Disclosures on Risk Based Capital Requirement under Basel-II
for the year ended December 31, 2011:

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.

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).

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 2011 prepared under relevant international accounting and financial reporting standards as adopted by the Institute of Chartered Accountants 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: (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).	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 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 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 235.76 crore** As per stipulation of Memorandum and Articles of Association of the Bank at least 50% of net Profit (after tax) shall be re-invested in the capital of the bank and to that extent bonus share shall be issued to the shareholders. As such we are issuing bonus share every year. **Statutory reserve: TK 222.47 crore** As per stipulation of Bank Company Act 20% of profit before tax is transferred 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 61.31 crore; **General provision:** TK 75.23 crore; **Revaluation reserve for securities (50%):** TK 12.32 crore.

Quantitative Disclosures

(b) The amount of Tier-1 capital, with separate disclosure of:

(Amount in crore TK)

Paid up capital	235.76
Non-repayable share premium account	0.00
Statutory reserve	222.47
General reserve	4.00
Retained earnings	61.31
Minority interest in subsidiaries	0.00
Non-cumulative irredeemable preference shares	0.00
Dividend equalization account	0.00
Total amount of Tier-1 capital	523.54

(c) The total amount of Tier 2 and Tier 3 capital	87.55
(d) Other deductions from capital	0.00
(e) Total eligible capital	611.09

c) Capital Adequacy

Qualitative Disclosures

(a) 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 to protect 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.

Quantitative Disclosures

(Amount in crore TK)

(b) Capital requirement for Credit Risk	530.49
(c) Capital requirement for Market Risk	18.89
(d) Capital requirement for Operational Risk	53.67
(e) Total and Tier 1 capital ratio: • For the consolidated group; and • For stand alone	8.68% Not applicable 10.13%

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);	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. 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. Classified loan is categorized under following 03(three) categories: 1. Sub-standard (SS); 2. Doubtful (DF); 3. Bad & Loss (BL). **Continuous Loan:** Any continuous loan will be classified as: 1. Sub-standard if it is past due/overdue for 6 months or beyond but less than 9 month; 2. Doubtful if it is past due/overdue for 9 months or beyond but less than 12 month; 3. Bad & Loss if it is past due/overdue for 12 months or beyond. **Demand Loan:** Any demand loan will be classified as: 1. Sub-standard if it remains past due/overdue for 6 months or beyond but not over 9 month 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 9 months or

beyond but not over 12 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 12 months or beyond from the date of claim by the bank or from the date of creation of forced 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, which are repayable within maximum five years of time:

1. If the amount of ‘defaulted installment’ 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 installment’ is equal to or more than the amount of installment(s) due within 12 month, the entire loan will be classified as Doubtful.
3. If the amount of ‘defaulted installment’ is equal to or more than the amount of installment(s) due within 18 month, the entire loan will be classified as Bad & Loss.

In case of Fixed Term loans, which are repayable in more than five years of time:

1. If the amount of ‘defaulted installment’ is equal to or more than the amount of installment(s) due within 12 month, the entire loan will be classified as Sub-standard.
2. If the amount of ‘defaulted installment’ is equal to or more than the amount of installment(s) due within 18 month, the entire loan will be classified as Doubtful.
3. If the amount of ‘defaulted installment’ is equal to or more than the amount of installment(s) due within 24 month, 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		**Provision**				
		UC	**SMA**	**SS**	**DF**	**BL**
Consumer	House building and professional	2%	5%	20%	50%	100%
	Other than House building and professional to setup business	5%	5%	20%	50%	100%
Provision for loan against shares		2%	5%	20%	50%	100%
Short term Agri. Credit and Micro Credit		5%	-	5%	5%	100%
SME Financing		1%	5%	20%	50%	100%
Others		1%	5%	20%	50%	100%

• Discussion of the bank’s credit risk management policy

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.

