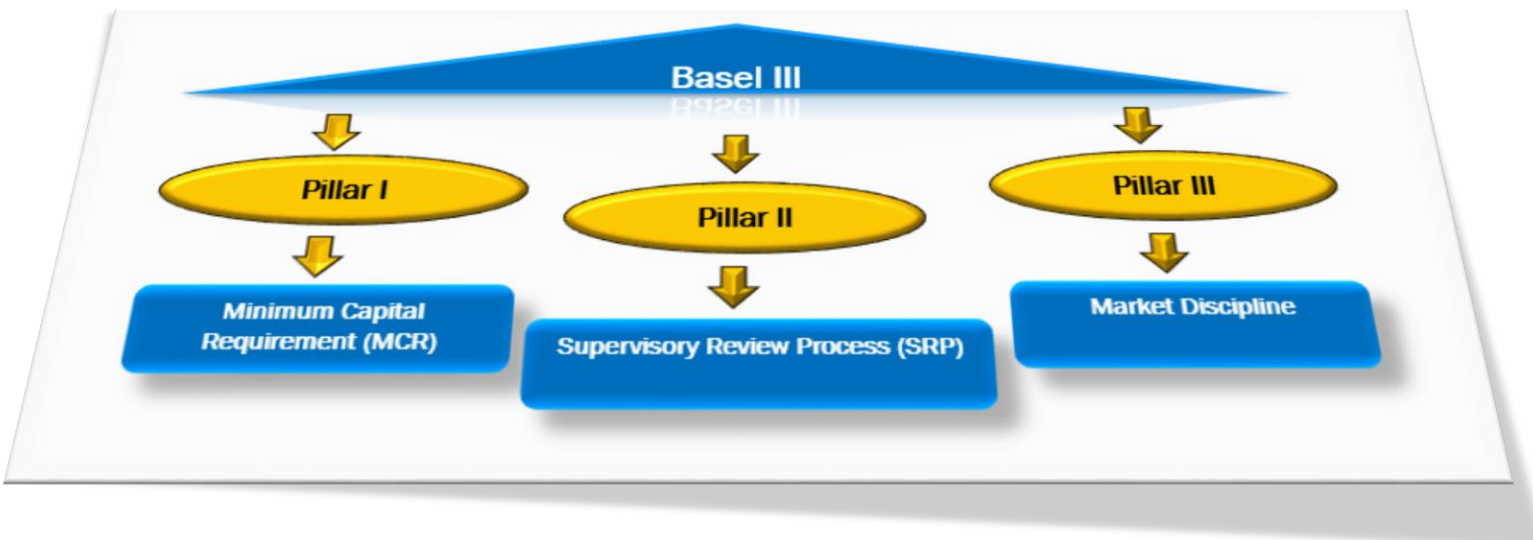
Disclosure on Risk Based Capital under Basel III

For the Year Ended on December 31, 2016



<u>BRAC Bank Limited</u>
Anik Tower, 220/B, Tejgaon Gulshan Link Road
Tejgaon, Dhaka 1208.

Background of Market Discipline

The purpose of Market Discipline is to complement the minimum capital requirements and the supervisory review process. Establishing a transparent and disciplined financial market through providing accurate and timely information related to liquidity, solvency, performance and risk profile of a bank is another important objective of this disclosure.

Use of excessive leverage, gradual erosion of level and quality of capital base, insufficient liquidity buffer, pro-cyclicality and excessive interconnectedness among systemically important institutions are identified as reasons of recent bank failures. Bank for International Settlements (BIS) came up, in response, with new set of capital and liquidity standards in the name of Basel III. In compliance with the 'Revised Guidelines on Risk Based Capital Adequacy (RBCA)' issued by Bangladesh Bank in December 2014,

Banks in Bangladesh have formally entered into Basel III regime from 1st January 2015. The new capital and liquidity standards have greater business implications for banks. BRAC Bank Limited (BBL) has also adopted Basel III framework as part of its capital management strategy in line with the revised guideline. This Market Discipline disclosure under Basel III is made following 'Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)' for banks issued by Bangladesh Bank in December 2014.

Consistency and Validation

The quantitative disclosures are made on the basis of consolidated audited financial statements of BBL and its Subsidiaries for the year ended on December 31, 2016 and prepared in accordance with the relevant International Accounting and Financial Reporting Standards and related circulars/instructions issued by Bangladesh Bank from time to time. The assets, liabilities, revenues and expenses of the subsidiaries are combined with those of the parent company (BBL), eliminating inter-company transactions. Assets of the subsidiaries were risk weighted and equities of subsidiaries were crossed out with the investment of BBL while consolidating. Therefore, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements 2016 of BBL and its Subsidiaries along with separate audited financial statements of the bank available on the website of the bank (www.bracbank.com). The report is prepared once a year and is available in the website

1. Scope of the Application

Qualitative Disclosure

Qualitative Disclosure

a) The name of the top corporate entity in the group to which this guidelines applies

BRAC BANK

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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

BRAC Bank Limited has 5 (Five) subsidiaries, a brief description of the bank and its subsidiaries is given below:

BRAC Bank Limited: BRAC Bank Ltd. is one of the third generation private commercial banks (PCBs) which inaugurated its banking operation on 4th July, 2001 under the banking Companies Act 1991. The bank went for public issue of its shares in 2006 and its shares are listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited in 2007. At present the bank has 112 Branches, 48 SME Krishi Branches and 21 SME Service Centers and 469 own ATM booths.

<u>Subsidiaries of BRAC Bank Limited</u>:

Subsidiaries: Subsidiaries are all entities over which the bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. A parent of a subsidiary should present consolidated financial statements according to BAS-27: Consolidated and Separate financial statements and BFRS 10: Consolidated Financial Statements. The financial statements of subsidiary are included in the consolidated financial statements from the date that control effectively commences until the date that the control effectively ceases.

The Bank has five subsidiary companies namely, BRAC EPL Investments Limited, BRAC EPL Stock Brokerage Limited, BRAC Saajan Exchange Limited (SWMTL) incorporated in UK, b-Kash Limited, BRAC IT Services Limited.

i. **BRAC EPL Investments Limited**: BRAC EPL Investments Limited (BEIL) a public limited company, formally commenced operation on October 01, 2009 following obtaining merchant bank license from the Securities and Exchange Commission.

ii. **BRAC EPL Stock Brokerage Limited**: BRAC EPL Stock Brokerage Limited is one of the leading stock brokers in the country. The company offers brokerage services to international institutions, domestic institutions, retail clients and non-resident Bangladeshis (NRBs). It is also the pioneer and leader in facilitating foreign portfolio investments in Bangladesh and boasts one of the best equity research teams of the country.

Qualitative Disclosure		
		iii. **BRAC Saajan Exchange Limited**: BRAC Saajan Exchange Limited mainly provides remittance services to the large Bangladeshi Communities living in UK. Apart from its remittance services the company also caters to the investment needs of the NRBs through its parent organization BRAC Bank. iv. **BRAC IT Services Limited**: BRAC IT Services Ltd. (biTS) is an IT Solution and Services company and is a subsidiary jointly owned by BRAC Bank and BRAC. biTS has been formed in 2013 through the merger of a subsidiary IT company. It strives to become the most trustworthy company in Bangladesh providing technology solutions and managed IT services. v. **bKash Limited**: bKash Limited, a subsidiary of BRAC Bank, started as a joint venture between BRAC Bank Limited, Bangladesh and Money in Motion LLC, USA. In April 2013, International Finance Corporation (IFC), a member of the World Bank Group, became an equity partner and in April 2014, Bill & Melinda Gates Foundation became the investor of the company. The ultimate objective of bKash is to ensure access to a broader range of financial services for the people of Bangladesh.
	c) Basis of Consolidation	According to BRPD Circular-12, 24, 35 (dated March 29, 2010, August 03, 2010 & December 29, 2010 respectively) and BRPD circular letter no-08, dated July 23, 2012, investments in subsidiaries have been consolidated for the purpose of assessing capital adequacy, the ratio of which is calculated both on Consolidated and Solo basis. The consolidated financial statements have been prepared in accordance with Bangladesh Accounting Standard 27: Consolidated financial statements and accounting for investments in subsidiaries. The consolidated financial statements include the financial statements of BRAC Bank Limited and its subsidiaries BRAC EPL Investments Limited, BRAC EPL Stock Brokerage Limited, bKash Limited, BRAC Saajan Exchange Limited and BRAC IT Services Limited as those of a single economic entity. The consolidated financial statements have been prepared in accordance with Bangladesh Accounting Standard (BAS) 27: Consolidated and Separate financial statements and Bangladesh Financial Reporting Standard (BFRS) 10: Consolidated Financial Statements. The consolidated financial statements are prepared to a common reporting year ended 31st December 2016.

Quantitative Disclosure		
Quantitative Disclosure	a) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	It does not hold here. The assets, liabilities, revenue and expenses of the subsidiaries are combined with the BBL's consolidated audited financial statement as of year ended December 31, 2016 which ensures the elimination of inter-company transactions, balances and intra-group gains on transactions between group companies.

