Disclosure on Risk-Based Capital under Basel III

For the Year Ended December 31, 2021

BRAC BANK

আস্থা অবিচল

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Tejgaon, Dhaka 1208.

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For the Year Ended December 31, 2021

Background

Basel III is an internationally agreed regulatory framework on capital adequacy developed by the Basel Committee on Banking Supervision (BCBS) in response to the financial crisis of 2007-09. Pillar III Market Discipline under Basel III: Revised Capital Adequacy Framework was introduced to complement the Pillar I: Minimum Capital Requirements and Pillar II: Supervisory Review Process; and to establish a more transparent and disciplined financial market so that stakeholders can assess the position of a bank.

BRAC Bank has adopted the Basel III framework as part of its capital management strategy, in line with Bangladesh Bank guidelines on Risk-Based Capital Adequacy (RBCA). Bangladesh Bank has specified the standard of Pillar III disclosure through the RBCA guideline (December 2010), which was subsequently revised in December 2014 with effect from January 2015. This disclosure framework has been developed in accordance with the RBCA guideline, which contains the key pieces of information on assets, risk exposures, risk assessment processes and capital adequacy to meet the risks.

Key matrices

	CRAR	CET-1 Ratio	Total Capital	Leverage Ratio
2021	Solo: 14.36% Conso: 20.42%	Solo: 12.89% Conso: 19.08%	Solo: 4,413 cr Conso: 6,888 cr	Solo: 8.35% Conso: 11.77%
2020	Solo: 14.55% Conso: 15.13%	Solo: 13.21% Conso: 13.88%	Solo: 4,018 cr Conso: 4,496 cr	Solo: 8.71% Conso: 8.70%

Basel III at a glance

Basel III reforms were introduced to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spillover.

Basel III mainly addresses the following areas:

- Raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis
- Increase the risk coverage of the capital framework
- Introduce leverage ratio to serve as a backstop to risk-based capital measure
- Raise the standards for the Supervisory Review Process (Pillar 2) and Public Disclosures (Pillar 3)

While the implementation of Basel regulations in Bangladesh's banking sector began in 1996, the phase-in arrangement for Basel III implementation was completed in 2019.

Consistency and validation

The quantitative disclosures are based on consolidated audited financial statements of BRAC Bank and its subsidiaries for the year ended on December 31, 2021, and prepared according to 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 (BBL), eliminating inter-company transactions. Assets of the subsidiaries were risk-weighted, and equities of subsidiaries were crossed out with the investment of BBL while consolidating. Therefore, the information presented in the "Quantitative Disclosures" section can easily be validated with corresponding information presented in the consolidated audited financial statements 2021 of the bank 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 website.

1.Scope of application

Qualitative Disclosures

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

The framework applies to BRAC Bank Limited (BBL) on 'Consolidated Basis', as there were four subsidiaries of the bank and one associate as on the reporting date, i.e. December 31 2021. However, 'Solo Basis' information has been presented alongside those of 'Consolidated Basis' to facilitate comparison.

b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group: (i) that are fully consolidated, (ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted

BRAC Bank Limited:

BRAC Bank is a third-generation private commercial bank (PCBs) that commenced its banking operations on July 4, 2001, under the Banking Companies Act, 1991. The bank went public through its maiden issue of shares in 2006, after which its shares were listed on the Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited in 2007. At present, the bank has 187 banking branches, 198 area offices, 456 SME unit offices, 373 ATMs and 705 agent outlets spread across the country.

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

Financial statements of subsidiaries are included in the consolidated financial statements from the date the control effectively commences, until the date the control effectively ceases.

The bank has four subsidiary companies and one associate:

BRAC Bank Limited

bKash

BRAC EPL Investments

BRAC EPL Stock Brokerage

BRAC SAAJAN Exchange

BRAC IT Services (Associate)

(i) bKash Limited (subsidiary)

BRAC Bank established bKash Limited, a private company limited by shares that was incorporated on March 01, 2010 under the Companies Act, 1994. bKash was established to launch mobile financial services in Bangladesh. The bank has obtained a license from Bangladesh Bank for bKash for rendering mobile financial services. BRAC Bank currently holds 51% equity shares in the company.

With the consent of all existing shareholders, Bill & Melinda Gates Foundation (B&M) in 2014, Alipay Singapore E-Commerce Private Limited ("Alipay") in 2018 and SoftBank in 2021 invested in bKash in the form of convertible preference shares.

As of December 31 2021, out of the total 163,104 convertible preference shares, B&M holds 22,525 shares, Alipay holds 55,433 shares and SoftBank holds 85,146 shares. Preference shareholders do not have any voting rights but have the same rights as equity shareholders with respect to an economic interest in the company.

These preference shares are convertible at a 1:1 basis to ordinary shares, subject to consent as per shareholders' agreement. Consolidated financial statements have been prepared using 35.74% instead of 51%, considering the potential dilution, or otherwise according to economic interest in bKash.

(ii) BRAC EPL Investments Limited (subsidiary)

BRAC Bank acquired 51% shares of Equity Partners Limited on July 31 2009. This entity 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".

BRAC Bank acquired an additional 25% shares in the entity in 2011 and a further 18.57% in 2016. In 2017, the bank acquired an additional 5.275% in the entity. During 2019, the bank acquired another 0.10%, thus taking the total shareholding to 99.945% at the end of the year 2019.

BRAC EPL Investments was established to cater to the needs of the fast-growing capital markets of Bangladesh. It operates as a merchant bank with a full-fledged merchant banking license from Bangladesh Securities and Exchange Commission (BSEC). The company's service portfolio comprises lead management of initial public offerings (IPOs), domestic and international placements, portfolio management services and project development and consultancy.

(iii) BRAC EPL Stock Brokerage Limited (subsidiary)

BRAC Bank acquired 51% 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% shares of BRAC EPL Stock Brokerage Limited. As a result, the bank's controlling interest rose to 90% in the company.

BRAC EPL Stock Brokerage was established to cater to the needs of the brokerage business in Bangladesh. It has corporate membership of both the Dhaka Stock Exchange and Chittagong Stock Exchange.

(iv) BRAC SAAJAN Exchange Limited (Subsidiary)

BRAC Bank acquired 75%+1 shares (249,992 shares out of the total share 333,333) of "Saajan Worldwide Money Transfer Limited" (SWMTL) in the UK. Bangladesh Bank granted the necessary approvals of GBP 500,000 to acquire SWMTL and set up two new branches in Luton and Bradford in the UK.

As per permission of 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 was established to cater to remittance and exchange services in the UK.

(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 was then formed in April 2013 through the merger of Documenta™ and the IT Division of BRAC Bank.

BRAC Bank acquired 51% shares of BRAC IT Services Limited, a private company limited by shares under the Companies Act, 1994, incorporated on April 09, 2013.

It currently operates as an IT services company. In the year 2017, BRAC Bank reduced its holding in BRAC IT Services Limited from 51% to 48.67% by selling 1,034 shares to BRAC. Due to this divestment, BRAC IT Services Limited was converted to an 'Associate' of the bank at the end of the year 2017, from a 'subsidiary' status. However, due to new investment by BRAC in 2020, the holding percentage of BRAC Bank further reduced to 12.92% by the end of the year 2020.

Basis of consolidation:

Consolidated financial statements include financial statements of BRAC Bank and its subsidiaries, BRAC EPL Investments, BRAC EPL Stock Brokerage, bKash and BRAC SAAJAN Exchange, as those of a single economic entity.

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) 10: Consolidated Financial Statements. These statements are prepared for a common reporting year ended December 31, 2021.

