

## **Disclosures on Risk Based Capital Requirement under Pillar-III of Basel-II for the year ended December 31, 2009:**

### **Disclosure Overview**

This following detailed qualitative and quantitative disclosures are provided in accordance with the guidelines of Bangladesh bank for Risk Based Capital Adequacy Requirement under Basel-II issued through circular on December 31, 2008. This is intended to provide users an insight about the various risks exposures to which the bank is focused and maintenance of adequate capital against them. The users will also be able to compare the bank's performance within the banking industry.

BASIC Bank has an approved market disclosure policy to disclose adequate information to the users in accordance with the suggestions made by Bangladesh Bank which is consistent with Bangladesh Accounting Standards (BAS), Bangladesh Standards on Auditing (BSA).

### **Major Requirements of Bangladesh Bank' guidelines for Basel-II:**

**Pillar-I: Minimum Capital Requirement:** Bank shall maintain minimum capital against potential risks (Credit Risks, Market Risks, and Operational Risks) which will be at least 10% of total risk weighted assets. At present all banks operating in Bangladesh is instructed to follow Standardized approach for Credit Risk and Market Risk and Basic Indicator Approach for Operating Risk. Capital Adequacy Assessment and Maintenance shall be submitted to Bangladesh Bank on Quarterly basis.

**Pillar-II: Supervisory Review:** The banks shall have a process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital at an adequate level. Adequate capital shall be more than or equal to 10% of risk weighted assets.

Bank should develop an Internal Capital Adequacy Assessment Process (ICAP) for assessment and maintenance of adequate capital.

**Pillar-III: Market Discipline:** Purpose of Market discipline is to establish more transparent and disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to that assets and capital adequacy to meet the probable loss of assets. Banks shall develop an approved market disclosure policy and publish the same at least once in a year along with annual financial statements and also through website.

## **The Disclosure:**

### **Assets:**

Bank's total asset mainly consists of loans and advances, investment in government securities and money market placements which is increasing gradually. Quality of this asset is standard and percentage of non performing asset is also at tolerable level.

### **Comments on nature of assets:**

Bank's assets may be classified into several categories such as Banking Assets and Non Banking Assets, Trading Book Assets and Banking Book Assets, Earning Assets and Non Earning Assets.

#### **Earning Assets (Trading book asset, Banking book asset, etc):**

Earning Asset portfolio of the Bank consists of the followings:

- a. Loans and Advances
- b. Investment in Government Securities
- c. Investment in Equity Shares
- d. Investment in other approved Securities
- e. Investment in Call and Term Placement with Banks and Financial Institutions
- f. Balance with Other Banks (STD account, FC account )

#### **Non-earning assets (Cash, Cash reserve with BB, etc.):**

Non Earning Asset portfolio of the Bank consists of the followings:

- a. Cash and Cash Equivalents including foreign currency
- b. Balance with Bangladesh Bank Current Account for maintaining CRR
- c. Non Current Assets including Furniture and Fixtures, Machine and Equipments, Vehicles and Leased Assets.
- d. Other assets including receivables.

#### **Definition of Default and Classified Assets:**

The Bank follows classification of loans and advances as per applicable circular of Bangladesh Bank. According to Bank Companies Act-1991 the definition of Classified Loan is as follows:

The loans and advances along with interest accrued or a part thereof remaining

overdue as per definition of Bangladesh Bank for 06 months or more is termed as Default or Classified Loans.

**Addition/Reduction on Classified Assets:**

Bank’s non performing asset has increased slightly in the year 2009 comparing to that of 2008. Global economic recession has mainly contributed to such increase.

**Policies and processes for protecting assets against Core Risks inherent with banking activities:**

The Bank has developed its own core risks (Credit Risk, Foreign Exchange Risk, Asset Liability Management Risk, Money Laundering Risk and Internal Control and Compliance Risk) manual in line with core risks guidelines of Bangladesh Bank. As per these guidelines Asset Liability Committee (ALCO) regularly reviews bank’s asset and liability position and suggests appropriate course of actions for mitigating any type potential risks.

Bank has a Risk Management Unit to manage different types of risks. It is also comitted to adhere to core risk guidelines to protect its assets from all sorts of risks.