2. Capital Structure

Qualitative Disclosure		
Qualitative Disclosure	**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 CET1, Additional Tier 1 or Tier 2.	The Basel Committee raised the resilience of the banking sector by strengthening the regulatory capital framework, building on the three pillars of the Basel II framework. The reforms raised both the quality and quantity of the regulatory capital base and enhanced the risk coverage of the capital framework. To this end, the predominant form of Tier 1 capital is to be common shares and retained earnings. This standard is reinforced through a set of principles that also can be tailored to the context of non-joint stock companies to ensure they hold comparable levels of high quality Tier 1 capital. Deductions from capital and prudential filters have been harmonized and generally applied at the level of common equity or its equivalent in the case of non-joint stock companies. The remainders of the Tier 1 capital base are to be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. In addition, Tier 2 capital instruments will be harmonized and so-called Tier 3 capital instruments, which were only available to cover market risks, eliminated. The capital structure of the bank is categorized into two tiers: Tier 1 and Tier 2 Capital, as per the Risk Based Capital Adequacy Guideline of Bangladesh Bank. The components of total regulatory capital are enumerated as under: ♦ Tier 1 Capital (going concern capital) i. Common Equity Tier 1 ii. Additional Tier 1 ♦ Tier 2 Capital (gone concern capital)

Qualitative Disclosure

<u>Tier 1 Capital</u>: Going concern is the capital which can absorb losses without triggering bankruptcy of the bank. Hence, it is the core measure of a bank's financial strength from regulator's point of view. The components of Tier 1 Capital are given below:

Common Equity Tier 1 (CET1):

- Paid up capital
- Non-repayable share premium account
- Statutory reserve
- General reserve
- Retained earnings
- Dividend equalization reserve
- Minority interest in subsidiaries

Additional Tier 1 (AT1):

- Non-cumulative irredeemable preference share
- Instruments issued by banks that meet the qualifying criteria for AT1 (the instrument is perpetual i.e. no maturity date)
- Minority interest (AT1 issued by consolidated subsidiaries to the third parties)

<u>Tier 2 Capital</u>: Gone concern capital represents other elements that fall short of some of the characteristics of core capital but contribute to the overall strength of the bank. Tier 2 capital consists of the following items:

- General Provision
- All other preference shares
- Subordinate debt/instruments issued by the banks that meet the qualifying criteria for Tier 2 Capital
- Minority interest i.e. Tier 2 capital issued by consolidated subsidiaries to the third parties)

As per the guidelines of Bangladesh Bank, Tier 1 Capital of BBL consists with i. Fully paid up capital, ii. Non-Repayable share premium account, iii. Statutory reserve, iv. Retained earnings, v. Dividend equalization reserve

Tier 2 Capital of BBL consists of i. General Provision, ii. Subordinated debt/Instrument, iii. Revaluation Reserve

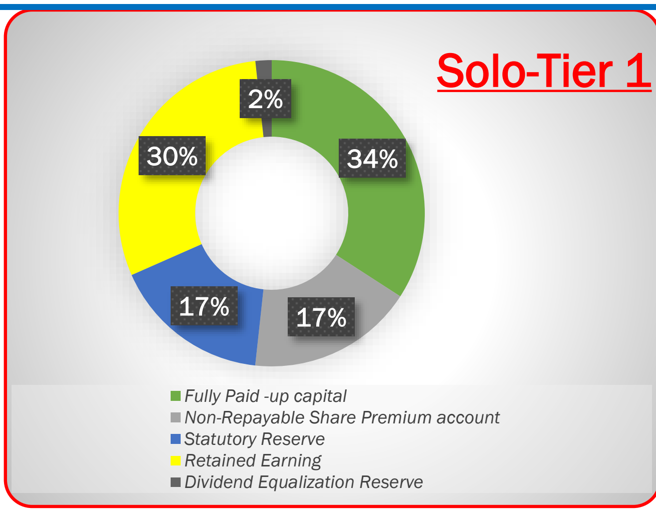
Quantitative Disclosure

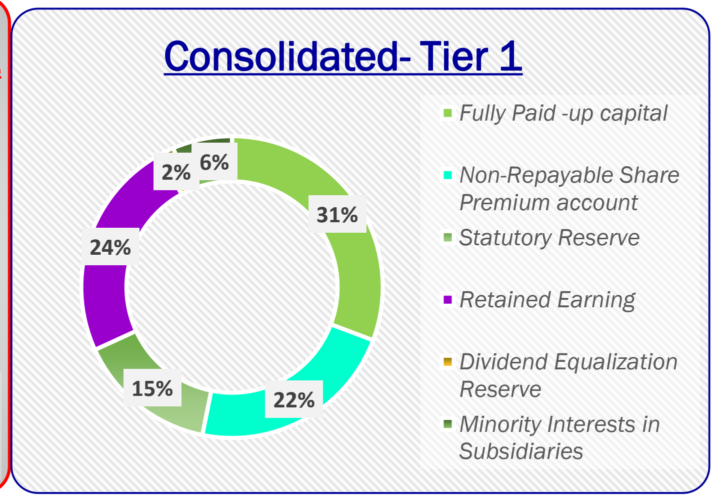
Quantitative Disclosure

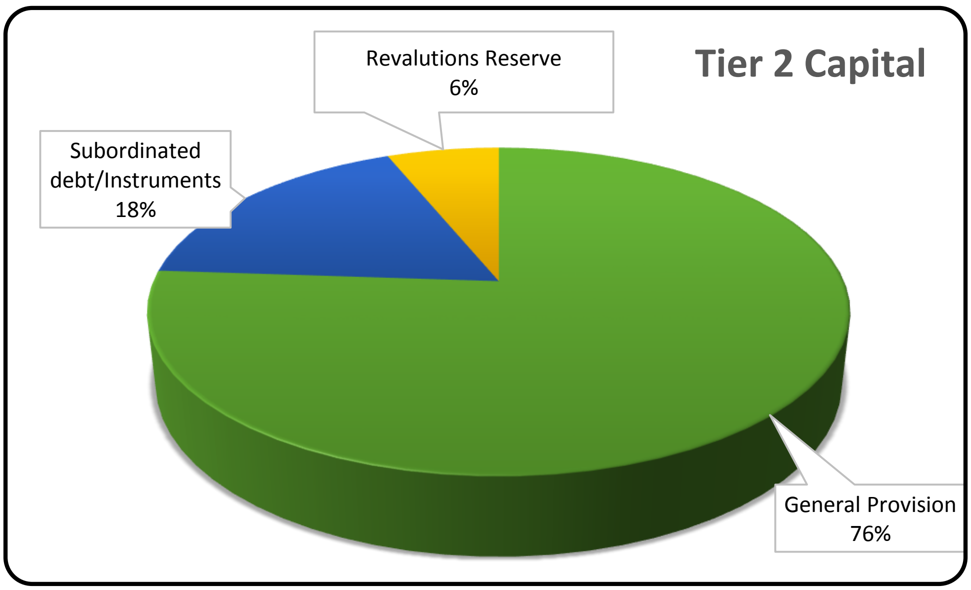
Common Equity Tier-1(Going Concern Capital)	Solo	Consolidated
Fully Paid -up capital/funds from Head office For the purpose of meeting The capital adequacy	7,104,369,100	7,104,369,100
Non-Repayable Share Premium account	3,659,942,031	5,181,774,966
Statutory Reserve	3,470,350,332	3,470,350,332
General Reserve	-	-
Retained Earning	6,222,874,273	5,524,376,341
Dividend Equalization Reserve	355,218,455	355,218,455
Minority Interests in Subsidiaries		1,475,794,375
Actuarial gain/loss(Actuarial gain/loss kept in books in Bangladesh for foreign Banks)	-	-
Non-repatriable interest free funds from Head Office for the purpose of Acquisition of property And held in a separate Account and have the ability to absorb Losses regardless of their losses.(Applicable for foreign Banks)	-	-
Sub-total	**20,812,754,191**	**23,111,883,569**
Regulatory Adjustments	-	-
Shortfall in Provision Required Against Non-performing Loans(NPLs)	-	-
Shortfall in Provision Required Against Investment in shares (Result of the cell No. F262)	-	-
Remaining Deficit on Account of revolution Of investments in Securities After netting off from Any other surplus Of the securities.	-	-
Goodwill and all other intangible Assets	119,287,955	1,501,389,885
Deferred Tax Assets (DTA)	986,843,921	986,843,921
Defined Benefit pension fund Assets	-	-
Gain On Sale Related to securitization Transactions	-	-
Investment in Own CET-1 Instruments/shares(as per Para 3.4.7 of Basel III Guidelines)	-	-
Reciprocal Crossholdings in The CET-1 Capital of Banking, financing And insurance entities.	-	-
Any investment Exceeding the Approved Limit under section 26(2) Of Bank company act. 1991(50% of investment)	-	-

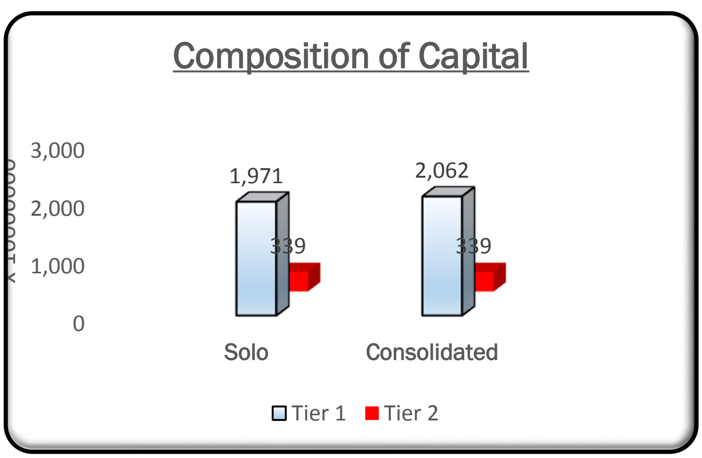
Investment of subsidiaries which are not Consolidated(50% of investment)	-	-
Sub-total	1,106,131,876	2,488,233,805
Total common equity Tier-1 capital	**19,706,622,316**	**20,623,649,764**
Additional Tier-1 Capital		
Non-Cumulative irredeemable Preference Shares	-	-
Instruments issued By the Banks that meet the qualifying Criteria For AT1(As specified in Annex-4 of Basel III Guidelines)	-	-
Minority Interest i.e. AT1 issued by Consolidated subsidiaries to third parties as specified in Annex-4 of Basel III Guidelines(For Consolidated Reporting)	-	-
Head Office Borrowing in foreign currency by Foreign Banks operation in Bangladesh for inclusion In Additional tier-1 capital which comply with the regulatory requirements as specified in Annex-4 of Basel III Guidelines(Applicable For foreign Banks)	-	-
Any other item especially allowed by BB from time to time for inclusion in Additional Tier-1 capital (applicable for foreign banks).	-	-
Others(If any item Approved By Bangladesh Bank)	-	-
Regulatory Adjustments	-	-
Investment in own AT-1 instrument/Shares(as per para 3.4.7 of Basel III Guidelines)	-	-
Reciprocal Crossholdings in The AT-1 Capital of Banking, financing And insurance entities.	-	-
Others(If any)	-	-
Total Additional Tier-1 Capital Available	-	-
Maximum limit of Additional Tier-1 Capital(AT-1 Capital can be maximum Up to 1.5% Of the Total RWA or 33.33% of CET1, Whichever is higher)	-	-
Excess amount over maximum Limit Of AT-1	-	-
Sub-total	-	-
Total Admissible Tier-1 Capital	**19,706,622,316**	**20,623,649,764**
Tier-2 Capital (Gone-Concern Capital)		
General Provision	2,580,614,850	2,580,614,850
All other preference shares	-	-
Subordinated debt/Instruments issued by the Banks that meet the qualifying criteria For tier-2 Capital	600,000,000	600,000,000