(c) Any restrictions, or other major impediments, on the transfer of funds or regulatory capital within the group.

The rules and regulations of BRPD of Bangladesh Bank that govern 'Single Borrower Exposure Limit' for customers are equally applicable for the bank in financing its own subsidiaries. The bank is following the latest Bangladesh Bank circular in determining the maximum amount of finance to the subsidiaries of the bank.

Quantitative Disclosures

a) The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.

Not applicable for the bank.

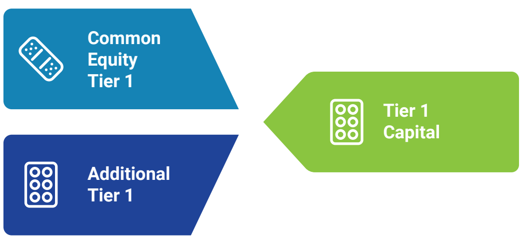
2. Capital Structure

Qualitative Disclosures

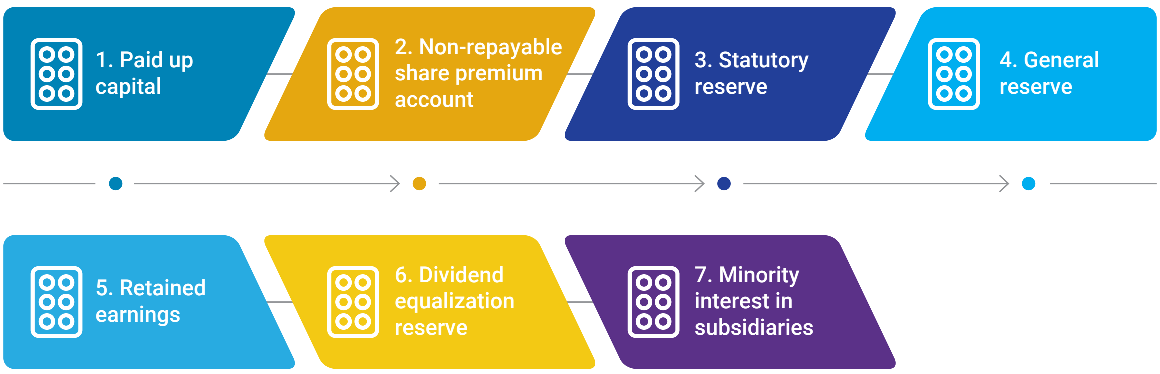
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 or Tier 2.

As per RBCA guidelines of Bangladesh Bank (BB), regulatory capital is different from accounting capital. As per BB guidelines based on the Basel III accord, regulatory capital has two broad categories, namely, Tier 1 Capital (going-concern capital) and Tier II Capital (gone-concern capital). Additionally, Tier 1 Capital is further divided into two categories; Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1).

Tier 1 Capital: This form of capital can absorb losses without triggering bankruptcy. Hence, it is the core measure of a bank's financial strength from the regulator's point of view. The components of Tier 1 Capital are given below:



Common Equity Tier 1(CET1): The main components that comprise CET-1 Capital are as belo

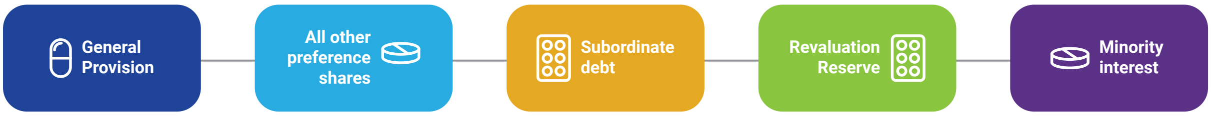


Additional Tier 1 (AT1):

- Non-cumulative irredeemable preference share
- Instruments issued by banks that meet the qualifying criteria for AT1 (the instrument is perpetual, i.e. no maturity date)

Minority interest (AT1 issued by consolidated subsidiaries to third parties)

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



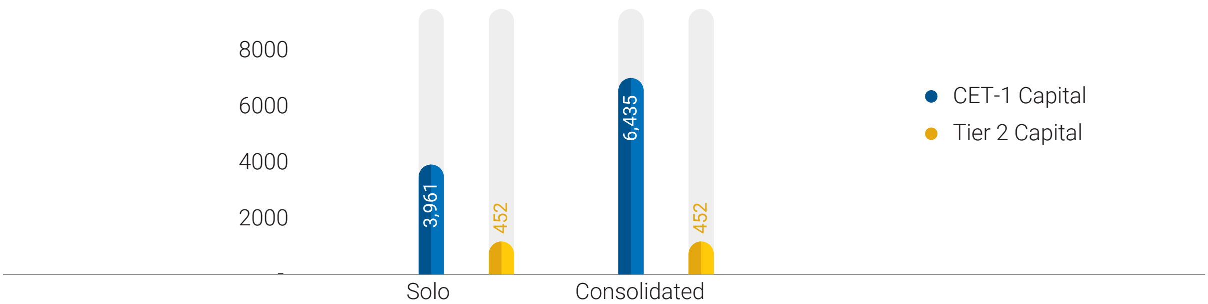
Quantitative Disclosures

b) The amount of Regulatory capital, with separate disclosure of: CET1 Capital, Additional Tier 1 Capital, Total Tier 1 Capital, Tier 2 Capital

Figures in BDT Crore

Sl. No.	Particulars	Solo	Consolidated
(a)	**Common Equity Tier-1 Capital (CET-1)**		
a.1	Paid up capital	1,392.17	1,392.17
a.2	Non-Repayable Share Premium account	385.38	385.38
a.3	Statutory Reserve	1,006.80	1,006.80
a.4	Retained Earning	1,632.99	2,640.30
a.5	Dividend Equalization Reserve	35.52	35.52
a.6	Minority Interests in Subsidiaries	-	1,976.06
a.7	**Sub-total(a.1 to a.6)**	**4,452.85**	**7,436.22**
(b)	**Less: Regulatory Adjustments**		
b.1	Goodwill and all other intangible Assets	95.72	495.83
b.2	Deferred Tax Assets (DTA)	396.45	505.03
(c)	**Total common equity Tier-1 capital (CET-1)**	**3,960.67**	**6,435.36**
(d)	Additional Tier-1 Capital	-	-
(e)	**Total Tier-1 Capital (Core Capital)**	**3,960.67**	**6,435.36**
(f)	**Tier-2 Capital (Supplementary Capital)**		
f.1	General Provision	452.50	452.50
(g)	Less: Regulatory Adjustments	-	-
(h)	**Total Admissible Tier-2 capital**	**452.50**	**452.50**
(i)	**Total Eligible Regulatory Capital**	**4,413.17**	**6,887.86**

Capital Composition



3. Capital Adequacy

Qualitative Disclosures

a) A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.

Capital adequacy management strategy:

BRAC Bank, with its focused strategy on risk governance, has been consistent in maintaining a capital adequacy ratio above the regulatory requirements. The bank focuses on strengthening risk management and its control environment rather than increasing capital to cover up weak risk management and control practices.

The bank has been successfully managing incremental growth of the Risk-Weighted Assets (RWA) by diversifying its portfolio in SME, Retail and Corporate segments. However, RWA is also managed by taking collateral against loans. We strive to ensure that external credit rating is duly conducted by our borrowers.

The bank's policy is to manage and maintain its capital with the objective of sustaining a strong capital ratio and high rating. The bank maintains capital levels that are sufficient to absorb all material risks. The bank also ensures that capital levels comply with regulatory requirements and satisfy external rating agencies and other stakeholders, including depositors. The principal objective of the capital management process is to ensure that the bank has adequate capital to meet all sorts of obligations at any time.

