Disclosure on Risk Based Capital (Basel II)
Year Ended December 31, 2010

BRAC Bank Limited

1 Gulshan Avenue, Gulshan
Dhaka-1212, Bangladesh

Executive Summary

The Basel II disclosures presented in this document are related to BRAC Bank Limited (BBL) for the year ended December 31, 2010. These disclosures have been made in accordance with the Bangladesh Bank BRPD circular # 35 dated December 29, 2010 titled as the "**Guidelines on Risk Based Capital Adequacy**" for Banks in line with Basel II. The Basel II framework consists of the following three-mutually reinforcing pillars:

a. Pillar 1. This prescribes minimum capital requirements for Credit Risk, Market Risk and Operational Risk;

b. Pillar 2. This prescribes the Supervisory Review Process through which BBL assesses overall capital adequacy in relation to the risk profile and sets the strategy for maintaining the capital at an adequate level;

c. Pillar 3. This depicts Market Discipline and comprises a set of disclosures on the capital adequacy and risk management framework of the Bank.

These disclosures are intended for the market participants to assess key information about the BBL's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among other banks operating in the market.

1. Scope of Application.

1.1. Qualitative Disclosure. BRAC Bank Limited has the following subsidiaries and an associated company namely BRAC Asset Management Company Limited that are within the scope of application and inclusive of this disclosure:

a. BRAC EPL Investment Limited
b. BRAC EPSL Stock Brokerage Limited
c. bKash Limited

1.2. According to BRPD Circular-12, 24, 35 (dated March 29, 2010, August 03, 2010 & December 29, 2010 respectively), 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 financials are fully consolidated, which have been prepared in accordance with Bangladesh Accounting Standard-27 and relevant Bangladesh Bank (BB) circulars and guidelines published for time to time.

1.3. Quantitative Disclosure. 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, 2010 which ensures the elimination of inter-company transactions, balances and intra-group gains on transactions between group companies.

2. Capital Structure

2.1. Qualitative Disclosure

a. The composition of BBL Tier 1 Capital is:

i. Paid-up Capital – 35%
ii. Statutory Reserve – 25%
iii. Share Premium – 18%
iv. Retained Earnings – 22%

b. And the composition of BBL Tier 2 Capital is:

i. General Provision – 32%
ii. Asset Revaluation Reserve – 13%
iii. Preference Share – 10%
iv. Perpetual Subordinated Debt – 45%

2.2. Quantitative Disclosure

Amount in TK

Particular	Consolidated	Solo
Tier I (Core Capital)		
Fully paid up capital/ Capital deposited with BB	2,676,960,000	2,676,960,000
Statutory Reserve	1,920,598,872	1,920,598,872
Non-repayable share premium account	1,553,052,102	1,406,000,000
General reserve		
Retained earnings	1,956,125,243	1,687,394,554
Minority interest in subsidiaries	698,799,975	
Share Money Deposit	24,851,503	
Non Cumulative irredeemable preference shares		
Dividend equalization account		
Sub Total	**8,830,387,694**	**7,690,953,426**
Deductable from their Tier-1 (Core capital)		
Book value of goodwill	311,888,515	
Shortfall in provisions required against classified assets		
Deficit on account of revaluation of investments in AFS category		
Investment in subsidiary		299,324,147
Sub Total	**311,888,515**	**299,324,147**
Total Eligible Tier 1 capital	8,518,499,179	7,391,629,279
Tier II (Supplementary capital)		
General provision	1,590,674,026	1,590,674,026
Asset revaluation reserve	610,466,065	610,466,065
Preference shares	500,000,000	500,000,000
Perpetual subordinated debt	2,555,549,754	2,217,488,784
Exchange equalization fund	0	0
Sub Total	**5,256,689,845**	**4,918,628,875**
Deduction (Investment in Subsidiary)		299,324,147
Total Eligible Tier 2 capital	5,256,689,845	4,619,304,728
Tier III (eligible for market risk only)		
Short term subordinated debt	0	0
Total Supplementary Capital	**5,256,689,845**	**4,619,304,728**
Total Eligible Capital	13,775,189,024	12,010,934,007

3. Capital Adequacy

3.1. Qualitative Disclosure. BRAC Bank Limited with its focused strategy on risk management has always been consistent in maintaining capital adequacy ratio above the regulatory requirements. BBL has been successfully managing the incremental growth of the Risk Weighted Assets by ensuring robust collaterals against its loans and advances and also maintaining periodic revaluation of these collaterals. While computing the capital adequacy, BBL has applied Standardized Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk.