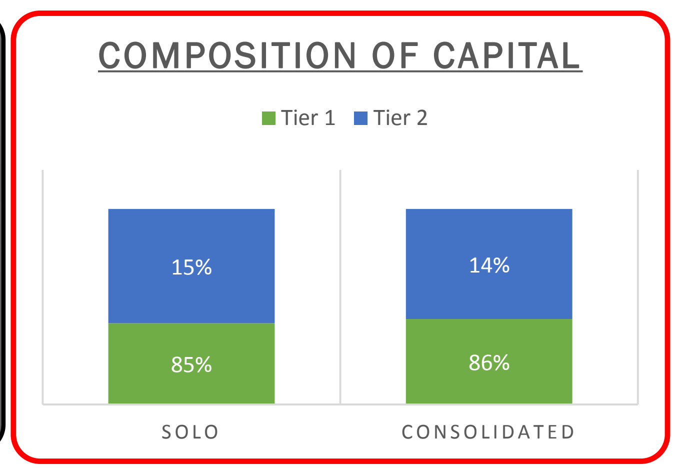
Minority interest i.e. Tier 2 issued by Consolidated Subsidiaries to third Parties	-	-
Head Office (HO) borrowings in foreign Currency Received that meet the Criteria Of tier 2 Debt Capital (Applicable For Foreign banks).	-	-
Revaluations Reserve as on 30th June, 2015(50% Of Fixed Assets And Securities & 10% of equities)	346,502,408	346,502,408
Others (If Any item approved by Bangladesh bank)	-	-
Total	**3,527,117,258**	**3,527,117,258**
Regulatory Adjustments		
Revaluation Reserve For Fixed Assets and Security & equity securities(Follow Phase-in deduction as per Basel (III) guidelines)	138,600,963	138,600,963
Investment in OWN T2 Instruments/Shares(as Per para 3.4.7 of Basel III Guidelines)	-	-
Reciprocal Crossholdings in The AT-2 Capital of Banking, financing And insurance entities.	-	-
Any investment Exceeding the Approved Limit under section 26(2) Of Bank company act. 1991(50% of investment)	-	-
Investment of subsidiaries which are not Consolidated(50% of investment)	-	-
Others If Any	-	-
Total Tier-2 Capital Available	**3,388,516,294**	**3,388,516,294**
Maximum limit of Tier-2 Capital(Tier-2 Capital can be maximum Up to 4% Of the Total RWA or 88.89% of CET1, Whichever is higher)	17,517,216,576	18,332,362,276
Excess amount over Maximum limit of T-2	-	-
Total Admissible Tier-2 capital	**3,388,516,294**	**3,388,516,294**
Total Regulatory Capital	**23,095,138,610**	**24,012,166,059**


Solo-Tier 1
2%
30%
34%
17%
17%
Fully Paid -up capital
Non-Repayable Share Premium account
Statutory Reserve
Retained Earning
Dividend Equalization Reserve


Consolidated- Tier 1
2%
6%
31%
24%
15%
22%
Fully Paid -up capital
Non-Repayable Share Premium account
Statutory Reserve
Retained Earning
Dividend Equalization Reserve
Minority Interests in Subsidiaries


Tier 2 Capital
Revalutions Reserve 6%
Subordinated debt/Instruments 18%
General Provision 76%


Composition of Capital
3,000
2,000
1,000
0
1,971
339
2,062
339
Solo
Consolidated
Tier 1
Tier 2


COMPOSITION OF CAPITAL
Tier 1
Tier 2
15%
85%
14%
86%
SOLO
CONSOLIDATED

3. Capital Adequacy

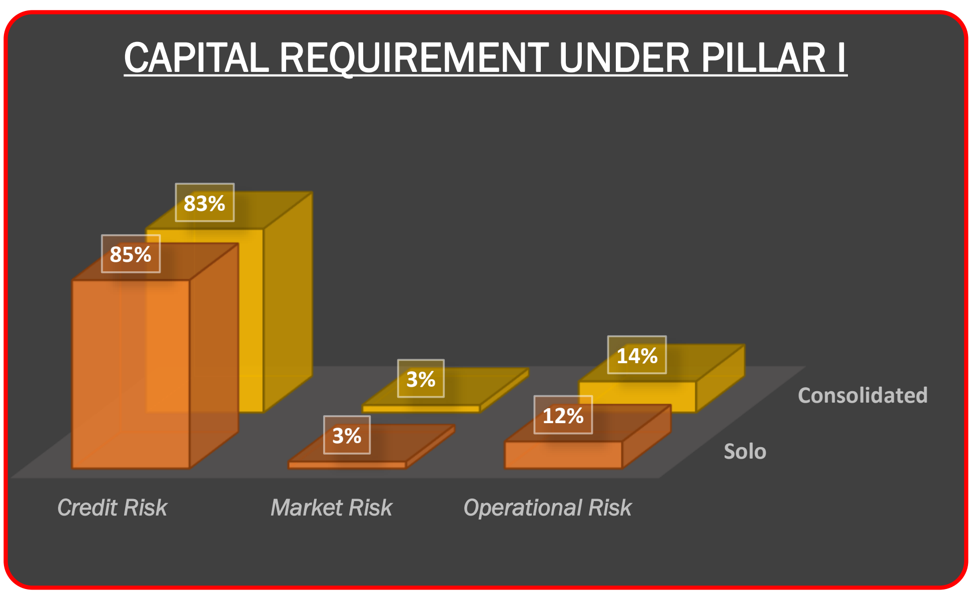
Qualitative Disclosure

Qualitative Disclosure		
	a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	BRAC Bank Limited with its focused strategy on risk management has always been consistent in maintaining capital adequacy ratio above the regulatory requirements. BRAC Bank Limited has been successfully managing the incremental growth of the Risk Weighted Assets by ensuring diversification of the portfolio in SME, Retail and Corporate segments. However, RWA is also managed by taking collaterals against loans. We strive to ensure external credit rating is duly done by the borrowers. The bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank. The bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The bank maintains capital levels that are sufficient to absorb all material risks. The bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors. The main objective of the capital management process in the bank is to ensure that Bank has adequate capital to meet up its all sorts of obligations any time.

Quantitative Disclosure

Quantitative Disclosure

Description	Solo	Consolidated
a) Capital requirement for Credit Risk	15,959,537,198	16,451,354,773
b) Capital requirement for Market Risk	592,442,695	670,977,778
c) Capital requirement for Operational Risk	2,291,127,872	2,791,324,653
Minimum Capital Requirement	**18,843,107,764**	**19,913,657,204**
d) Capital Ratio:		
CET 1 Capital	19,706,622,316	20,623,649,764
Total Tier 1 Capital	19,706,622,316	20,623,649,764
Total Tier 2 Capital	3,388,516,294	3,388,516,294
Total Capital	**23,095,138,610**	**24,012,166,059**
Total Risk Weighted Assets (RWA):	**188,431,077,640**	**199,136,572,044**
Capital to Risk Weighted Assets Ratio (CRAR)	12.26%	12.06%
Common Equity Tier-1 to RWA	10.46%	10.36%
Tier-1 Capital to RWA	10.46%	10.36%
Tier-2 Capital to RWA	1.80%	1.70%
Minimum Capital Requirement (MCR)	**18,843,107,764**	**19,913,657,204**



4. Credit Risk

Qualitative Disclosure

Qualitative Disclosure

a) The general qualitative disclosure requirement with respect to credit risk:

Since 2005 we have a lending policy in place for the management of credit risk in the bank. This policy is reviewed every year. Loan processing system in our bank is centralized. Where the Relationship Manager (RM) hunts for business keeping in mind the 5 Cs in a customer, then the RM prepares credit proposal and sends to Credit Risk Management (CRM) for analysis. CRM analyzes the proposal, decision is made (Approved/Declined/Query provided) and approved as per Delegation of Authority. Finally, documentation & disbursement are being done by Credit Department. In each of the aforementioned step, very stringent and rigorous risk assessment is done. Whereby, we strive to eliminate every possibility of credit risk. Moreover, there is a Lending cap to single borrower/group borrower exposure limit fully complying as stipulated by the regulators.

Before approving any facility to a borrower, we follow a very robust and rigid credit assessment process. Starting from accumulating and analyzing borrower's business information, Business prospect, present scenario, Market position, market reputation, Industry growth and Peer group comparison, we embark in any deal. At the same time Experience & skill of Sponsor Directors and Key Management in primary business, succession plan, Financial statement analysis including projected cash flow and opportunity, CIB Report check, Search Report check, Requirement of loan, proposed facility, justification of requirement & facility structuring and related such avenues are closely scrutinized. If the status of the client is deemed to be satisfactory, all documents are prepared and negotiations are undertaken. The relationship manager visits the factory (for manufacturing concerns) or retail outlets (for trading concerns) to see if the conditions are satisfactory & justifiable to support facilities. To maintain thorough knowledge of factory / warehouse a visit report is prepared in this regard. Stock Verification Report is also prepared and record is kept in customer's file. The environmental aspects are also considered while opting for any lending decision.

Other banks' liability position and status, other banks' sanction advice. Credit risk grading, External rating (for Large & Medium Enterprise customer) Information, Proposed Security analysis, Compliance of regulatory and internal policy guidelines and relevant such covenants are considered before extending any credit facility. These are all done with the sole intention to combat credit risk.

i) Definitions of past due and impaired (for accounting purposes);

Credit risk is the risk of financial losses resulting from the failure by a client or counterparty to meet its contractual obligations to the Bank. Credit risk arises from the Bank's dealings with or lending to corporate, individuals, and other banks or financial institutions.

Bank's provision for loans and advances is created based on the period of arrears by following Bangladesh Bank BRPD Circulars No. 16 of December 06, 1998, 09 of May 14, 2001, 09 and 10 of August 20, 2005, 05 of June 05, 2006, 8 of August 07, 2007, 10 of September 18, 2007, 05 of April 29, 2008, 32 of October 12, 2010, 14 of September 23, 2012, 15 of September 23, 2012, 19 of December 27, 2012 and 05 of May 29, 2013 respectively. This is also reviewed by the management as and when requisite.

