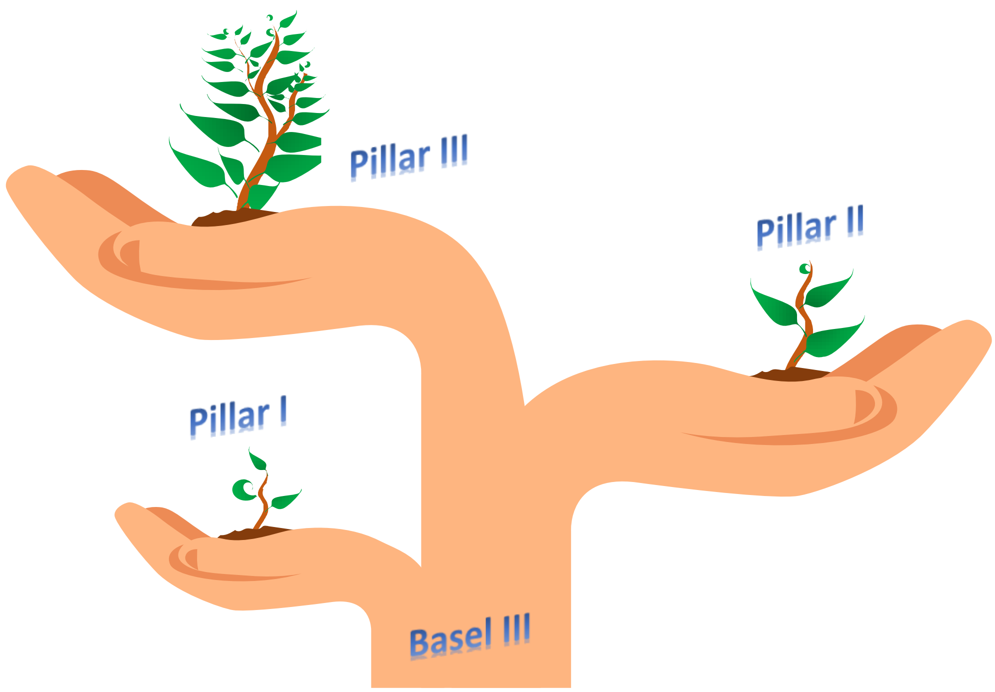
Disclosure on Risk Based Capital under Basel III

For the Year Ended on December 31, 2019



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

Background of the Market Discipline

Bank for International Settlements (BIS) came up with a new set of capital and liquidity standards in the name of Basel III. This standard came into existence to manage use of excessive leverage, gradual erosion of level and quality of capital base, insufficient liquidity buffer, pro-cyclicality and excessive interconnectedness among systematically important institutions. These factors are identified for reasons of bank failure. As a result, Bangladesh Bank, vide its BRPD Circular No.18 dated December 21, 2014, implemented 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 started in January 2015 and will continue till December 2019. As part of Basel-III compliance, Pillar III- Market Discipline is formulated with a view to establish more transparent and more disciplined financial markets so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. The purpose of Market Discipline is to 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 have formally entered into Basel III regime from 1st January 2015. The new capital and liquidity standards have greater business implications for banks. BRAC Bank Limited (BBL) has also adopted Basel III framework as part of its capital management strategy, in line with the revised guidelines. Under this framework, the bank has to maintain 2.5 percent additional capital buffer with the minimum capital requirement of 10%. Besides, in order to avoid building-up excessive on- and off-balance sheet leverage, the bank is required to maintain minimum 3 percent leverage ratio. Here, Leverage Ratio expresses total tier-I capital (after related deduction specified by BB) to total exposure i.e. on-balance sheet and off-balance sheet exposure (after related deduction 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 the stakeholders for better transparency and accountability.

Hence, to fulfill this objective, this Market Discipline disclosure under Basel III is made following 'Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for Banks in line with Basel III)' for banks issued by Bangladesh Bank in December 2014.

Consistency and Validation

The quantitative disclosures are made on the basis of consolidated audited financial statements of BBL and its Subsidiaries for the year ended on December 31, 2019 and prepared in accordance with the relevant International Accounting and Financial Reporting Standards and related circulars/instructions issued by Bangladesh Bank from time to time. The assets, liabilities, revenues and expenses of the subsidiaries are combined with those of the parent company (BBL), eliminating inter-company transactions. 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 complied with the requirements of the laws and regulations from various Government bodies

Assets of the subsidiaries were risk weighted and equities of subsidiaries were crossed out with the investment of BBL while consolidating. Therefore, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements 2019 of BBL and its Subsidiaries along with separate audited financial statements of the bank available on the website of the bank (www.bracbank.com). The report is prepared once a year and is available in the website

1. Scope of the Application

Qualitative Disclosure

Qualitative Disclosure

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

BRAC BANK

আস্থা অবিচল

Subsidiaries and Associates of the Bank

BRAC Bank Limited:

BRAC Bank Ltd. is one of the third generation private commercial banks (PCBs) which inaugurated its banking operation on 4th July, 2001 under the banking Companies Act 1991. The bank went for public issue of its shares in 2006 and its shares are listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited in 2007. At present, the bank has 120 Branches, 67 SME Krishi Branches/Service Centers, 456 SME unit offices, and 301 agent banking outlets in 61 districts across the country. Moreover, currently the bank has 424 ATM booths and 88 CDMs are in operation.

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

Subsidiaries: Subsidiaries' are entities controlled by the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The Bank has four subsidiary companies namely, BRAC EPL Investments Limited, BRAC EPL Stock Brokerage Limited, BRAC Saajan Exchange Limited (SWMTL) incorporated in UK, bKash_Limited.

i. <u>BRAC EPL Investments Limited (Subsidiary)</u>

BRAC Bank acquired 51% shares of Equity Partners Limited on 31 July 2009. This entity was incorporated in Bangladesh on 19 April 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 an additional 18.57% in 2016. During 2017, the bank acquired a further 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 works 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 managing initial public offerings, domestic and international placements, portfolio management and project development and consultancy.

ii. BRAC EPL Stock Brokerage Limited (Subsidiary)

BRAC Bank Limited acquired 51% shares of Equity Partners Securities Limited on 31 July 2009. Equity Partners Securities Limited was incorporated in Bangladesh on 16 May 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 additional 39% shares of EPL Stock Brokerage Limited. As a result, the bank's controlling interest has risen to 90% of EPL Stock Brokerage Limited.

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

iii. bKash Limited (Subsidiary)

BRAC Bank Limited formed bKash Limited, a private company limited by shares incorporated on 1 March 2010 under the Companies Act, 1994. bKash Limited was established to introduce mobile financial services in Bangladesh. The bank has obtained a license from Bangladesh Bank for bKash Limited for rendering mobile financial services. Notable, Alipay Singapore E- Commerce Private Limited (AliPay) invested in the equity of bKash Limited in 2018. BRAC Bank currently holds 51% equity shares in the company. Out of the remaining equity shares, 29% is held by Money in Motion LLC (a company listed in the US), 9.9% is held by International Finance Corporation (IFC), and the rest 10.1% is held by Alipay Singapore.

With the consent of all existing shareholders, in 2014, Bill & Melinda Gates Foundation (B&M) and in 2018, Alipay Singapore E-Commerce Private Limited ("Alipay") further invested in bKash Limited in the form of convertible preference shares. Out of the total 87,963 convertible preference shares, B&M holds 32,530 shares, and Alipay holds 55,433 shares. Preference shareholders do not have any voting rights but has same rights as equity shareholders with respect to economic interest in the company. These preference shares are convertible at a 1:1 basis to ordinary shares at the option of the preference shareholders. Consolidated financial statements have been prepared considering the potential dilution, or otherwise according to economic interest on bKash.

iv. BRAC SAAJAN Exchange Limited (Subsidiary)

BRAC Bank Limited acquired 75%+1 shares (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 two new branches in Luton and Bradford, 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 Limited was established to offer remittance and exchange services in the UK.

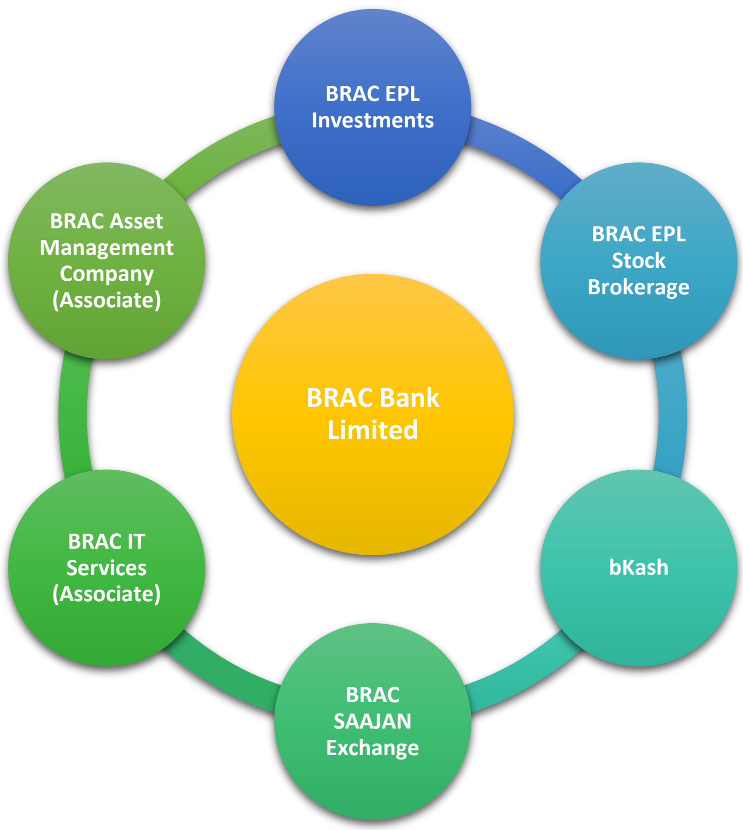
Qualitative Disclosure

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. was then formed in April 2013 through the merger of Documenta™ Ltd 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 9 April 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 disinvestment, BRAC IT Services Limited was converted as 'Associate' of the bank at the end of the year 2017, from a 'Subsidiary' status.

vi. BRAC Asset Management Company Limited (Associate)

BRAC Bank invested in the acquisition of 25% shares of BRAC Asset Management Company Limited that was incorporated in Bangladesh on 1 April 2010. However, the company could not commence its operations due to its license as an Asset Management Company was pending with Bangladesh Securities and Exchange Commission (BSEC). As BSEC did not accord the license, the Board decided to strike-off the company and liquidated it accordingly in early 2019.