Calculation approach:

Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to Bangladesh Bank. The bank has adopted the following approach for calculation of risk-weighted assets (RWA) and capital adequacy.

- Credit Risk: Standardised Approach (SA)
- Market Risk: Standardised Approach (SA)
- Operational Risk: Basic Indicator Approach (BIA)

Compliance with regulatory requirements

As per Basel III guidelines, Minimum Capital Requirement (MCR) for banks in Bangladesh is currently 10% of their total RWA with the addition of Capital Conservation Buffer, which is 2.5% of total RWA. BRAC Bank is well ahead of this minimum target, both on a solo and consolidated basis as of December 2021.

Excess capital to support current and future activities

BRAC Bank has maintained surplus capital of 1.86% on solo basis and 7.92% on consolidated basis in addition to regulatory requirements. The surplus capital maintained by the bank will act as a cushion to absorb risks that arise from other risks under Pillar II and to support future business growth.

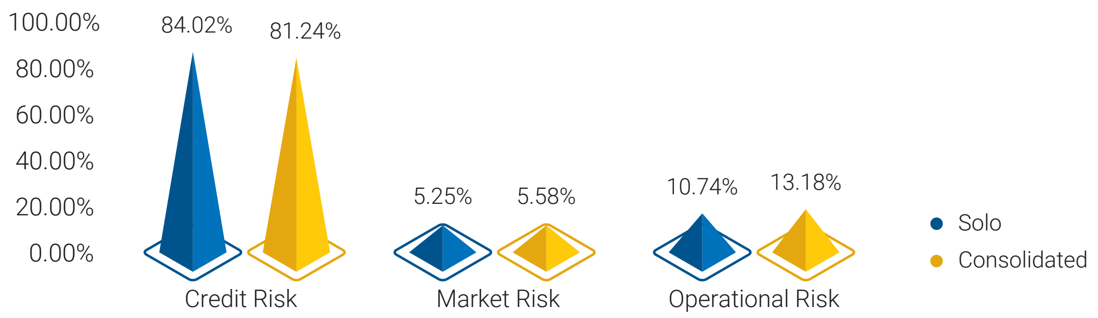
Quantitative Disclosures

Figures in BDT Crore

Sl.	Particulars	Solo	Consolidated
(b)	Capital requirement for credit risk	2,582.34	2,740.21
(c)	Capital requirement for market risk	161.27	188.08
(d)	Capital requirement for operational risk	329.98	444.53
	Minimum Capital Requirement (MCR)	3,073.60	3,372.82
(e)	Capital Ratio:		
	CET 1 Capital	3,960.67	6,435.36
	Total Tier 1 Capital	3,960.67	6,435.36
	Total Tier 2 Capital	452.50	452.50
	Total Capital	4,413.17	6,887.86
	Total Risk Weighted Assets (RWA)	30,735.97	33,728.19

Sl.	Particulars	Solo	Consolidated
	Capital to Risk-Weighted Assets Ratio (CRAR)	14.36%	20.42%
	CET 1 Capital Ratio	12.89%	19.08%
	Tier-1 Capital Ratio	12.89%	19.08%
	Tier-2 Capital Ratio	1.47%	1.34%
(f)	Capital Conservation Buffer (CCB) (Maintained)	4.36%	10.42%
(g)	Available Capital under Pillar 2 requirement	1,339.57	3,515.04

Capital Requirement Composition



4. Credit Risk

Qualitative Disclosures

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

- Definitions of past due and impaired (for accounting purposes)
- Description of approaches followed for specific and general allowances and statistical methods
- Discussion of the Bank's credit risk management policy

Credit risk management at BRAC Bank

Credit risk arises when a bank's borrower or counterparty fails to meet their commitments in line with the agreed-upon terms and conditions. Credit risk also arises with deterioration of borrower's credit rating. Effective credit risk management is a vital component of a comprehensive risk management strategy and critical to any bank's long-term sustainability. The likelihood of the borrower defaulting and financial impact on the Bank in the case of the failure are both considered when assessing credit risk.

BBL has a Credit Risk Management policy in place since 2005 for the management of credit risk in the Bank. This policy is reviewed annually. The loan processing system in BBL is centralized. The Relationship Manager (RM) hunts for business, 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 analyzes the proposal, and the decision is made (Approved/Declined/ Query provided) and approved as per Delegation of Authority. Finally, documentation & disbursement are being done by the Operation division. In each of the aforementioned steps, a very stringent and rigorous risk assessment is done. Whereby we strive to eliminate every possibility of credit risk. Moreover, fully complying as stipulated by the regulators, Other Banks' liability position and status, other Banks' sanction advice, Central Bank prescribed Credit risk Rating, External rating (for Large & Medium Enterprise customers), KYC Information, Proposed Security analysis, and compliance of regulatory and internal policy guidelines and relevant such covenants are considered before extending any credit facility. These are all done with the sole intention of combating credit risk.

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 scrutinizing that person or organization properly, that starts from accumulating and analyzing that person's or organization's business information, business prospect, present scenario, Market position, market reputation, Industry growth and Peer group comparison and ends with making up the decision whether to onboard or not to onboard that person or organization. At the same time, Experience & skill of Sponsor Directors and Key Management in primary business, succession plan, Financial statement analysis including projected cash flow and opportunity, CIB Report check, Search Report check, Requirement of loan, proposed facility, justification of requirement & facility structuring and related such avenues are closely scrutinized. If the status of the client is deemed to be satisfactory, all documents are prepared, and negotiations are undertaken. The relationship manager visits the factory (for manufacturing concerns) or retail outlets (for trading concerns) to see if the conditions are satisfactory and justifiable to support facilities. To maintain a thorough knowledge of the factory/warehouse, a visit report is prepared in this regard. Stock Verification Report is also prepared, and the record is kept in the customer's file. The environmental and social aspects are also considered while opting for any lending decision.

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

Classification and provisioning for loans and advances are created based on the period of arrears by following the latest Bangladesh Bank master circulars and other relevant circulars on classification and provisioning. Definition of past due/overdue as per BB circular is as follows:

- Any continuous loan, if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date
- Any demand loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date
- In case of any installment(s) or part of installment(s) of a fixed term loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue after six months of the expiry date
- The short-term agricultural & micro-credit, if not repaid within the fixed expiry date for repayment, will be considered past due/overdue after six months of the expiry date

In this regard, all loans and advances/investments are grouped into four categories for the purpose of classification, as per BB circulars, namely:

i) Continuous loan

ii) Demand loan

iii) Fixed term loan

iv) Short-term agricultural & micro-credit

They are classified as follow:

Type of facility	Borrower type	Loan classification		
		Sub-standard (overdue period)	Doubtful (overdue period)	Bad and loss (overdue period)
Continuous loan, Demand loan & Fixed term loan	CMS*	6 months or more but less than 18 months.	18 months or more but less than 30 months.	30 months or more.
	Other than CMS	3 months or more but less than 9 months.	9 months or more but less than 12 months.	12 months or more.
Short term agricultural & micro-credit		12 months or more but less than 36 months	36 months or more but less than 60 months	60 months or more

*CMS means Cottage, Micro & Small credit, defined in SMESPD Circular No. 02 dated September 05, 2019

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 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 eligible 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 is 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

(ii) Against which legal cases are filed and classified as bad and loss, as per BRPD circular no. 02, dated January 13, 2003; circular no: 13, dated November 07, 2013 and circular no. 01, dated February 06, 2019

These write-offs, however, do 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 are objectives 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's guidelines or other regulatory requirements.