Interest on loans and advances is calculated daily on product basis but charged and accounted monthly and quarterly on accrual basis. Classification and provisioning for loans and advances is created based on the period of arrears by following Bangladesh Bank BRPD circulars no. 14, of 23 September 2012, 15 of 23 September 2012, 19 of 27 December 2012 and 05 of 29 May 2013 respectively. This is also reviewed by the management. Interest on classified loans and advances is calculated as per BRPD circular No. 27, dated August 31, 2010 and recognized as income on realization as per BRPD circular no. 14 and 15, dated September 23, 2012. Large loans are defined as number of clients with amount outstanding and classification status to whom loans and advances sanctioned exceeds 10% of the total capital of the Bank.

With a view to strengthening credit discipline and bring classification and provisioning regulation in line with international standard, an apt classification and provisioning mechanism was undertaken as per Bangladesh Bank circulars issued from time to time. In this regard, all the loans and advances/investments are grouped into four categories for the purpose of classification, namely i) Continuous Loan, ii) Demand Loan, iii) Fixed Term Loan and iv) Short-term Agricultural and Micro Credit. They are classified as follow:

Type of Facility	Loan Classification		
	Sub Standard	Doubtful	Bad & Loss
	Overdue period	Overdue period	Overdue period
Continuous Loan & Demand Loan	3 months or more but less than 6 months	6 months or more but less than 9 months	9 months or more
Fixed Term Loan more than Tk. 1 million	3 months or more but less than 6 months	6 months or more but less than 9 months	9 months or more
Fixed Term Loan up to Tk. 1 million	6 months or more but less than 9 months	9 months or more but less than 12 months	12 months or more
Short Term Agricultural & Micro Credit	12 months or more but less than 36 months	36 months or more but less than 60 months	60 months or more

ii) Description of approaches followed for specific and general allowances and statistical methods;

Provision for loans and advances is created for covering the bank from possible loan losses in the future. General provision is made on the outstanding amount of loans and advances without considering the classification status following the prescribed rate of Bangladesh Bank. Classified loans and advances of the banks are categorized as Sub-Standard, Doubtful and Bad/Loss as per Bangladesh Bank circulars. For loans which are classified as sub-standard, doubtful or bad/loss, specific provision is created netting off security value and interest suspense from the amount outstanding. Provision for off balance sheet items is made as per BRPD circular no. 14 of September 2012 for covering the bank for possible losses on off balance sheet items in the future.

Classified loans and advances of the banks are categorized as sub-standard, doubtful and bad/loss as per guidelines of Bangladesh Bank. Interest accrued on Sub-Standard, Doubtful and Bad/Loss loans is transferred to interest suspense account and not considered as interest income. This interest is recognized as interest income when it is realized in cash by the bank.

Loans and advances are written off to the extent that (i) there is no realistic prospect of recovery, (ii) and against which legal cases are filed and classified as bad loss as per BRPD circular no. 02 dated 13 January 2003 and 13 dated 07 November 2013. These write off however, will not undermine/affect the claim amount against the borrower. Detailed memorandum records for all such write off accounts are meticulously maintained and followed up.

At each balance sheet date, BRAC Bank Limited assesses whether there is objective evidence that a financial asset or a group of financial assets i.e. loans and advances, off balance sheet items and investments are impaired. A financial asset or groups of financial assets are impaired and impairment losses are incurred if there is objectives evidence of impairment as a result of a loss event that occur after the initial recognition of the asset up to the balance sheet date; the loss event had an impact on the estimated future cash flows of the financial assets or the group of financial assets; and a reliable estimate of the loss amount can be made. In the event of impairment loss, the bank reviews whether a further allowance for impairment should be provided in the profit and loss statement in addition to the provision made based on Bangladesh Bank guidelines or other regulatory requirements.

The bank is required to maintain the following general and specific provision in respect of classified and unclassified loans and advances / investments on the basis of Bangladesh Bank guidelines issued from time to time:

Types of Loans & Advances		UC		SS	DF	BL
		STD	SMA			
Consumer	House building and loans for professionals	2%	2%	20%	50%	100%
	Other than house building and professionals	5%	5%	20%	50%	100%
Loans to BHs/ MBs against share etc.		2%	2%	20%	50%	100%
Small and medium enterprise		0.25%	0.25%	20%	50%	100%
Short term Agriculture/Micro credit		2.50%		5%	5%	100%
All others		1%	1%	20%	50%	100%
OBS		1%	-	-	-	-

iii) Discussion of the bank's credit risk management policy;

Method used to measure credit risk: As per Bangladesh bank's guideline, the bank follows Standardized Approach for measurement of credit risk adopting the credit rating agencies as External Credit Assessment Institutions (ECAI) for claims on banks and FIs, corporate and eligible SME customers, and Credit Risk Mitigation against the financial securities and guarantees of loan exposure.

Credit Policy: BRAC Bank Limited is managing its Credit Risk through a Board directed and approved Credit Policy in line with the Bangladesh Bank Core Risk Management Guidelines, which outlined robust processes and procedures to ensure the quality of its assets portfolio. The Credit Policy also contains the general principles to govern the implementation of detailed lending procedures and risk grading systems of the borrowers. And, as such, it specifically addresses the areas of:

♦ Loan Originating
♦ Credit Approval
♦ Credit Administration
♦ Risk Management and
♦ Monitoring, Collection and Recovery activities

Credit Risk Mitigation: Potential credit risks are mitigated by taking primary and collateral securities. There are other risk mitigation approaches like netting agreements and other guarantees. The legal certainty and enforceability of the mitigation approach are verified by the professionals of the respected fields. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; plant and machinery; marketable securities etc. Collaterals are physically verified by the bank officials. At the same time these are also valued by independent third party surveyor in accordance with the credit policy and procedures.

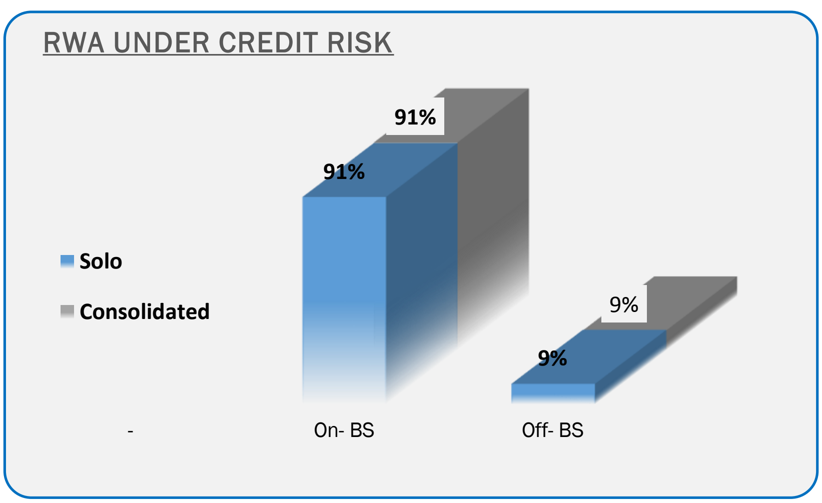
Credit Assessment and Grading: Know Your Client (KYC) is the first step to analyze any credit proposal. Banker-Customer relationship is established through opening of accounts of the customers. Proper introduction, photographs of the account holders/ signatories, passports etc., and all other required papers as per Bank's policy are obtained during account opening. Physical verification of customer address is done prior to credit appraisal. At least three Cs, i.e., Character, Capital and Capacity of the customers are confirmed. Credit Appraisals include the details of amount and type of loan(s) proposed, purpose of loan (s), result of financial analysis, loan Structure (Tenor, Covenants, Repayment Schedule, Interest), security arrangements. The above are minimum components to appraise a credit and there are other analyses depending on the credit nature. The bank follows the CRG manual of Bangladesh Bank circulated on December 11, 2005 through BRPD circular no. 18.

Credit Risk Management: Conventionally, the core function of a Credit Risk Management (CRM) Team is to optimize the risk adjusted return from Bank's Loans and Advances by maintaining an appropriate standard in the underwriting process. However, the scope of BRAC Bank's CRM is not just limited to this. At BBL, a more holistic approach towards risk management is taken, where socioeconomic and environmental impacts of the decisions made are emphasized upon. This particular practice is the hallmark of BRAC Bank's credit risk management objective. We believe in development rather than growth, and sustainability rather than mere financial return from a transaction. We strive to create value rather than be the consumer of the value. To achieve this goal, we manage the credit risk inherent in the entire portfolio of the bank as well as the risks associated with individual credit proposals or transactions. We believe that the effective management of credit risk is a critical component of a comprehensive approach to risk management. In the last couple of years, BRAC bank has been focusing on adopting environmental risk management programs through the assistance, guidance, and/or requirements provided by various international DFIs as well as clearly articulated regulatory guidelines. Bringing in social and environmental risk assessment into the credit approval process contributes to the wellbeing of the society. Moreover, as the lion share of the total revenue of BRAC Bank Limited comes particularly through SME lending, so the future prospect of the bank depends on quality of its asset portfolio. Thus efficient management of the Loans and Advances is of paramount importance for the bank.

Determination of credit risk involves review of the borrower's past credit history and its income assessment. We have established an appropriate credit risk environment, operating under a sound credit-granting process, maintaining a robust credit administration and monitoring process, and ensuring adequate controls over credit risk. There are differentiated and dedicated credit models for SME Banking, Retail Banking and Wholesales Banking to ensure the quality asset growth of the bank while implementing the risk mitigation strategies for each portfolio. There is a distributed collection model that consistently follows up with the borrowers for the timely repayments. A wing named 'Special Asset Management (SAM)' deals with nonperforming assets through amicable settlement, execution of decrees and arrangements of auctions to sell the mortgaged properties. SAM is also engaged to monitor Early Alert Accounts. At BBL, we are very keen to identify, measure, monitor and control credit risk and ensure that adequate capital against these risks are maintained, at the same time they are satisfactorily compensated against the risk of potential losses. At BBL, we are very keen to identify, measure, monitor and control credit risk and ensure that adequate capital against these risks are maintained, at the same time they are satisfactorily compensated against the risk of potential losses.