	Consolidated financial statements include financial statements of BRAC Bank Limited 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.
c) Basis of Consolidation	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 to a common reporting year ended 31 December 2019.

Quantitative Disclosure

Quantitative		
	a) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	It does not hold here. The assets, liabilities, revenue and expenses of the subsidiaries are combined with the BBL's consolidated audited financial statement as of year ended December 31, 2019 which ensures the elimination of inter-company transactions, balances and intra-group gains on transactions between group companies.

2. Capital Structure

Qualitative Disclosure

Qualitative Disclosure		
	a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET1, Additional Tier 1 or Tier 2.	The Basel Committee raised the resilience of the banking sector by strengthening the regulatory capital framework, building on the three pillars of the Basel II framework. The reforms raised both the quality and quantity of the regulatory capital base and enhanced the risk coverage of the capital framework. The regulatory capital under Basel-III is composed of (I) Tier-1 (Going-concern Capital) and (II) Tier-2 (Gone-concern Capital). From regulatory capital perspective, going-concern capital is the capital which can absorb losses without triggering bankruptcy of the 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 categorized into two tiers: Tier 1 and Tier 2 Capital, as per the Risk Based Capital Adequacy Guideline of Bangladesh Bank. The components of total regulatory capital are enumerated as under:

Qualitative Disclosure

♦ Tier 1 Capital (going concern capital)

♦ Tier 2 Capital (gone concern capital)

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

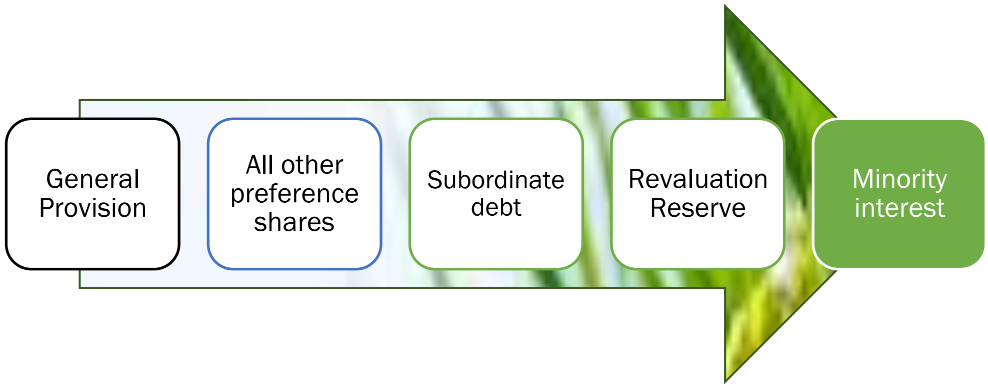
Common Equity Tier 1 (CET1):

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

<u>Additional Tier 1 (AT1):</u>

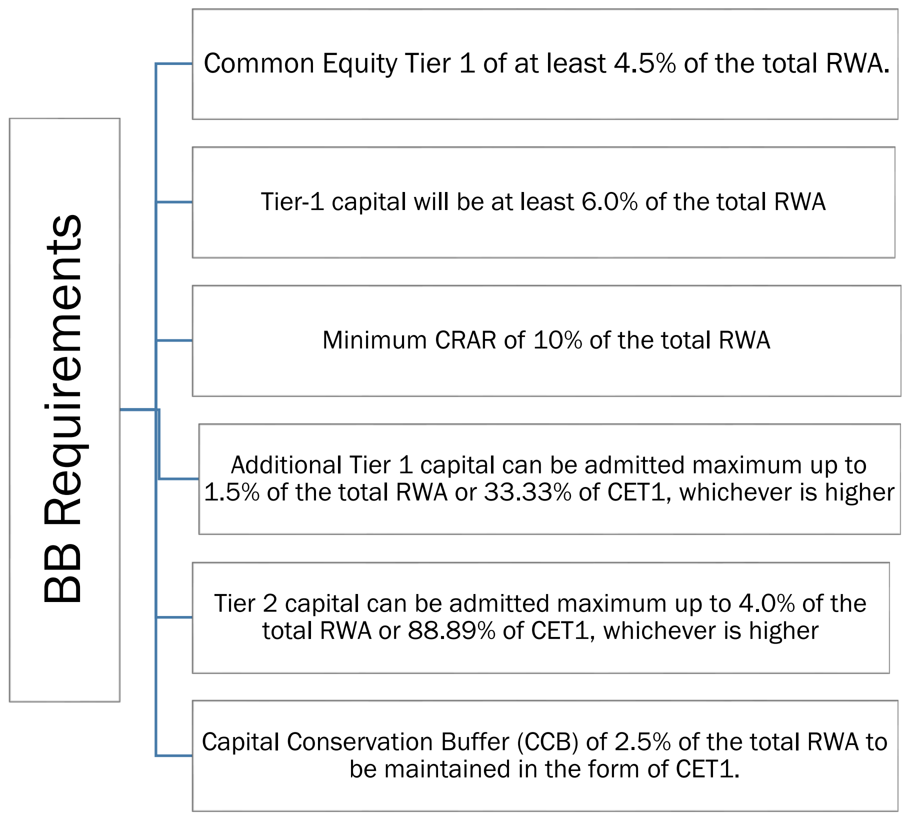
- Non-cumulative irredeemable preference share
- Instruments issued by banks that meet the qualifying criteria for AT1 (the instrument is perpetual i.e. no maturity date)
- Minority interest (AT1 issued by consolidated subsidiaries to the third parties)

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



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 follows:

	2015	2016	2017	2018	2019
Minimum Common Equity Tier-1 (CET-1) Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	-	0.625%	1.25%	1.875%	2.50%

Minimum CET-1 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

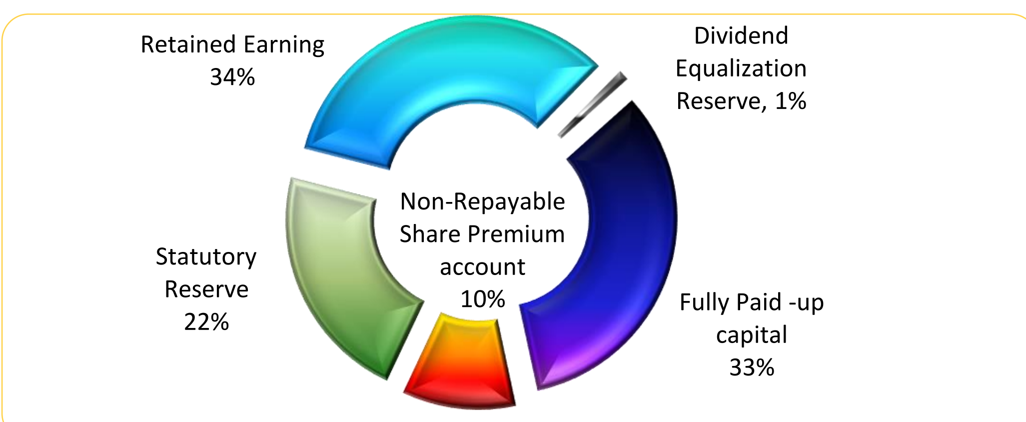
	Solo	Consolidated
Common Equity Tier-1(Going Concern Capital)		
Fully Paid -up Capital	12,333,753,270	12,333,753,270
Non-Repayable Share Premium account	3,853,767,032	3,853,767,032
Statutory Reserve	8,129,149,416	8,129,149,416
General Reserve	-	-
Retained Earning	12,378,804,260	15,230,405,214
Dividend Equalization Reserve	355,218,455	355,218,455
Minority Interests in Subsidiaries		6,081,237,821
Sub-total	**37,050,692,433**	**45,983,531,208**
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	866,851,705	3,239,953,793
Deferred Tax Assets (DTA)	2,400,156,912	3,010,745,120
Defined Benefit pension fund Assets	-	-
Gain On Sale Related to securitization Transactions	-	-
Investment in Own CET-1 Instruments/shares	-	-
Reciprocal Crossholdings in The CET-1 Capital of Banking, financing And insurance entities.	-	-
Any investment Exceeding the Approved Limit under section 26(2) Of Bank company act.	-	-