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

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%
	Loans for professionals	2%	2%	20%	50%	100%
	Other than house building and professionals	2%	2%	20%	50%	100%
Loans to BHs/ MBs against share, etc.		2%	2%	20%	50%	100%
Cottage, micro & small credit under CMSME		0.25%	0.25%	5%	20%	100%
Medium enterprise		0.25%	0.25%	20%	50%	100%
Short-term agri/micro-credit		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

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 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 borrowers. 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 too, like netting agreements and other guarantees. The professionals of respected 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.

Credit assessment and grading

Know Your Client (KYC) is the first step to analysing any credit proposal. The banker-customer relationship is established through an opening of account/s of the customer. 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 portfolio (Retail, SME and Corporate) booking the customer and the Credit Division conducting 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 & social risk analysis of the customer. Post-approval, Credit Administration Department ensures compliance with all legal formalities, completion of documentation, including security of the proposed facility and finally disburses the amount.

This arrangement has not only ensured segregation of duties and accountability, but has also helped in minimising the risk of compromise with the 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 bank 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 adopted, 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 holistic development, growth and sustainability, rather than mere financial return from a transaction.

We strive to create value rather than be the consumer of the value. To achieve this goal, we manage credit risk inherent in the entire portfolio of the bank as well as risks associated with individual credit proposals/ 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 assistance, guidance, and/or requirements provided by various international DFIs as well as regulatory guidelines.

Bringing social and environmental risk assessment into our credit approval process will contribute to the wellbeing of society. Moreover, as the lion's share of the total revenue of BRAC Bank comes through SME lending, the future prospect of the bank are interlinked with the quality of its asset portfolio. Thus, efficient management of loans and advances is of paramount importance for the bank.

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

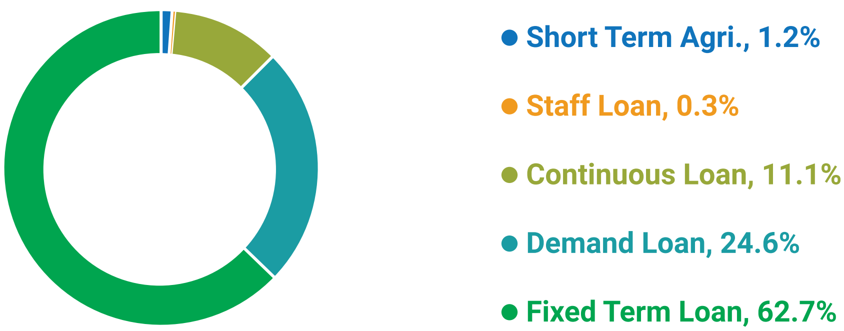
Final authority and responsibility for all activities that expose the bank to credit risk rests with the Board of Directors. The Board however has delegated the authority to the Managing Director & CEO or other officers of the credit risk management division. The Credit Policy Manual contains the core principles for identifying, measuring, approving and managing credit risk in the bank and is designed to meet organisational requirements that exist today as well as to provide flexibility for the future.

The policy covers corporate, retail and small & medium enterprise exposures. Policies and procedures have structured credit risk management processes, both at the obligor and portfolio levels and follow the central bank guidelines. Credit risk management function is independent of business origination and functions to establish better internal control and reduce conflict of interest.

Quantitative Disclosures

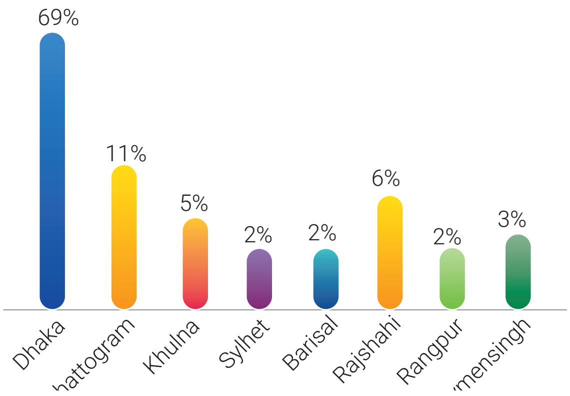
b)Total gross credit risk exposures broken down by major types of credit exposure:

Categories of loans		Outstanding (BDT cr)
Continuous Loans (CL-2)		**3,566.58**
	i. Small & medium enterprises financing (SMEF)	
	a. Small, Cottage & Micro Enterprises	1,429.06
	b. Medium enterprises	342.64
	ii. Consumer financing (CF)	895.71
	iii. Loans to BHs/MBs/SDs against shares, etc.	71.71
	iv. Other than SMEF, CF, BHs/MBs/SDs	827.46
Demand Loans (CL-3)		**7,896.94**
	i. Small & medium enterprises financing (SMEF)	
	a. Small, cottage & micro enterprises	1,274.70
	b. Medium enterprises	62.51
	ii. Consumer financing (CF)	
	iii. Loans to BHs/MBs/SDs against shares, etc.	7.32
	iv. Other than SMEF, CF, BHs/MBs/SDs	6,552.41
Fixed Term Loan (CL-4)		**20,152.28**
	i. Small & medium enterprises financing (SMEF)	
	a. Small, cottage & micro enterprises	11,309.77
	b. Medium enterprises	262.12
	ii. Consumer financing (other than HF & LP)	3,702.46
	iii. Housing finance (HF)	1,357.14
	iv. Loans for professionals to set up business (LP)	534.72
	v. Loans to BHs/MBs/SDs	
	vi. Other than SMEF, CF, HF, LP, BHs/MBs/SDs	2,986.07
Short-term agri credit and micro-credit (CL-5)		**394.10**
Staff loan		**111.32**
Grand total		**32,121.22**



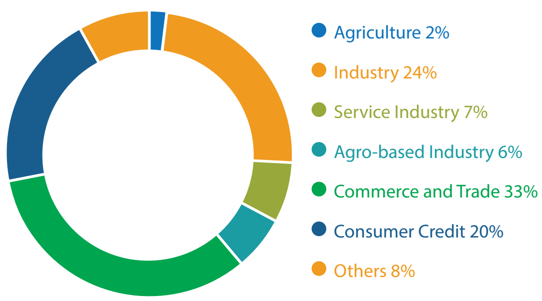
c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure:

Division	Outstanding (BDT cr)
Dhaka Division	22,209.87
Chattogram Division	3,510.92
Khulna Division	1,678.76
Sylhet Division	664.05
Barisal Division	600.76
Rajshahi Division	2,001.89
Rangpur Division	640.36
Mymensingh Division	814.62
Grand Total	**32,121.22**



d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

Industry/Counterparty	Outstanding (BDT cr)
Agriculture	575.39
Industry	7,605.84
Service industry	2,417.89
Agro-based industry	1,958.03
Commerce and trade	10,560.70
Consumer credit	6,547.46
Others	2,455.91
Grand total	**32,121.22**

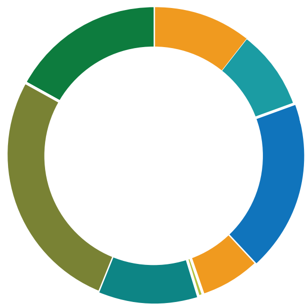


e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

Residual contractual maturity	Outstanding (BDT cr)
Repayable on demand	2,774.09
Not more than 3 months	5,019.45
More than 3 months but not more than 1 year	13,171.27
More than 1 year but not more than 5 years	9,745.92
More than 5 years	1,410.48
Grand Total	**32,121.22**

f) 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:

Sector-wise NPL	Outstanding (BDT cr)
Agriculture	3.19
Consumer credit	135.66
Construction	0.10
Other manufacturing Industries	110.14
Residential real estate Financing	0.16
Readymade garments	232.71
Textiles	84.22
Ship-building	7.08
SME loans	134.76
Trade service	335.64
Others	208.59
Grand total	**1,252.26**



Status	Outstanding loans and advances 2020	Base for provision	(%) of required provision	Required provision, 2020
Unclassified				
All unclassified loans (Other than small and medium enterprise financing, consumer financing, BHs/MBs/SDs, housing and loans for professionals*)	9,747.10	9,675.52	1%**	133.12
Small and medium enterprise financing	14,240.27	14,240.27	0.25%	35.60
Loans to BHs/MBs/SDs against shares, etc.*	79.03	79.03	2%	1.58
Housing finance	1,295.09	1,295.09	1%	12.95
Loans for professionals to set up business (LP)	529.18	529.18	2%	10.58
Consumer finance	3,673.90	3,673.90	2%	73.48
Consumer finance (credit card)	798.97	798.97	2%	15.98
Short term agricultural and micro-credit	394.10	394.10	1%	3.94
Staff loan	111.32		1%	-
Sub-total	**30,868.97**	**30,686.07**		**287.23**
Classified - Specific provision				
Sub-standard	220.07	161.02	20%***	21.06
Doubtful	98.70	61.24	50%***	14.51
Bad/Loss	933.49	751.58	100%	762.74
Sub-total	1,252.26	973.84		798.31
Grand total	**32,121.22**	**31,659.91**		**1,085.54**

Special general provision Covid-19				56.45
Special general provision Covid-19 for 2020			1%	3.31
Special general provision Covid-19 for 2021 (SME)			1.5%	18.66
Special general provision Covid-19 for 2021 (other than SME)			2%	**78.42**
Total required provision for loans and advances				**1,163.96**
Total provision maintained				**1,277.87**
Excess provision over minimum required provision prescribed by Bangladesh Bank				**113.91**

* BHs = Brokerage Houses, MBs = Merchant Banks, SDs = Stock Dealers against Shares

** For rescheduled loans, 50% and 100% provision has been made as per NOC circular

*** For small, micro & cottage enterprises under CMSME financing provision requirement is 5% for sub-standard and 20% for doubtful classification as per BRPD circular

g) Gross Non-Performing Assets; Non-Performing Assets to Outstanding Loans & advances; Movement of Non-Performing Assets NPAs); Movement of Specific provisions for NPAs

Particulars	(BDT Crore)
Outstanding loans & advances	32,121.22
Non-performing loans	1,252.26
NPL %	**3.90%**

2021

96.10% Performing Loans

3.90% Non-Performing Loans (NPL)

Movement of Non-Performing Loans (NPL):

Non-performing loans	Outstanding (BDT cr)
Opening balance	800.85
Additions during the year	687.59
Reductions during the year	(236.19)
Closing balance	**1,252.26**

Movement of specific provisions for NPLs:

Particulars	Amount (BDT cr)
Provisions held at the beginning of the year (a)	749.35
Less: Transfer to general provision (b)	(6.42)
Less: Write off during the year (c)	(150.34)
Add: Provision charged during the year (d)	301.81
Add: Recovery of written off bad debts (e)	70.75
Add: Exchange difference (f)	1.65
Net charge to Profit and Loss A/C (g) = (d)-(e)	231.06
Provisions held at the end of the year (a+b+c+d+f)	**896.05**

5. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

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

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

Investment in equity securities are broadly 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. But required provisions are kept for diminution in value of the investment.

- **Unquoted Securities:** Investment in unlisted securities is reported at a 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 main objective is to invest in these equity securities for the purpose of capital gain 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 the year-end is taken to 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 derecognised 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 the HTM securities are amortised once a year according to Bangladesh Bank guidelines. HTM securities are also revaluated if they are reclassified to the HFT category with the Board's approval.

VALUATION & ACCOUNTING OF INVESTMENT

Investment Class	Initial Recognition	Measurement after Recognition	Recording of changes
Govt. T-bills/ bonds - HFT	Cost	Marking to Market/ fair value	Loss to profit and loss a/c, gain to revaluation reserve
Govt. T-bills/ bonds - HTM	Cost	Amortized cost	An increase in value of securities is booked to equity, but decrease to profit and loss account.
Bond/Debenture	Cost	Cost	Profit & Loss Account
Quoted shares	Cost	Lower of cost or market price at balance sheet date	Provision for revaluation loss (net off gain) is charged to profit and loss account but no unrealized gain booking.
Un-quoted Shares	Cost	Lower of cost or Net Asset Value (NAV) of last audited account	Provision for unrealized loss to profit and loss Account but no unrealized gain booking.
Mutual fund (closed-end)	Cost	Lower of cost and (higher of market value and 85% of NAV)	Provision for unrealized loss to profit and loss account but no unrealized gain booking.
Mutual fund (Open-end)	Cost	Lower of cost and 95% of NAV	Provision for unrealized loss to profit and loss account but no unrealized gain booking.
Prize bond	Cost	Cost	N/A

Quantitative Disclosures

b)Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.

Figures in BDT cr

Particulars	Solo		Consolidated	
	Cost price	Market value	Cost price	Market value
Value of quoted shares	434.87	464.24	568.92	598.30
Value of unquoted shares	29.63		39.33	

c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.

d) Total unrealized gains (losses); Total latent revaluation gains (losses); Any amounts of the above included in Tier 2 capital

Figures in BDT cr

Sl.	Particulars	Solo	Consolidated
c)	The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.	22.85	22.85
d)	Total unrealized gains (losses)	32.63	32.63
	Total latent revaluation gains (losses)	-	-
	Any amounts of the above included in Tier 2 capital	-	-

e) Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.

Figures in BDT cr

Capital charge for equities	Solo	Consolidated
Specific risk	46.42	59.83
General market risk	46.42	59.83
Total capital charge	92.85	119.66

6. Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures

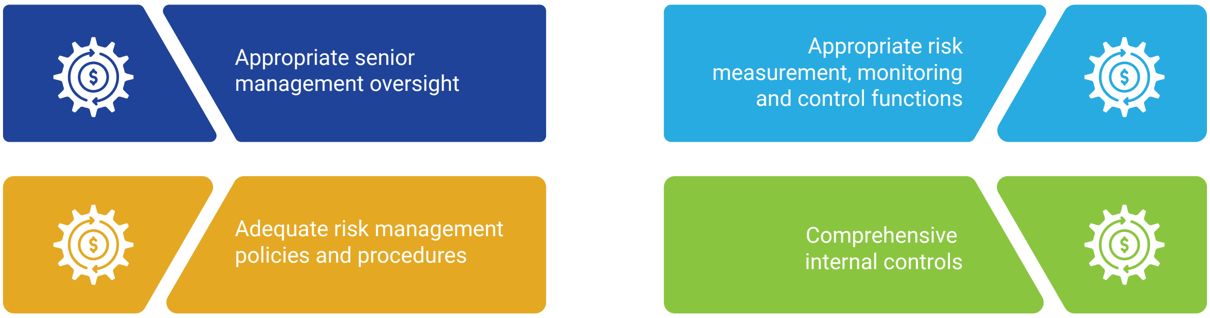
a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement:

Interest rate risk affect 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:

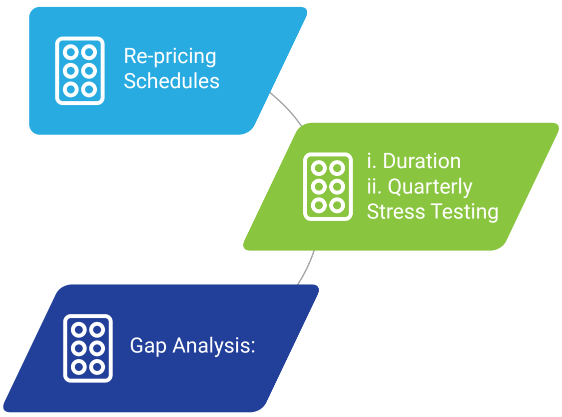
i) Earnings perspective: It affects a bank's earnings by changing its net interest income and the level of other interest-sensitive income and operating expenses.