Final authority and responsibility for all activities that expose the bank to credit risk rests with the Board of Directors. The Board however delegated authority to the Managing Director and CEO or other officers of the credit risk management division. The Credit Policy Manual contains the core principles for identifying, measuring, approving, and managing credit risk in the bank and designed to meet the organizational requirements that exist today as well as to provide flexibility for future. The policy covers corporate, retail, small and medium enterprise exposures. Policies and procedures has structured and standardized credit risk management process both in obligor and portfolio level and also follow central bank guide line. Credit risk management function is Independent of business origination functions to establish better internal control and to reduce conflict of interest.

Risk Weighted Assets	Solo	Consolidated
Credit Risk	**159,595,371,976**	**164,513,547,734**
On- Balance sheet	145,355,949,561	150,274,125,319
Off- Balance sheet	14,239,422,415	14,239,422,415

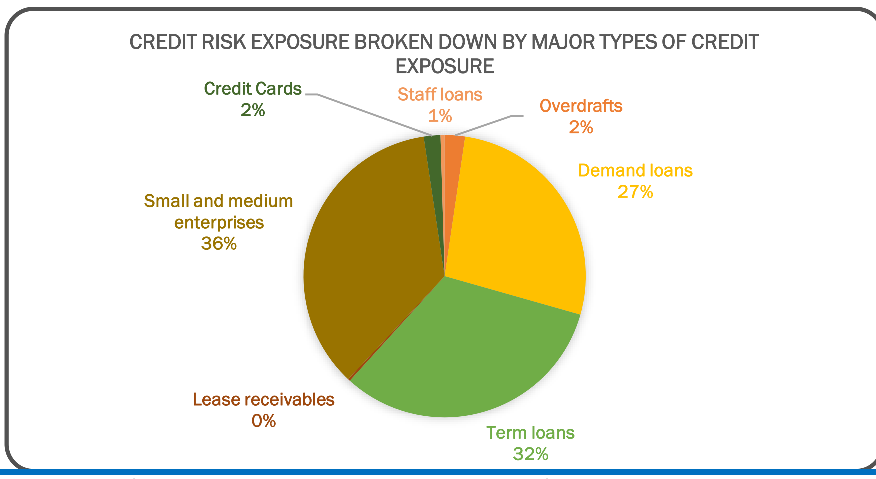


Quantitative Disclosure

Quantitative Disclosure

a) Total gross credit risk exposures broken down by major types of credit exposure:

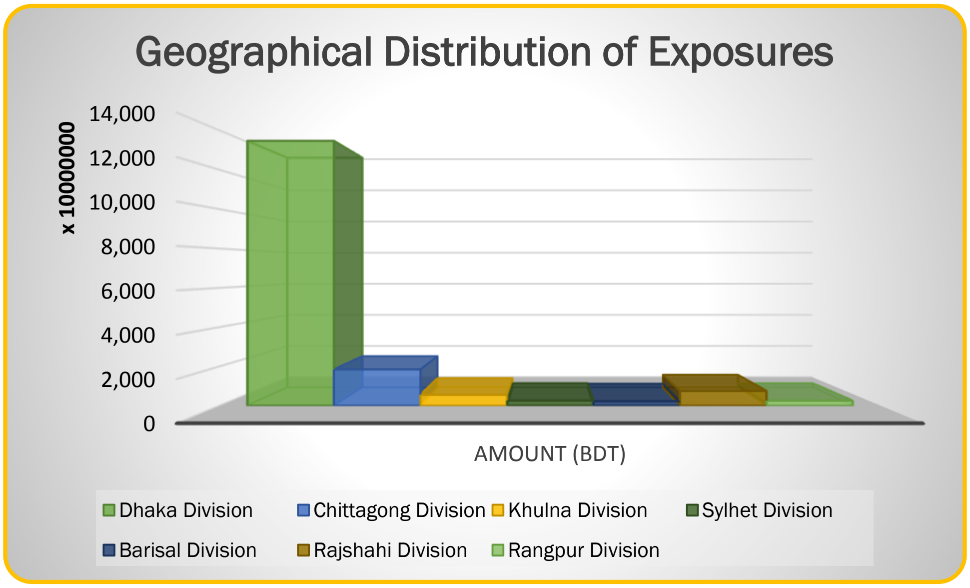
Particulars	Amount (BDT)
Overdrafts	3,996,767,472
Demand loans	46,479,400,892
Term loans	55,506,759,203
Lease receivables	437,594,601
Small and medium enterprises	61,185,461,566
Credit Cards	3,273,392,133
Staff loans	805,145,717
Sub-total	171,684,521,584
Bills purchased and discounted	1,814,813,275
Bills purchased and discounted SME	112,706,653
Total	**173,612,041,512**



b) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure:

Particulars	Amount (BDT)
Dhaka Division	134,660,515,680
Chittagong Division	18,459,418,441
Khulna Division	5,564,302,120
Sylhet Division	2,613,608,175
Barisal Division	2,263,505,371
Rajshahi Division	7,496,724,550

Rangpur Division	2,553,967,175
Total	**173,612,041,512**



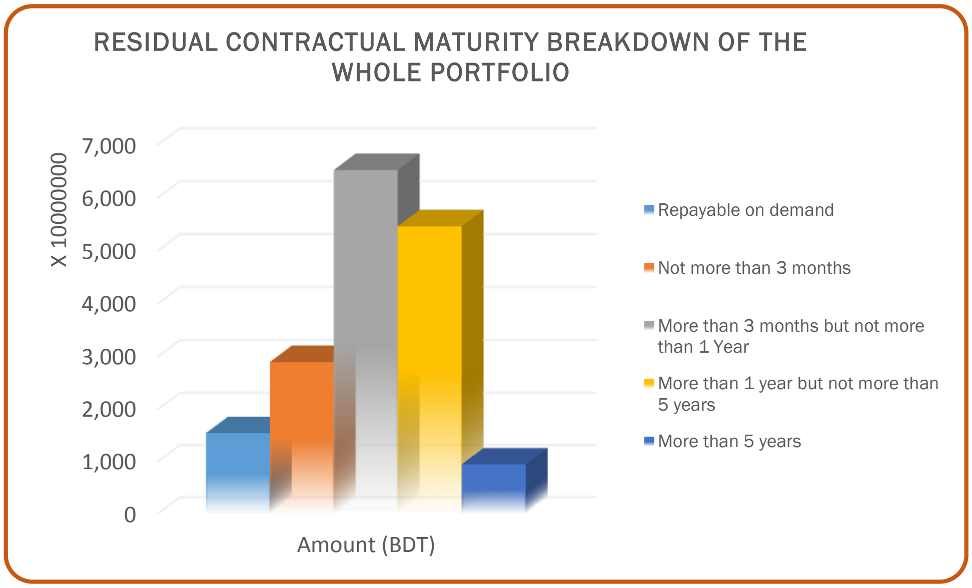
c) Industry or counterparty type distribution of exposures, Sector-wise Allocation of Loans and Advances:

Particulars	Amount (BDT)
Government:	
Private:	
Agriculture	3,422,444,806
Industry	46,805,376,154
Service Industry	10,861,419,708
Agro-based Industry	8,345,739,586
Commerce & Trade	78,656,698,339
Consumer Credit	25,520,362,919
Total	**173,612,041,512**

Quantitative Disclosure

d) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

Particulars	Amount (BDT)
Repayable on demand	15,416,075,868
Not more than 3 months	28,951,240,236
More than 3 months but not more than 1 Year	65,219,211,775
More than 1 year but not more than 5 years	54,588,391,557
More than 5 years	9,437,122,076
Total	**173,612,041,512**



e) By major industry or counterparty type: Amount of impaired loans and if available, past due loans, provided separately; Specific and general provisions; and Charges for specific allowances and charge-offs during the period:

Status		Outstanding Loans and advances 2016	Base for provision	Percentage (%) of required provision	Required provision 2016
Unclassified	-			-	
All unclassified loans (Other than Small and Medium enterprise Financing, Consumer Financing, BHs/MBs/SDs, Housing and loans for professional)		75,019,583,783	74,214,438,066	1%	742,144,381
Small and Medium enterprise financing		57,067,356,111	57,067,320,895	0.25%	142,668,302
Loans to BHs/MBs/SDs against share etc.		1,622,810,221	1,622,810,221	2%	32,456,204

Housing and loan for professional	16,109,103,180	16,109,103,180	2%	322,182,064
Loans for professionals to Set up business (LP)	204,570,511	204,570,511	2%	4,091,410
Consumer finance	16,177,211,767	16,177,211,767	5%	808,860,588
Short Term Agricultural and Micro Credit	1,500,761,427	1,500,761,427	2.50%	37,519,036
Total				**2,089,921,985**

f) Gross Non Performing Assets (NPAs):

Classified - Specific provision	Outstanding Loans and advances 2016	Base for provision	Percentage (%) of required provision	Required provision 2016
Sub-standard (Short Term Agricultural Credit)	30,216	28,304	5%	1,415
Doubtful (Short Term Agricultural Credit)	884,483	827,043	5%	41,352
Sub-standard	648,500,421	403,008,141	20%	80,601,628
Doubtful	498,709,680	336,384,033	50%	168,192,016
Bad/Loss	4,762,519,710	3,081,894,837	100%	3,133,955,813
Required provision for loans and advances				5,472,714,209
Total provision maintained				6,956,029,599
Excess/(Short) provision at 31 December 2016				1,483,315,390
* BHs = Brokerage Houses, MBs = Merchant Banks, SDs = Stock Dealers Against Shares				

5. Equities: Disclosure for banking book positions

Qualitative Disclosure

Qualitative Disclosure

a) The general qualitative disclosure requirement with respect to equity risk, including:

i) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons:

Investment in equity securities are broadly categorized into two parts:

♦ **Quoted Securities:** Common or Preference Shares & Mutual Fund) that are traded in the secondary market.

♦ **Unquoted securities:** These include shares of Central Depository Bangladesh Limited (CDBL), Industrial and Infrastructure Development Finance Co. Ltd., Bangladesh Rating Agency of Bangladesh Limited., BRAC Asset Management Company Ltd., VIPB Income Fund, BRAC Impact Ventures Limited and the subsidiaries of BBL.

ii) 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 primary aim is to investment in these equity securities for the purpose of capital gain by selling them in future or held for dividend income. Dividends received from these equity securities are accounted for as and when received. Both Quoted and Un-Quoted equity securities are valued at cost and necessary provisions are maintained if the prices fall below the cost price.

b) 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;

All investment securities including acquisition charges associated with the investment are initially recognized at cost. Premiums are amortized and discount accredited, using the effective yield method and are taken to discount income.

