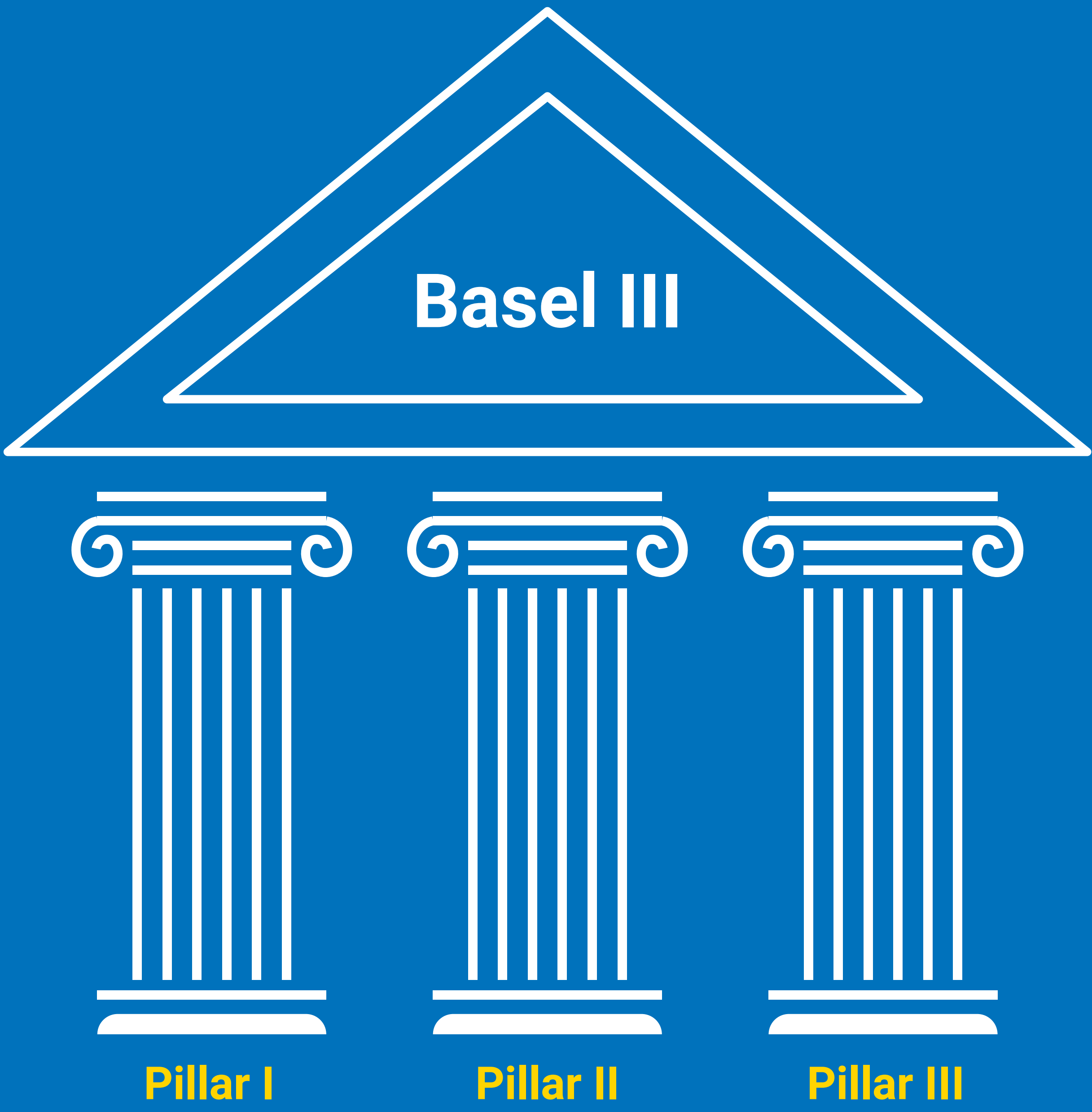
DISCLOSURE ON RISK BASED CAPITAL UNDER BASEL-III

For the year ended on December 31, 2020



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

BACKGROUND OF 'MARKET DISCIPLINE' STANDARD

The Bank for International Settlements (BIS) came up with a new set of capital and liquidity standards under 'Basel-III'. This standard came into existence to manage the use of excessive leverage, gradual erosion of level and quality of the capital base, insufficient liquidity buffers, pro-cyclicality, and excessive inter-connectedness among systematically important institutions. These factors are typically identified as reasons of bank failure. As a result, Bangladesh Bank, vide its BRPD Circular No. 18 dated December 21, 2014, implemented a revised regulatory capital framework for banks, in line with Basel-III in Bangladesh with effect from January 01, 2015. The implementation process of this framework commenced in January 2015 and continued till December 2020. As part of Basel-III compliance, Pillar-III - Market Discipline is formulated with a view to establish more transparent and disciplined financial markets so that stakeholders can assess the position of a bank regarding holding of assets and also identify the risks relating to the assets and capital adequacy to meet probable loss of assets. The purpose of Market Discipline is to hence complement the minimum capital requirements and the supervisory review process. Providing accurate and timely information related to liquidity, solvency, performance and risk profile of a bank is of paramount significance for all stakeholders.

In compliance with the 'Revised Guidelines on Risk Based Capital Adequacy (RBCA)' issued by Bangladesh Bank in December 2014, banks in Bangladesh formally entered into the Basel-III regime from January 1, 2015. The new capital and liquidity standards have wider business implications for banks. BRAC Bank Limited (BBL) has also adopted the Basel-III framework as part of its capital management strategy, in line with the revised guidelines. Under this framework, the bank has to maintain 2.5 per cent additional capital buffer with a the minimum capital requirement of 10 per cent. Besides, to avoid building-up excessive on- and off-balance sheet leverage, the bank is required to maintain a minimum 3 per cent leverage ratio. In this context, the leverage ratio expresses the total Tier-I Capital (after related deduction specified by BB) to total exposure, i.e. on-balance sheet and off-balance sheet exposures (after related deductions as specified by BB), which is to be submitted to Bangladesh Bank on a quarterly basis. All these aspects are required to be well-formulated and shared with stakeholders for enhancing transparency and accountability.

Hence to fulfill this objective, the 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

Quantitative disclosures are made based on the consolidated audited financial statements of BBL and its subsidiaries for the year ended December 31, 2020 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 subsidiaries are combined with those of the parent company (BBL), thus eliminating inter-company transactions. The Financial Reporting Act, 2015 (FRA), was enacted in the year 2015. The Financial Reporting Council (FRC) under the FRA was constituted in 2017, but the Financial Reporting Standards (FRS) under this council is yet to be issued for public interest entities such as banks. The Bank Company Act, 1991, was amended to require banks to prepare their financial statements under such financial reporting standards.

As FRS is yet to be issued by FRC, as per the provisions of FRA (Section-69), consolidated and separate financial statements of the group and the bank, respectively, have been prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB), and in addition to this, the bank also complies with the requirements of laws and regulations from various government bodies

Assets of subsidiaries were risk-weighted and equities of subsidiaries were crossed out with the investment of BBL during consolidation. Therefore, the information presented in the "Quantitative Disclosures" section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements 2020 of BBL and its subsidiaries, along with separate audited financial statements of the bank available on its website (www.bracbank.com). The report is prepared once a year and is available on the BBL website.

<table>
<tr><th colspan="3">1. Scope of the application
Qualitative disclosures</th></tr>
<tr><td rowspan="3">Qualitative Disclosure</td><td>a) The name of the top corporate entity in the group to which this guideline applies</td><td>BRAC BANK
আস্থা অবিচল</td></tr>
<tr><td>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</td><td>Subsidiaries and associates of the bank

BRAC Bank Limited:

BRAC Bank Ltd. is a third-generation private commercial bank (PCB), launching its banking operations on July 4, 2001 under the Banking Companies Act, 1991. The bank went for public issue of its shares in 2006 and its shares are listed on the Dhaka Stock Exchange Limited and the Chittagong Stock Exchange Limited since 2007. At present, the bank has 187 branches, 185 zonal offices, 456 SME unit offices, 375 ATMs and 481 agent outlets operational and spread across the country.

Subsidiaries: Subsidiaries are entities over which the bank has the power to govern the financial and operating policies, generally accompanying a shareholding of over 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 the subsidiaries are included in the consolidated financial statements from the date control effectively commences until the date control effectively ceases.