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 the 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 the IRRB at BRAC Bank are applied:



Re-pricing schedules: It is the simplest technique 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 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 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.

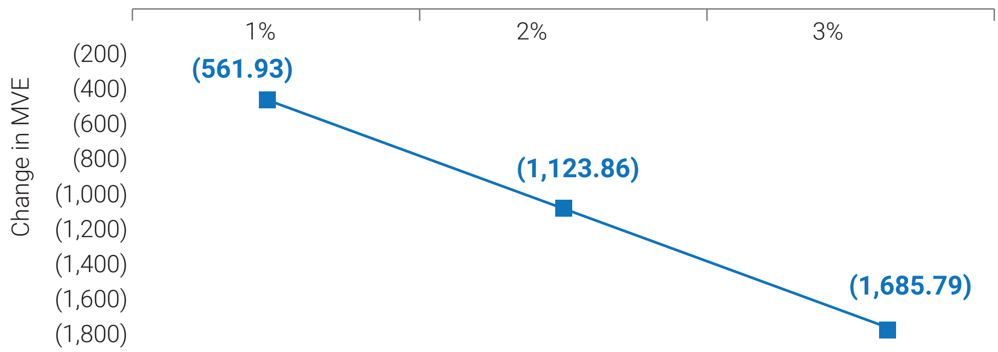
ii. Quarterly stress-testing: It is conducted on a quarterly basis as per the directives of Bangladesh Bank to gain better insight into the vulnerable issue of IRRB.

Quantitative Disclosures

b)Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.

Particulars	Amount (BDT in crore)		
Market Value of Assets			45,364
Market Value of Liabilities			39,461
Weighted Average of Duration of Assets (DA) in years			1.56
Weighted Average of Duration of Liabilities (DL) in years			0.29
Duration GAP (DA-DL)			1.31
Yield to Maturity (YTM -Assets)			6.04%
Yield to Maturity (YTM -Liability)			1.60%
The magnitude of Interest Rate Change	1%	2%	3%
Change in market value of equity due to an increase in interest rate	(561.93)	(1,123.86)	(1,685.79)
Stress Testing	**Minor**	**Moderate**	**Major**
Regulatory capital (after shock)	3,857.33	3,295.40	2,733.47
RWA (after shock)	30,171.02	29,609.09	29,047.16
CRAR (after shock)	**12.78%**	**11.13%**	**9.41%**

Change in market value of equity due to an increase in interest rate



7. Market risk

Qualitative Disclosures

a) (i) Views of BOD on trading/investment activities (ii)Methods used to measure Market risk; (iii) Market Risk Management system; (iv) Policies and processes for mitigating market risk

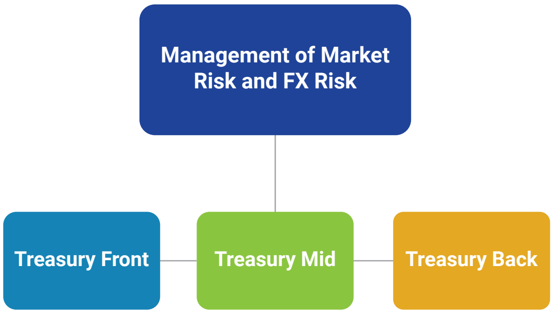
Views of BOD

Market risk arises due to changes in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. The financial instruments that are held with trading intent or to hedge against various risks are purchased to make a profit from spreads between the bid and ask price are subject to market risk.

BBL has Foreign Exchange Risk Management Guideline fully customised as per our bank's need since 2004. The guidelines have been prepared as per Bangladesh Bank guidelines and appraised by our Board of Directors. All financial activities are susceptible to a different degree of risk. To measure, monitor and manage these risks would be crucial for the survival and good health of the organisation. Within the bank, the treasury is vested with the responsibility to measure and minimise the risks associated with the bank's assets and liabilities. Managing foreign exchange risk is one of the prime responsibilities of the treasury.

Treasury is responsible for managing the balance sheet, as per the recommendation 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. Based on the analysis and views, the committee takes decisions to reduce balance sheet risk while maximising profits.

At BRAC Bank, the Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to obtain the best balance of risk and return whilst meeting customers' requirements.



Market risk measurement

There are several methods used to measure market risk, and the bank uses those methods which deemed 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. Standardised (rule-based) method is used for calculating capital charge against market risks for the minimum capital requirement of the bank under Basel-III. For each risk category, the minimum capital requirement is measured in terms of two separately calculated capital charges for 'specific risk' and 'general market risk'.

Market risk management

The treasury manages market risk covering liquidity, interest rate and foreign exchange risks with oversight from the Asset-Liability Management Committee (ALCO) comprising senior executives of the bank. ALCO is chaired by the Managing Director.

Policies and processes

- **Asset liability management:**

BRAC Bank places strong emphasis so that balance sheet risks are effectively managed. Appropriate policies and procedures have been established as per the guidelines of the bank's Board of Directors, 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 the Balance Sheet and liquidity risk of the bank.

- **Foreign exchange risk management:**

Foreign exchange risk (also known as FX risk, exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency. The risk is that adverse fluctuations in exchange rates may result in a loss in earnings. We have our own Board-approved policy for the management of FX risk

There are approved limits for market risk-related instruments, both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against market risks.

Quantitative Disclosures

b) The capital requirements for: interest rate risk; equity position risk; foreign exchange risk; and Commodity risk.

Figures in BDT cr

Capital charge for market risk	Solo	Consolidated
Interest rate risk	41.14	41.14
Equity position risk	92.85	119.66
FX risk	27.28	27.28
Commodity risk	-	-
Total	**161.27**	**188.08**

8. Operational risk

Qualitative Disclosures

a) Views of BOD on system to reduce Operational Risk; Performance gap of executives and staffs; Potential external events; Policies and processes for mitigating operational risk; Approach for calculating capital charge for operational risk

Views of BOD on system to reduce operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or 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 bank's sustainable earnings and, parallelly, secures the interest of its customers and shareholders. To materialise this understanding into reality, there are dedicated risk management associates across the bank that work towards efficiently managing operational risks using effective tools and techniques implemented through policies and processes.

Performance gap of executives and staff

The bank has a proper mechanism in place to identify the scope of improvement of the employees and executives and work towards addressing them on time. The development of human resources is pivotal for optimum efficiency, and hence, BBL's employees are given 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 developing our personnel, user 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 well-mapped process enables users to operate more efficiently, enhances knowledge amongst staff and fills in the lapses in operations.

All policies and processes address clear responsibilities and accountabilities of all employees.

