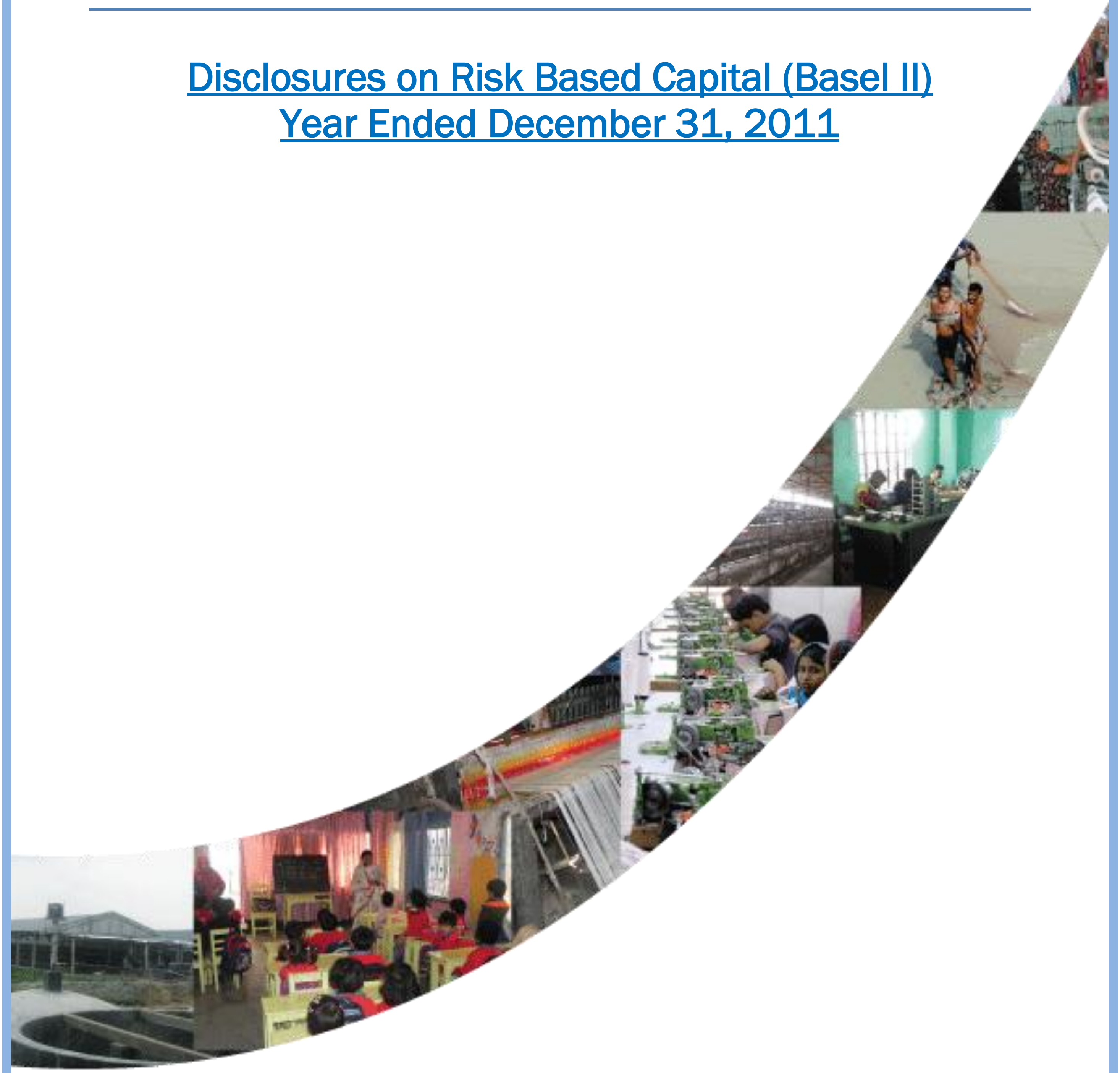
Disclosures on Risk Based Capital (Basel II)
Year Ended December 31, 2011



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, 2011. 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 I:** This prescribes minimum capital requirements for Credit Risk, Market Risk and Operational Risk.
b. **Pillar II:** 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 III:** 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
d. BRAC Saajan Exchange Company Limited – in Birmingham, UK

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 consolidated financial statements have been prepared in accordance with Bangladesh Accounting Standard 27: Consolidated financial statements and accounting for investments in subsidiaries.