3.2. Quantitative Disclosure

Amount in TK

	Consolidated	Solo
Capital requirement for Credit Risk	7,907,514,472	7,520,417,134
Capital requirement for Market Risk	530,870,044	530,870,044
Capital requirement for Operational Risk	904,500,000	904,500,000
Capital Adequacy Ratio		
On core Capital (Against a standard of minimum 5%)	8.21%	7.43%
On actual Capital (Against a standard of minimum 9%)	13.27%	12.07%

4. Credit Risk

4.1. Qualitative Disclosure.

a. Credit Risk. 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.

b. Corporate Credit Policy. BRAC Bank Limited is managing its Credit Risk through a Board directed and approved Corporate 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 Corporate Credit Policy of BBL also contained 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 (a) Loan Originating; (b) Credit Approval; (c) Credit Administration; (d) Risk Management; and (e) Monitoring, Collection and Recovery activities.

c. Credit Risk Management. As the lion share of the total revenue of BRAC Bank Limited comes from credit operations, particularly through SME Lending, the future prospect of the Bank depends on quality of asset portfolio. Thus efficient management of the Loans and Advances is of paramount importance for the Bank. Keeping this in consideration, a dedicated Credit Risk Management (CRM) team is working with its extended shield across the country through the operations of its Regional Operations Centers in order to maintain quality underwriting and upholding the integrity of the Bank's risk/return profile. There are differentiated and dedicated credit models for SME Banking, Retail Banking and Wholesales Banking working under CRM 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 new wing named 'Special Asset Management (SAM)' has been recently added in the fleet of CRM to deal 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 in order to ensure that they are managed in terms of their irregularities.

d. Past Due & Over Due. BRAC Bank Limited strictly adheres to the following guidelines of Bangladesh Bank in terms of defining the Past Due and Over Due and accordingly sets out its strategy for addressing such cases:

i. Any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment will be treated as past due/overdue from the following day of the expiry date.

ii. Any Demand Loan if not repaid/rescheduled within the fixed expiry date for repayment will be treated as past due/overdue from the following day of the expiry date.

iii. In case of any installment(s) or part of installment(s) of a Fixed Term Loan(not over five years) is not repaid within the fixed expiry date, the amount of unpaid installment will be treated as past due/overdue from the following day of the expiry date.

iv. In case of any installment(s) or part of installment(s) of a Fixed Term Loan (over 5years) is not repaid within the fixed expiry date, the amount of unpaid installment will be treated as past due/overdue after six months of the expiry date.

v. Micro-Credit and Short term agricultural loan if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date.

e. Impaired Loans. BRAC Bank Limited follows the prescribed classifications of Bangladesh Bank for different types of loans in defining the impaired loans and accordingly apply appropriate recovery and management approaches.

i. Standard. All unclassified loans other than Special Mention Account (SMA) will be treated as **Standard**.

ii. Special Mention Account (SMA). A Continuous credit, Demand loan or a Term Loan which will remain overdue for a period of

90 days or more, will be put into the **Special Mention Account (SMA).**

iii. <u>Substandard (SS)</u>. These are the loans for which Bank has the reasons to doubt about the repayments although Bank continues the recovery efforts.

iv. <u>Doubtful (DF)</u>. These are the loans which are uncertain in terms of full repayment of principal and interest and most likely to incur losses to the Bank.

v. <u>Bad/Loss (B/L)</u>. There are the loans which have very less possibility of recovery.

f. <u>Specific and General Allowances and Statistical Methods</u>. BRAC Bank Limited follows the general and specific provision requirements as prescribed by Bangladesh Bank for time to time.