The bank has four subsidiary companies: BRAC EPL Investments Limited, BRAC EPL Stock Brokerage Limited, BRAC Saajan Exchange Limited incorporated in the UK, and bKash Limited.</td></tr>
<tr><td></td><td>i. BRAC EPL Investments Limited (subsidiary)

BRAC Bank acquired 51 per cent shares of Equity Partners Limited on July 31, 2009. This company was incorporated in Bangladesh on April 19, 2000 as a private limited company under the Companies Act, 1994, and was subsequently renamed as “BRAC EPL Investments Limited”. It was established to cater to the needs of the fast-growing capital markets in Bangladesh. It works as a merchant bank with a full-fledged merchant banking license from the Bangladesh Securities and Exchange Commission (BSEC). The company’s services comprise lead management of initial public offerings, domestic and international placement, portfolio management and project development and consultancy.</td></tr>
</table>

Qualitative Disclosure		**ii. BRAC EPL Stock Brokerage Limited (subsidiary)** BRAC Bank acquired 51 per cent shares of Equity Partners Securities Limited on July 31, 2009. Equity Partners Securities Limited was incorporated in Bangladesh on May 16, 2000 as a private limited company under the Companies Act, 1994. Subsequently, the management decided to rename Equity Partners Securities Limited as BRAC EPL Stock Brokerage Limited. In the year 2011, the bank acquired an additional 39 per cent stake of EPL Stock Brokerage Limited. As a result, the bank's controlling interest rose to 90 per cent of EPL Stock Brokerage Limited. BRAC EPL Stock Brokerage Limited was established as a brokerage business in Bangladesh. It has corporate membership of both Dhaka Stock Exchange and Chittagong Stock Exchange.
		iii. bKash Limited (subsidiary) BRAC Bank formed bKash Limited, a private company limited by shares, which was incorporated on March 1, 2010 under the Companies Act, 1994. BRAC Bank currently holds 51 per cent equity shares in the company, while 29 per cent of the equity shares are held by Money In Motion LLC (a company listed in USA), 9.9 per cent of equity shares are held by International Finance Corporation (IFC) and the rest 10.1 per cent of equity shares are held by Alipay Singapore. bKash Limited was established to introduce mobile money transfer services in Bangladesh. The bank has obtained a license from Bangladesh Bank for its subsidiary bKash to render mobile financial services. In 2014, with the consent of all existing shareholders, Bill & Melinda Gates Foundation, and later in 2018, Alipay Singapore E-Commerce Private Limited ("Alipay") invested in bKash. The preference shareholders do not have any voting rights but have the same rights as the equity shareholders in the economic interest of the company. These preference shares are convertible on a 1:1 basis to ordinary shares at the option of the preference shareholders. The consolidated financial statements have been prepared considering potential dilution.
		iv. BRAC SAAJAN Exchange Limited (subsidiary) BRAC Bank acquired 75 per cent+1 share (249,992 shares out of the total 333,333 shares) of "Saajan Worldwide Money Transfer Limited" (SWMTL) in the UK. Bangladesh Bank provided necessary approvals of GBP 500,000 to acquire SWMTL and setting up of two new branches in Luton and Bradford in the UK. As per permission granted by Bangladesh Bank, SWMTL has been renamed as "BRAC SAAJAN Exchange Ltd" (BSE). BRAC Bank has been controlling and monitoring all its operations as a holding company. BRAC Saajan Exchange Limited was established to cater to the remittance and exchange services business in the UK.

<table>
<tr><td rowspan="3">Qualitative Disclosure</td><td></td><td>v. BRAC IT Services Limited (associate)

BRAC IT Services Ltd. (bITS) was initially founded as Documenta™ Ltd, a digital archiving firm, in 1999. BRAC IT Services Ltd. (bITS) was then formed in April 2013 through the merger of Documenta™ Ltd and the IT Division of BRAC Bank. BRAC Bank acquired 51 per cent shares of BRAC IT Services Limited, a private company limited by shares under the Companies Act, 1994, incorporated in April 9, 2013. It is currently operating as an IT solutions and services company. In the year 2017, BRAC Bank reduced its holding in BRAC IT Services Limited from 51 per cent to 49 per cent by selling 1,034 shares to BRAC. Due to the disposal of shares of BRAC IT Services Limited, it was converted as an “associate” of the bank at the end of the year 2017, from a subsidiary.</td></tr>
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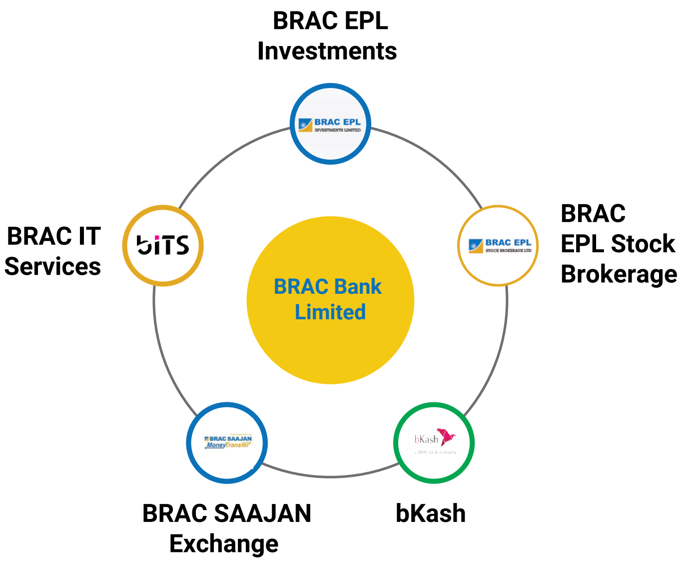

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<tr><td>c) Basis of Consolidation</td><td>Consolidated financial statements include financial statements of BRAC Bank and its subsidiaries, BRAC EPL Investments Limited, BRAC EPL Stock Brokerage Limited, bKash Limited and BRAC SAAJAN Exchange Limited, as those of a single economic entity.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) 10: Consolidated Financial Statements. The consolidated financial statements are prepared for a common reporting year ended December 31, 2020.</td></tr>
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Quantitative Disclosure		
Quantitative	a) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that is deducted and the name(s) of such subsidiaries.	It does not hold here. The assets, liabilities, revenue and expenses of subsidiaries are combined with BBL's consolidated audited financial statement as of the year ended December 31, 2020, which ensures the elimination of inter-company transactions, balances and intra-group gains on transactions between group companies.

2. Capital Structure
Qualitative Disclosure

<table>
<tr>
<td>Qualitative Disclosure</td>
<td>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.</td>
<td>
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. The regulatory capital under Basel-III is composed of (i) Tier-1 (Going concern capital) and (ii) Tier-2 (Gone concern capital). From a regulatory capital perspective, going-concern capital is the capital which can absorb losses without triggering bankruptcy of a bank, and gone-concern capital is the capital which will absorb losses only in a situation of liquidation of the bank.
The capital structure of the bank is categorised into two tiers: Tier-1 Capital 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)
Tier-2 Capital (gone concern capital)

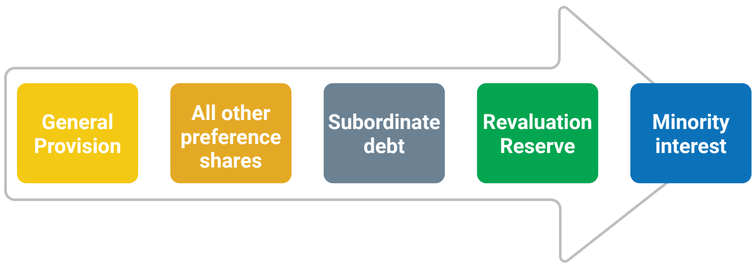
Tier-1 Capital: This form of capital can absorb losses without triggering bankruptcy of the bank. Hence, it is a core measure of a bank's financial strength from a regulatory standpoint. The components of Tier-1 Capital are given below:
Common Equity Tier-1 (CET1)
Common Equity Tier-1 + Additional Tier-1 = Tier-1 Capital
1. Paid up Capital
2. Non-repayable share premium account
3. Statutory reserve
4. General reserve
5. Retained earnings
6. Dividend equalization reserve
7. Minority interest in subsidiaries
</td>
</tr>
</table>

Qualitative Disclosure

Additional Tier-1 (AT1):

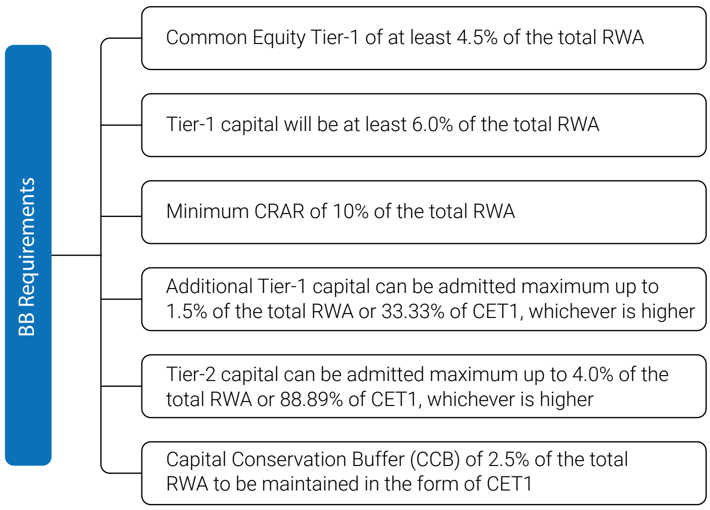
- Non-cumulative non-redeemable preference shares
- Instruments issued by banks that meet the qualifying criteria for AT1 (the instrument is perpetual, i.e. no maturity date)
- Minority interest (AT1 issued by consolidated subsidiaries to third parties)

Tier-2 Capital: Gone concern capital represents the other element that falls 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:



Capital Requirement Rules

The bank is required to maintain the following ratios on an ongoing basis:



The phase-in arrangements for Basel-III implementation in Bangladesh will be as follow:

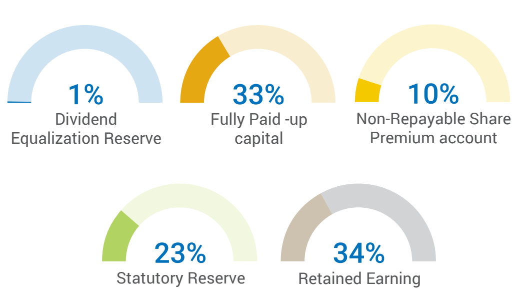
	2015	2016	2017	2018	2019 Ongoing
Minimum Common Equity Tier-1 (CET1) Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	-	0.625%	1.25%	1.875%	2.50%
Minimum CET1 plus Capital Conservation Buffer	4. 50%	5.125%	5.75%	6.375%	7.00%
Minimum T-1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00%	10.625%	11.25%	11.875%	12.50%

Quantitative Disclosure		Solo	Consolidated
Quantitative Disclosure	Common Equity Tier-1 (Going Concern Capital)		
	Fully paid-up capital	13,258,784,760	13,258,784,760
	Non-repayable share premium account	3,853,767,032	3,853,767,032
	Statutory reserve	9,405,017,728	9,405,017,728
	General reserve	-	-
	Retained earnings	13,680,255,527	16,346,550,011
	Dividend equalisation reserve	355,218,455	355,218,455
	Minority interest in subsidiaries		5,610,136,813
	Sub-total	**40,553,043,502**	**48,829,474,799**
	Regulatory adjustments		
	Shortfall in provision required against non-performing loans (NPLs)	-	-
	Shortfall in provision required against investment in shares	-	-
	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	1,036,448,298	3,767,220,392
	Deferred tax assets (DTA)	3,043,768,317	3,810,017,550
	Defined benefit pension fund assets	-	-
	Gain On Sale Related to securitization Transactions	-	-
	Investment in own CET1 instruments/shares	-	-
	Reciprocal cross-holdings in the CET1 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 in subsidiaries which are not consolidated (50% of investment)	-	-
	Sub-total	**4,080,216,615**	**7,577,237,942**
	Total Common Equity Tier-1 Capital	**36,472,826,887**	**41,252,236,857**
	Additional Tier-1 Capital		
	Non-cumulative non-redeemable preference shares	-	-
	Instruments issued by banks that meet the qualifying criteria for AT1	-	-
	Minority Interest, i.e. AT1 issued by consolidated subsidiaries to third parties	-	-
	Head office borrowings in foreign currency by foreign banks operating in Bangladesh for inclusion In additional Tier-1 Capital which comply with regulatory requirements	-	-
	Others (if any item approved by Bangladesh Bank)	-	-
	Regulatory adjustments	-	-
	Investment in own AT-1 instrument/shares	-	-
	Reciprocal cross-holdings in the AT-1 Capital of banking, financing and insurance entities	-	-
	Total additional Tier-1 Capital available	-	-
	Maximum limit of additional Tier-1 Capital (AT-1 capital can be maximum up to 1.5 per cent of the total RWA or 33.33 per cent of CET1, whichever is higher)	-	-
	Excess amount over maximum limit of AT-1	-	-
	Total admissible Tier-1 capital	**36,472,826,887**	**41,252,236,857**
	Tier-2 capital (gone concern capital)		
	General provision	3,709,404,810	3,709,404,810

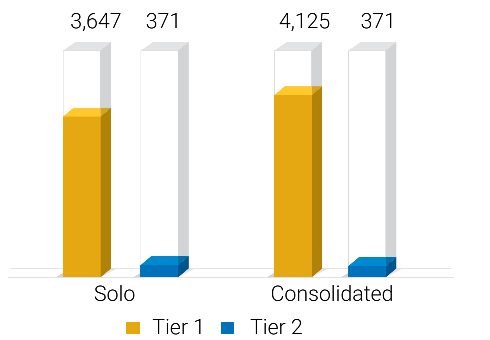
Quantitative

	Solo	Consolidated
All other preference shares	-	-
Subordinated debt/instruments issued by banks that meet the qualifying criteria for Tier-2 capital	-	-
Minority interest, i.e. Tier-2 issued by consolidated subsidiaries to third parties	-	-
Head office borrowings in foreign currency received that meet the criteria of Tier-2 debt capital (applicable for foreign banks)	-	-
Revaluations reserve as on 31st December, 2014 (50 per cent of fixed assets and securities & 10 per cent of equities)		
Total	**4,055,907,218**	**4,055,907,218**
Regulatory adjustments		
Revaluation reserve for fixed assets and security and equity securities		
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 per cent of investment)	-	-
Investment in subsidiaries which are not consolidated (50 per cent of investment)	-	-
Total Tier-2 Capital available	3,709,404,810	3,709,404,810
Maximum limit of Tier-2 Capital (Tier-2 Capital can be maximum up to 4 per cent of the total RWA or 88.89 per cent of CET1, whichever is higher)	32,420,695,820	36,669,113,342
Excess amount over maximum limit of T-2		
Total admissible Tier-2 Capital	**3,709,404,810**	**3,709,404,810**
Total regulatory capital	**40,182,231,697**	**44,961,641,667**

Tier 1 Components (Solo Basis)



Composition of Capital



3. Capital Adequacy
Qualitative Disclosure

Qualitative Disclosure

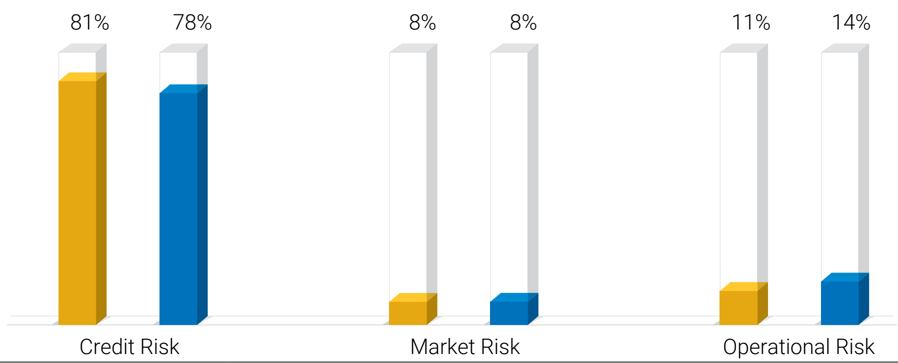
a) A summary discussion of the Bank's approach to assessing the adequacy of its Capital to support current and future activities.	BRAC Bank, with its focused strategy on risk management, has always remained consistent in maintaining its capital adequacy ratio above regulatory requirements. BRAC Bank has been successfully managing the incremental growth of Risk Weighted Assets (RWA) by diversifying the portfolio in SME, Retail and Corporate segments. However, RWA is also managed by taking collateral against loans. We strive to ensure external credit rating is duly done on our borrowers. The bank has adopted Standardised 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 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. It also ensures that the capital levels comply with regulatory requirements and satisfy external rating agencies and other stakeholders, including depositors. The main objective of the capital management process at the bank is to ensure that it has adequate capital to meet all sorts of obligations at any time.

Quantitative Disclosure

Quantitative Disclosure

Description	Solo	Consolidated
a) Capital requirement for credit risk	22,396,637,456	23,146,694,734
b) Capital requirement for market risk	2,129,981,674	2,405,606,302
c) Capital requirement for operational risk	3,090,864,780	4,165,498,790
Minimum capital requirement	**27,617,483,910**	**29,717,799,826**
d) Capital ratio:		
CET1 Capital	36,472,826,887	41,252,236,857
Total Tier-1 Capital	36,472,826,887	41,252,236,857
Total Tier-2 Capital	3,709,404,810	3,709,404,810
Total Capital	**40,182,231,697**	**44,961,641,667**
Total Risk Weighted Assets (RWA):	**276,174,839,100**	**297,177,998,257**
Capital to Risk Weighted Assets Ratio (CRAR)	14.55%	15.13%
Common Equity Tier-1 to RWA	13.21%	13.88%
Tier-1 Capital to RWA	13.21%	13.88%
Tier-2 Capital to RWA	1.34%	1.25%
Requirement for Capital Conservation Buffer (CCB)	**2.50%**	**2.50%**
Capital Conservation Buffer (CCB) maintained	**4.55%**	**5.13%**

Capital requirement under Pillar-I



4. Credit Risk
Qualitative Disclosure

Qualitative Disclosure

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

Since 2005, we have put in place a lending policy for the management of credit risk at the bank. This policy is reviewed every year. The loan processing system at our bank is centralised. The Relationship Manager (RM) seeks business development opportunities, keeping in mind the '5 Cs' in a customer. The RM prepares a credit proposal and sends it to Credit Risk Management (CRM) for analysis. CRM analyses the proposal and the decision is made (approved/declined/query provided) and approved as per the Delegation of Authority. Finally, documentation and disbursement are completed by the operations division. In each of the aforementioned steps, a highly stringent and rigorous risk assessment is done. Thus, we strive to eliminate every possibility of credit risk, while remaining in compliance with standards stipulated by the regulators.

Before approving any facility to a borrower, we follow a very robust and rigid credit assessment process. We embark on any deal or project after thoroughly scrutinising the person or organisation, starting from accumulating and analysing the person's or organisation's business information, business prospects, present scenario, market position, market reputation, industry growth and peer group comparison, and ends with a decision whether to on-board or not to on-board the person or organisation. At the same time, experience and 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 and facility structuring and related such avenues are closely assessed. 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 and justifiable to support facilities. To maintain thorough knowledge of the factory/warehouse, a visit report is prepared in this regard. Further, a stock verification report is also prepared and record is kept in the customer's file. Environmental and social aspects are also considered while factoring any lending decisions.