1.2 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, 2011 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

In Tier 1 Capital, 39% is Paid-up Capital with 31% Statutory Reserve, 17% Share Premium and 13% Retained Earnings.

2.2 Quantitative Disclosure

And in the Tier 2 capital 36% is General Provision with 2% Asset Revaluation Reserve, 8% Preference Share and 54% Perpetual Subordinated Debt.

Amount in Taka

Particulars	Consolidated	SOLO
Tier - I (Core Capital)		
Fully paid up capital/ Capital deposited with BB	3,212,352,000	3,212,352,000
Statutory reserve	2,536,431,462	2,536,431,462
Non-repayable share premium account	1,553,052,103	1,406,000,000
General reserve	-	-

BRAC BANK

Retained Earnings	2,282,951,075	1,934,731,623
Minority interest in subsidiaries	321,435,935	-
Share money deposit	62,333,542	-
Non-cumulative irredeemable preference shares	-	-
Dividend equalization accounts	-	-
Sub-total	**9,968,556,117**	**9,089,515,085**
Deductable from Tier - I (Core Capital)		
Book value of Goodwill	1,409,637,597	-
Shortfall in provision required against classified assets irrespective of any relaxation allowed	-	-
Deficit on account of revaluation of investment in AFS category	-	-
Any increase in equity capital resulting from a securitization transaction	-	-
Deferred tax income arising from "Loan loss provision"	851,786,387	851,786,387
Investment in subsidiary	-	-
Sub-total	**2,261,423,983**	**851,786,387**
Total Eligible Tier - I Capital	7,707,132,133	8,237,728,699
Tier - II (Supplementary Capital)		
General Provision	1,648,099,303	1,648,099,303
Asset revaluation reserve	81,544,877	81,544,877
Preference Share	350,000,000	350,000,000
Perpetual Subordinated debt	2,312,139,640	2,471,318,610
Sub-total	**4,391,783,820**	**4,550,962,790**
Total Eligible Tier - II Capital	4,391,783,820	4,550,962,790
Tier-III (Eligible for Market Risk only)		
Short term Subordinated Debt	-	-
Total Supplementary Capital	4,391,783,820	4,550,962,790
Total Capital	12,098,915,954	12,788,691,488

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 diversification of the portfolio in SME, retail and corporate segments. However, RWA is also managed by taking collaterals against its loans. BBL strives to extend our relationship with corporate clients having good credit rating. 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 Taka

Description	Consolidated	Solo
Capital requirement for Credit Risk (10% of RWA)	9,688,845,983	9,046,593,621
Capital requirement for Market Risk	537,678,258.9	537,678,258.9
Capital requirement for Operational Risk	1,489,115,062	1,444,292,119
Capital Adequacy Ratio		
On core Capital (Against a standard of minimum 5%)	6.58%	7.47%
On actual Capital (Against a standard of minimum 9%)	10.33%	11.60%

4. Credit Risk

4.1 Qualitative Disclosure

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.

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 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 (a) Loan Originating; (b) Credit Approval; (c) Credit Administration; (d) Risk Management; and (e) Monitoring, Collection and Recovery activities.