Potential external events

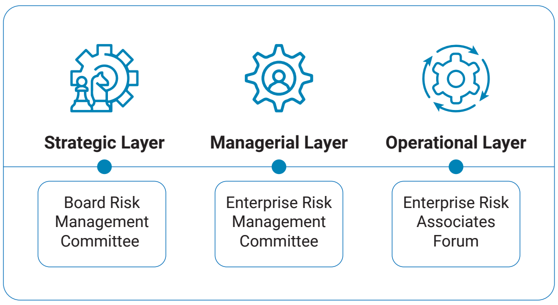
There are non-diversifiable external factors that can affect the operations of the business directly or indirectly. BBL understands that business operates under an umbrella of interconnected socio-economic and political environment where macro-economic conditions, regulatory changes, change in demand, and the status of infrastructure significantly influence the Bank's performance. The Bank has a separate mechanism to address such kinds of events.

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 implementing appropriate risk mitigation strategies across the bank. It helps to create awareness about various types of risks in pan-bank and enhances the 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 close collaboration with all departments in the bank for minimising operational risk exposures by collating information from key stakeholders of processes across all functions of the bank, incident reports, potential loss reports, internal audit reports, external audit reports and various other sources to identify gaps, risks, compliance and control failures to ensure reporting of significant risks and corporate governance issues.

Such maintenance of a bank-wide risk management framework enables every department to independently identify, assess and respond to changes in the operating environment.



Moreover, Internal Control and Compliance Division has a key role in identifying and mitigating operational risk. This wing 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 keep operational efficiency of the bank up to the mark.

Approach for calculating capital charge for operational risk

Basic Indicator Approach (BIA) is followed to calculate the capital charges for operational risk as per the guidelines of Bangladesh Bank.

As per BIA, the capital charge for operational 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 = the 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 Disclosures

b) The capital requirements for operational risk:

Figures in BDT cr

Particulars	Solo	Consolidated
Gross income (last 3 years)	6,599.69	8,890.56
Average GI	2,199.90	2,963.52
15% of average GI	329.98	444.53
Capital charge for operational risk	329.98	444.53

9. Liquidity Ratio

Qualitative Disclosures

a) Views of BOD on system to reduce liquidity Risk; Methods used to measure Liquidity risk; Liquidity risk management system; Policies and processes for mitigating liquidity risk

Liquidity risk

Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or when a bank is unable to fulfil its commitments in time when payment falls due. Liquidity risk can be of two types:

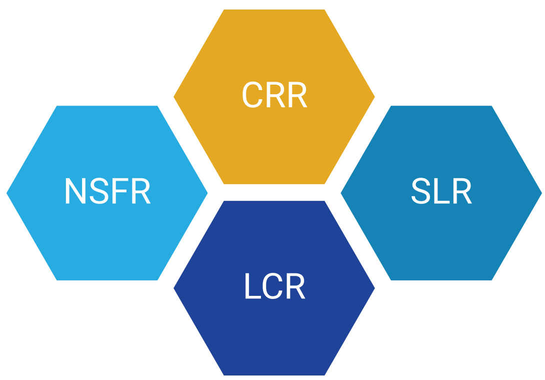
a) Funding liquidity risk: The risk that a firm will be unable to meet its current and future cash flow and collateral needs without affecting its daily operations or its financial condition.

b) Market liquidity risk: The risk that a firm cannot easily offset or sell a position without incurring a loss because of inadequate depth in the market.

Views of BOD on system to reduce liquidity risk

The Board of BBL always places utmost importance to minimise liquidity risk. In order to reduce liquidity risk, stringent maintenance of cash reserve ratio (CRR) and statutory liquidity reserve (SLR) is also being emphasised on a regular basis.

This apart, as a part of Basel-III requirement, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are also maintained under the guidance of our Board.



Liquidity risk parameters

BBL follows 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 the implementation of the Basel III liquidity ratio.

Methods used to measure liquidity risk

Liquidity Coverage ratio: Liquidity coverage ratio (LCR) refers to highly liquid assets held by financial institutions in order to meet short-term obligations. Liquidity coverage ratio is designed to ensure that financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions. Banks are required to hold an amount of highly-liquid assets, such as cash or treasury bonds, equal to or greater than their net cash over a 30-day period (having at least 100% coverage)

Net stable funding ratio (NSFR): NSFR presents the proportion of long-term assets funded by stable funding and is calculated as the amount of Available Stable Funding (ASF) divided by the amount of Required Stable Funding (RSF) over a one-year horizon. This ratio must equal or exceed 100%.

Liquidity risk management system

Liquidity is the ability of a bank to generate funds for increasing assets and meet obligations as they come due without incurring the unacceptable cost. The key role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk.

Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behaviour. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system-wide repercussions.

Responsibility for managing and controlling liquidity of BBL lies with Asset Liability Management Committee (ALCO), which meets at regular intervals. 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 in the bank.

Policies and processes for mitigating liquidity risk

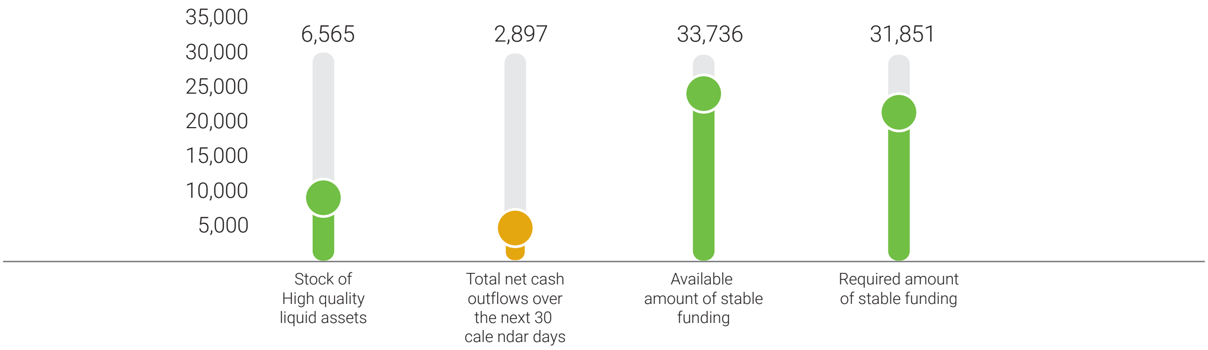
Asset Liability Management (ALM) is the core job and integral part of the bank's management. Changes in market liquidity and interest rate expose Bank's business to the risk of loss, which may, in extreme cases, threaten the survival of the institution. As such, it is important that the level of balance 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 guards the Bank against any unforeseen loss/threat of survival. The Asset Liability management policy was approved by the Board in August 2004. The policy is revised to accommodate regulatory and organisational change

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 put a recommendation for changes in policy to the Board for approval. The LRM Policy is guided by international best banking practices, local banking & regulatory environment and prudent guidelines of the central bank.

Quantitative Disclosures

b)Liquidity Coverage Ratio; Net Stable Funding Ratio (NSFR); Stock of High quality liquid assets; Total net cash outflows over the next 30 calendar days; Available amount of stable funding; Required amount of stable funding

Particular	Amount (BDT cr)
Liquidity coverage ratio	226.61%
Net stable funding ratio (NSFR)	105.92%
Stock of high quality liquid assets	6,564.52
Total net cash outflows over the next 30 calendar days	2,896.89
Available amount of stable funding	33,736.45
Required amount of stable funding	31,850.84



10. Leverage Ratio

Qualitative Disclosures

a) Views of BOD on system to reduce excessive leverage; Policies and processes for managing excessive on and off-balance sheet leverage; Approach for calculating exposure

Views of BOD on system to reduce excessive leverage

In order to avoid building-up excessive on - and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced. The leverage ratio is calibrated to act as a credible supplementary measure to the risk-based capital requirements

Banks have a range of financial incentives to operate with high leverage. But it creates risk when it crosses a certain point. Therefore, the Board views that sound prudential controls are needed to ensure that the organization maintains a balance between its debt and equity. The Board also believes that the Bank should maintain its leverage ratio on and above the regulatory requirements, which will eventually increase the public confidence in the organisation.