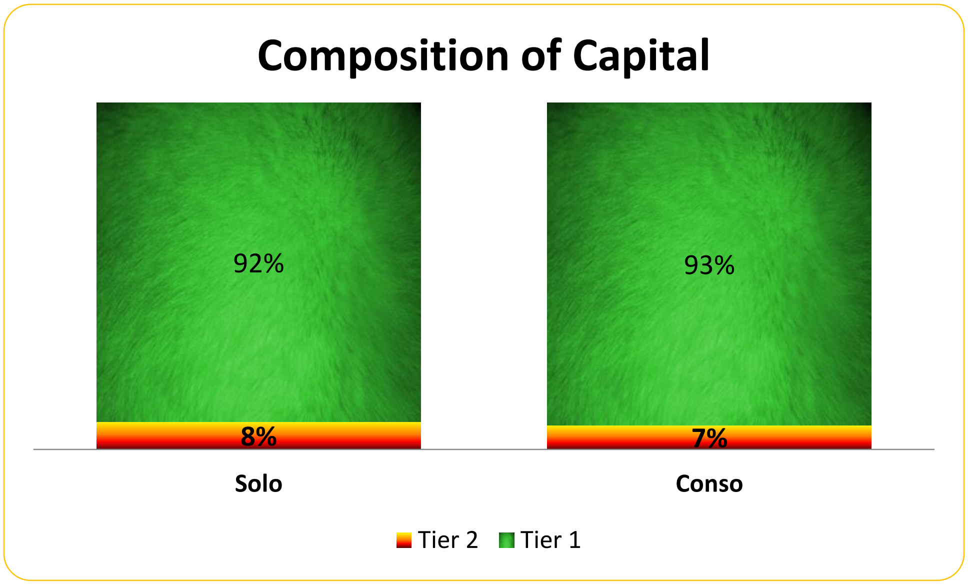
Quantitative Disclosure

1991(50% of investment)		
Investment of subsidiaries which are not Consolidated(50% of investment)	-	-
Sub-total	3,267,008,618	6,250,698,913
Total common equity Tier-1 capital	33,783,683,815	39,732,832,295
Additional Tier-1 Capital		
Non-Cumulative irredeemable Preference Shares	-	-
Instruments issued By the Banks that meet the qualifying Criteria For AT1	-	-
Minority Interest i.e. AT1 issued by Consolidated subsidiaries to third parties	-	-
Head Office Borrowing in foreign currency by Foreign Banks operation in Bangladesh for inclusion In Additional tier-1 capital which comply with the regulatory requirements	-	-
Others(If any item Approved By Bangladesh Bank)	-	-
Regulatory Adjustments	-	-
Investment in own AT-1 instrument/Shares	-	-
Reciprocal Crossholdings 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% Of the Total RWA or 33.33% of CET1, Whichever is higher)	-	-
Excess amount over maximum Limit Of AT-1	-	-
Total Admissible Tier-1 Capital	33,783,683,815	39,732,832,295
Tier-2 Capital (Gone-Concern Capital)		
General Provision	3,038,342,887	3,038,342,887
All other preference shares	-	-
Subordinated debt/Instruments issued by the 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 (HO) 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% Of Fixed Assets And Securities & 10% of equities)	346,502,408	346,502,408
Total	**3,384,845,295**	**3,384,845,295**
Regulatory Adjustments		
Revaluation Reserve For Fixed Assets and Security & equity securities	346,502,408	346,502,408
Investment in OWN T2 Instruments/Shares(as Per para 3.4.7 of Basel III Guidelines)	-	-
Reciprocal Crossholdings in The AT-2 Capital of Banking, financing And insurance entities.	-	-
Any investment Exceeding the Approved Limit under section 26(2) Of Bank company act. 1991(50% of investment)	-	-
Investment of subsidiaries which are not Consolidated(50% of investment)	-	-
Total Tier-2 Capital Available	3,038,342,887	3,038,342,887
Maximum limit of Tier-2 Capital(Tier-2 Capital can be maximum Up to 4% Of the Total RWA or 88.89% of CET1, Whichever is higher)	30,030,316,543	35,318,514,627
Excess amount over Maximum limit of T-2		
Total Admissible Tier-2 capital	**3,038,342,887**	**3,038,342,887**
Total Regulatory Capital	**36,822,026,702**	**42,771,175,182**

Tier 1 Components (Solo Basis)





3. Capital Adequacy

Qualitative Disclosure

Qualitative Disclosure

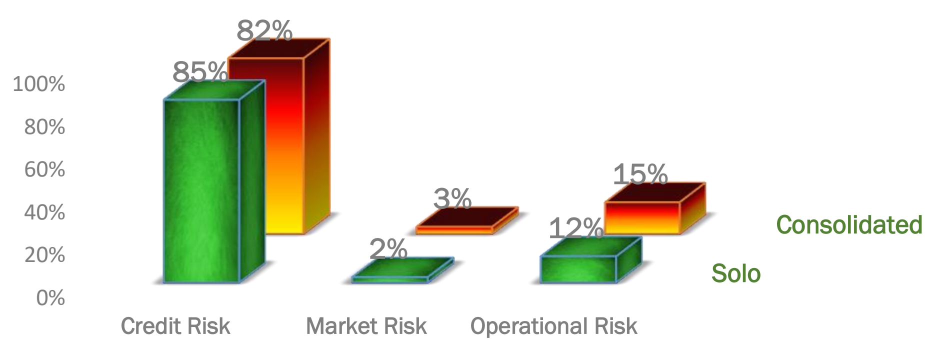
a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	BRAC Bank Limited with its focused strategy on risk management has always been consistent in maintaining capital adequacy ratio above the regulatory requirements. BRAC Bank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

Quantitative Disclosure

Quantitative Disclosure

Description	Solo	Consolidated
a) Capital requirement for Credit Risk	20,853,398,048	21,695,507,347
b) Capital requirement for Market Risk	603,876,079	868,134,221
c) Capital requirement for Operational Risk	2,982,842,062	3,896,136,823
Minimum Capital Requirement	**24,440,116,190**	**26,459,778,392**
d) Capital Ratio:		
CET 1 Capital	33,783,683,815	39,732,832,295
Total Tier 1 Capital	33,783,683,815	39,732,832,295
Total Tier 2 Capital	3,038,342,887	3,038,342,887
Total Capital	**36,822,026,702**	**42,771,175,182**
Total Risk Weighted Assets (RWA):	**244,401,161,899**	**264,523,446,093**
Capital to Risk Weighted Assets Ratio (CRAR)	15.07%	16.16%
Common Equity Tier-1 to RWA	13.82%	15.02%
Tier-1 Capital to RWA	13.82%	15.02%
Tier-2 Capital to RWA	1.24%	1.15%
Requirement for Capital Conservation Buffer (CCB)	**2.50%**	**2.50%**
Capital Conservation Buffer (CCB) Maintained	**5.07%**	**6.16%**

Capital Requirement under Pillar I



4. Credit Risk

Qualitative Disclosure

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

Qualitative Disclosure

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

Before approving any facility to a borrower, we follow a very robust and rigid credit assessment process. 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 on-board or not to on-board 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 thorough knowledge of factory / warehouse a visit report is prepared in this regard. Stock Verification Report is also prepared and record is kept in customer's file. The environmental and social aspects are also considered while opting for any lending decision.

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

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

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

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

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

<table>
<tr><th>Loan Type</th><th>Criteria of Classification Months</th><th>Classification Status</th><th>Criteria for Defaulter</th><th>Defaulter Status</th></tr>
<tr><td rowspan="5">Continuous Loan, Demand Loan & Fixed Term loan</td><td>PAST DUE < 2</td><td>STD</td><td rowspan="2">PAST DUE < 6</td><td rowspan="2">NO</td></tr>
<tr><td>2 ≥ PAST DUE <3</td><td>SMA</td></tr>
<tr><td>≥ 3 PAST DUE < 9</td><td>SS</td><td rowspan="2">PAST DUE ≥ 6</td><td rowspan="2">YES</td></tr>
<tr><td>≥ 9 PAST DUE < 12</td><td>DF</td></tr>
<tr><td>PAST DUE ≥ 12</td><td>BL</td><td colspan="2">Based on Past Due Period; not on Classification Status</td></tr>
<tr><td rowspan="4">Short Term Agricultural & Micro Credit (STAMC)</td><td>PAST DUE ≤ 12</td><td>STD</td><td rowspan="2">PAST DUE < 6</td><td rowspan="2">NO</td></tr>
<tr><td>12 > PAST DUE ≤ 36</td><td>SS</td></tr>
<tr><td>36 > PAST DUE ≤ 60</td><td>DF</td><td rowspan="2">PAST DUE ≥ 6</td><td rowspan="2">YES</td></tr>
<tr><td>60 > PAST DUE</td><td>BL</td></tr>
</table>

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

Provision for loans and advances is created for covering the bank from possible loan losses in the future. General provision is made on the outstanding amount of loans and advances without considering the classification status following the prescribed rate of Bangladesh Bank. Classified loans and advances of the banks are categorized as Sub-Standard, Doubtful and Bad/Loss as per Bangladesh Bank circulars. For loans which are classified as sub-standard, doubtful or bad/loss, specific provision is created netting off security value and interest suspense from the amount outstanding. Provision for off balance sheet items is made as per Bangladesh bank guidance. Latest BB circulars are followed diligently. Interest accrued on Sub-Standard, Doubtful and Bad/Loss loans is transferred to interest suspense account and not considered as interest income. This interest is recognized as interest income when it is realized in cash by the bank.