Credit Risk Management: At BBL, a 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. In the last couple of years, we have been focusing on adopting environmental risk management programs through the assistance, guidance, and/or requirements provided by IFC/ Shore Cap as well as 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 from credit operations, particularly through SME Lending, so 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. To support our SME borrowers' businesses which are geographically spread-out all over the country including the rural areas, we have established 11 CRM centers across the country. These centers perform an independent pre-approval visit to ensure credit-worthiness for the proposal to consider, hence covering 100% of the SME underwriting throughout the country.

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 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.

Loan Classification

Type of Facility	SMA		Sub Standard		Doubtful		Bad & Loss	
	Overdue Period	Provision (%)	Overdue Period	Provision (%)	Overdue Period	Provision (%)	Overdue Period	Provision (%)
Continuous Loan	90 days or more	5%	6 Months or more but less than 9 months	20%	9 Months or more but less than 12 months	50%	12 months or more	100%
Demand Loan	91 days or more	5%	6 Months or more but less than 9 months	20%	9 Months or more but less than 12 months	50%	12 months or more	100%
Term loan up to 5 years	92 days or more	5%	6 Months or more but less than 12 months	20%	12 Months or more but less than 18 months	50%	18 months or more	100%
Term loan up over 5 years	93 days or more	5%	12 Months or more but less than 18 months	20%	18 Months or more but less than 24 months	50%	24 months or more	100%
Short term Agricultural & micro Credit	94 days or more	5%	12 Months or more but less than 36 months	5%	36 Months or more but less than 60 months	5%	60 months or more	100%

Risk Weighted Assets for Credit Risk

Amount in Taka

Description	Consolidated	Solo
Capital charge for Credit Risk	**96,888,459,828.43**	**90,465,936,210.27**
On- Balance sheet	91,540,543,958.25	85118020340
Off- Balance sheet	5,347,915,870.18	5347915870

4.2. Quantitative Disclosure

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

Amount in Taka

Overdrafts	2,909,965,460
Demand Loans	17,613,379,489
Term Loans	16,466,589,497
Lease Receivables	462,641,045
Small and Medium Enterprise	50,038,618,545
Credit Card	2,313,839,408
Staff Loans	622,327,607
Sub Total	90,427,361,050
Bill Purchased and Discounted	394,813,615
Total	90,822,174,665

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

Amount in Taka

Dhaka Division	59,549,684,448
Chittagong Division	15,159,731,933
Khulna Division	4,688,598,033
Sylhet Division	1,737,391,914
Barisal Division	2,740,452,721
Rajshahi Division	4,760,969,055
Rangpur Division	2,185,346,560
Total	90,822,174,665

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

Amount in Taka

Government	-
Private:	
Agriculture, Fishing, forestry and dairy farm	3,454,456,128
Industry (Jute, Textile, Garments, Chemical, Cement etc.)	12,993,611,459
Working Capital Financing	5,257,710,388
Export Credit	11,543,611
Commercial Credit	53,952,260,216
Small and Cottage industries	2,070,659,552
Miscellaneous	13,081,933,311
Total	90,822,174,665

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

Amount in Taka

Repayable on Demand	15,433,072,461
More than 1 month to 3 months	12,302,710,628
More than 3 months to 1 year	27,261,169,508
More than 1 year to 5 years	30,281,978,169
More than 5 years	5,543,243,898
Total	**90,822,174,665**

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	% of required provision	Required Provision
Unclassified				
All unclassified loans (other than SME financing, Consumer financing, BHs/ MBs/SDs, Housing and loans for professional)	30,565,449,712	30,565,449,712	1%	305,654,497
SME Financing	38,492,457,365	38,492,457,365	1%	384,924,574
Loans to BHs/MBs/SDs against shares etc	1,878,011,687	1,878,011,687	2%	37,560,234
Housing and Loans for Professional	8,336,135,696	8,336,135,696	2%	166,722,714
Consumer Finance	3,470,582,247	3,470,582,247	5%	173,529,112
Special Mention Account (SMA)	2,217,667,800	2,135,621,062	5%	106,781,053
				1,175,172,184
Classified - Specific Provision				
Substandard	1,584,001,808	1,507,812,065	20%	301,562,413
Doubtful	1,288,798,013	1,190,032,778	50%	595,016,389
Bad/ Loss	2,366,742,729	2,166,401,989	100%	2,166,401,989
				3,062,980,791
Required Provision for Loans and Advances				4,238,152,975
Total Provision Maintained				4,949,801,968
Excess/ (Short) provision at December 31, 2011				711,648,993

f. **Maintenance of Specific Provision and Movement of Non Performing Assets (NPAs).**