Other banks' liability position and status, other banks' sanction advice, credit risk grading, external rating (for large and medium enterprise customers) information, proposed security analysis and compliance with regulatory and internal policy guidelines and relevant such covenants are also considered before extending any credit facility. These are all done with the sole intention of thwarting any potential credit risks.

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

Credit risk is the risk of financial losses resulting from 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.

Interest on loans and advances is calculated daily on a product basis, but charged and accounted monthly and quarterly on an accrual basis. Classification and provisioning for loans and advances are created based on the period of arrears by following Bangladesh BRPD Circular No. 14, dated September 23, 2012, BRPD Circular No. 15, dated September 23, 2012, BRPD Circular No. 19, dated December 27, 2012, BRPD Circular No. 05, dated May 29, 2013, BRPD Circular No. 16, dated November 18, 2014, BRPD Circular No. 12, dated August 20, 2017, BRPD Circular No. 01, dated February 20, 2018, BRPD Circular No. 07, dated June 21, 2018, BRPD Circular No 13, dated October 18, 2018 and BRPD Circular No. 03, dated April 21, 2019.

With a view to strengthening credit discipline and bring classification and provisioning regulations in line with international standards, an appropriate 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 follows:

Qualitative Disclosure

Loan type	Criteria of classification (months)	Classification status	Criteria for default	Default status
Continuous loan, demand loan and fixed term loan	Past due < 2	STD	Past due < 6	No
	2 ≥ Past due <3	SMA		
	≥ 3 Past due < 9	SS	Past due ≥ 6	Yes
	≥ 9 Past due < 12	DF		
	Past due ≥ 12	BL	Based on past due period and not on classification status	
Continuous loan, demand loan and fixed term loan	Past due ≤ 12	STD	Past due < 6	No
	12 > Past due ≤ 36	SS		
	36 > Past due ≤ 60	DF	Past due ≥ 6	Yes
	60 > Past due	BL		

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

Provision for loans and advances is created to cover the bank from any possible loan losses in the future. A 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 banks are categorised as sub-standard, doubtful and bad/loss as per Bangladesh Bank circulars. For loans that 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 Bangladesh Bank guidance. The latest BB circulars are followed diligently. Interest accrued on sub-standard, doubtful and bad/loss loans are transferred to an interest suspense account and not considered as interest income. This interest is recognised as interest income when it is realised in cash by the bank.

Loans and advances are written-off to the extent that (i) there is no realistic prospect of recovery and (ii) against which legal cases are filed and classified as bad and loss, as per BRPD Circular No. 02, dated January 13, 2003 and 13, dated November 07, 2013. These write-offs 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 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 objective evidence of impairment as a result of a loss event that occurs 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:

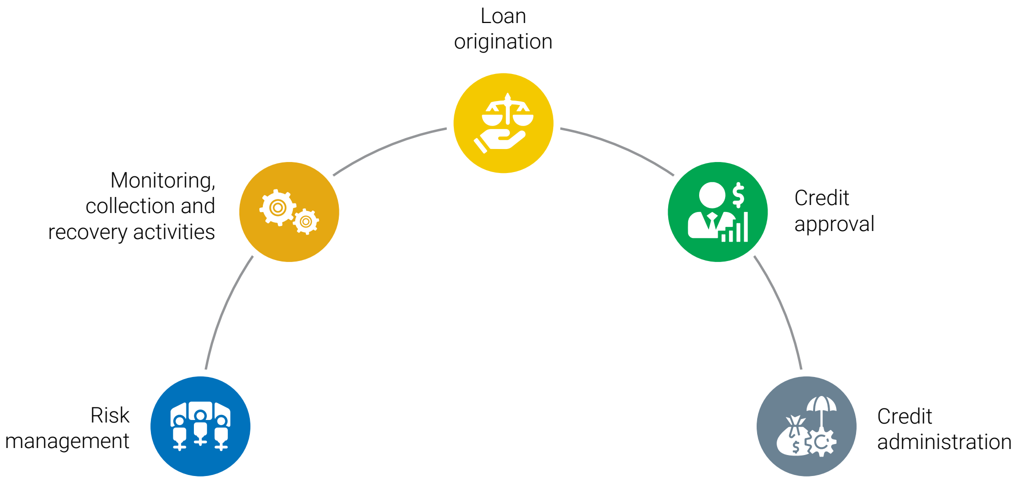
Qualitative Disclosure

	Business Unit	Rates of Provision				
		Un-classified (UC)		Classified		
		Standard	Special mention account (SMA)	Substandard (SS)	Doubtful (DF)	Bad loan (BL)
Consumer	House building	1%	1%	20%	50%	100%
Consumer	Loans for professionals	2%	2%	20%	50%	100%
Consumer	Other than house building and professionals	2%	2%	20%	50%	100%
Loans to BHs/MBs against shares, etc.		2%	2%	20%	50%	100%
Cottage, micro and small credit under CMSME		0.25%	0.25%	5%	50%	100%
Medium enterprises		0.25%	0.25%	20%	50%	100%
Short term agri/micro credit		1%	1%	5%	5%	100%
Credit card		2%	2%	20%	50%	100%
All others		1%	1%	20%	50%	100%
Off-balance sheet		1%	-	-	-	-

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

Method used to measure credit risk: Aligned with Bangladesh Bank's guidelines, the bank follows a 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 financial securities and guarantees of loan exposures.

Credit policy: BRAC Bank manages its credit risk through a Board-directed and approved credit policy, in line with the Bangladesh Bank Core Risk Management guidelines, which outline robust processes and procedures that ensure the quality of its assets portfolio. The credit policy also contains general principles to govern the implementation of detailed lending procedures and risk grading systems of borrowers. And, as such, it specifically addresses the areas of:



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. Professionals of respective fields verify the legal certainty and enforceability of the mitigation approach. Collateral types eligible for risk mitigation include cash, residential, commercial industrial property; plant and machinery; marketable securities; etc. Bank officials physically verify collaterals simultaneously. These are also valued by an independent third-party surveyor in accordance with the credit policy and procedures.

Qualitative Disclosure

Credit assessment and grading: Know Your Client (KYC) is the first step to analyse any credit proposal. The banker-customer relationship is established through an opening of a customer account. Proper introduction, photographs of the account-holders/signatories, passports, etc., and all other required papers as per the bank's policy are obtained during account opening. Physical verification of customer address is done prior to credit appraisal. The entire process involves relationship teams of respective asset portfolios (Retail, SME and Corporate.) booking customers. The Credit Division conducts thorough assessment before placing for approval of the facility. Risk assessment includes borrower risk analysis, industry risk analysis, financial risk analysis, security risk analysis, account performance risk analysis and environmental and social risk analysis of the customer. Post-approval, the Credit Administration Department ensures compliance with all legal formalities, completion of documentation, including the security of the proposed facility, and finally disbursement of the amount. The above arrangement has not only ensured segregation of duties and accountability, but also helps in minimising the risk of compromise with quality of the credit portfolio.

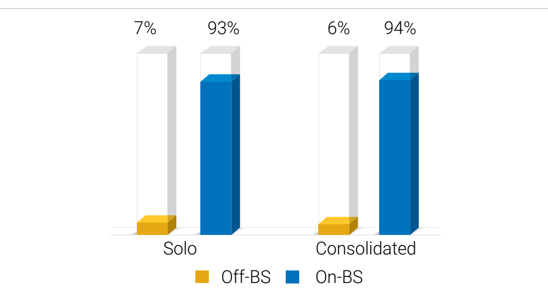
Credit risk management: Conventionally, the core function of a Credit Risk Management (CRM) team is to optimise the risk adjusted return from the bank's loans and advances by maintaining an appropriate standard in the underwriting process. However, the scope of BRAC Bank's CRM is not just limited to this. At the bank, a more holistic approach towards risk management is taken, where socio-economic and environmental impacts of the decisions made are emphasised upon. This practice is the hallmark of BRAC Bank's credit risk management objective. We believe in developmental growth and sustainability, rather than mere financial return from a transaction. We strive to create value rather than be the sole consumer of 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's share of total revenues of BRAC Bank originates particularly from SME lending, the future prospect of the bank depends on the quality of its asset portfolio. Thus, efficient management of loans and advances is of paramount importance for the bank.

There is a distributed collection model that consistently follows up with borrowers for timely repayments. A wing named 'Special Asset Management (SAM)' deals with non-performing assets through amicable settlement, execution of decrees and arrangements of auctions to sell mortgaged properties. SAM is also engaged to monitoring early alert accounts.

Final authority and responsibility for all activities that expose the bank to credit risk vests with the Board of Directors. The Board however delegates this 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 at the bank, and is designed to meet the organisational requirements that exist today as well as to provide flexibility for the future. The policy covers corporate, retail and small and medium enterprise exposures. Policies and procedures have structured and standardised credit risk management processes, both at the obligor and portfolio level and follow the central bank's guidelines. Further, the credit risk management function is independent of business origination and operates to establish better internal controls and reduce conflicts of interest.