Loans and advances are written-off to the extent that (i) there is no realistic prospect of recovery and (ii) against which legal cases are filed and classified as bad and loss, as per BRPD circular no. 02, dated 13 January 2003 and 13, dated 07 November 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 Limited assesses whether there is objective evidence that a financial asset or a group of financial assets i.e. loans and advances, off balance sheet items and investments are impaired. A financial asset or groups of financial assets are impaired and impairment losses are incurred if there is objectives evidence of impairment as a result of a loss event that occur after the initial recognition of the asset up to the balance sheet date; the loss event had an impact on the estimated future cash flows of the financial assets or the group of financial assets; and a reliable estimate of the loss amount can be made. In the event of impairment loss, the bank reviews whether a further allowance for impairment should be provided in the profit and loss statement in addition to the provision made based on Bangladesh Bank guidelines or other regulatory requirements.

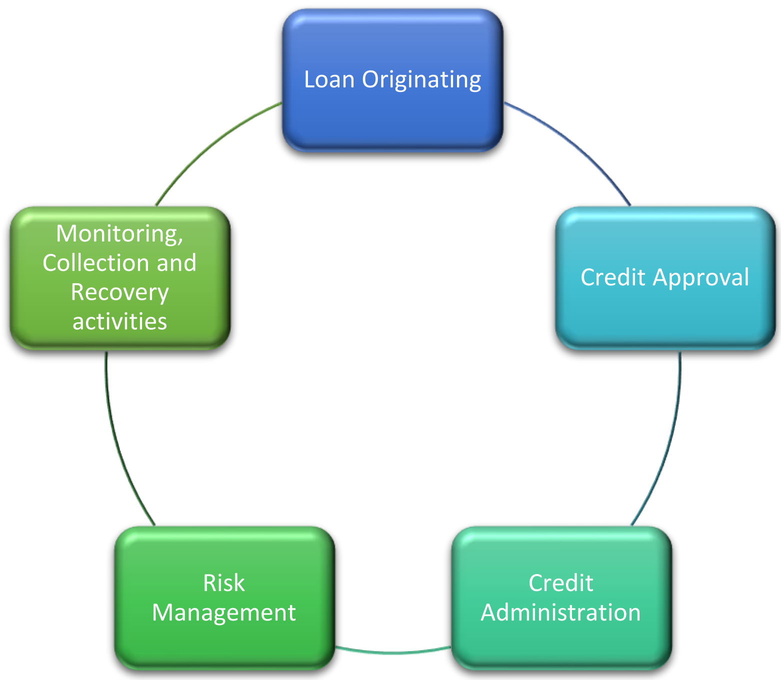
The bank is required to maintain the following general and specific provision in respect of classified and unclassified loans and advances / investments on the basis of Bangladesh Bank guidelines issued from time to time:

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	5%	5%	20%	50%	100%
Loans to BHs/ MBs against share etc.		2%	2%	20%	50%	100%
Small and medium enterprise		0.25%	0.25%	20%	50%	100%
Short term 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: As per Bangladesh bank's guideline, the bank follows Standardized Approach for measurement of credit risk adopting the credit rating agencies as External Credit Assessment Institutions (ECAI) for claims on banks and FIs, corporate and eligible SME customers, and Credit Risk Mitigation against the financial securities and guarantees of loan exposure.

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



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

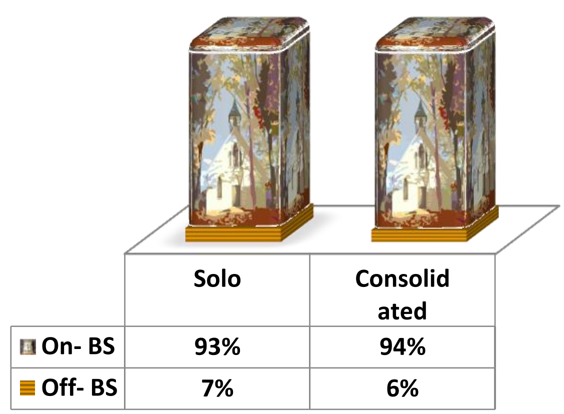
Credit Assessment and Grading: Know Your Client (KYC) is the first step to analyze any credit proposal. Banker-Customer relationship is established through opening of accounts of the customers. Proper introduction, photographs of the account holders/ signatories, passports etc., and all other required papers as per Bank's policy are obtained during account opening. Physical verification of customer address is done prior to credit appraisal. The entire process involves relationship teams of respective Asset Portfolio (Retail, SME and Corporate.) booking customer; 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 & environmental & social risk analysis of the Customer. Post-approval, the Credit Administration Department ensures compliance of all legal formalities, completion of documentation including security of proposed facility and finally disburses the amount. The above arrangement has not only ensured segregation of duties and accountability but also helps in minimizing 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 optimize the risk adjusted return from Bank's Loans and Advances by maintaining an appropriate standard in the underwriting process. However, the scope of BRAC Bank's CRM is not just limited to this. At BBL, a more holistic approach towards risk management is taken, where socioeconomic and environmental impacts of the decisions made are emphasized upon. This practice is the hallmark of BRAC Bank's credit risk management objective. We believe in development rather than growth, and sustainability rather than mere financial return from a transaction. We strive to create value rather than be the consumer of the value. To achieve this goal, we manage the credit risk inherent in the entire portfolio of the bank as well as the risks associated with individual credit proposals or transactions. We believe that the effective management of credit risk is a critical component of a comprehensive approach to risk management. In the last couple of years, BRAC bank has been focusing on adopting environmental risk management programs through the assistance, guidance, and/or requirements provided by various international DFIs as well as clearly articulated regulatory guidelines. Bringing in social and environmental risk assessment into the credit approval process contributes to the wellbeing of the society. Moreover, as the lion share of the total revenue of BRAC Bank Limited comes particularly through SME lending, so the future prospect of the bank depends on quality of its asset portfolio. Thus, efficient management of the Loans and Advances is of paramount importance for the bank.

There is a distributed collection model that consistently follows up with the borrowers for the timely repayments. A wing named 'Special Asset Management (SAM)' deals with nonperforming assets through amicable settlement, execution of decrees and arrangements of auctions to sell the mortgaged properties. SAM is also engaged to monitor Early Alert Accounts.

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

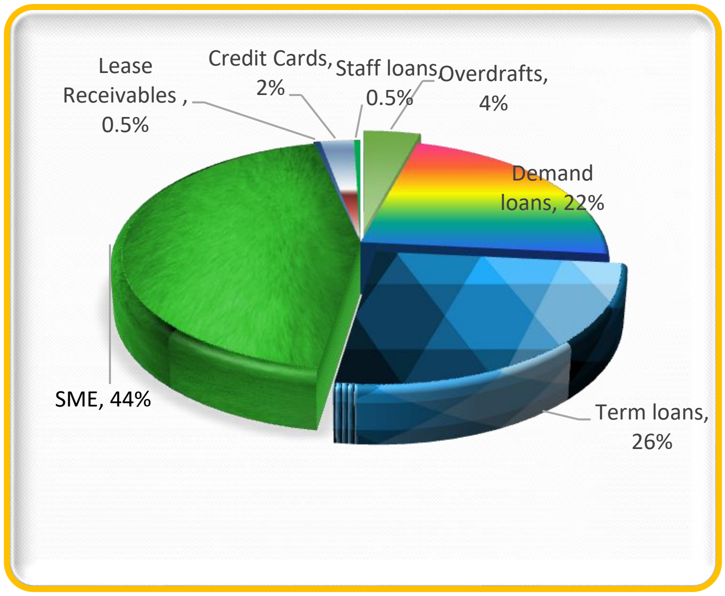
Risk Weighted Assets	Solo	Consolidated
Credit Risk	208,533,980,483	216,955,073,471
On- Balance sheet	194,647,674,409	203,068,767,397
Off- Balance sheet	13,886,306,074	13,886,306,074



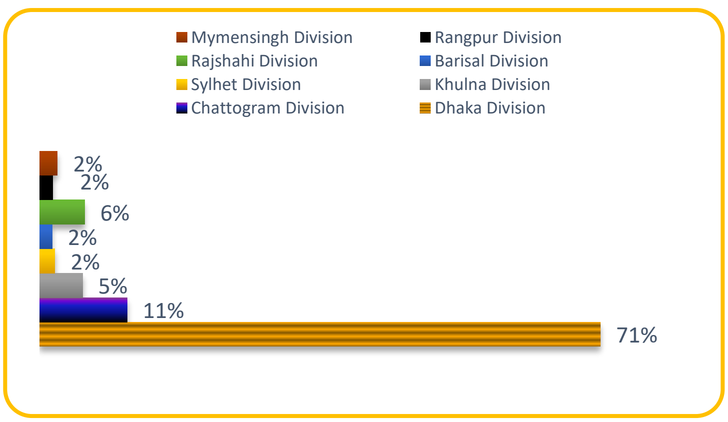
Quantitative Disclosure

Quantitative Disclosure

Particulars	Amount (BDT)
Overdrafts	11,041,108,274
Demand loans	58,163,426,570
Term loans	67,636,754,876
Lease Receivables	1,196,152,547
SME	114,908,783,595
Credit Cards	6,513,013,635
Staff loans	1,189,462,510
Sub-total	**260,648,702,007**
Bills purchased & discounted	3,377,055,483
Bills purchased & discounted SME	65,424,045
Total	**264,091,181,535**