Particulars		Short Term Agriculture/ Micro Credit	Consumer Financing			Small Enterprise Financing	All Other Credit
			Other than HF & LP	HF	LP		
UC	Standard	5%	5%	2%	2%	1%	1%
	SMA	5%	5%	5%	5%	5%	5%
Classified	SS	5%	20%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	50%
	BL	100%	100%	100%	100%	100%	100%

g. <u>Risk Weighted Assets for Credit Risk</u>

Amount in Taka

Credit Risk	83,560,190,372.86
On- Balance sheet	76,053,938,687.88
Off- Balance sheet	7,506,251,684.98

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4.2. Quantitative Disclosure

a. Total Gross Credit Risk Exposure Broken down by Major Types of Credit Exposure

Amount in Taka

Overdrafts	1,730,900,521
Demand Loans	17,169,080,223
Term Loans	20,278,856,866
Lease Receivables	585,324,602
Small and Medium Enterprise	41,738,916,647
Credit Card	1,958,244,108
Staff Loans	597,381,976
	84,058,704,943
Bill Purchased and Discounted	244,084,374
Total	84,302,789,317

b. Geographical Distribution of Exposures, Broken down in Significant Areas by Major Types of Credit Exposure

Amount in Taka

Dhaka Division	54,590,944,733
Chittagong Division	15,285,231,632
Khulna Division	4,550,064,791
Sylhet Division	1,846,434,206
Barisal Division	2,419,399,745
Rajshahi Division	5,610,714,209
Total	84,302,789,317

c. Industry or Counterparty Type Distribution of Exposure Broken down by Major Types of Credit Exposure

Amount in Taka

Government	**1,841,276,703**
Private	
Agriculture, Fishing, Forestry and Dairy Farm	2,741,148,965
Industry (Jute, Textile, Garment etc.)	12,368,784,039
Working Capital Financing	3,204,671,998
Export Credit	283,307,004
Commercial Credit	36,408,169,975
Small and Cottage Industries	2,984,039,019
Miscellaneous	24,471,391,614
Total	84,302,789,317

d. **Residual Contractual Maturity Breakdown of the Whole Portfolio, Broken down by Major Types of Credit Exposure**

Amount in Taka

Repayable on Demand	13,766,769,491
More than 1 month to 3 months	12,742,044,689
More than 3 months to 1 year	28,553,902,534
More than 1 year to 5 years	24,423,580,217
More than 5 years	4,816,492,386
Total	84,302,789,317

e. **By Major Industry or Counterparty Type.** Amount of impaired loans and past due loans with provisions are as under:

Amount in Taka

Status	Outstanding Loans and Advances	Base for Provision	Required Provision	Required Provision
Unclassified				
All unclassified loans (other than SME financing, Consumer financing, BHs/ MBs/ SDs, Housing and loans for professional)	34,004,509,621	34,004,509,621	1%	340,045,096
SME Financing	32,018,425,539	32,018,425,539	1%	320,184,255
Loans to BHs/MBs/SDs against shares etc	1,082,159,029	1,082,159,029	2%	21,643,181
Housing and Loans for Professional	5,983,476,693	5,983,476,693	2%	119,669,534
Consumer Finance	3,476,156,012	3,476,156,012	5%	173,807,801
Special Mention Account (SMA)	2,211,142,271	2,074,625,527	5%	103,731,276
				1,079,081,143
Classified – Specific Provision				
Substandard	1,142,795,194	1,055,684,506	20%	211,136,901
Doubtful	1,430,876,989	1,262,910,617	50%	631,455,309
Bad/ Loss	2,355,885,993	1,958,287,007	100%	1,958,287,007
				2,800,879,217
Required Provision for Loans and Advances				3,879,960,359.80
Total Provision Maintained				4,356,503,193
Excess/(Short) Provision at December 31, 2010				**476,542,833**

f. <u>Maintenance of Specific Provision and Movement of Non Performing Assets (NPAs)</u>.