Quantitative Disclosure

Risk Weighted Assets	Solo	Consolidated
Credit risk	223,966,374,564	231,466,947,340
On-balance sheet	208,933,523,820	216,434,096,595
Off-balance sheet	15,032,850,744	15,032,850,744

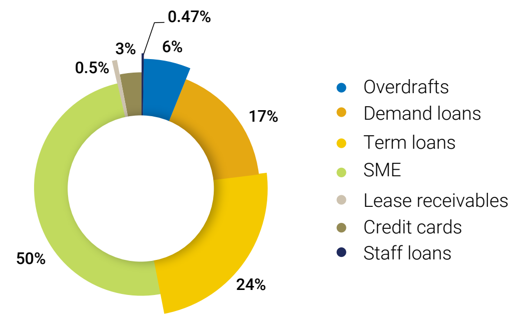


Quantitative Disclosure

Quantitative Disclosure

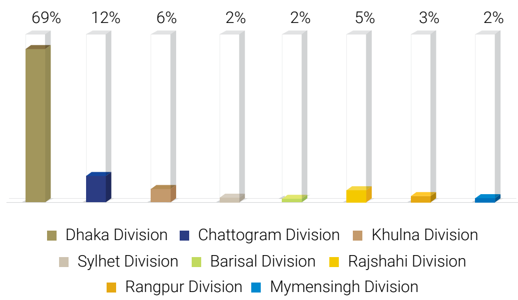
a) Total gross credit risk exposures broken down by major types of credit exposure:

Particulars	Consolidated
Overdrafts	15,793,141,363
Demand loans	46,013,246,452
Term loans	65,155,442,944
Lease receivables	1,292,454,503
SME	134,621,356,804
Credit cards	7,022,290,761
Staff loans	1,098,036,892
Sub-total	270,995,969,719
Bills purchased and discounted	2,067,223,481
Bills purchased and discounted SME	-
Total	**273,063,193,200**



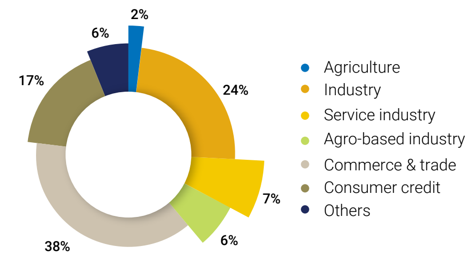
b) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure

Particulars	Amount (BDT)
Dhaka Division	188,177,956,782
Chattogram Division	32,032,020,561
Khulna Division	15,705,337,819
Sylhet Division	5,550,975,746
Barisal Division	4,649,104,603
Rajshahi Division	14,892,521,754
Rangpur Division	7,893,449,128
Mymensingh Division	4,161,826,808
Total	**273,063,193,200**



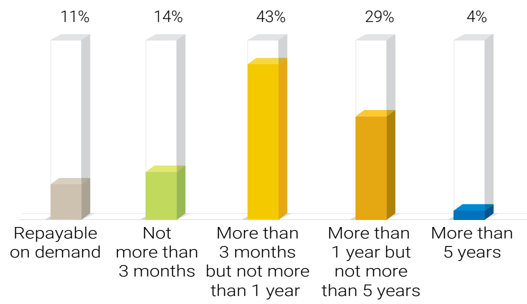
c) Industry or counterparty type distribution of exposures, sector-wise allocation of loans and advances

Particulars	Amount (BDT)
Government:	
Private:	
Agriculture	4,368,825,394
Industry	64,717,199,443
Service industry	20,094,172,270
Agro-based industry	17,417,925,795
Commerce & trade	104,138,199,575
Consumer credit	45,185,645,630
Others	17,141,225,094
Total	**273,063,193,200**



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

Particulars	Amount (BDT)
Repayable on demand	29,109,434,900
Not more than 3 months	38,634,528,099
More than 3 months but not more than 1 year	116,074,068,443
More than 1 year but not more than 5 years	78,466,876,591
More than 5 years	10,778,285,167
Total	**273,063,193,200**



Quantitative Disclosure

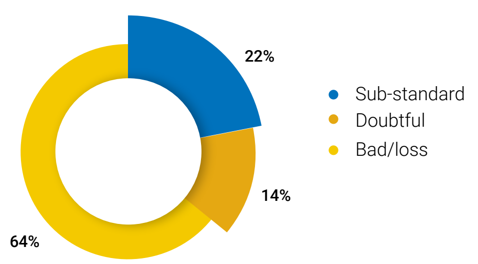
e) By major industry or counterparty type: Amount of impaired loans and, if available, past due loans, provided separately; Specific and general provisions; and charges for specific allowances and charge-offs during the period:

Status	Outstanding loans and advances 2020	Base for provision	(%) of required provision	Required provision, 2020
All unclassified loans (other than small and medium enterprise financing, consumer financing, BHs/MBs/SDs, housing and loans for professional*)	86,525,906,310	86,385,030,653	1%	1,359,509,761
Small and medium enterprise financing	129,263,261,774	129,263,261,774	0.25%	323,158,154
Loans to BHs/MBs/SDs against shares, etc.	1,028,307,324	1,028,307,324	2%	20,566,146
Housing finance**	13,778,819,883	13,778,819,883	1%	137,788,199
Loans for professionals to set up business (LP)	3,738,085,010	3,738,085,010	2%	74,761,700
Consumer finance	19,985,827,834	19,985,827,834	2%	399,716,557
Consumer finance (credit card)	6,816,402,037	6,816,402,037	2%	136,328,041
Short-term agricultural and micro credit	2,820,000,000	2,820,000,000	1%	28,200,000
Staff loan	1,098,036,892	-	1%	-
Total	**265,054,647,064**	**263,815,734,515**		**2,480,028,558**
Classified - Specific provision			5%	
Doubtful (short-term agricultural credit)			5%	
Sub-standard	1,715,697,004	1,093,109,666	20%	138,013,269
Doubtful	1,144,060,986	827,903,587	50%	285,156,144
Bad/loss	5,148,788,146	3,988,401,549	100%	3,988,401,549
Sub-total	8,008,546,136	5,909,414,803		4,411,570,961
Total	**273,063,193,200**	**269,725,149,317**		
Special general provision for COVID-19	**77,443,021,808**	**77,413,011,808**	**1%**	**774,130,118**
Total required provision for loans and advances				7,665,729,638
Total provision maintained				**10,747,688,608**
Excess/(Short) provision				**3,081,958,970**

* BHs = Brokerage Houses; MBs = Merchant Banks; SDs = Stock Dealers Against Shares

f) Gross Non-Performing Assets (NPAs)

Write-off loans and advances	2020
Balance at the beginning of the year	11,287,934,833
Add: Write-off during the year	1,046,298,041
	12,334,232,874
Less: Recovery of write-off loans	627,917,518
Less: No claim (interest waiver)	59,486,377
Balance at the end of the year	**11,646,828,978**



5. Equities: Disclosure for banking book positions
Qualitative Disclosure

Qualitative Disclosure

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

i) Difference 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 categorised into two parts:

- **Quoted securities:** These securities are bought and held primarily for the purpose of selling them in the future or holding for dividend income, which is reported at cost. Unrealised gains are not recognised in the profit and loss statement. However, required provisions are kept for diminution in value of the investment.
- **Unquoted securities:** Investment in unlisted securities is reported at cost under the cost method. Adjustment is given for any shortage of book value over cost for determining the carrying amount of investment in unlisted securities.

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 invest in these equity securities for the purpose of capital gains by selling them in the future or holding for dividend income. As per BRPD Circular No. 14 dated June 25, 2003, investments in quoted shares and unquoted shares are revalued at the year-end at market price and as per book value of the last audited balance sheet of that company, respectively. Provision should be made for any loss arising from diminution in value of investments (portfolio basis), otherwise investments are recognised at cost.

Recognition and measurement, investments in shares and securities generally fall either under "At fair value through Profit or Loss Account" or under "Available for sale", where any change in fair value at year-end is taken to the Profit or Loss Account or Revaluation Reserve Account, respectively.

The valuation methods of marking-to-market for investment used are:

i. **Held to Maturity (HTM):** 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 amortised cost others' are classified as held to maturity. These investments are subsequently measured at amortised cost, less any provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium in acquisition. Any gain or loss on such investments is recognised in the statement of income when the investment is de-recognised or impaired.

ii. **Held for Trading (HFT):** Investment classified in this category are acquired principally for the purpose of selling or repurchasing - 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 recognised 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.

iii. **Revaluation:** According to DOS Circular No. 05, dated May 26, 2008, DOS Circular No. 05, dated January 28, 2009 and DOS Circular No. 02, dated January 19, 2012, HFT securities are revalued once each week using the marking-to-market concept, and HTM securities are amortised once a year according to Bangladesh Bank guidelines. HTM securities are also revaluated if they are re-classified to the HFT category with the Board's approval.