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

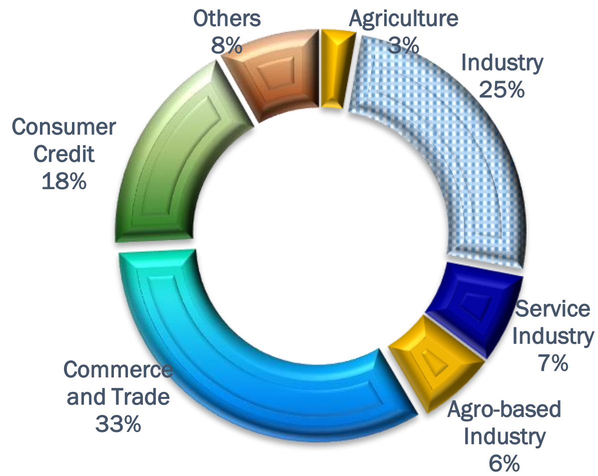


Particulars	Amount (BDT)
Dhaka Division	186,487,954,990
Chattogram Division	29,030,506,225
Khulna Division	14,242,680,886
Sylhet Division	5,055,738,666
Barisal Division	4,080,287,056
Rajshahi Division	14,911,823,429
Rangpur Division	4,406,771,972
Mymensingh Division	5,875,418,311
Total	**264,091,181,535**

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

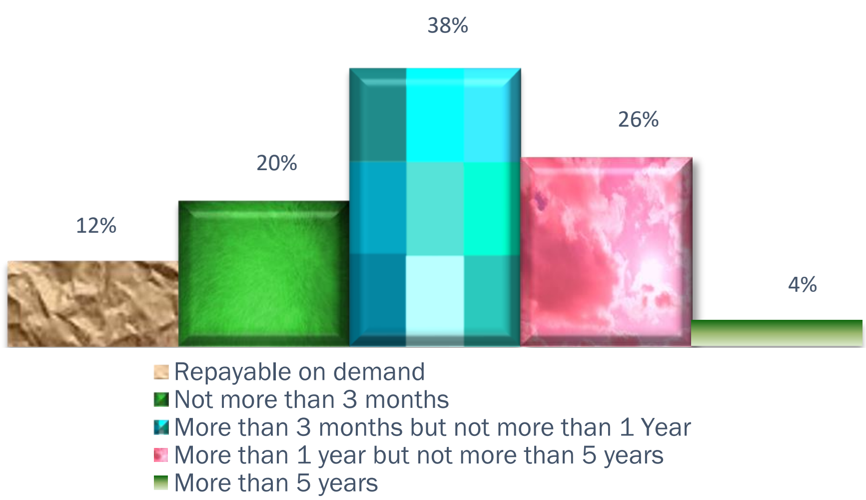
Quantitative Disclosure

Particulars	Amount (BDT)
Government:	
Private:	
Agriculture	7,355,079,033
Industry	66,642,073,578
Service Industry	19,127,728,491
Agro-based Industry	16,500,944,060
Commerce & Trade	86,380,155,855
Consumer Credit	46,379,540,717
Others	21,705,659,801
Total	**264,091,181,535**



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

Particulars	Amount (BDT)
Repayable on demand	30,978,836,660
Not more than 3 months	53,047,958,319
More than 3 months but not more than 1 Year	101,498,061,850
More than 1 year but not more than 5 years	69,178,658,776
More than 5 years	9,387,665,930
Total	**264,091,181,535**



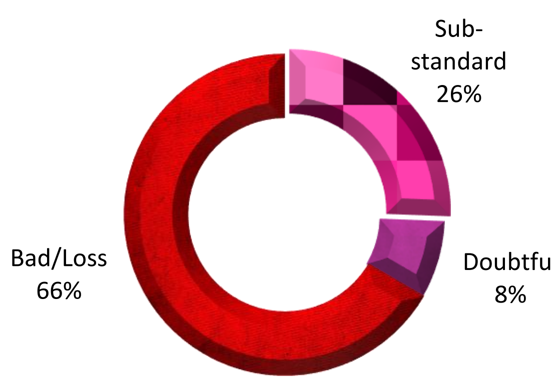
d) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure

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 & Advances 2019	Base for provision	(%) of required provision	Required Provision 2019
Unclassified				
All unclassified loans (Other than Small and Medium enterprise Financing, Consumer Financing, BHs/MBs/SDs, Housing and loans for professional*)	94,069,549,328	93,975,807,343	1%	939,758,073
Small and Medium enterprise financing	108,980,211,237	108,980,211,237	0.25%	272,450,528
Loans to BHs/MBs/SDs against share etc.	1,116,858,607	1,116,858,607	2%	22,337,172
Housing Finance**	15,000,112,175	15,000,112,175	1%	150,001,122
Loans for professionals to Set up business (LP)	3,487,957,725	3,487,957,725	2%	69,759,155
Consumer finance	20,596,456,550	20,596,456,550	5%	1,029,822,827
Consumer finance (Credit Card)	6,276,009,410	6,276,009,410	2%	125,520,188
Short Term Agricultural and Micro Credit	2,850,000,000	2,850,000,000	1%	28,500,000
Staff Loan	1,189,462,510	-	1%	939,758,073
Total	**253,566,617,542**	**252,283,413,048**		**2,638,149,065**
Classified - Specific provision				
Doubtful (Short Term Agricultural Credit)			5%	
Sub-standard	2,694,601,434	1,870,671,446	20%	374,134,289
Doubtful	821,333,869	545,483,406	50%	272,741,703
Bad/Loss	7,008,628,690	5,208,857,863	100%	5,208,857,863
Sub Total	10,524,563,993	7,625,012,714		**5,855,733,855**
Total	**264,091,181,535**	**259,908,425,762**		
Total Required provision for loans & advances				**8,493,882,920**
Total provision maintained				**8,727,490,175**
Excess/(Short) provision				**233,607,255**

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

f) Gross Non-Performing Assets (NPAs)



Write off Loans and advances	2019
Balance at the beginning of the year	11,301,120,152
Add: Write off during the year	817,090,492
	12,118,210,644
Less: Recovery of Write off loans	786,257,664
Less: No Claim (Interest Waiver)	120,126,897
Balance at the end of the year	**11,211,826,083**

5. Equities: Disclosure for banking book positions

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 categorized 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 are reported at cost. Unrealized gains are not recognized in the profit and loss statement. But required provisions are kept for diminution in value of investment.

♦ **Unquoted securities:** Investment in unlisted securities is reported at cost under 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 gain by selling them in future or held for dividend income. As per BRPD Circular no. 14 dated 25 June 2003 investments in quoted shares and unquoted shares are revalued at the year end at market price and as per book value of 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 recognized 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 held to maturity, other than those that meet the definition of 'Held at amortized cost others' are classified as held to maturity. These investments are subsequently measured at amortized cost, less any provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium in acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is de-recognized 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 recognized in the statement of income for the period in which it arises. Transaction costs, if any, are not added to the value of investments at initial recognition.

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

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	Amortized cost	Increased or decreased in value to equity
Government Treasury Bonds (HFT)	Cost	Marking to Market/ fair value	Loss to profit and loss a/c, gain to revaluation reserve
Government Treasury Bonds (HTM)	Cost	Amortized cost	Amortized Gain/ Loss to Revaluation reserve
Zero Coupon Bond		Cost	N/A
Prize Bond and Other Bond	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 A/c.

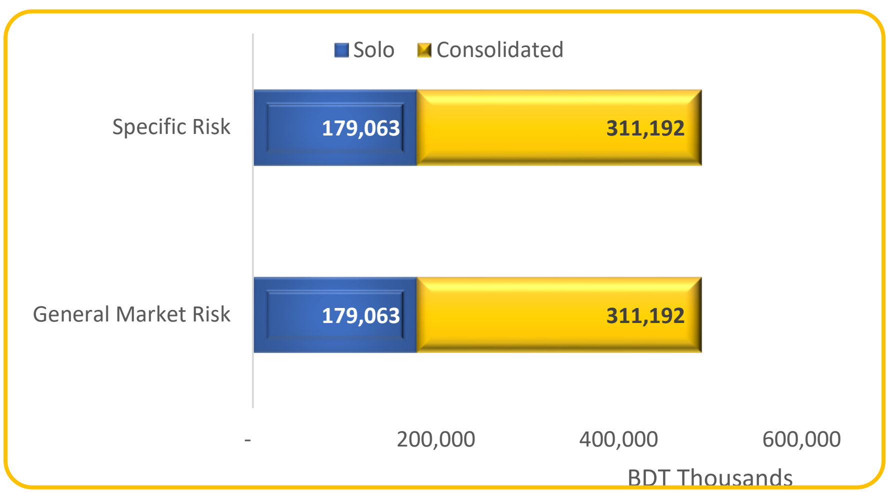
Quantitative Disclosure

Quantitative Disclosure

			Amount in Taka
Quoted Shares			
Particular	**Cost of holding**	**Market Value**	**Unrealized Gain**
Ordinary shares	2,477,322,459	1,790,628,155	(686,694,304)

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	12,497,600
VIPB Income Fund	86,805,000
VIPB Growth Fund	333,900,000
IDLC Balanced Fund	100,000,000
HFAML-ACME Unit Fund	20,000,000
Preference shares	
Union Capital Preference Share	10,000,000
Total	**599,164,190**

Required Capital Charge on Equities		
	Solo	**Consolidated**
General Market Risk	179,062,815	311,191,887
Specific Risk	179,062,815	311,191,887
Total Capital Charge	358,125,631	622,383,773



Qualitative Disclosure

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

Qualitative Disclosure

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

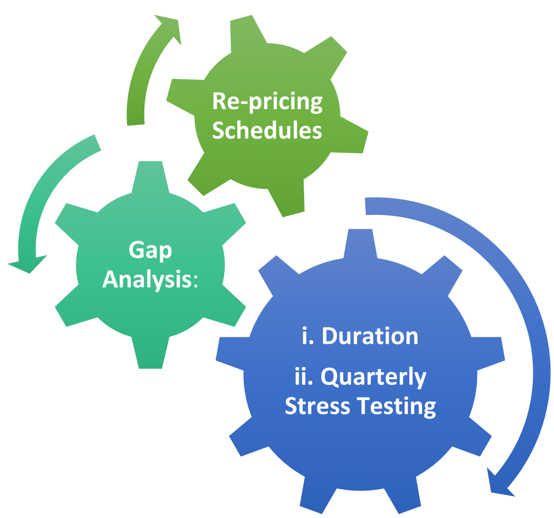
Interest rate risk affects the bank's financial condition due to adverse movements in interest rates of interest sensitive assets. Changes in interest rates have two types of impact:

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

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

In BRAC Bank Limited, the Asset & Liability Management (ALM) unit under the supervision of Asset and Liability Committee (ALCO) is responsible for managing market risk arising from BRAC Bank's banking book activities. Our interest rate risk management involves the application of four basic elements in the management of assets, liabilities, and OBS instruments.