Amount in Taka

Gross Non Performing Assets (NPAs)	5,239,542,550
NPAs to Outstanding Loans and Advances	5.77%
Movement of NPAs	
Opening Balance	4,929,558,176
Additions	1,522,000,846
Reductions	1,212,016,472
Closing Balance	**5,239,542,550**

Movement of Specific Provision for NPAs	
Opening Balance	2,995,829,167
Provision made during the period	1,442,477,570
Write Off	902,604,073
Interest Waiver	-
Write back of excess provision	-
Closing Balance	3,535,702,665

5. Equities: Disclosure for Banking Book Positions

5.1 Qualitative Disclosure

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 **i.** ***Held to Maturity (HTM)*** 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 ***ii.*** ***Held for Trading (HFT)*** 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. ***iii.*** In ***Revaluation*** method 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.

5.2 Quantitative Disclosure

Amount in Taka

Unquoted Shares	
Particular	Cost of holding
Industrial and Infrastructure Development Finance Co. Ltd.	20,345,700
Central Depository Bangladesh Ltd.	6,277,770
BRAC EPL Investments Ltd.	752,715,794
BRAC EPSL Stock Brokerage Ltd.	1,344,147,500
B-Kash Ltd.	1,785,000
BRAC Asset Management Company Ltd.	12,500,000
BRAC Saajan Exchange Limited	39,857,151
Dun & Bradstreet Rating Agency of Bangladesh Limited	12,497,600
Preference shares	
STS Holdings Ltd.	10,000,000
Summit Purbanchal & Uttaranchal Power Co Ltd	250,451,000
Total	2,450,577,515

As on the reporting date i.e. December 31, 2011 BRAC Bank has a balance of unquoted investment of BDT 2,190,126,515 with BDT 260,451,000 as Preference shares.

Amount in Taka

Quoted Shares			
Particular	Cost of holding	Market Value	Unrealized Gain
Ordinary shares	2,964,302,188	2,489,707,818	(474,594,370)

On the other hand, an amount of BDT (474,594,370) stood as unrealized gain as on reporting date December 31, 2011.

Amount in Taka

		RWA at 10%
General market risk	2,489,700,000	248,970,000
Specific risk	2,489,700,000	248,970,000
Total capital charge		497,940,000

Against quoted equity investment amounting to BDT 2,489,707,818, capital charge of equity for specific and general market risk is 497,940,000 @ 10% Risk Weight.

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.

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.

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.

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. Foreign Exchange Risk Management:

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.

7.2 Quantitative Disclosure

Amount in Taka

The Capital requirement for	
Interest rate risk	0
Equity position risk	497,940,000
Commodity risk	0
Foreign exchange risk	39,738,259

8. Operational Risk

8.1 Qualitative Disclosure

a. **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 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. **Performance Gap of Executive and Staff**: 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.

c. **Mitigation of Operational Risk** : 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.

d. **Enterprise Risk Management Committee (ERMC):** 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.

e. **Approach for Calculating Capital Charges for Operational Risk:** 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 Quantitative Disclosure

Amount in Taka

Year	Gross Income (GI)	Weight @15%	15% of Average GI
2011	10,758,869,719	15%	1,613,830,457.88
2010	10,306,345,820	15%	1,545,951,873.00
2009	7,820,626,849	15%	1,173,094,027.35
Gross Income of three years			
28,885,842,388		15%	1,444,292,119