Qualitative Disclosure

Value of investments			
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	Amortised 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	Amortised cost	Amortised gain/loss to revaluation reserve
Zero coupon bond		Cost	N/A
Prize bond and other bonds	Cost	Cost	N/A
Debentures	Cost	Cost	Profit & loss account
Un-quoted shares (ordinary)	Cost	Lower of cost or NAV of last audited account	Profit & loss account
Quoted shares (ordinary)	Cost	Lower of cost or market price at balance sheet date	Loss to profit and loss account

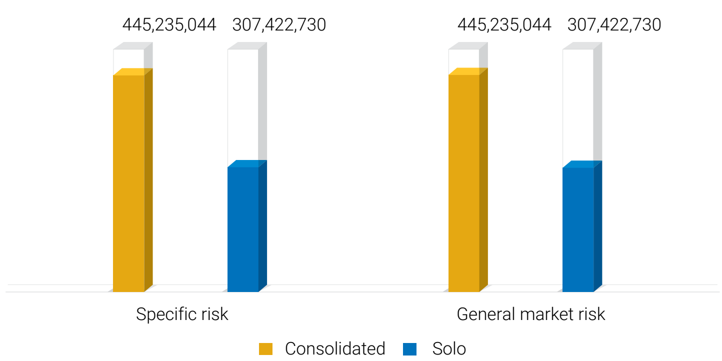
Quantitative Disclosure

Amount in BDT

Quoted shares			
Particular	**Cost of holding**	**Market value**	**Unrealised gain**
Ordinary shares	3,003,300,600	3,074,227,295	70,926,695

Unquoted	**Cost of holding**
Industrial and Infrastructure Development Finance Co. Limited	29,683,820
Central Depository Bangladesh Limited	6,277,770
The Bangladesh Rating Agency Limited	10,671,700
VIPB Income Fund	333,900,000
VIPB Growth Fund	30,000,000
IDLC Balanced Fund	100,000,000
HFAML-ACME Unit Fund	20,000,000
Preference shares	
Union Capital preference shares	8,000,000
Total	538,533,290

Required Capital Charge on Equities		
	Solo	**Consolidated**
General market risk	307,422,730	445,235,044
Specific risk	307,422,730	445,235,044
Total capital charge	**614,845,459**	**890,470,087**



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

Qualitative Disclosure

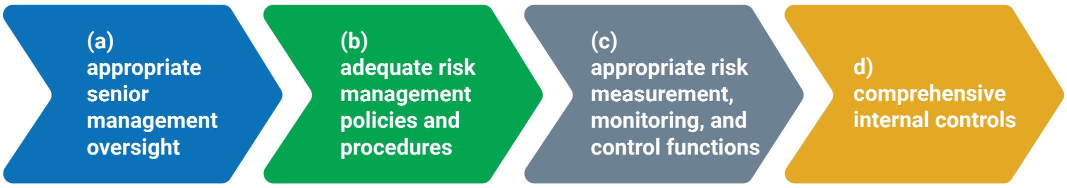
a) The general qualitative disclosure requirement, including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits and frequency of IRRBB measurement:

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:

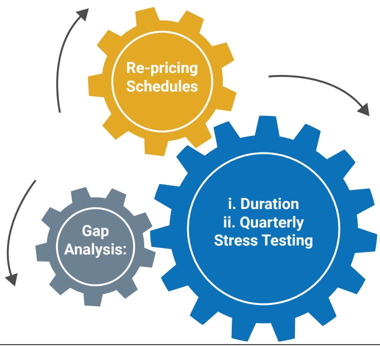
i. **Earnings perspective:** It affects a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses.

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

at BRAC Bank, the Asset & Liability Management (ALM) unit under the supervision of Asset and Liability Committee (ALCO) is responsible for managing market risk arising from the 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.



Techniques of Addressing IRRB: The following techniques for managing IRRB at BRAC Bank are applied:



Re-pricing schedules: It is the simplest techniques for measuring a bank's interest rate risk exposure and that comprises generating a maturity/re-pricing schedule that distributes interest-sensitive assets, liabilities and OBS positions into a certain number of pre-defined 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 (NII) 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 a quarterly basis as per the directives of Bangladesh Bank to gain better insights into the vulnerable issue of IRRB.

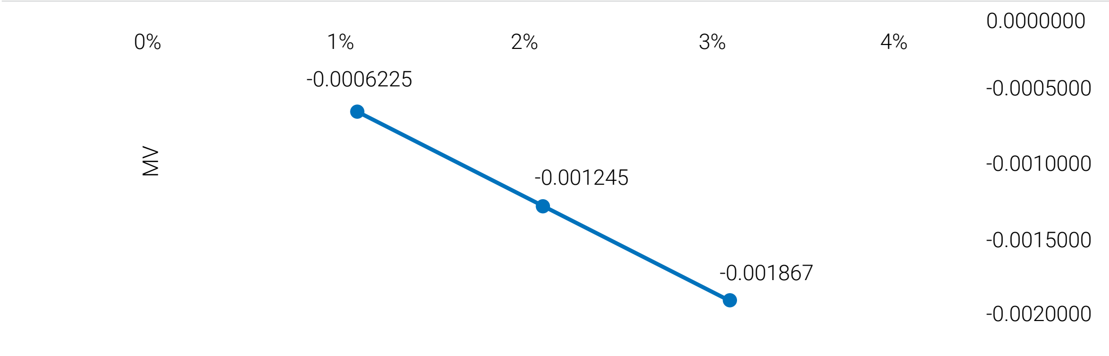
Quantitative Disclosure

Quantitative Disclosure

Particulars	Amount (BDT)		
Market value of assets	409,265,100,000		
Market value of liabilities	350,725,600,000		
Weighted average of duration of assets (DA)	1.89%		
Weighted average of duration of liabilities (DL)	0.31%		
Duration GAP (DA-DL)	1.63%		
Yield to Maturity (YTM -Assets)	7.19%		
Yield to Maturity (YTM -Liability)	2.47%		
Magnitude of interest rate change	1%	2%	3%
Change in market value of equity due to an increase in interest rate	-622.4658317	-1244.931663	-1867.397495
Stress-testing			
Regulatory capital (after shock)	34,459,600,000	28,234,900,000	22,010,300,000
RWA (after shock)	271,375,600,000	265,151,000,000	258,926,300,000
CAR (after shock)	12.70%	10.65%	8.50%

This is the outcome of duration gap analysis, which is done on a quarterly basis as part of periodic stress-testing of the bank.

Changes in Market value of Equity due toan increase in interest



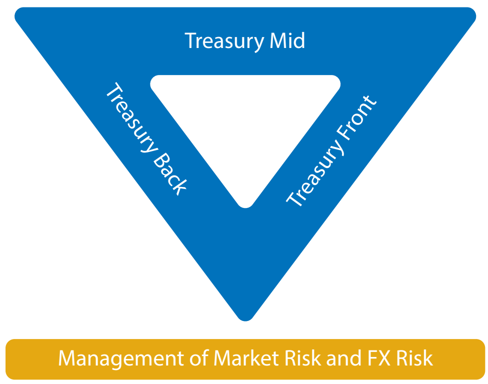
7. Market Risk
Qualitative Disclosure

Qualitative Disclosure	a) Views of BOD on trading/ investment activities	Market risk arises due to changes in 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 risks are purchased to make a profit from spreads between the bid and ask price, and are subject to market risk. We have foreign exchange risk management guideline wholly customised as per our bank's needs, since 2004. The guidelines have been prepared as per Bangladesh Bank guidelines and appraised by our Board of Directors. All financial activities are prone to different degrees of risk. Being a financial institution, to measure, monitor and manage these risks would be crucial for the survival and good health of the organisation. Within the bank, treasury would be vested with the responsibility to measure and minimise the risks associated with the bank's assets and liabilities. Managing foreign exchange risk would be one of the prime responsibilities of the treasury. The liquidity contingency plan and the guidelines of Bangladesh Bank in respect of CRR, SLR and capital adequacy are also there to guide the bank in the proper direction. We have the Asset Liability Committee (ALCO) responsible for overall balance sheet (asset liability) risk management. Treasury is responsible for managing the balance sheet as per the recommendations of ALCO to minimise risk and maximise returns. The committee calls on a meeting at least once 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 puts his views on whether 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 basis, what would be the transfer price of funds among divisions and the kind of interbank dependency the bank would need to have. Based on the analysis and views, the committee takes decisions to reduce balance sheet risks while maximising 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 it deems fit for a particular scenario. For measuring interest risk from an earnings perspective, the bank uses maturity gap analysis, duration gap analysis and sensitivity analysis. We also use standardised (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 places adequate emphasis so that the level of balance sheet risks is effectively managed. Appropriate policies and procedures have been established as per guidelines of the bank's Board of Directors, including relevant circular guidelines of Bangladesh Bank to control and limit these risks and ensure that proper resources are available for the evaluation and control of these risks. The Asset Liability Committee (ALCO) of the bank monitors the balance sheet and liquidity risks of the bank.

Qualitative Disclosure

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 loss of earnings. In this context, we have our own Board-approved policy for the management of FX risks.

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 the bank's business to the risk of loss. Treasury Division is vested with the responsibility to measure and minimise 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 treasury front and back office personnel are guided as per Bangladesh Bank's Core Risk Management guidelines. Further, they have separate and independent reporting lines to ensure segregation of duties and accountabilities. Dealing room is equipped with Reuter's information and voice screen recorder.