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



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

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

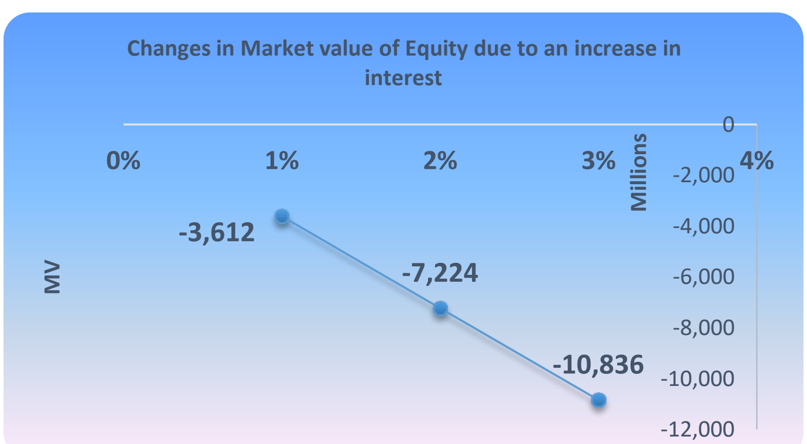
i. Duration: A maturity/re-pricing schedule is also used to evaluate the effects of changing interest rates on a bank's economic value by applying sensitivity weights to each time band. Typically, such weights are based on estimates of the duration of assets and liabilities that fall into each time band.

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

Quantitative Disclosure

Quantitative Disclosure

Particulars	Amount (BDT)		
Market Value of Assets	367,988,278,713		
Market Value of Liabilities	327,088,794,615		
Weighted Average of Duration of Assets (DA)	1.40%		
Weighted Average of Duration of Liabilities (DL)	0.36%		
Duration GAP (DA-DL)	1.08%		
Yield to Maturity (YTM -Assets)	10.05%		
Yield to Maturity (YTM -Liability)	4.64%		
Magnitude of Interest Rate Change	1%	2%	3%
Change in market value of equity due to an increase in interest rate	-3,612,045,181	-7,224,090,361	-10,836,135,542
Stress Testing			
Regulatory capital (after shock)	33,345,399,159	29,733,353,978	26,121,308,798
RWA (after shock)	237,756,085,094	234,144,039,913	230,531,994,732
CAR (after shock)	14.03%	12.70%	11.33%



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

7. Market Risk

Qualitative Disclosure

Qualitative Disclosure

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 profit from spreads between the bid and ask price are subject to market risk.

a) Views of BOD on trading/investment activities

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

Liquidity Contingency plan and the guidelines of Bangladesh Bank in respect of CRR, SLR & Capital Adequacy are also there to guide in the proper direction. We have the Asset Liability Committee (ALCO) responsible for overall balance sheet (asset liability) risk management. Treasury would be responsible for managing the balance sheet as per recommendation of ALCO to minimize risk and maximize returns. The committee would call on a meeting at least once in every month to set and review strategies on ALM. The ALCO process or ALCO meeting reviews the ALCO paper along with the prescribed agendas. Head of treasury would put his views on whether the interest rates need to re-priced whether the bank needs deposit or advance growth, whether the growth on deposits and advances would be on short term or long term, what would be the transfer price of funds among the divisions, what kind of interbank dependency the bank would have. Based on the analysis and views, the committee would take decisions to reduce balance sheet risk while maximizing profits.

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

b) Methods used to measure Market

There are several methods used to measure market risk and the bank uses those methods which deem fit for a particular scenario. For measuring interest risk from earnings perspective, the bank uses maturity gap analysis, Duration Gap analysis, Sensitivity Analysis. We use standardized (Rule Based) method for Calculating capital charge against market risks for minimum capital requirement of the bank under Basel-III.

c) Market Risk Management system

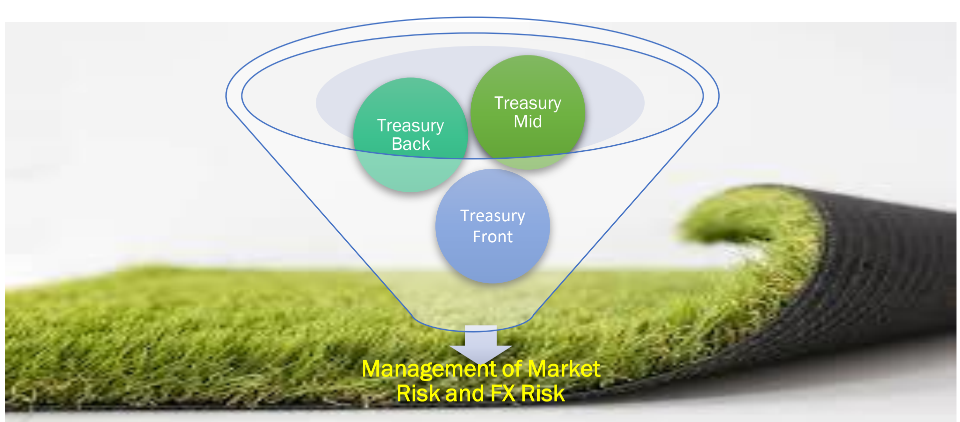
The Treasury Division manages market risk covering liquidity, interest rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the bank. ALCO is chaired by the Managing Director.

d) Policies and processes for mitigating market risk

i. **Asset Liability Management**: BRAC Bank Limited gives adequate emphasis so that the level of balance sheet risks is effectively managed. Appropriate policies and procedures have been established as per the guidelines of Bank's Board of Directors (BOD) including relevant circular guidelines of Bangladesh Bank to control and limit these risks and proper resources are available for the evaluation and control of these risks. The Asset Liability Committee (ALCO) of the bank monitors Balance Sheet and liquidity risk of the bank.

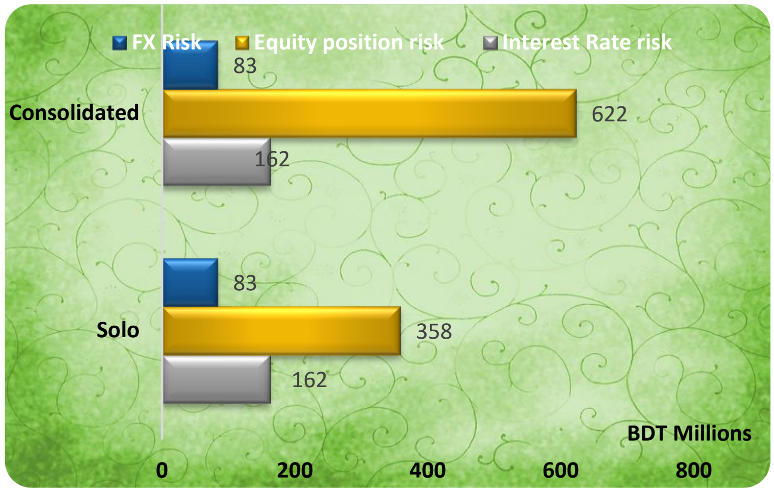
ii. Foreign Exchange Risk Management: Foreign exchange risk (also known as FX risk, exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency. The risk is that adverse fluctuations in exchange rates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

The bank maintains various Nostro accounts in order to conduct operations in different currencies. The management of the bank sets limits for conducting Nostro account transactions. All Nostro accounts are reconciled on monthly basis and outstanding entries are reviewed by the management for its settlement/ adjustment. The position maintained by the bank at the end of the day is within the stipulated limit prescribed by the central Bank. Changes in market liquidity and/or interest rate exposes Bank's business to the risk of loss. Treasury department is vested with the responsibility to measure and minimize the risk associated with bank's assets and liabilities including Foreign Exchange Risk. All Treasury functions are clearly demarcated between Treasury Front Office and Back Office. The Front Office is involved only in dealing activities while the Back Office is responsible for related support and monitoring functions. All the Treasury Front and Back Office personnel are guided as per Bangladesh Bank Core Risk Management guidelines. And they have separate and independent reporting lines to ensure segregation of duties and accountabilities. Dealing room is equipped with Reuter's information, voice screen recorder.