Amount in Taka

Gross Non Performing Assets (NPAs)	4,929,558,176
NPAs to Outstanding Loans and Advances	**5.85%**
Movement of Non Performing Assets (NPAs)	
Opening Balance	3,877,656,742
Additions	1,522,000,846
Reductions	470,099,412
Closing Balance	**4,929,558,176**
Movement of Specific Provision for Non Performing Assets (NPAs)	
Opening Balance	2,586,524,209
Provision made during the period	1,333,089,473
Write Off	861,423,407
Interest Waiver	62,361,108
Write back of excess provision	
Closing Balance	**2,995,829,167**

5. Equities: Disclosure for Banking Book Positions

5.1. <u>Qualitative Disclosure</u>. 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 described hereunder:

a. <u>Held to Maturity (HTM)</u>. The investments which have "Fixed or determinable" payments and fixed maturity that the group has the positive intent and ability to held 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 in such investments is recognized in the statement of income when the investment is derecognized or impaired as per International Accounting Standards – 39 "Financial Instruments: Recognition and Measurement".

b. <u>Held for Trading (HFT)</u>. Investments classified in this category 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 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.

c. Revaluation. According to DOS Circular number 05, dated May 26, 2008, the HFT securities are revaluated once in each week using Marking to Market concept and HTM securities are amortized once a year according to Bangladesh Bank guideline. The HTM securities are also revaluated if any, are reclassified to HFT category with the Board's approval. Value of investment is 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 through Profit and Loss A/c
Government Treasury Bills (HTM)	Cost	Amortized Cost	Increased or Decreased in value to Equity
Government Treasury Bonds (HTM)	Face value	None	None
Zero Coupon Bond	Face Value	None	None
Prize Bond & Other Bond	Cost	None	None
Unquoted Share (ordinary)	Cost	Cost	
Quoted Share (ordinary)	Cost	Lower of cost or Market Price at balance sheet date	**Loss** to Profit and Loss A/c, but no unrealized gain recorded

5.2. Quantitative Disclosure

a. As on the reporting date i.e. December 31, 2010 BRAC Bank has a balance of unquoted investment of BDT 971,764,794 with BDT 334,118,900 as Preference shares.

Amount in Taka

Unquoted Shares	
Particular	**Cost Price**
IIDFC	10,000,000
D&B	12,497,600
CDBL	4,000,000
BRAC EPL investments	494,340,794
EPSL Stock Brokerage	102,522,500
BKash	1,785,000
Investment In Equity Shares at BRAC Asset Management Company	12,500,000
Preference Shares	
STS holdings	30,000,000
Summit Purbanchal & Uttaranchol Power Co. Ltd.	304,118,900
Total	**971,764,794**

b. On the other hand, an amount of BDT 364,065,141.23 stood as unrealized gain as on reporting date December 31, 2010. The following table present details of the unrealized gain as on year end 2010:

Amount in Taka

Quoted Shares			
Particular	**Cost Price**	**Market Value**	**Unrealized Gain**
Cost of Shares	2,118,892,980	2,472,896,808	354,003,828
Mutual Fund	32,941,286	42,516,450	9,575,164
ACI ZC Bond	104,238,015	104,724,165	486,150
Total	**2,256,072,282**	**2,620,137,423**	**364,065,141**

c. Against quoted equity investment amounting to BDT 2,620,137,423, capital charge of equity for specific and general market risk is 471,624,736 @ 9% Risk Weight.

