchange Position	0.68
Commodities	-
Total	25.87

H) Operational Risk

Qualitative Disclosures		
a)	i) Views of Board of Directors (BOD) on system to reduce Operational Risk	The policy for operational risks including internal control and compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance Division (IC&CD) to protect against all operational risk.
	ii) Performance gap of executives and staffs	The Bank has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. The Bank's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.
	iii) Potential external events	No potential external event is expected to expose the Bank to significant operational risk.
	iv) Policies and processes for mitigating operational risk	No potential external events are expected to expose the Bank to significant operational risk. The policy for operational risks including internal control and compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Policy guidelines on Risk Based Internal Audit (RBIA) System is in operation. As per RBIA, branches are rated according to their risk status and branches scoring more on risk status are subjected to more frequent audit by Internal Control and Compliance Division (IC&CD). IC&CD directly report to Audit Committee of the Board. In addition there is a Vigilance Cell established in 2013 to reinforce operational risk management of the Bank. Bank's Anti-Money laundering activities are headed by CAMLCO and their activities are devoted to protect against all money laundering and terrorist finance related activities.



		Apart from that, there is adequate check and balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.
	v) Approaches for calculating capital charge for operational risk	<p>The Bank follows the Basic Indicator Approach (BIA) in terms of BRPD Circular No. 35 dated 29 December 2010[Guidelines on "Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel II)]". The BIA stipulates 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. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula:</p> $K = [(GI1 + GI2 + GI3) \alpha] / n$ <p>Where:</p> <p>K = the capital charge under the Basic Indicator Approach</p> <p>GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)</p> <p>α = 15 percent</p> <p>n = number of the previous three years for which gross income is positive.</p> <p>Besides, Gross Income (GI) is calculated as "Net Interest Income" plus "Net non-Interest Income". The GI is also the net result of :</p> <ul style="list-style-type: none"> i) Gross of any provisions; ii) Gross of operating expenses, including fees paid to outsourcing service providers; iii) Excluding realized profits/losses from the sale of securities held to maturity in the banking book; iv) Excluding extraordinary or irregular items; v) Excluding income derived from insurance.

b) Quantitative Disclosures:

Amount in Crore Tk

The capital requirements for operational risk	89.05
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Capital Charge for Operational Risk- Basic Indicator Approach

Amount in Crore Tk

Year	Gross Income (GI)	Average Gross Income (AGI)	Capital Charge = 15% of AGI
2013	33.19	33.19	4.98
2014	85.53	59.36	8.90