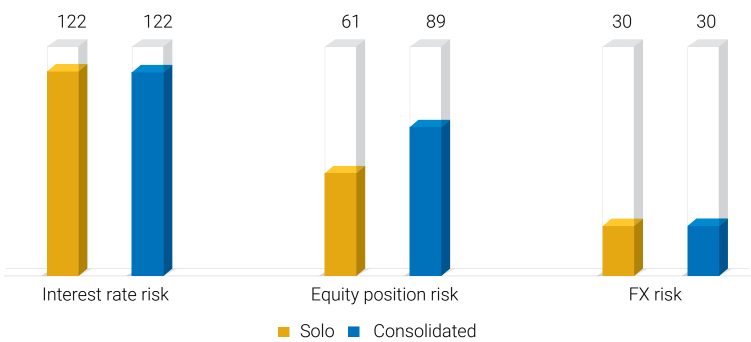


Quantitative Disclosure

Quantitative Disclosure

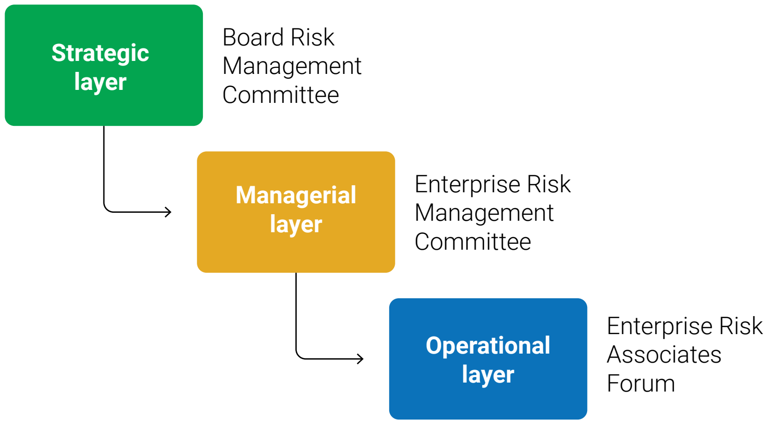
(Amount in BDT)

Capital charge for market risk	Solo	Consolidated
Interest rate risk	1,217,578,627	1,217,578,627
Equity position risk	614,845,459	890,470,087
Foreign exchange risk	297,557,588	297,557,588
Commodity risk	0	0
Total	**2,129,981,674**	**2,405,606,302**



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 systems or from external events. This definition includes legal risk, but excludes strategic or reputation risk. The Board of Directors of BRAC Bank and its management firmly believe that efficient management of operational risks always contributes to the earnings of the bank and, at the same time, secures the interests of its customers and shareholders. To materialise this understanding into reality, there are dedicated risk management associates across the bank who consistently work in managing operational risks using effective tools and techniques implemented through polices and processes.
	b) Performance gap of executives and staffs	The bank has a proper mechanism in place to identify the scope of improvement of employees and executives and works towards addressing them on time. Development of human resources is pivotal for optimum efficiency and hence BBL's employees are exposed to numerous learning and capacity development programs throughout the year by the best resources available within the country and abroad. To reduce the knowledge gap and assist in the development of our personnel, user-friendly operations manual has 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 lapses in operations. All policies and processes address clear responsibilities and accountabilities of all employees.
	c) Potential external events	Further, there are non-diversifiable external factors that can affect the operations of the business directly or indirectly. BBL understands that the business operates under an umbrella of inter-connected socio-economic and political environment, where macro-economic conditions, regulatory changes, changes in demand and the status of infrastructure have significant influence on bank's performance. The bank has separate mechanisms to address such kind of events.
	d) Policies and processes for mitigating operational risk	At BRAC Bank, a dedicated department under the Risk Management Division (RMD) consistently works in operational risk identification, assessment and implementation of appropriate risk mitigation strategies across the bank. It helps to create awareness about various types of risks across the 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 departments of the bank for minimising operational risk exposures by collating information from key stakeholders on 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.

Qualitative Disclosure



Moreover, Internal Control and Compliance Division possesses a key role in identifying and mitigating operational risk. This division works relentlessly under the guidance of the Board Audit Committee to manage operational risk issues of the bank. The Audit Committee delivers policies and directions from time to time to sustain the operational efficiency of the bank.

e) Approach for Calculating Capital Charges for Operational Risk

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 an average positive gross annual income of the bank over the past three years.

$K = [(GI\ 1 + GI2 + GI3) \times \alpha]/n$

Where:-

K = Capital charge under the Basic Indicator Approach

GI = Only positive annual gross income over the previous three years (i.e. negative or zero gross income, if any, shall be excluded)

$\alpha = 15\%$

n = Number of the previous three years for which gross income is positive

Quantitative Disclosure

Quantitative Disclosure

Amount in Taka

Year	Solo			Consolidated		
	Gross income (GI)	Weight	15% of average GI	Gross income (GI)	Weight	15% of average GI
2020	20,836,239,521	15%	3,125,435,928	29,054,743,946	15%	4,358,211,592
2019	21,774,760,168	15%	3,266,214,025	28,206,136,662	15%	4,230,920,499
2018	19,206,295,906	15%	2,880,944,386	26,049,095,186	15%	3,907,364,278
Average			3,090,864,780	**Average**		4,165,498,790
	Average gross income of three years			**Average gross income of three years**		
	61,817,295,595	15%	3,090,864,780	83,309,975,794	15%	4,165,498,790

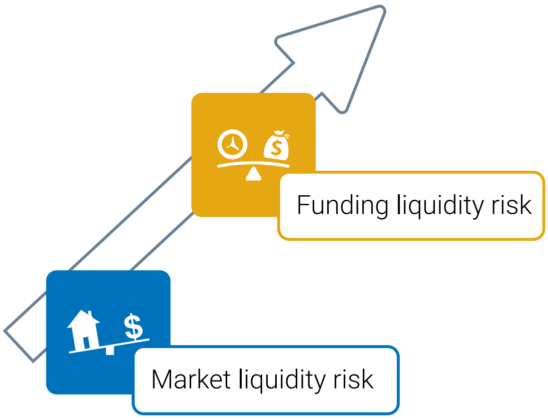
9. Liquidity Ratio
Qualitative Disclosure

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 a required profit), or when a bank is unable to fulfill its commitments in time when payment obligations fall due.

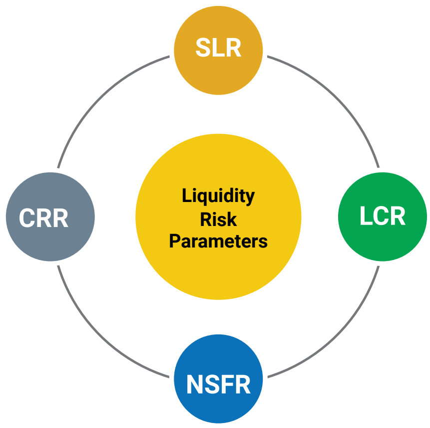
Types of liquidity risks

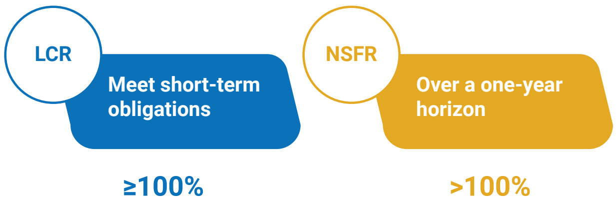


a) **Funding liquidity risk:** The risk that a firm will be unable to meet its current and future cash flow and collateral needs without affecting its daily operations or its financial condition.

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 has always given utmost importance to minimise the liquidity risk of the bank. In order to reduce liquidity risk, strict maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) is also emphasised on a regular basis. Apart from these, as part of Basel-III requirement, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are also maintained under the guidance and stewardship of our Board.



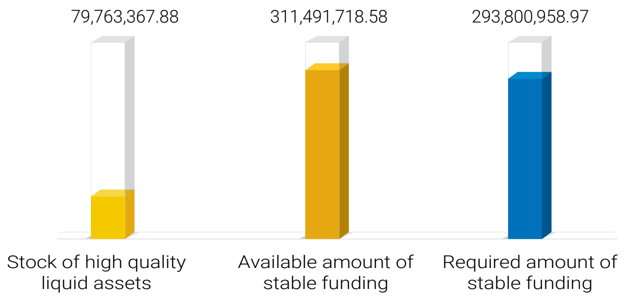
Qualitative Disclosure		
	b) Methods used to measure Liquidity risk	We follow Bangladesh Bank's Risk Based Capital Adequacy guideline, in line with Basel-III. We also follow DOS Circular No. 1, dated January 01, 2015, on implementation of Basel-III liquidity ratio. The calculation methodology is illustrated in detail in the guideline provided by Bangladesh Bank. **Liquidity coverage ratio (LCR):** LCR refers to highly liquid assets held by financial institutions in order to meet short-term obligations. The ratio is designed to ensure that financial institutions have the necessary assets in 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 per cent coverage).
		Net stable funding ratio (NSFR): 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 to or exceed 100 per cent. 
	c) Liquidity risk management system	Liquidity is the ability of a bank to generate funds for increasing assets and meet obligations as they become 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. Thus, effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external/extraneous events and other agents' behavior. Liquidity risk management is of paramount importance because liquidity deficit in a single institution can have system-wide repercussions. Responsibility for managing and controlling liquidity at BRAC Bank lies with the Asset Liability Management Committee (ALCO), which meets at regular intervals. The 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 the management of liquidity at the bank.

Qualitative Disclosure

d) Policies and processes for mitigating liquidity risk	Asset Liability Management (ALM) is an integral part of bank's responsibility. Changes in market liquidity and interest rate expose the 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 the balance sheet and safeguards 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 organisational changes.
	The Board approves the LRM policy. Asset Liability Committee (ALCO) reviews the policy at least annually, or as and when required, by taking into consideration any changes in the market dynamics and appropriateness and places recommendation for changes in policy to the Board for approval. The LRM policy is guided by international best practices in banking, local banking and regulatory environment and prudent guidelines of the central bank.