Amount in Taka

		RWA at 9%
General market risk	2,620,137,423	235,812,368
Specific risk	2,620,137,423	235,812,368
Total capital charge		**471,624,736**

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

6.1. Qualitative Disclosure

a. Interest Rate Risk in the Banking Book (IRRBB). It is the risk related to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. Changes in interest rates affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change. The primary and most common form of interest rate risk, known as re-pricing risk, arises from timing differences in the maturity (for fixed-rate) and re-pricing (for floating-rate) of bank assets, liabilities, and OBS positions.

b. Approach of Assessing IRRB. 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.

c. Techniques of Addressing IRRB. We apply the following techniques for managing the IRRB in BRAC Bank Limited:

   i. Re-pricing Schedules. We follow 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 (e.g. mortgages with an option for early repayment) are assigned to re-pricing time bands according to the judgment and past experience of the bank.

   ii. Gap Analysis. We follow Gap Analysis 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.

iii. **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. Duration-based weights used in combination with a maturity/re-pricing schedule to provide an estimation of the change in a bank's economic value that would occur given a particular change in the level of market interest rates. Specifically, an "average" duration is assumed for the positions that fall into each time band. The average durations are then multiplied by an assumed change in interest rates to construct a weight for each time band. In some cases, different weights are used for different positions that fall within a time band, reflecting broad differences in the coupon rates and maturities (for instance, one weight for assets, and another for liabilities). In addition, different interest rate changes are sometimes used for different time bands, generally to reflect differences in the volatility of interest rates along the yield curve. The weighted gaps are aggregated across time bands to produce an estimate of the change in economic value of the bank that would result from the assumed changes in interest rates.

iv. **Quarterly Stress Testing**. We also conduct Stress Testing on quarterly basis as per the directives of Bangladesh Bank to u better insight into the vulnerable issue of IRRB. We hold adequate capital commensurate with the level of interest rate risk undertaken.

6.2. **Quantitative Disclosure**. Market and book values of all balance sheet rate-sensitive assets and liabilities are shown as under:

Amount in Taka

	Book Value	Market Value	Duration (Year)
Total Assets	119,150,087,964	119,944,805,937	1.69
Liabilities & Capital			
Total Liabilities	109,738,202,406	109,737,756,997	0.47
Capital and Shareholder's equity	9,411,885,556	9,411,885,556	
Total Liabilities and Shareholder's equity	119,150,087,963	119,149,642,553	
Duration Gap (DGAP)			1.26
Capital maintained for Interest Rate Risk in the Banking Book			**1,347,765,828**

7. Market Risk

7.1. Qualitative Disclosure

a. **Market Risk**. Market risk is defined as the risk of losses arising from movements in market prices reported in 'On and Off-Balance Sheet' positions. BRAC Bank Limited is exposed to Market Risk mostly stemming from the risks pertaining to interest rate related instruments and equities in the trading book and foreign exchange and commodity risk both in the banking and trading book.

b. **Methods Used to Measure Market Risk**. We use Standardized (Rule Based) Approach to measure the market risk as per the guidelines of Bangladesh Bank where, for Interest Rate Risk and Equity Risk both General and Specific risk factors are applied for calculating required capital charges against Market Risk. Following are the methodologies that BRAC Bank Limited uses for calculating capital requirements under Standardized (rule based) Approach for each of these market risks:

i. **Capital Charge for Interest Rate Risk**

a) **Capital Charge for Specific Risk**. Capital charge for specific risk against interest related instruments are designed to protect against adverse movement in price of an individual security, owing to factors related to the individual issuers.

b) Capital Charge for General Risk: Capital charge for general market risk is designed to capture the risk of loss arising from changes in market interest rates.

ii. Capital Charge for Equity Risk

a) As with debt securities, the minimum capital standard for equities is expressed in terms of two separately calculated charges, the "Specific Risk" and the "General Market Risk" for holdings.

b) The capital charge for both specific and general market risk charge is 10%.

iii. Capital Charge for Foreign Exchange Risk

a) The capital charge for Foreign exchange risk is 10% of bank's overall foreign exchange exposure. The bank's net open position in each currency should be calculated by adding up (1) net spot position (i.e. all assets items less all liability items, including accrued interest denominated in the currency in question); (2) net forward position (i.e. all amounts to be received less all amounts to be paid under forward foreign exchange transactions, including currency futures and the principle on the currency swaps not included in the spot position); (3) net future income/ expense not yet accrued but already fully hedged (at the discretion of the reporting bank); and (4) any other item representing profit or loss in foreign currencies.

