

**Disclosures on Risk Based Capital Requirement under Basel-II
for the year ended December 31, 2013**

Disclosure Overview

The following detailed qualitative and quantitative disclosures are provided in accordance with the revised guidelines of Bangladesh Bank for Risk Based Capital Adequacy Requirement under Basel-II issued through circular on December 2010. This is intended to provide the users an insight about various risk exposures, to which the bank is exposed and maintained adequate capital against them. The users will also be able to compare the bank's performance within the banking industry.

Scope and purpose

The purpose of Market discipline in the Revised Capital adequacy Framework is to complement the minimum capital requirements and the supervisory review process. The aim of introducing Market discipline in the revised framework is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets.

All the quantitative disclosure furnished here are on *solo basis* and on the basis of audited financial statement of BASIC Bank Limited for the year ended 31 December 2013 prepared under relevant international accounting and financial reporting standards as adopted by the Institute of Chartered Accountant of Bangladesh (ICAB) and related circulars/instructions issued by Bangladesh Bank from time to time.

a) Scope of application

Qualitative Disclosures

a. The name of the top corporate entity in the group to which this guidelines applies.	BASIC Bank Limited
b. An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group: (i) that are fully consolidated; (ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted)	The Risk Based Capital Adequacy framework applies to BASIC 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 Disclosure

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
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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.
- Paid up capital: TK 294.70 crore**
As per stipulation of Memorandum and Articles of Association of the Bank at least 50% of net Profit (after tax) is re-invested in the capital of the bank and to that extent bonus share is generally issued to the shareholders.
- Statutory reserve: TK 222.47 crore**
As per Section 24 of Bank Companies Act 1991, we have to transfer 20% of profit before tax to Statutory Reserve each year.
- General reserve: TK 4.00 crore**
In addition to the above there is a General reserve of TK 4.00 crore which was created for venture capital.
- Retained Earnings:** Tk. -47.99 crore
Other Reserve (Non-cumulative irredeemable preference share): Tk. 120.50 Crore
General provision: TK 54.18 crore;

Quantitative Disclosures

(Amount in crore TK)

b. The amount of Tier-1 capital, with separate disclosure of:	
Paid up capital	294.70
Non-repayable share premium account	0.00
Statutory reserve	222.47
General reserve	4.00
Retained earnings	-47.99
Minority interest in subsidiaries	0.00
Non-cumulative irredeemable preference shares	0.00
Dividend equalization account	0.00
Others, if any	120.50
c. The total amount of Tier 2 and Tier 3 capital (Since Tier 1 is negative)	0.00
d. Deductions: Shortfall in provisions required against classified assets	-788.81
e. Total eligible capital	-195.13

c) Capital Adequacy

Qualitative Disclosures

a. Summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	Capital Adequacy is the cushion required to be maintained for covering the Credit risk, Market risk and Operational risk so as protecting the depositors and general creditors' interest against such losses. In line with BRPD Circular no. 35 dated 29 December, 2010, the bank has adopted Standardized Approach for Credit Risk & Market Risk and Basic Indicator Approach for Operational risk for calculating the capital adequacy.
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Quantitative Disclosures

		(Amount in crore TK)
b. Capital requirement for Credit Risk		1,080.86
c. Capital requirement for Market Risk		17.21
d. Capital requirement for Operational Risk		78.81
e. Tier 1 and Total capital ratio:	Tier 1 Capital ratio	Total Capital Ratio
• For the consolidated group; and	N/A	N/A
• For stand alone	-1.66%	-1.66%

d) Credit Risk

Qualitative Disclosures

a. The general qualitative disclosure requirement with respect to credit risk, including:

• Definitions of past due and impaired (for accounting purposes);	<p>Loans and advances (loans and bill discount in the nature of an advance) of a bank are classified in to performing and non-performing loans (NPL) in accordance with the Bangladesh bank guidelines.</p> <p>An NPL is defined as a loan or an advance where interest and/or installment of principal remain overdue for more than 90 days in respect of continuous credit, demand loan or a term loan etc.</p> <p>Classified loan is categorized under following 03(three) categories:</p> <ol style="list-style-type: none">1. Sub-standard (SS);2. Doubtful (DF);3. Bad & Loss (BL). <p>Continuous Loan: Any continuous loan will be classified as:</p> <ol style="list-style-type: none">1. Sub-standard if it is past due/overdue for 3 months or beyond but less than 6 month;2. Doubtful if it is past due/overdue for 6 months or beyond but less than 9 month;3. Bad & Loss if it is past due/overdue for 9 months or beyond. <p>Demand Loan: Any demand loan will be classified as:</p> <ol style="list-style-type: none">1. Sub-standard if it remains past due/overdue for 3 months or beyond but not over 6 months from the date of claim by the bank or from the date of creation of forced loan;2. Doubtful if it remains past due/overdue for 6 months or
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beyond but not over 9 month from the date of claim by the bank or from the date of creation of forced loan;