Quantitative Disclosures

(b) Total gross credit risk exposures broken down by major types of credit exposure.	Type	Amount (in crore)	Percentage
	Overdraft	627.95	11.04%
	Cash Credit	1434.69	25.22%
	Export Credit	98.46	1.73%
	PAD	87.92	1.55%
	LIM	0.14	0.00%
	LATR	494.97	8.70%
	Term Loan	2083.26	36.62%
	Short Term Advances	15.60	0.27%
	Loan General	415.71	7.31%
	Loan Against Govt. Fund	2.21	0.04%
	Micro Credit	85.12	1.50%
	Others	7.26	0.13%
	Bills Portfolio	261.82	4.60%
	Staff Loan	73.37	1.29%

(c) Geographica1 distribution of exposures, broken down in significant areas by major types of credit exposure.	Division	Amount (in crore)	Percentage
	Dhaka	4067.11	71.50%
	Chittagong	898.22	15.79%
	Khulna	269.60	4.74%
	Rajshahi	306.57	5.39%
	Sylhet	89.07	1.57%
	Barisal	16.66	0.29%
	Rangpur	41.24	0.72%

(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	445.00	13.35%
	Textile	668.43	20.06%
	ERMG	365.21	10.96%
	Accessories	112.94	3.39%
	Jute product & Allied	321.13	9.64%
	Forest product & Allied	5.49	0.16%
	Paper, Board, Printing & Packg.	172.09	5.16%
	Tannery, Leather and Rubber	92.66	2.78%
	Chem. Pharm. and Allied	139.48	4.19%
	Glass, Crmc. and other non mental	21.91	0.66%
	Engineering	205.74	6.17%
	Electrical & Electronics	66.94	2.01%
	Service Industry	475.24	14.26%
	Misc. Industry	9.03	0.27%
	Industry not elsewhere classified	230.99	6.93%

(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Type of credit exposure	Amount (in crore)	Percentage
	Payable on demand	157.38	2.77%
	Not more than 3 months	968.31	17.02%
	Above 3 month but not more than 1 year	2062.56	36.26%
	Above 1 year but not more than 5 years	1914.12	33.65%
	Above 5 years	585.82	10.30%

(f) By major industry or counterparty type:	(Amount in crore)
• Amount of impaired loans and if available, past due loans, provided separately;	248.98 (4.38%)
• Specific and general provisions; and	149.05
• Charges for specific allowances and charge-offs during the period.	30.24

(g) Gross Non Performing Assets (NPAs)	(Amount in crore)
Non Performing Assets (NPAs) to Outstanding Loans & advances	
Movement of Non Performing Assets (NPAs)	
Opening balance	223.99
Additions	163.68
Reductions	138.69
Closing balance	248.98
Movement of specific provisions for NPAs	
Opening balance	73.45
Provisions made during the period	30.24
Write-off	14.25
Write-back of excess provisions	0.00
Closing balance	89.44

e) Equities: Disclosures for Banking Book Positions

<u>Qualitative Disclosures</u>

(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 relationship and 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 values 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 18.95 crore in quoted and unquoted securities. Out of which the bank invested TK 15.12 crore in 31 quoted/ listed companies and TK 3.83 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 88.52 lac.
(d) • Total unrealized gains (losses)	At the end of 2011 market value of securities stood at TK 41.51 crore against cost price of TK 18.95 crore resulting net gain (unrealized) of TK 22.55 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: 2.00 crore General Market Risk: 2.00 crore

e) 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.

Quantitative Disclosures

(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate	Market Value of Assets: 7,714.03 crore Market Value of Liabilities:7,169.25 crore Weighted average of Duration Gap: 0.65 yr

shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	CAR after different level of shocks: ❖ Minor Level : 9.41% ❖ Moderate Level : 8.68% ❖ Major Level : 7.95%

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 category is main part of trading book exposures.
Policies and processes for mitigating market risk	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 Disclosures

(b) The capital requirements for:	(Amount in crore)
1. Interest rate risk;	12.68
2. Equity position risk;	3.99
3. Foreign exchange risk; and	2.22
4. Commodity risk.	0.00

h) Operational Risk

Qualitative Disclosures

(a)

Views of BOD on system to reduce Operational Risk	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. 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.
Performance gap of executives and staffs	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.
Potential external events	No potential external events are expected to expose the Bank to significant operational risk.
Policies and processes for mitigating operational risk	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 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.
Approach for calculating capital charge for operational risk	Bank uses Basic Indicator approach for calculating capital charge for operational Risk as per instruction of Bangladesh Bank.

Quantitative Disclosures

(b) The capital requirements for operational risk:	53.67 crore