b) The overall foreign exchange exposure have been measured by aggregating the sum of the net short positions or the sum of the net long positions, whichever is greater, regardless of sign. The capital charge will be 10% of the net open position.

c. Market Risk Management System

i. Asset Liability Management. Changes in market liquidity and or interest rate exposes Bank's business to the risk of loss, which may in extreme cases, threaten the survival of the institution. As such BRAC Bank Limited has been given 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. This Committee also reviews country's overall economic position, bank's liquidity position, ALM ratios, Interest Rate Risk, Capital Adequacy, Deposit Advance Growth, Cost of Deposit, Yield on Advance, F.E Gap, Market Interest Rate, Loan Loss Provision adequacy, deposit and lending pricing strategy.

ii. <u>Foreign Exchange Risk Management</u>. In BRAC Bank Limited, 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 recorders for recording the dealing conversations taking place over phone. Counter party limit is set by the Credit Committee and monitored by Head of Treasury & FI. However, Bank's Management Committee (MANCOM) approval is required to increase the limit. Before making any deal, the dealer needs to ensure the counter party's dealing style and product mix to assess the feasibility.

7.2. <u>Quantitative Disclosure</u>

Amount in Taka

Capital requirement for Market Risk	
Interest rate risk	19,365,764
Equity position risk	471,618,000
Commodity risk	0
Foreign exchange risk	39,886,280

8. Operational Risk

8.1. Qualitative Disclosure

a. <u>Operational Risk</u>. 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 units and associates across the Bank that consistently work for managing the Operational Risks using effective tools and techniques implemented through polices and processes.

b. <u>Performance Gap of Executive and Staff</u>. To reduce knowledge gap and assist in the development of our personnel, we have developed user friendly Operations Manual 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 holes in operations. We ensure that all the policies and processes address clear responsibilities and accountabilities of the cross functional departments including the employees.

a. <u>Potential External Events</u>. We have started our journey in achieving our 2011 goals while keeping in mind that there is no room for compromise when it comes to risks. The year 2011 has not only brought spectrum of hopes and business prospects for us but also left us at the threshold of dire financial vulnerability. The sudden crash of the stock market, the overall decrease in capital adequacy of banks, liquidity crunch and other such financial turmoil should be kept under priority list for the regular review and setting out the strategies for appropriate management.

b. <u>Mitigation of Operational Risk</u>. In BRAC Bank, there is a dedicated department named as 'Operational Risk Management (ORM)' under the Risk Management Division (RMD) that consistently work in Operational Risk identification, assessment and implementing appropriate risk mitigation strategies across the Bank. ORM helps to create awareness about various types of risks in the 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). ORM 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. ORM maintains the record of reported Key Risk Indicator (KRI) for all departments of the Bank to assess high and medium risk areas identified from the business or supporting functions.

c. <u>Enterprise Risk Management Committee (ERMC)</u>. Facilitation of Enterprise Risk Management Committee (ERMC) meeting, which takes place in every month to ensure Bank's risk governance and compliance with Bangladesh Bank directives for minimizing the Bank's enterprise level risk issues, is one of the core initiatives in pursuit of eliminating operational risk. ERMC is an independent body composed of Bank's Management Committee (MANCOM) Members which is also an extended supervisory management of the Board of Directors of BRAC Bank and works in strategy setting across the enterprise for the matters of risk management.

d. <u>Approach for Calculating Capital Charges for Operational Risk</u>. We follow the Basic Indicator Approach (BIA) for calculating 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.

8.2. <u>Quantitative Disclosure</u>. Capital requirements for Operational Risk:

Amount in Taka

Year	Gross Income (GI)	Weight @15%	15% of Average GI
2009	7,820,626,849	15%	1,173,094,027.35
2008	6,489,668,118	15%	973,450,217.70
2007	3,779,281,281	15%	566,892,192.15
Gross Income of three years			
18,090,000,000		15%	904,500,000