**Banking and Trading Book Asset:**

Amount in Crore

SL NO	A. Banking Book Assets	Amount
1	Cash in hand & Balance with BB (excluding FC)	217.37
2	Money at call	18.00
3	Investment	763.50
	a. Government –HTM T.Bond, Prize Bond	198.63
	b. Qualifying (Claims on Banks, etc)	564.25
	c. Others (Private Investment)	0.62
4	Loans & advances:	2926.15
	a. Classified:	
	Substandard	21.88
	Doubtful	19.57
	Bad and Loss	99.79
	b. Unclassified	
	Special Mention Account	23.18
	Standard	2761.73
5	Risk Weighted Assets:	
	a. Below 100% RW	801.05
	b. 100% RW	342.50
	c. Above 100% RW	2144.70

6	Rated Status:	
	a. Rated Assets	71.89
	b. Unrated Assets	3949.58
7	Other assets (Including Fixed Assets)	<b>96.45</b>
	A. Total Banking Book Assets (1+2+3+4+7)	<b>4021.47</b>
	<b>Trading Book Assets:</b>	
1	FC held in hand	<b>0.50</b>
2	FC held in BB & Nostro account	<b>58.14</b>
3	Investment (trading)	<b>432.12</b>
	a. Govt.(part of govt. HTM if held above the required SLR amount)	<b>0</b>
	b. HFT	423.79
	c. AFS (if any)-Share of listed companies	8.33
	B. Total Trading Book Assets (1+2+3)	<b>490.76</b>
	<b>Total Assets (A+B)</b>	<b>4512.23</b>

### **Credit Risk on Banking Book**

Credit Risk is the probability of loss arising from counterparties' failure to meet repayment obligation. Credit risk mainly arises from direct loans and advances, Trade Finance Business and Off Balance Sheet exposures.

#### **Methods used to measure credit risk:**

As per guidelines of Bangladesh Bank for Risk Based Capital Adequacy for Banks Standardized Approach for Credit Risk measurement has been applied. Standardized approach requires risk weight based on risk assessment done by External Credit Assessment Institutions recognized by Bangladesh Bank. Credit exposure not rated by any ECAI will get fixed weight as per Standardized approach. |

#### **Credit Risk Management system:**

Bank has Credit risk Manual prepared inline with the credit risk of core risks guidelines of Bangladesh Bank. Manual contains the details of policies and procedures of bank's credit operation. Bank has different Credit departments such as Industrial Credit Division, Commercial Credit Division, Micro Credit and Wholesale Finance Division and Trade Finance Division. Credits sanctioned from these departments go through a series of analysis of financials and feasibility of the projects. Bank also has Credit Administration Division and Recovery and Legal Issues Division. Credit Administration Division ensures and monitors the compliance with credit policies, procedures and other rules of Bangladesh Bank. Recovery and Legal Issues Division ensures timely recovery of all assets and provide legal support to any dispute.

### **Policies and processes for collateral valuation and management:**

Bank has clear stipulation in the credit manual about the eligibility of collateral for credit proposals. Collaterals of fixed assets including land, building and factory premises are physically visited by the bank's credit officers and valued by independent professional valuation firm before sanctioning the loans and advances. All the documents relating to the valid title of the property are checked by the penal lawyers of the bank. Main types of collaterals taken by the bank:

- a) Cash Collaterals
- b) Registered Mortgage of Land and Building in Commercial, Industrial and Residential sectors
- c) Stock of inventory, Accounts Receivable and Hypothecation of machinery

Total credit portfolio has been divided into 15 sub –sectors and it regularly monitored that a particular sector does not get too much of our total credit exposures. In addition the Bank has a mandate of providing at least 50% of its loan able fund to Small and Medium Scale Industries. Therefore credit concentration is automatically managed.

### **Quantitative disclosure of credit risk:**

		Amount in Crore
	A) Total Exposures of Credit Risk	
1	Funded:	
	a) Domestic	4021.47
	b) Overseas	0
2	Non-Funded	
	a) Domestic	378.79
	b) Overseas	0
3	Distribution of risk exposure by claims	
	A. Claims on sovereigns and central banks	454.54
	B. Claims on other official entities	57.09
	C. Claims on banks and securities firms	769.85
	D. Claims on corporate (Medium Enterprise loans need to be shown separately)	1414.31
	E. Claims included in the retail portfolio & small enterprises (consumer loan need to be shown separately)	284.72
	F. Claims secured by residential property	469.72
	G. Claims secured by commercial real estate	227.97
	H. Consumer	15.38
	I. Other Categories:	
	– Past due loans/NPL (Net of Specific Provision)	112.28
	- Off-balance sheet items	378.79
4	Credit Risk Mitigation	
	Claims secured by financial collateral	145.47

	Net exposure after the application of haircuts.	45.04
	Claims secured by eligible Guarantee	0

### Market risk on Trading Book

Market risk is the possibility of losing assets in balance sheet and off balance sheet position arising out of the volatility in market variables i.e., interest rate, exchange rate and price.