3. Bad & Loss if it remains past due/overdue for 9 months or beyond from the date of claim by the bank or from the date of creation of forced loan;

Fixed Term Loan: In case of any installment(s) or part of installment(s) of Fixed Term Loan is not repaid within the due date, the amount of unpaid installment(s) will be termed as “defaulted installment”.

In case of Fixed Term loans amounting more than Tk. 10.00 lac,

1. If the amount of “defaulted installments” is equal to or more than the amount of installment(s) due within 3 month, the entire loan will be classified as Sub-standard.
2. If the amount of “defaulted installments” is equal to or more than the amount of installment(s) due within 6 month, the entire loan will be classified as Doubtful.
3. If the amount of “defaulted installments” is equal to or more than the amount of installment(s) due within 9 month, the entire loan will be classified as Bad & Loss.

In case of Fixed Term loans amounting up to Tk. 10.00 lacs:

1. If the amount of “defaulted installments” is equal to or more than the amount of installment(s) due within 6 month, the entire loan will be classified as Sub-standard.
2. If the amount of “defaulted installments” is equal to or more than the amount of installment(s) due within 9 month, the entire loan will be classified as Doubtful.
3. If the amount of “defaulted installments” is equal to or more than the amount of installment(s) due within 12 months, the entire loan will be classified as Bad & Loss.

• Description of approaches followed for specific and general allowances and statistical methods;	Type of loans & Advances	Required Provision (% of Base for Provision)					
		Standard	SMA	SS	DF	BL	
• Discussion of the bank’s credit risk management policy	Consumer Finance	House building and loans to Professionals	2%	2%	20%	50%	100%
		Other than House building and professional to setup business	5%	5%	20%	50%	100%
		Loans to Brokerage House, Merchant Bank or stock dealers, etc.	2%	2%	20%	50%	100%
		SME Financing	0.25%	0.25%	20%	50%	100%
		Others	1%	1%	20%	50%	100%
		Short term Agri. Credit and Micro Credit		5%			100%
	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 (ECAI) recognized by Bangladesh Bank. Credit exposure not rated by any ECAI will get fixed weight as per Standardized approach.						

Quantitative Disclosures

b. Total gross credit risk exposures broken down by major types of credit exposure.	Type	Amount (in crore)	Percentage
	Continuous Loan	5,614.68	51.31%
	Term Loan	3,910.16	35.73%
	Bill portfolio	142.08	1.30%
	Other loan products	1,275.92	11.66%
c. Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.	Division	Amount (in crore)	Percentage
	Dhaka	9067.61	82.86%
	Chittagong	1081.19	9.88%
	Khulna	272.25	2.49%
	Rajshahi	239.2	2.19%
	Sylhet	102.56	0.94%
	Barisal	19.59	0.18%
	Rangpur	160.45	1.47%
d. Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	Sector (only industrial loan)	Amount (in crore)	Percentage
	Food & Allied	1,121.47	10.25%
	Textile	680.92	6.22%
	ERMG	709.30	6.48%
	Accessories	168.25	1.54%
	Jute product & Allied	390.46	3.57%
	Forest product & Allied	7.30	0.07%
	Paper, Board, Printing & Packg.	280.94	2.57%
	Tannery, Leather and Rubber	140.81	1.29%
	Chem. Pharm. and Allied	419.98	3.84%
	Glass, Crmc. and other non mental	33.57	0.31%
	Engineering	144.78	1.32%
	Electrical & Electronics	61.95	0.57%
	Service Industry	1,031.21	9.42%
Misc. Industry	1,002.03	9.16%	
Industry not elsewhere classified	32.18	0.29%	
e. Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Type of credit exposure	Amount (in	Percentage
	Up to 01 Month	4,065.45	37.15%
	Above 1 month but not more than 3 month	908.80	8.30%
	Above 3 month but not more than 1 year	2,951.49	26.97%
	Above 1 year but not more than 5 years	2,585.70	23.63%
	Above 5 years	431.41	3.94%
f. By major industry or counterparty type:	(Amount in crore)		
• Amount of impaired loans and if available, past due loans, provided separately;			3,145.53
• Specific and general provisions; and			446.33
• Charges for specific allowances and charge-offs during the period.			135.62

g. Gross Non Performing Assets (NPAs) Non Performing Assets (NPAs) to Outstanding Loans & advances (Amount in crore)