The valuation methods of Marking to Market for investment used are

<u>Held to Maturity (HTM)</u> and by definition the investments which have "Fixed or determinable" payments and fixed maturity that the group has the positive intent and ability to hold to maturity other than those that meet the definition of 'Held at amortized cost others' are classified as held to maturity. These investments are subsequently measured at amortized cost, less any provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium in acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired as per IAS -39 Financial Instruments Recognition and Measurement".

<u>Held for Trading (HFT)</u> is a method where investments are acquired principally for the purpose of selling or repurchasing or in short trading or if designated as such by the management. After initial recognition, investments are measured at present value and any change in the fair value is recognized in the statement of income for the period in which it arises. Transaction costs, if any, are not added to the value of investments at initial recognition.

<u>Revaluation</u>: According to DOS Circular no.-05, dated 26th May 2008, the HFT securities are revalued once each week using Marking to Market concept and the HTM securities are amortized once a year according to

Bangladesh Bank guidelines. The HTM securities are also revaluated if they are reclassified to HFT category with the Board's approval.

Value of Investments has been shown as under:

Investment Class	Initial Recognition	Measurement after Recognition	Recording of changes
Government Treasury Bills (HFT)	Cost	Marking to Market / fair value	Loss to profit and loss a/c gain to revaluation reserve
Government Treasury Bills (HTM)	Cost	Amortized cost	Increased or decreased in value to equity.
Government Treasury Bonds (HFT)	Cost	Marking to Market/ fair value	Loss to profit and loss a/c, gain to revaluation reserve
Government Treasury Bonds (HTM)	Cost	Amortized cost	Amortized Gain/ Loss to Revaluation reserve
Zero Coupon Bond		None	None
Prize Bond and Other Bond	Cost	None	None
Debentures	Cost	At Cost Price	None
Un quoted Shares (ordinary)	Cost	Cost	-
Quoted shares (ordinary)	Cost	Lower of cost or market price at balance sheet date	Loss to profit and loss A/c.

Quantitative Disclosure

Quantitative Disclosure

			Amount in Taka
Quoted Shares			
Particular	Cost of holding	Market Value	Unrealized Gain
Ordinary shares	1,413,196,396	1,337,198,191	(75,998,205)

Unquoted	Cost of holding
Industrial and Infrastructure Development Finance Co. Limited	29,683,820
Central Depository Bangladesh Limited	16,277,770
The Bangladesh Rating Agency Limited	12,497,600
BRAC EPL Investments Limited	2,752,714,494
BRAC EPL Stock Brokerage Limited	1,344,147,500
bKash Limited	168,921,800
BRAC Saajan Exchange Limited	59,388,531
BRAC IT Service Limited	31,224,000
BRAC Asset Management Company Limited	12,500,000
VIPB Income Fund	102,500,000

Preference shares	
Union Capital Preference Share	40,000,000
Total	**4,569,855,515**

Required Capital Charge on Equities		
	Solo	**Consolidated**
General Market Risk	144,389,819	183,657,360
Specific Risk	144,389,819	183,657,360
Total Capital Charge	**288,779,638**	**367,314,721**

6. Interest Rate Risk in the Banking Book (IRRBB)

Qualitative Disclosure

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 affects the bank's financial condition due to adverse movements in interest rates of interest sensitive assets. Changes in interest rates have two types of impact:

i. Earnings perspective: It affects a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses.

ii. Economic value perspective: The economic value of future cash flows changes when interest rate changes.

In BRAC Bank Limited, the Asset & Liability Management (ALM) unit under the supervision of Asset and Liability Committee (ALCO) is responsible for managing market risk arising from BRAC Bank's banking book activities. Our interest rate risk management involves the application of four basic elements in the management of assets, liabilities, and OBS instruments. These are (a) appropriate senior management oversight; (b) adequate risk management policies and procedures, (c) appropriate risk measurement, monitoring, and control functions; and d) comprehensive internal controls.

Techniques of Addressing IRRB: Following techniques for managing the IRRB in BRAC Bank Limited are applied:

Re-pricing Schedules: It is the simplest techniques for measuring a bank's interest rate risk exposure and that is generating a maturity/re-pricing schedule that distributes interest-sensitive assets, liabilities, and OBS positions into a certain number of predefined time bands according to their maturity (if fixed-rate) or time remaining to their next re-pricing (if floating-rate). Those assets and liabilities lacking definitive re-pricing intervals (e.g. sight deposits or savings accounts) or actual maturities that could vary from contractual maturities are assigned to re-pricing time bands according to the judgment and past experience of the bank.

Gap Analysis: It helps to assess the interest rate risk of current earnings. To evaluate earnings exposure, interest rate-sensitive liabilities in each time band are subtracted from the corresponding interest rate-sensitive assets to produce a re-pricing "gap" for that time band. This gap is then multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement.

i. Duration: A maturity/re-pricing schedule is also used to evaluate the effects of changing interest rates on a bank's economic value by applying sensitivity weights to each time band. Typically, such weights are based on estimates of the duration of assets and liabilities that fall into each time band.

ii. Quarterly Stress Testing: It is conducted on quarterly basis as per the directives of Bangladesh Bank to gain better insight into the vulnerable issue of IRRB.

Quantitative Disclosure

Quantitative Disclosure

Particulars	Amount (BDT)		
Market Value of Assets			252,997,745,049
Market Value of Liabilities			227,600,545,398
Weighted Average of Duration of Assets (DA)			1.48
Weighted Average of Duration of Liabilities (DL)			0.26
Duration GAP (DA-DL)			1.25
Yield to Maturity (YTM -Assets)			8.95%
Yield to Maturity (YTM -Liability)			3.41%
Magnitude of Interest Rate Change	1%	2%	3%
Change in market value of equity due to an increase in interest rate	-2,898,383,981	-5,796,767,962	-8,695,151,943
Stress Testing	Minor	Moderate	Major
Regulatory capital (after shock)	20,185,297,417	17,286,913,436	14,388,529,455
RWA (after shock)	186,673,405,251	183,775,021,270	180,876,637,288
CAR (after shock)	10.81%	9.41%	7.95%

7. Market Risk

Qualitative Disclosure

Qualitative Disclosure		
	a) Views of BOD on trading/investment activities	Market risk arises due to changes in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. The financial instruments that are held with trading intent or to hedge against various risk, are purchased to make profit from spreads between the bid and ask price are subject to market risk. We have Foreign Exchange Risk Management Guideline entirely customized as per our bank's need since 2004. The guidelines have been prepared as per Bangladesh Bank guidelines and appraised by our Board of Directors. All financial activities are susceptible to different degree of risks. Being a financial institution, to measure, monitor and manage these risks would be crucial for the survival and good health of the organization. Within the bank, treasury would be vested with the responsibility to measure and minimize the risks associated with bank's assets and liabilities. Managing foreign exchange risk would be one of the prime responsibilities of the treasury. Liquidity Contingency plan and the guidelines of Bangladesh Bank in respect of CRR, SLR & Capital Adequacy are also there to guide in the proper direction. We have the Asset Liability Committee (ALCO) responsible for overall balance sheet (asset liability) risk management. Treasury would be responsible for managing the balance sheet as per recommendation of ALCO to minimize risk and maximize returns. The committee would call on a meeting at least once in every month to set and review strategies on ALM. The ALCO process or ALCO meeting reviews the ALCO paper along with the prescribed agendas. Head of treasury would put his views on whether the interest rates need to re-priced whether the bank needs deposit or advance growth, whether the growth on deposits and advances would be on short term or long term, what would be the transfer price of funds among the divisions, what kind of interbank dependency the bank would have. Based on the analysis and views, the committee would take decisions to reduce balance sheet risk while maximizing profits. At BRAC bank, the Board approves all policies related to market risk, sets limit and reviews compliance on a regular basis. The objective is to obtain the best balance of risk and return whilst meeting customers' requirements.
	b) Methods used to measure Market	There are several methods used to measure market risk and the bank uses those methods which deem fit for a particular scenario. For measuring interest risk from earnings perspective, the bank uses maturity gap analysis, Duration Gap analysis, Sensitivity Analysis. We use standardized (Rule Based) method for Calculating capital charge against market risks for minimum capital requirement of the bank under Basel-III.

	c) Market Risk Management system	The Treasury Division manages market risk covering liquidity, interest rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the bank. ALCO is chaired by the Managing Director.
	d) Policies and processes for mitigating market risk	i. **Asset Liability Management**: BRAC Bank Limited gives adequate emphasis so that the level of balance sheet risks is effectively managed. Appropriate policies and procedures have been established as per the guidelines of Bank's Board of Directors (BOD) including relevant circular guidelines of Bangladesh Bank to control and limit these risks and proper resources are available for the evaluation and control of these risks. The Asset Liability Committee (ALCO) of the bank monitors Balance Sheet and liquidity risk of the bank. **ii. Foreign Exchange Risk Management:** Foreign exchange risk (also known as FX risk, exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency. The risk is that adverse fluctuations in exchange rates may result in a loss in earnings. We have our own board approved policy for the management of FX risk. We have developed different strategies to handle foreign exchange risk by setting different types of limits and risk parameters to measure and monitor foreign exchange risk exposure of the bank. The bank maintains various Nostro accounts in order to conduct operations in different currencies. The management of the bank sets limits for conducting Nostro account transactions. All Nostro accounts are reconciled on monthly basis and outstanding entries are reviewed by the management for its settlement/ adjustment. The position maintained by the bank at the end of the day is within the stipulated limit prescribed by the central Bank. Changes in market liquidity and/or interest rate exposes Bank's business to the risk of loss. Treasury department is vested with the responsibility to measure and minimize the risk associated with bank's assets and liabilities including Foreign Exchange Risk. All Treasury functions are clearly demarcated between Treasury Front Office and Back Office. The Front Office is involved only in dealing activities while the Back Office is responsible for related support and monitoring functions. All the Treasury Front and Back Office personnel are guided as per Bangladesh Bank Core Risk Management guidelines. And they have separate and independent reporting lines to ensure segregation of duties and accountabilities. Dealing room is equipped with Reuter's information, voice screen recorder.