Policies and processes for managing excessive on and off balance sheet leverage

To manage excessive leverage, the Bank follows all regulatory requirements for capital, liquidity, commitment, advance-deposit ratio (ADR), maximum cumulative outflow (MCO), and other standards set by Bangladesh Bank. The aim is to ensure that the high leverage inherent in banking business models is carefully and prudently managed.

Approach for calculating exposure

BRAC Bank calculates leverage ratio on a quarterly basis as per the RBCA guideline of the Bangladesh Bank and submits it to the Department of Off-site Supervision (DOS), Bangladesh Bank, along with the CRAR report.

The leverage ratio reflects the bank's Tier 1 capital (the numerator) over total exposure (the denominator), which include its balance sheet exposures and certain off-balance sheet exposures. The capital measure for the leverage ratio is based on the Tier 1 capital.

The exposure measure for the leverage ratio follows the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the followings are applied by the Bank:

On-balance sheet, non-derivative exposures are net of specific provisions and valuation adjustments

Physical or financial collateral, guarantee or credit risk mitigation purchased is not considered to reduce on-balance sheet exposure

Netting of loans and deposits is not considered

Leverage Ratio=Tier 1 Capital (after related deductions)/Total exposure (after related deductions)

Quantitative Disclosures

b) Leverage Ratio; On balance sheet exposure; Off balance sheet exposure; Total exposure

Figures in BDT cr

Particular	Solo	Consolidated
Tier-1 Capital (considering all regulatory adjustments)	3,960.67	6,445.36
On- Balance Sheet Exposure	44,012.36	51,773.33
Off-Balance Sheet Exposure	3,920.16	3,920.16
Total Exposure	47,440.34	54,692.63
Leverage Ratio (Actual)	8.35%	11.77%
Leverage Ratio (Required)	3%	3%

11. Remuneration

Qualitative Disclosures

a) Information relating to the bodies that oversee remuneration. Disclosures must include:

(i) Name, composition and mandate of the main body overseeing remuneration:

The remuneration issues at BRAC Bank are overseen by the senior management. It comprises the Managing Director & CEO, the Deputy Managing Directors and the Divisional Heads.

Remuneration during joining:

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

Remuneration after joining:

Head of Human Resources along with concerned Functional Heads and senior management review the Remuneration of the bank from time to time and adjust it based on performance, the importance of the role and market benchmark.

Cost of living adjustment is given to the eligible employees as per bank's policy on an annual basis.

(ii) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;

N/A

(iii) A description of the scope of the Bank's remuneration Policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.

The remuneration policy of the bank covers all persons engaged in service of the bank. The salary structure of the bank is based on job grades. Job grades are decided on the basis of an analytic assessment of the position based on the size, responsibilities, decision-making authorities, nature and scope of the job.

(iv) A description of the types of employees considered as material risk takers and as senior managers including the number of persons in each group.

The bank has identified employees in key areas and functions whose impact on the risk profile of the Bank will always be material that includes the 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 senior management, extended management team and other department heads have been identified as senior managers and material risk-takers.

b)Information relating to the design and structure of remuneration processes:

(i) An overview of the key features and objectives of remuneration polic**y;**

BRAC Bank is committed to maintain 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 values for the bank and its shareholders over the time. We believe that well-established and clearly communicated core remuneration values drive fairness and consistency across our 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.

Bank has different job grades for various levels of employees. 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 BRAB 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
- Officer Grade I

Managing Director & CEO is not a permanent position. It is a fixed-term contractual position as per Bangladesh Bank's approval.

The monthly gross salary of an employee has the following components which may vary depending on employee's grades:

- Basic salary
- House rent
- Medical allowance
- Conveyance
- Festival bonus
- Leave fair allowance
- Others

Salaries are confidential between the employees concerned and the management. The salary ranges for these 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 basic. He/ she also receives leave fair allowance equal to one basic salary at the time of his annual mandatory leave. He/she may also receive performance bonuses/awards/grants, etc., as decided by the Board /Management of the bank from time to time.

(ii) Whether the Remuneration Committee reviewed the firms Remuneration policy during the past year, and if so, an overview of any changes that were made.

N/A

(iii) A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

Employees engaged in control functions (risk management, human resources, audit, compliance, etc.) are independent of 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);

N/A

(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 the variable compensation arrangements, through an integrated risk, finance, compensation and performance management framework.

The way in which each individual contributes to or impacts 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 a change in remuneration.

(iv) A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.

All measures remain unchanged during the past year.

d) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration :

(i) An overview of the main performance metrics for the Bank, top-level business lines and individuals;

- Based on the bank's profit, the Board, at their discretion, declare a certain percentage of the pre-tax profit as a performance bonus.
- The method of distribution is based on management discretion.
- No bonus will be applicable to the employees rating with needs improvement/unacceptable performance.
- Bonus is declared as per individual employee performance. The ratings and associated bonus amount is decided by the management committee.
- Performance is measured as per pre-defined criteria and set targets at the beginning of the year. Assessment is divided into two categories:
    - o A) Business objective
    - o B) Value-based objective
- Eligibility criteria are as follows:
    - o Confirmed employees joining within June 30 of the performing year and confirmed within December 31 of that year.
    - o However, the bonus will be calculated on pro rata basis based on the joining date for the rest of the calendar year.
- In case of a retired employee, he/she will be eligible for proportionate bonus subject to his/her stay for at least one quarter of the respective financial year

(ii) A discussion of how amounts of individual remuneration are linked to institution-wide and individual performance;

Though amounts of individual remuneration do not contain any direct formulaic link between business income and individual reward but in the case of variable remuneration, we always consider concerned division performance while assessing the employees attached to it. Differentiating performance and value ratings at all levels enable us to target spending towards those who have made the most effective contribution to the bank's performance and unique culture to recognise and motivate performers and retention of them.

(iii) A discussion of the measures in general implement to adjust remuneration in the event that performance metrics are weak.

N/A

e) Description of the ways in which the Bank seeks 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 persons or groups of persons, 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 after vesting through claw back arrangements.

N/A

f) Description of the different forms of variable remuneration that the Bank utilities and the rationale for using these different forms.

(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 persons or groups of persons), 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 recognize the annual performance of the non-sales employees 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 a monthly basis who meet established business goals, generate new business, and retain current customers.

Quantitative Disclosures

g)	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 December 31, 2021. No payment is made to Committee members for their membership of the committee.
h)	The number of persons having received a variable remuneration award during the financial year.	Employee No. 7,929 Total Amount: BDT 639,298,074
	Number and total amount of guaranteed bonuses awarded during the financial year.	Employee No. 7630 Total Festival Bonus: BDT 439,596,355
	Number and total amount of sign-on awards made during the financial year.	N/A
	Number and total amount of termination payments made during the financial year.	Employee No. 16 Termination Payments: BDT 1,166,552
i)	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	N/A
	Total amount of deferred remuneration paid out in the financial year.	N/A
j)	Breakdown of the amount of remuneration awards for the financial year to show:	
	Fixed and variable;	Fixed: BDT 5,718,841,963 Variable: BDT 639,298,074
	Deferred and non-deferred; and	N/A
	The different forms used (cash, shares and share-linked instruments and other forms).	N/A

k)	Quantitative information about persons' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:	
	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	N/A
	Total amount of reductions during the financial year due to ex post explicit adjustments.	N/A
	Total amount of reductions during the financial year due to ex post implicit adjustments.	N/A