Movement of Non Performing Assets (NPAs)

Opening balance	706.57
Additions	2,709.29
Reductions	270.33
Closing balance	3,145.53

Movement of specific provisions for NPAs

Opening balance	256.53
Provisions made during the period	135.62
Write-off/ Interest Waived	0.00
Write-back of excess provisions	0.00
Closing balance	392.15

Additional provision required as per Bangladesh Bank Audit report-

Total additional provision required	1,235.14
Provision maintained	446.33
To be provided within 31st December 2014	788.81*

* [Bangladesh Bank, vide their letter no. ডিবিআই-২(উকি-৫)৪০/২০১৪-৯০ তারিখ ৩০-০৪-২০১৪, has allowed time to BASIC Bank Limited up to 31st December 2014 to provide the amount of provision for Tk.788.81 crore.]

e) Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

a. The general qualitative disclosure 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; and Equity investments are mainly for capital gain purpose. Bank also has some equity investment for strategic purpose.
- Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices. The holding of bank's quoted and unquoted share are valued at cost price. Provisions are made at the end of the year if market price is below the cost price.

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.	The bank invested TK 23.23 crore in quoted and unquoted securities. Out of which the bank invested TK 19.11 crore in 57 quoted/ listed companies and TK 4.12 crore in 4 unquoted/unlisted companies.
c. The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	In the reporting year the cumulative realized gains (as capital gain) was TK 53.25 lac.
d.	
• Total unrealized gains (losses)	At the end of 2013 market value of securities stood at TK 32.19 crore against cost price of TK 23.23 crore resulting net gain (unrealized) of TK 8.96 crore.
• Total latent revaluation gains (losses)	Not applicable.
• Any amounts of the above included in Tier 2 capital.	Not applicable.
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.	Specific Market Risk: 2.37 crore General Market Risk: 2.37 crore

f) Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures

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 in the banking book is the risk of changes in market interest rate. Any positive or negative movement in the market interest rate affects the value of the banking book. It affects the current earning as well as the net worth of the bank.
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Quantitative Disclosures

b. The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Market Value of Assets: 15,742.19 crore Market Value of Liabilities: 15,100.30 crore Weighted average of Duration Gap: 0.52 yr CAR after different level of shocks: <ul style="list-style-type: none">• Minor Level : -2.29%• Moderate Level : -2.91%• Major Level : -3.53%
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g) Market Risk

Qualitative Disclosures

a. Views of BOD on trading/investment activities	As the market risk is the probability 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. The Board of Director approves all necessary policies related to market risk and review them on regular basis.
Methods used to measure Market risk	Standardized approach has been used to measure the market risk.
Market Risk Management system	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 (HFT) category is main part of trading book exposures.
Policies and processes for mitigating market risk	Trading decisions are taken after considering regular updates about the market. Bank diversifies its assets in various categories. Bank also has a concentration limit to mitigate unwanted market risk factors.

Quantitative Disclosures

b. The capital requirements for:	(Amount in Crore Tk.)
Interest rate risk;	11.66
Equity position risk;	4.75
Foreign exchange risk; and	0.81
Commodity risk.	0.00

h) Operational Risk

Qualitative Disclosures

a. Views of BOD on system to reduce Operational Risk	<p>As the operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events the Board of Director approves all necessary policies related to operational risk and review them on regular basis.</p> <p>Bank has internal manuals on Internal Control & Compliance and on Human Resource where details of operational policies, procedures and HR related activities have been stated, which is approved by the Board of Director.</p>
Performance gap of executives and staffs	<p>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.</p>
Potential external events	<p>No potential external events are expected to expose the Bank to significant operational risk.</p>
Policies and processes for mitigating operational risk	<p>For this purpose, the Bank has three divisions under Internal Control and Compliance Risk, namely Audit & Inspection Division, Audit Findings Monitoring 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.</p> <p>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.</p>
Approach for calculating capital charge for operational risk	<p>Bank uses Basic Indicator approach for calculating capital charge for operational Risk as per instruction of Bangladesh Bank.</p>

Quantitative Disclosures

b. The capital requirements for operational risk:	78.80 crore
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