Quantitative Disclosure

Particular	As on December 31, 2020
Liquidity coverage ratio	358.97%
Net stable funding ratio	106.02%
Stock of high quality liquid assets	79,763,367.88
Available amount of stable funding	311,491,718.58
Required amount of stable funding	293,800,958.97



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 threshold. Therefore, the Board's view is that sound prudential controls are needed to ensure that the organisation maintains a balance between its debt and equity. The Board also believes that the bank should maintain its leverage ratio over and above the regulatory requirements, which will eventually increase public confidence in the organisation. BRAC Bank calculates leverage ratio on a quarterly basis as per the RBCA guideline of 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 adopts 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 high leverage inherent in banking business models is carefully and prudently managed.
	c) Approach for calculating exposure	The leverage ratio reflects the bank's Tier-1 Capital (the numerator) over total exposure (the denominator), which includes 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 following 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 exposures 3. Netting of loans and deposits is not considered Leverage Ratio: Tier-1 Capital (after related deductions)/Total exposure (after related deductions)

Quantitative Disclosure

Particular	Solo	Consolidated
Tier-1 Capital (considering all regulatory adjustments)	36,472,826,887	41,252,236,857
On--balance sheet exposure	389,252,345,625	448,345,059,044
Off-balance sheet exposure	33,532,599,695	33,532,599,695
Total exposure	418,704,728,705	474,300,420,797
Leverage ratio	8.71%	8.70%

<table>
<tr><th colspan="3">11. Remuneration
Qualitative Disclosure</th></tr>
<tr><td rowspan="9">Qualitative Disclosure</td><td colspan="2">a) Information relating to the bodies that oversee remuneration:</td></tr>
<tr><td>i. Name, composition and mandate of the main body overseeing remuneration</td><td>Remuneration issues at BRAC Bank are overseen by the senior management. It comprises the Managing Director & CEO, the Deputy Managing Directors and Divisional Heads.

Remuneration during joining:

Head of Human Resources, Head of Compensation & Rewards, along with concerned Functional Head fixes the remuneration based on fitment analysis of the incoming employee.

Remuneration after joining:

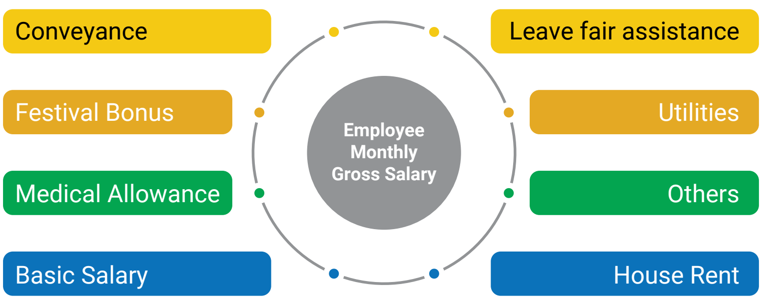
Head of Human Resources along with the concerned Functional Head and Senior Management reviews the remuneration of the bank from time to time and adjusts it based on performance, importance of the role and market benchmarking.

Cost of living adjustment is given to eligible employees as per the bank's policy on a yearly basis.</td></tr>
<tr><td>ii. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.</td><td>"Cerebrus", a renowned consulting firm was appointed to conduct a full-fledged remuneration and benefit survey.

The consultant firm was commissioned with the recommendation from the Head of HR along with the consent of MD & CEO</td></tr>
<tr><td>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</td><td>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, nature and scope of the job.</td></tr>
<tr><td>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.</td><td>The bank has identified employees in key areas and functions whose impact on the risk profile of the bank will always be material and includes members of the management body in its supervisory function, whose professional activities have a material impact on the institution's risk profile because of their responsibilities. In particular, all members of the Senior Management, Extended Management Team and other department heads have been identified as senior managers and material risk-takers.</td></tr>
<tr><td colspan="2">b) Information relating to the design and structure of remuneration processes:</td></tr>
<tr><td>i. An overview of the key features and objectives of remuneration policy.</td><td>BRAC Bank is committed to maintaining fair, competitive and performance-oriented remuneration policies and practices that align with the long-term employee and shareholder interests. The bank believes in rewarding employees for performing in a way that creates sustainable value for the bank and its shareholders. over time. We believe that well-established and clearly communicated core remuneration values drive fairness and consistency across the bank.

Upon recommendation from the Management, the Board has the authority to approve and amend the policy.

The remuneration policy of the bank covers all persons engaged in permanent service of the bank.</td></tr>
</table>

Qualitative Disclosure		The bank has different job grades for various levels of employees. The job grade is decided on the basis of an analytic assessment of the position based on the size, responsibilities, decision-making authorities, nature and scope of the job. The following are the job grades of BRAC Bank: • Deputy Managing Director • Senior Executive Vice President • Executive Vice President • Senior Vice President • Vice President • Senior Assistant Vice President • First Assistant Vice President • Assistant Vice President • Senior Principal Officer • Principal Officer • Senior Officer, Management Trainee • Officer Grade II, Young Professional, Junior Professional • Officer Grade I Managing Director & CEO is not a permanent position. It is a fixed term contractual position, as per Bangladesh Bank's approval.
		Monthly gross salary of an employee has the following components:  Salaries are confidential between the employees concerned and the management. The salary range for various job grades is reviewed from time to time by the management committee and approved by the Board. In addition to this, an employee receives 2 guaranteed festival bonuses in two festivals, each equal to one basis. He/she also receives leave fare allowance equal to one basic salary at the time of his annual mandatory leave. He/she 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 was made.	Employees' terms of service have been reviewed comprehensively and amendments have been made accordingly. A few new benefits have also been introduced.

Qualitative Disclosure	iii. A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	Employees engaged in control functions (risk management, human resources, audit, compliance, etc.) are independent from the business units they oversee, have appropriate authority and are compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.
	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 takes into account all current and future risks, whether on- or off-balance sheet, differentiating amongst risks relevant for business units and individuals. However, for managing and determining remuneration arrangements, key risks like financial risks, operational risks, compliance risks, market risks, reputational risks and employee turnover risks, etc., are usually taken into account. All of our remuneration practices are carefully managed within the risk-taking capacity of the bank.
	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).	Not applicable.
	iii. A discussion of the ways in which these measures affect remuneration.	We approach all of our remuneration arrangements, especially the periodic fixed remuneration enhancements and variable compensation arrangements, through an integrated risk, finance, compensation and performance management framework. 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.	Not applicable.
	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, at their discretion, declares a certain percentage of the pre-tax profit as performance bonus. • The method of distribution is based on management discretion. • No bonus is applicable to employees with rating: 'Needs improvement/ unsatisfactory performance'. • Bonus is declared as per individual employee performance. The ratings and associated bonus amount is decided by the Management Committee.

Qualitative Disclosure		
		• 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 objectives B) Value based objectives. BRAC Bank believes in value-based performance assessment, which not only expects desired performance from the employee but also ensures that his/her value system towards the organisation and his/her job is also up to the mark. • Confirmed employees joined within June 30 of the performing year and confirmed within December 31 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.	Though amounts of individual remuneration do not contain any direct formulaic link between business income and individual reward, in case of variable remuneration, we always consider the concerned division's performance while assessing the employees attached to it. Differentiating performance and value ratings at all levels enable us to target spend towards those who have made the most effective contribution to the bank's performance and unique culture to recognise and motivate performers and ensure their retention.
	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.	Currently, we do not offer any variable remuneration that may be deferred or vested either in the form of cash, shares or share-linked instruments.
	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	Not applicable.
	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	Apart from fixed remuneration components, employees are also eligible for variable remuneration arrangements consisting of performance bonus and incentives. Such bonuses are currently offered only in cash form.
	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.	Variable remuneration arrangements differ across groups of employees. Performance bonus awards are discretionary and recognise annual performance of employees in non-sales divisions over the immediate past financial year. Performance is measured and reviewed against set goals, which include financial and value metrics. On the other hand, incentive bonuses are non-discretionary and normally paid to salespeople on monthly basis who meet established business goals, generate new business and retain current customers.

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 Senior Management met several times during the year ended 31 December 2020. No payment is made to Committee members for their membership of the Committee.
	b) i. Number of persons having received a variable remuneration award during the financial year: Employees: 9,929 Total amount: BDT 592,997,996 ii. Number and total amount of guaranteed bonuses awarded during the financial year: Employees: 8,272 Total festival bonus: BDT 410,529,958 iii. Number and total amount of sign-on awards made during the financial year: Not applicable. iv. Number and total amount of termination payments made during the financial year: Employees: 26 Termination payments: BDT 1,609,884
	c) i. Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms: Not applicable. ii. Total amount of deferred remuneration paid out in the financial year: Not applicable.
	d) Breakdown of the amount of remuneration awards for the financial year to show: i. Fixed and variable: Fixed: BDT 5,482,451,462 Variable: BDT 592,997,996 ii. Deferred and non-deferred: Not applicable. iii. The different forms used (cash, shares and share-linked instruments and other forms): Not applicable.
	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: Not applicable. ii. Total amount of reductions during the financial year due to ex post explicit adjustments: Not applicable. iii. Total amount of reductions during the financial year due to ex post implicit adjustments: Not applicable.