Quantitative Disclosure

Capital Charge for Market Risk	(Amount in BDT) Solo	Consolidated
Interest Rate risk	162,303,312	162,303,312
Equity position risk	358,125,631	622,383,773
Foreign Exchange risk	83,447,136	83,447,136
Commodity risk	0	0
Total	603,876,079	868,134,221



8. Operational Risk

Qualitative Disclosure

Qualitative Disclosure

Operation risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and system or from external events. This definition includes legal risk, but excludes strategic or reputation risk.

a) Views of BOD on system to reduce Operational Risk

The Board of Directors (BOD) of BRAC Bank Limited and its Management firmly believe that efficient management of operational risks always contribute to the earnings of the bank and at the same time secure the interest of its customers and shareholders. To materialize this understanding into reality, there are dedicated risk management associates across the bank that consistently work for managing the Operational Risks using effective tools and techniques implemented through polices and processes.

b) Performance gap of executives and staffs

The bank has proper mechanism in place to identify the scope of improvement of the employees and executives and work towards addressing them on time. Development of human resources is pivotal for optimum efficiency and hence, BBL's employees are given with numerous learning and capacity development programs throughout the year by best resources available within the country and abroad. To reduce knowledge gap and assist in the development of our personnel, user friendly Operations Manual have been developed and enclosed with functional processes for all employees who are the end users of these processes. This is a critical initiative for the Bank because having a mapped out process enables users to operate more efficiently, enhances knowledge amongst staff and fills in the lapses in operations. All the policies and processes address clear responsibilities and accountabilities of all employees.

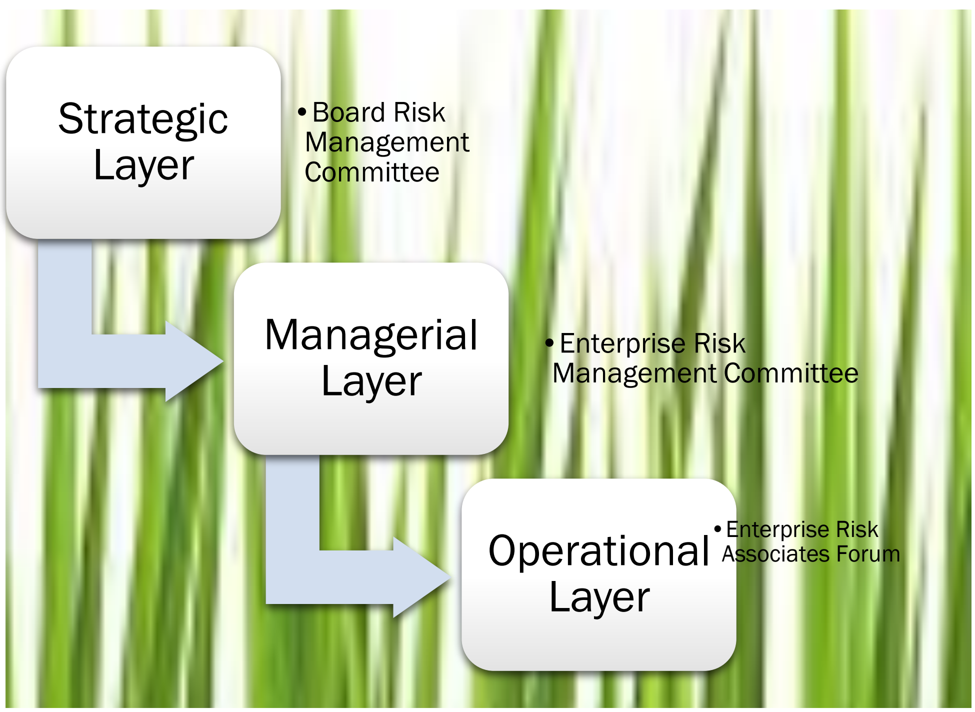
c) Potential external events

There are non-diversifiable external factors that can affect operations of the business directly or indirectly. BBL understand that business operates in an umbrella of inter connected socio-economic and political environment where macro-economic conditions, regulatory changes, change in demand, status of infrastructure have significant influence on bank's performance. The bank has separate mechanism to address such kind of events.

In BRAC Bank, a dedicated department under the Risk Management Division (RMD) consistently works in Operational Risk identification, assessment and implementing appropriate risk mitigation strategies across the bank. It helps to create awareness about various types of risks in pan bank and enhances management of significant risk exposures by escalating all risk issues timely and concisely to the MANCOM and Enterprise Risk Management Committee (ERMC). The team works in collaboration with all the departments in the bank for minimizing the Operational Risk exposures by collating information from key stakeholders of processes across all functions of the bank, Incident Reports, Potential Loss Reports, Internal Audit Reports, External Audit Reports and various other sources to identify gaps, risks, compliance and control failures to ensure reporting of significant risks and corporate governance issues.

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

d) Policies and processes for mitigating operational risk



Moreover, Internal Control and Compliance Division has key role in identifying and mitigating operational risk. This division works relentlessly under the guidance of Board Audit committee to manage operational risk issues of the bank. The audit committee delivers policies and directions from time to time to keep the operational efficiency of the bank up to the mark.

e) Approach for Calculating Capital Charges for Operational Risk

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

As per BIA, the capital charge for Operations Risk is a fixed percentage denoted by α (alpha) of average positive gross annual income of the bank over the past three years.

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

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)

α= 15%

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

Quantitative Disclosure

Quantitative Disclosure

Amount in Taka

	Solo			Consolidated		
Year	**Gross Income (GI)**	**Weight**	**15% of Average GI**	**Gross Income (GI)**	**Weight**	**15% of Average GI**
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
2017	18,675,785,175	15%	2,801,367,776	23,667,504,620	15%	3,550,125,693
	Average		2,982,842,062	Average		3,896,136,823
	Average Gross Income of three years			Average Gross Income of three years		
	19,885,613,750	15%	2,982,842,062	25,974,245,489	15%	3,896,136,823

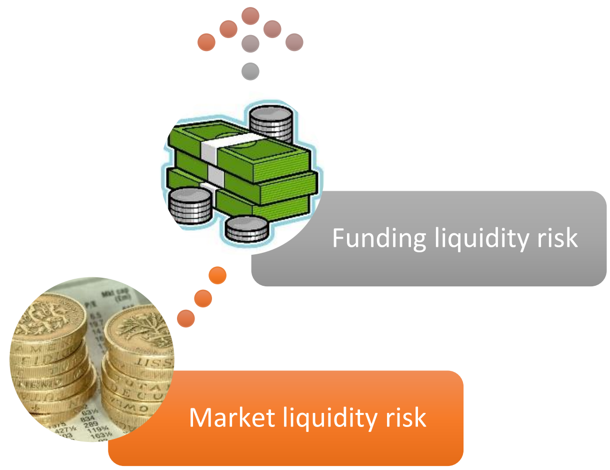
9. Liquidity Ratio

Qualitative Disclosure

Qualitative Disclosure

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

Types of Liquidity Risks

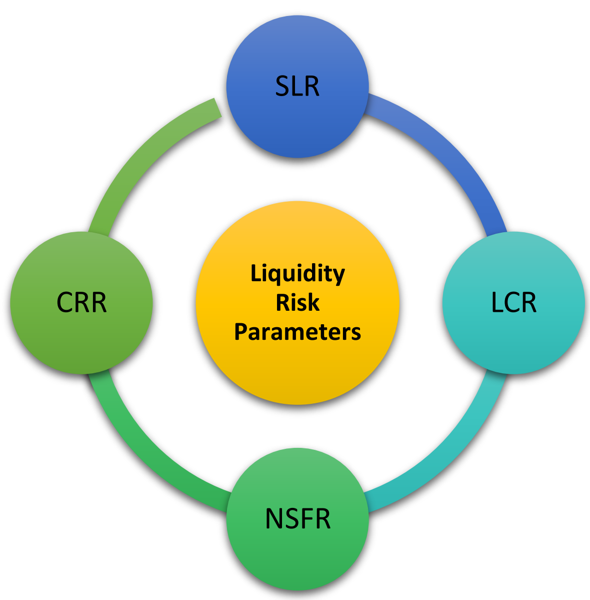


a) Funding liquidity risk: the risk that a firm will be unable to meet its current and future cash flow and collateral needs without affecting its daily operations or its financial condition

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.

a) Views of BOD on system to reduce liquidity Risk

BBL's Board of Directors have always been giving utmost importance to minimize the liquidity risk of the bank. In order to reduce liquidity risk strict maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) are also being emphasized on a regular basis. Apart from these as a part of Basel-III requirement Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are also maintained under the guidance and sharp insight of our honorable Board of Directors.



We follow Bangladesh Bank's Risk Based Capital Adequacy guideline in line with Basel III. We also follow DOS circular no. 1, dated 1st January, 2015, on Implementation of Basel III liquidity ratio. The calculation methodology is illustrated in detail in the guideline provided by Bangladesh Bank.