Quantitative Disclosure

Quantitative Disclosure

	(Amount in BDT)	
The Capital Requirements for Market Risk	Solo	Consolidated
Interest Rate risk	107,992,984	107,992,984
Equity position risk	288,779,638	367,314,721
Foreign Exchange risk	195,670,073	195,670,073
Commodity risk	-	-
Total	**592,442,695**	**670,977,778**

8. Operational Risk

Qualitative Disclosure

Qualitative Disclosure

a) Views of BOD on system to reduce Operational Risk	Operation risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and system or from external events. This definition includes legal risk, but excludes strategic or reputation risk. The Board of Directors (BOD) of BRAC Bank Limited and its Management firmly believe that efficient management of operational risks always contribute to the earnings of the bank and at the same time secure the interest of its customers and shareholders. To materialize this understanding into reality, there are dedicated risk management associates across the bank that consistently work for managing the Operational Risks using effective tools and techniques implemented through polices and processes.
b) Performance gap of executives and staffs	BBL is an equal opportunity employer. At BBL, we recognize the importance of having the right people at right places and positions to achieve organizational goal. The bank has proper mechanism in place to identify the scope of improvement of the employees and executives and work towards addressing them on time. Development of human resources is pivotal for optimum efficiency and hence, BBL's employees are given with numerous learning and capacity development programs throughout the year by best resources available within the country and abroad. To reduce knowledge gap and assist in the development of our personnel, user friendly Operations Manual have been developed and enclosed with functional processes for all employees who are the end users of these processes. This is a

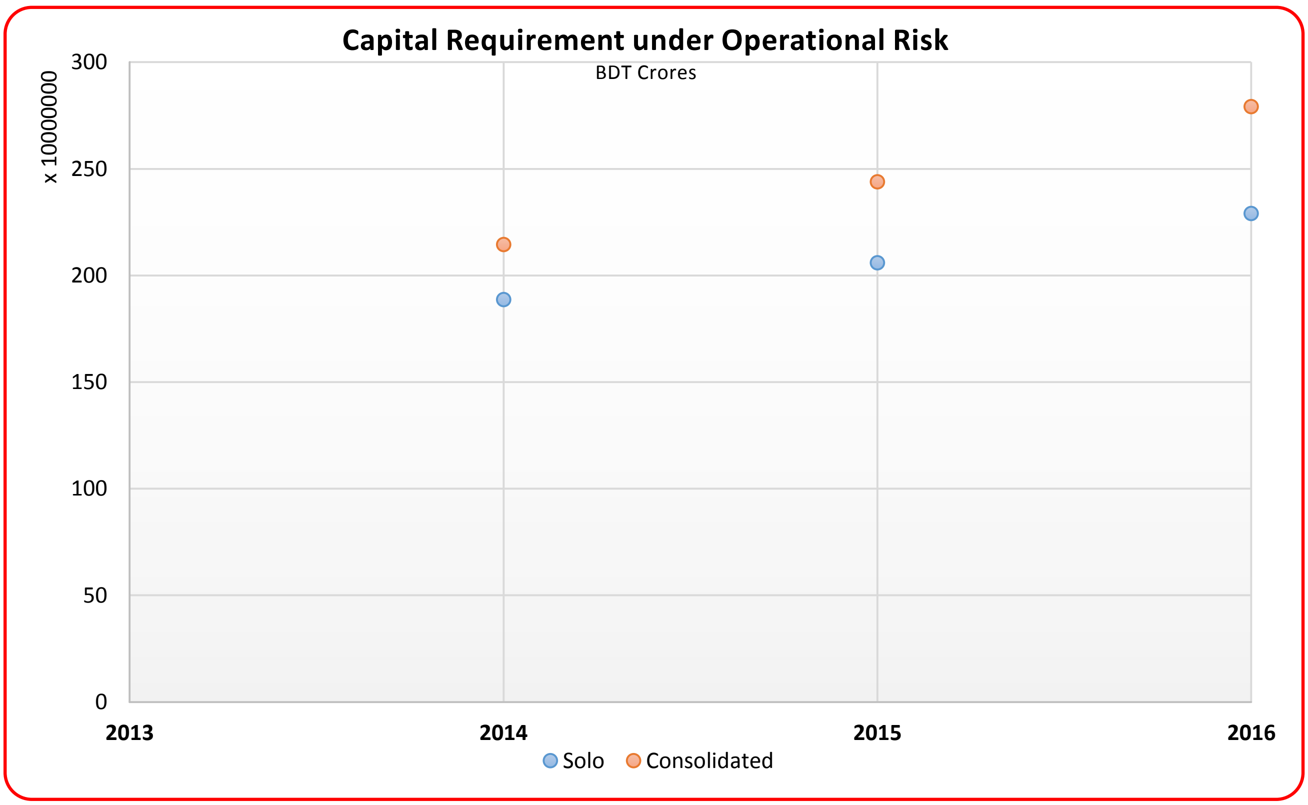
		critical initiative for the Bank because having a mapped out process enables users to operate more efficiently, enhances knowledge amongst staff and fills in the lapses in operations. All the policies and processes address clear responsibilities and accountabilities of all employees.
Qualitative Disclosure	**c)** Potential external events	There are non-diversifiable external factors that can affect operations of the business directly or indirectly. BBL understand that business operates in an umbrella of inter connected socio-economic and political environment where macro-economic conditions, regulatory changes, change in demand, status of infrastructure have significant influence on bank's performance. The bank has separate mechanism to address such kind of events.
	d) Policies and processes for mitigating operational risk	In BRAC Bank, a dedicated department under the Risk Management Division (RMD) consistently works in Operational Risk identification, assessment and implementing appropriate risk mitigation strategies across the bank. It helps to create awareness about various types of risks in pan bank and enhances management of significant risk exposures by escalating all risk issues timely and concisely to the MANCOM and Enterprise Risk Management Committee (ERMC). The team works in collaboration with all the departments in the bank for minimizing the Operational Risk exposures by collating information from key stakeholders of processes across all functions of the bank, Incident Reports, Potential Loss Reports, Internal Audit Reports, External Audit Reports and various other sources to identify gaps, risks, compliance and control failures to ensure reporting of significant risks and corporate governance issues. Such maintenance of a bank-wide risk management framework enables every department to independently identify, assess and respond to changes in the operating environment. Moreover, Internal Control and Compliance Division has key role in identifying and mitigating operational risk. This division works relentlessly under the guidance of Board Audit committee to manage operational risk issues of the bank. The audit committee delivers policies and directions from time to time to keep the operational efficiency of the bank up to the mark.
	e) Approach for Calculating Capital Charges for Operational Risk	Basic Indicator Approach (BIA) is followed to calculate the capital charges for Operational Risk as per the guidelines of Bangladesh Bank. As per BIA, the capital charge for Operations Risk is a fixed percentage denoted by α (alpha) of average positive gross annual income of the bank over the past three years.

Quantitative Disclosure

Quantitative Disclosure

Amount in Taka

Year	Solo			Consolidated		
Year	Gross Income (GI)	Weight	15% of Average GI	Gross Income (GI)	Weight	15% of Average GI
2016	17,117,160,422	15%	2,567,574,063	21,324,553,375	15%	3,198,683,006
2015	15,193,514,964	15%	2,279,027,245	18,504,878,189	15%	2,775,731,728
2014	13,511,882,044	15%	2,026,782,307	15,997,061,501	15%	2,399,559,225
Average			2,291,127,872	Average		2,791,324,653
	Average Gross Income of three years			Average Gross Income of three years		
	45,822,557,430	15%	2,291,127,872	55,826,493,066	15%	2,791,324,653



9. Liquidity Ratio

Qualitative Disclosure

Qualitative Disclosure		
	a) Views of BOD on system to reduce liquidity Risk	Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or when a bank is unable to fulfill its commitments in time when payment falls due. Thus, liquidity risk can be of two types: a) Funding liquidity risk: the risk that a firm will be unable to meet its current and future cash flow and collateral needs without affecting its daily operations or its financial condition b) Market liquidity risk: the risk that a firm cannot easily offset or sell a position without incurring a loss because of inadequate depth in the market. BBL's Board of Directors have always been giving utmost importance to minimize the liquidity risk of the bank. In order to reduce liquidity risk strict maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) are also being emphasized on a regular basis. Apart from these as a part of Basel-III requirement Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are also maintained under the guidance and sharp insight of our honorable Board of Directors.
	b) Methods used to measure Liquidity risk	We follow Bangladesh Bank's Risk Based Capital Adequacy guideline in line with Basel III. We also follow DOS circular no. 1, dated 1st January, 2015, on Implementation of Basel III liquidity ratio. The calculation methodology is illustrated in detail in the guideline provided by Bangladesh Bank. **Liquidity Coverage ratio**: The liquidity coverage ratio (LCR) refers to highly liquid assets held by financial institutions in order to meet short-term obligations. The Liquidity coverage ratio is designed to ensure that financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions. Banks are required to hold an amount of highly-liquid assets, such as cash or Treasury bonds, equal to or greater than their net cash over a 30 day period (having at least 100% coverage). **Net stable funding ratio (NSFR)**: The NSFR presents the proportion of long term assets funded by stable funding and is calculated as the amount of Available Stable Funding (ASF) divided by the amount of Required Stable Funding (RSF) over a one-year horizon. This ratio must equal or exceed 100%.
	c) Liquidity risk management system	Liquidity is the ability of a bank to generate fund for increasing assets and meet obligations as they come due, without incurring unacceptable cost. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes bank inherently vulnerable to liquidity risk. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior. Liquidity risk management is of paramount importance

		because a liquidity shortfall at single institution can have system-wide repercussions. Responsibility of managing and controlling liquidity of BBL lies with Asset Liability Management Committee (ALCO) which meets at regular interval. Asset and Liability Management (ALM) desk closely monitors and controls liquidity requirements on a daily basis by appropriate coordination of funding activities and they are primarily responsible for management of liquidity in the bank.
	d) Policies and processes for mitigating liquidity risk	Asset Liability Management (ALM) is the core job and integral part of Bank Management. Changes in market liquidity and in interest rate exposes Bank's business to the risk of loss, which may, in extreme cases, threaten the survival of the institution. As such, it is important that the level of balance sheet risks is effectively managed, appropriate policies and procedures are established to control and limit these risks, and proper resources are available for evaluating and controlling these risks. Asset Liability Management policy is prepared to monitor, measure and manage the risks associated with balance sheet and guards the Bank against any unforeseen loss/threat of survival. The Asset Liability Management policy was approved by the Board in August 2004. The policy is revised to accommodate regulatory and organizational change. The Board of Directors approve the LRM Policy. Asset Liability Committee (ALCO) reviews the policy at least annually or as and when required by taking into consideration of any changes in the market dynamics and appropriateness and put recommendation for changes in policy to the Board for approval. The LRM Policy is guided by international best banking practices, local banking & regulatory environment and prudent guidelines of the central bank.