Bank uses standardized approach to calculate market risk for trading book exposure as per instruction of Bangladesh Bank. Trading book exposures consists of position in financial instruments held with trading intent. Generally investment in Held for Trading category is main part of trading book exposures.

Trading steps are taken after considering regular update about the market. Bank diversifies its assets in various categories of trading assets. Bank has also a limit policy to mitigate unwanted market risk factors.

Quantitative Disclosure:

SL NO	The capital requirements for:	Amount in Crore
1	Interest rate risk;	9.94
2	Equity position risk;	4.91
3	Foreign exchange risk; and	1.59
4	Commodity risk	0.00

### Operational risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

Bank has internal manuals on Internal Control and Compliance, Human Resource where details of operational policies, procedures and HR related activities have been stated.

Bank regularly monitor and reviews the performance of executives both quantitatively and qualitatively through analysis of achievement of business target in various parameters and behavioral, tactical and leadership aspects through confidential evaluation process.

Bank is running through centralized real time online system. External events like natural disaster and unauthorized access to Bank's centralized computer system can affect the bank significantly. Bank has alternative arrangement for disaster recovery and a highly qualified team of IT experts is working to prevent any type of unauthorized access.

Bank has an Audit and Inspection Division and Compliance Division. Audit and

Inspection team regularly work to detect and remove procedural flaws, error and fraud. Compliance Division is working to ensure all sorts of regulatory and policy compliance to help smooth operation and maintain consistency and thus reduce risk.

Bank uses Basic Indicator approach for calculating operational Risk as per instruction of Bangladesh Bank.

The capital requirements for:	Amount in Crore
• Operational Risk	31.30

### Maintenance of Specific Provision

Bank determines Specific Provision on Non performing assets as per relevant circulars of Bangladesh bank and maintains adequate provision as required which is quarterly reported to Bangladesh Bank.

As per instruction of Bangladesh Bank specific provisions is calculated and maintained under the following categories of classified assets:

SL	Non Performing Assets Categories	Percentage of Specific Provision
1	Substandard loans and advances	20%
2	Doubtful loans and advances	50%
3	Bad and Loss loans and advances	100%

Apart from above quantitative loan provisioning system bank also applies qualitative judgment to determine the quality of loans and advances and makes appropriate specific provision if necessary.

Amount In Crore		
A	Gross Non Performing Assets	141.23
	Non Performing Assets to Outstanding Loans and Advances	4.83%
B	Movement of Nonperforming Assets	
	Opening balance	125.12
	Additions	163.19
	Reductions	147.08
	Closing Balance	141.24
C	Movement of Specific Provision for NPAs	
	Opening Balance	41.58
	Provisions made during the year	11.35
	Write off	0.60
	Write back of excess provisions	0.00
	Closing Balance	52.34

## Maintenance of Regulatory Capital

Capital Instruments eligible for inclusion in Tier 1 or in Upper Tier 2.

		In Crore Tk.
A	Amount of Tier-1 Capital	
	Paid up Capital	145.53
	Statutory Reserve	155.99
	General reserve	4.00
	Retained Earnings	53.01
	Total of Tier -I	358.53
B	Amount deducted from Tier-1 Capital	
	Good will	00.00
	Shortfall	00.00
	Others	00.00
C	Total amount of Tier 2 capital (net of deductions from Tier 2 capital)	69.48
D	Total eligible capital.	428.01

## Capital Adequacy

A summary presentation of the bank's approach to assessing the regulatory capital:

		In Crore Tk.
A	Amount of Regulatory Capital to meet unforeseen loss	377.14
	Amount to meet Credit Risk	329.40
	Amount to meet Market Risk	16.44
	Amount to meet Operational Risk.	31.30
B	Some additional capital over MCR maintained by the banks''	00.00