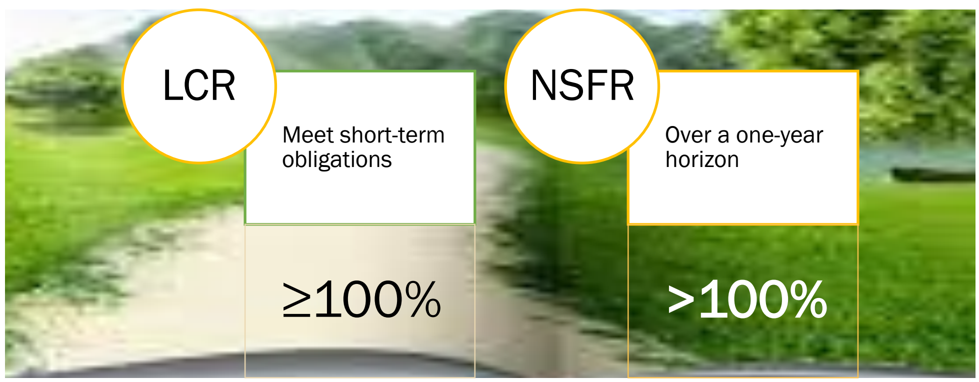
b) Methods used to measure Liquidity risk

Liquidity Coverage ratio:

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

Net stable funding ratio (NSFR):

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



c) Liquidity risk management system

Liquidity is the ability of a bank to generate fund for increasing assets and meet obligations as they come due, without incurring unacceptable cost. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes bank inherently vulnerable to liquidity risk. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior. Liquidity risk management is of paramount importance because a liquidity shortfall at single institution can have system-wide repercussions.

Responsibility of managing and controlling liquidity of BBL lies with Asset Liability Management Committee (ALCO) which meets at regular interval. Asset and Liability Management (ALM) desk closely monitors and controls liquidity requirements on a daily basis by appropriate coordination of funding activities and they are primarily responsible for management of liquidity in the bank.

d) Policies and processes for mitigating liquidity risk

Asset Liability Management (ALM) is the core job and integral part of Bank Management. Changes in market liquidity and in interest rate 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 balance sheet and guards the Bank against any unforeseen loss/threat of survival. The Asset Liability Management policy was approved by the Board in August 2004. The policy is revised to accommodate regulatory and organizational change.

The Board of Directors approve the LRM Policy. Asset Liability Committee (ALCO) reviews the policy at least annually or as and when required by taking into consideration of any changes in the market dynamics and appropriateness and put recommendation for changes in policy to the Board for approval. The LRM Policy is guided by international best banking practices, local banking & regulatory environment and prudent guidelines of the central bank.

Quantitative Disclosure

Quantitative Disclosure

Particular	As on December 31, 2019
Liquidity Coverage Ratio	218.19%
Net Stable Funding Ratio	110.01%
Stock of High quality liquid assets	61,230,492,344
Available amount of stable funding	306,095,771,864
Required amount of stable funding	278,231,020,643

10. Leverage Ratio

Qualitative Disclosure

Qualitative Disclosure

a) Views of BOD on system to reduce excessive leverage	In order to avoid building-up excessive on - and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. Banks have a range of financial incentives to operate with high leverage. But it creates risk when it crosses a certain point. Therefore, the board' views that sound prudential controls are needed to ensure that the organization maintains a balance between its debt and equity. The board also believes that the bank should maintain its leverage ratio on and above the regulatory requirements which will eventually increase the public confidence on the organization.
b) Policies and processes for managing excessive on and off-balance sheet leverage	BRAC Bank calculates leverage ratio on quarterly basis as per the RBCA guideline of the Bangladesh Bank and submits it to the Department of Off-site Supervision (DOS), Bangladesh Bank along with CRAR report. To manage excessive leverage, the bank follows all regulatory requirements for capital, liquidity, commitment, Advance Deposit Ratio (ADR), Maximum Cumulative Outflow (MCO), and other standards set by Bangladesh Bank. The aim is to ensure that the high leverage inherent in banking business models is carefully and prudently managed.
c) Approach for calculating exposure	Leverage ratio reflects the bank's tier 1 capital (the numerator) over total exposure (the denominator), which include its balance sheet exposures and certain off-balance sheet exposures. The capital measure for the leverage ratio is based on the Tier 1 capital. The exposure measure for the leverage ratio follows the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the followings are applied by the bank: 1. On balance sheet, non-derivative exposures are net of specific provisions and valuation adjustments 2. Physical or financial collateral, guarantee or credit risk mitigation purchased is not considered to reduce on-balance sheet exposure 3. Netting of loans and deposits is not considered. **Leverage Ratio**: Tier 1 Capital (after related deductions)/Total Exposure (after related deductions)

Quantitative Disclosure

Quantitative Disclosure

Particular	Solo	Consolidated
Tier-1 Capital (considering all regulatory adjustments)	**33,783,683,815**	**39,732,700,656**
On- Balance Sheet Exposure	361,923,645,089	408,858,385,336
Off-Balance Sheet Exposure	38,260,779,245	38,260,779,245
Total Exposure	396,917,415,716	440,868,465,668
Leverage Ratio	8.51%	9.01%

11. Remuneration

Qualitative Disclosure

Qualitative Disclosure

a) Information relating to the bodies that oversee remuneration:

i. Name, composition and mandate of the main body overseeing remuneration	The remuneration issues in 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 head and Senior Management review the Remuneration of the Bank from time to time and adjust it based on performance, importance of the role and market benchmark. Cost of living adjustment is given to the eligible employees as per Bank's policy on yearly basis.
ii. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.	"Cerebrus" – a renowned consulting firm was appointed to conduct a full fledge Remuneration and Benefit survey. The consultant firm was commissioned with the recommendation from Head of HR along with the consent of MD & CEO
iii. A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches	The remuneration policy of the bank covers all persons engaged in service of the bank. The Salary structure of the Bank is based on Job Grades. Job grades are decided on the basis of an analytic assessment of the position based on the size, responsibilities, decision-making authorities, 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 employees 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 policy.

BRAC Bank is committed to maintain fair, competitive and performance-oriented remuneration policies and practices that align with 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, Board of Directors have the authority to approve and amend the policy.

The remuneration policy of the Bank cover all persons engaged in permanent service of the Bank.
Bank has different Job Grades for various levels of employee. Job grade is decided on the basis of an analytic assessment of the position based on the size, responsibilities, decision-making authorities, nature and scope of the job.

THE FOLLOWING ARE THE JOB GRADES OF BRAC BANK LIMITED:

- 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.

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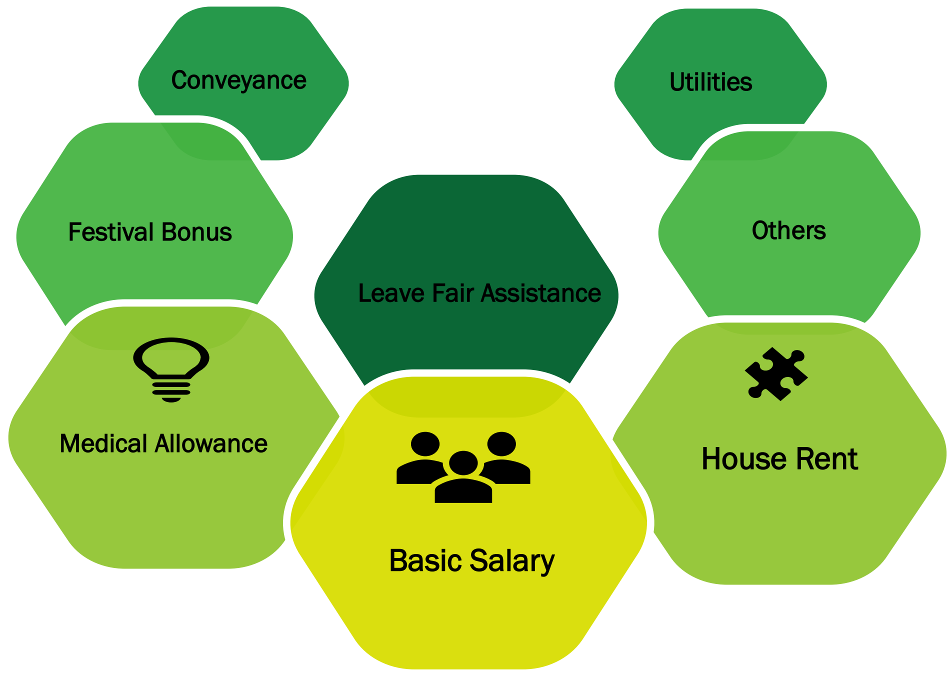
THE MONTHLY GROSS SALARY OF AN EMPLOYEE HAVE THE FOLLOWING COMPONENTS:



Salaries are confidential between the employees concerned and the Management. The salary ranges for these job grade is reviewed from time to time by the management committee and approved by the Board of Directors.

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 bonus/awards/grants etc. as decided by the Board of Directors/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 has been reviewed comprehensively and amendments have been done accordingly. Few new benefits are also introduced.
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 the 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 of Directors at their discretion declare a certain percentage of the pre-tax profit as Performance Bonus. ▪ The method of distribution is based at Management discretion. ▪ No bonus will be applicable to the employees rating with needs improvement/unsatisfactory performance. ▪ Bonus is declared as per individual employee performance. The ratings and associated bonus amount is decided by the Management Committee. ▪ Performance is measured as per pre-defined criteria and set targets at the beginning of the year. Assessment is divided in two categories: A) Business Objective B) Value based objective. BRAC Bank believes in Value based performance assessment which not only expects desired performance from the employee but also ensure that his/her value system towards organization and his/her job is also up to the mark.

	Eligibility criteria are as follows: ▪ Confirmed Employees joined within 30th June of the performing year and confirmed within 31st December 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 but in 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 spend towards those who have made the most effective contribution to the bank's performance and unique culture to recognize and motivate performers and retention of them

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 recognize 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 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 2019. No payment is made to Committee members for their membership of the Committee.

b)

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

Employee No. 7784
Total Amount: BDT 650,088,886

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

Employee No. 8000
Total Festival Bonus: BDT 346,857,042

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:

Employee No. 6
Termination Payments: BDT 316,762

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 4,635,298,503
Variable: BDT 650,088,886

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