Quantitative Disclosure

Quantitative Disclosure

Particular	As on December 31, 2016
Liquidity Coverage Ratio	111.79%
Net Stable Funding Ratio (NSFR)	115.44%
Stock of High quality liquid assets	32,786,482
Available amount of stable funding	191,741,573
Required amount of stable funding	166,098,053

10. Leverage Ratio

Qualitative Disclosure

Qualitative Disclosure

a) Views of BOD on system to reduce excessive leverage	In order to avoid building-up excessive on- and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. Banks have a range of financial incentives to operate with high leverage. But it creates risk when it crosses a certain point. Therefore, the board' views that sound prudential controls are needed to ensure that the organization maintains a balance between its debt and equity. The board also believes that the bank should maintain its leverage ratio on and above the regulatory requirements which will eventually increase the public confidence on the organization. BRAC Bank calculates leverage ratio on quarterly basis as per the RBCA guideline of the Bangladesh Bank and submits it to the Department of Off-site Supervision (DOS), Bangladesh Bank along with CRAR report.
b) Policies and processes for managing excessive on and off-balance sheet leverage	To manage excessive leverage, the bank follows all regulatory requirements for capital, liquidity, commitment, Advance Deposit Ratio (ADR), Maximum Cumulative Outflow (MCO), and other standards set by Bangladesh Bank. The aim is to ensure that the high leverage inherent in banking business models is carefully and prudently managed.
c) Approach for calculating exposure	Leverage ratio reflects the bank's tier 1 capital (the numerator) over total exposure (the denominator), which include its balance sheet exposures and certain off-balance sheet exposures. The capital measure for the leverage ratio is based on the Tier 1 capital. The exposure measure for the leverage ratio

follows the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the followings are applied by the bank:

1. On balance sheet, non-derivative exposures are net of specific provisions and valuation adjustments
2. Physical or financial collateral, guarantee or credit risk mitigation purchased is not considered to reduce on-balance sheet exposure
3. Netting of loans and deposits is not considered.

Leverage Ratio: Tier 1 Capital (after related deductions)/Total Exposure (after related deductions)

Quantitative Disclosure

Quantitative Disclosure

Particular	Solo	Consolidated
Leverage ratio	7.41%	7.26%
On balance sheet exposure	243,609,684,019	263,328,369,837
Off balance sheet exposure	23,334,249,547	23,334,249,547
Total exposure	265,837,801,690	284,174,385,578

11. Remuneration

Qualitative Disclosure

Qualitative Disclosure

a) Information relating to the bodies that oversee remuneration:

i. Name, composition and mandate of the main body overseeing remuneration	Remuneration during Joining: This is overseen by the four senior executives in Human Resources Division: 1) Head of Human Resource 2) Head of Operations 3) Head of Compensation & Rewards 4) Head of Recruitment The above four members along with the concern functional head fixes the remuneration based on fitment analysis of the incoming employee. Remuneration after Joining: Head of Human Resources along with concern Function head and Management Committee reviews the remuneration of the Bank from time to time and adjust it based on performance, Cost of Living Adjustment and market benchmark

	ii. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.	The Management of the Bank has appointed "Cerebrus" "consultant firm to do a full fledge Remuneration and Benefit survey for salary adjustment. The consultant firm was commissioned with the recommendation from Head of HR along with the consent of MD & CEO
	iii. A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches	The remuneration policy of the bank covers all persons engaged in service of the bank. The Salary structure of the Bank is based on Job Grades. Job grades are decided on the basis of an analytic assessment of the position based on the size, responsibilities, decision-making authorities and the nature of the job.
	iv. A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	We have considered high officials like Chief Executives Officer, Chief Financial Officer, Head of Retail Banking, Head of Operation, Head of HR, Head of Technology, Internal control & Compliances, Head of SME, Head of Corporate are material risk takers.
	b) Information relating to the design and structure of remuneration processes:	
	i. An overview of the key features and objectives of remuneration policy.	The Bank is committed to follow a fair, competitive and flexible remuneration policy. The Board is the final authority for approval and any amendment to this policy with upon recommendation from the Management Committee. The remuneration policy of the bank cover all persons engaged in permanent service of the bank. Bank has different Job Grades for various levels of employee. Job grade is decided on the basis of an analytic assessment of the position based on the size, responsibilities, decision-making authorities and the nature of the job. **THE FOLLOWING ARE THE JOB GRADES OF BRAC BANK LIMITED:** o Additional Managing Director o Deputy Managing Director o Senior Executive Vice President o Executive Vice President o Senior Vice President o Vice President o Senior Assistant Vice President o First Assistant Vice President o Assistant Vice President o Senior Principal Officer o Principal Officer o Senior Officer o Management Trainee Officer o Officer Grade II o Officer Grade I Managing Director & CEO is not a permanent position. It is a fixed term contractual position as per Bangladesh Bank's approval.

		THE MONTHLY GROSS SALARY OF AN EMPLOYEE HAVE THE FOLLOWING COMPONENTS: o Basic salary o House rent o Medical allowance o Conveyance o Utility o Entertainment o Festival Bonus o Leave Fair Allowance Salaries are confidential between the employees concerned and the Management The salary ranges for these job grade is reviewed from time to time by the management committee. In addition to this, an employee receives 2 guaranteed festival bonuses in two festivals each equal to one basic. He also receives Leave Fair Allowance equal to one Basic salary at the time of his Annual Mandatory Leave. He may also receive performance bonus/awards/grants etc. as decided by the Board/Management of the bank from time to time
	ii. Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.	N/A
	iii. A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	The structure of the performance-based component of the Risk Manager's remuneration is referred to the Human Resources Committee for approval. Any qualitative performance metrics are based on the quality and integrity of risk and control functions
	c) Description of the ways in which current and future risks are taken into account in the remuneration processes:	
	i. An overview of the key risks that the bank takes into account when implementing remuneration measures.	BRAC Bank has developed a risk management framework identifying the following core risks 1. Credit risk 2. Liquidity risk 3. Market risk 4. Capital Adequacy risk 5. Operational risk 6. Regulatory risk 7. Reputational risk 8. Strategic risk The Board's risk appetite for these risks significantly affects the application of the balanced scorecard methodology and performance appraisal approach to remuneration.

	ii. An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed).	A balanced scorecard approach has been adopted by the Board with the five (5) criteria being; Growth or Projects, Profitability or Cost Control, Risk Management, Compliance and Service.
	iii. A discussion of the ways in which these measures affect remuneration.	The way in which each individual contributes to or impacts on the key criteria differs depending on the area of the business in which they operate and their level of seniority. These differences are reflected in the expected outcomes and performance indicators developed for each individual employee/role and satisfactory performance against these indicators is required to qualify for change in remuneration.
	iv. A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.	All measures remain unchanged during the past year.
	d) Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration:	
	i. An overview of main performance metrics for bank, top-level business lines and individuals.	▪ Based on the Bank's profit, the Board of Directors at their discretion declare a certain percentage of the pre-tax profit as Performance Bonus. ▪ The method of distribution is based at Management discretion. ▪ No bonus will be applicable to the employees rating with unsatisfactory performance. ▪ Bonus is declared as per individual employee performance. The ratings and associated bonus amount is decided by the Management committee ▪ Performance is measured as per pre-defined criteria and set targets at the beginning of the year. Assessment is divided in two categories: A) Business Objective B) Value based objective. BRAC Bank believes in Value based performance assessment which not only expects desired performance from the employee but also ensure that his/her value system towards organization and his/her job is also up to the mark. **Eligibility criteria are as follows:** ▪ Confirmed Employees joined within 31st December of the year before the performing year. ▪ Employees joined in the performing year but confirmed within 31st October of that year.

		However, bonus will be calculated on Pro Rata Basis based on confirmation date for the rest of the calendar year.
	ii. A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.	A bonus pool does not arise unless a predetermined level of profit is achieved as detailed in the Profit Performance Matrix in the Remuneration Policy.
	iii. A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.	Variable remuneration is determined by the outcome of the balanced scorecard where each of the 5 criteria is weighted according to the individual role.
	e) Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance:	
	i. A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.	BRAC Bank does not currently offer deferred variable remuneration
	ii. A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements	BRAC Bank does not currently offer deferred variable remuneration.
	f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include:	
	i. An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms	BRAC Bank only offers cash based remuneration.

	ii. A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.	Not applicable as BRAC Bank only offers cash based remuneration.

Quantitative Disclosure

Quantitative Disclosure

a) Number of meetings held by the main body overseeing remuneration during the financial year and the remuneration paid to its members:

The Management Committee meet three (3) times during the year ended 31 December 2016. No payment is made to Committee members for their membership of the Committee.

b)

i. The number of persons having received a variable remuneration award during the financial year:

Employee No. 2646
Total Amount : 184,824,000
(Year 2015)

ii. Number and total amount of guaranteed bonuses awarded during the financial year:

Employee No. 6060
Total Festival Bonus Tk. 2,338,41,502

iii. Number and total amount of sign-on awards made during the financial year:

Nil

iv. Number and total amount of termination payments made during the financial year:

Employee No. – 38
Termination Benefits – 9,24,130

	c)
	i. Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms: Nil
	ii. Total amount of deferred remuneration paid out in the financial year: Nil
	d) **Breakdown of the amount of remuneration awards for the financial year to show:**
	i. Fixed and variable: Fixed (Gross +LFA+ Festival) =2,966,062,317 Variable: (Performance Bonus + Incentive)=367,632,782
	ii. Deferred and non-deferred: N/A
	iii. The different forms used (cash, shares and share-linked instruments and other forms): N/A
	e) **Quantitative information about employees' exposure to implicit and explicit adjustments of deferred remuneration and retained remuneration:**
	i. Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments: Nil
	ii. Total amount of reductions during the financial year due to ex post explicit adjustments: Nil
	iii. Total amount of reductions during the financial year due to ex post implicit adjustments: Nil