

# **AB Bank Limited**

## **Disclosures on Risk Based Capital (Basel III) based on 31 December 2015**

These disclosures have been made in accordance with the Bangladesh Bank BRPD Circular no. 18 of 21 December 2014 as to Guidelines on 'Risk Based Capital Adequacy for Banks' in line with Basel III.

### **1. Capital Adequacy under Basel-III**

To cope with the international best practices and to make the Bank's capital more risk sensitive as well as more shock resilient, 'Guidelines on Risk Based Capital Adequacy (RBCA) for Banks' (Revised regulatory capital framework in line with Basel III) have been introduced from January 01, 2015. The guidelines were issued by Bangladesh Bank (BB) under section 13 and section 45 of the Bank Company (Amendment up to 2013) Act, 1991.

Basel III guidelines are structured on the following aspects:

- a) Minimum capital requirements to be maintained by a Bank against credit, market, and operational risks.
- b) Process for assessing the overall capital adequacy aligned with risk profile of a Bank as well as capital growth plan.
- c) Framework of public disclosure on the position of a Bank's risk profiles, capital adequacy, and risk management system.

### **2. Scope of application**

Basel III guidelines apply to all scheduled banks on 'Solo' basis as well as on 'Consolidated' basis where-

- Solo Basis refers to all position of the bank and its local and overseas branches/offices; and
- Consolidated Basis refers to all position of the bank (including its local and overseas branches/offices) and its subsidiary company(ies) engaged in financial (excluding insurance) activities like merchant banks, brokerage firms, discount houses, etc. (if any).

**AB Bank followed the scope narrated above. Bank has Tier 1 Capital (Going concern) and tier 2 Capital (Gone concern) structure at the moment.**

### **3. Capital base**

Regulatory capital has been categorized into following way:

- 1) Tier 1 Capital (going-concern capital)
  - a) Common Equity Tier I
  - b) Additional Tier I
- 2) Tier 2 Capital (Gone concern)

#### **1. (a) Common Equity Tier 1 Capital**

For the local banks, Common Equity Tier 1 (CET1) capital shall consist of sum of the following items:

- a) Paid up capital
  - b) Non-repayable share premium account
  - c) Statutory reserve
  - d) General reserve
  - e) Retained earnings
  - f) Dividend equalization reserve
  - g) Minority interest in subsidiaries
- Less: Regulatory adjustments applicable on CET1

#### **1. (b) Additional Tier 1 Capital**

For the local banks, Additional Tier 1 (AT1) capital shall consist of the following items:

- a) Instruments issued by the banks that meet the qualifying criteria for AT1 as specified at Annex4.
  - b) Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties (for consolidated reporting only);
- Less: Regulatory adjustments applicable on AT1 Capital

## 2. Tier 2 Capital

Tier 2 capital, also called 'gone-concern capital', represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank. For the local banks, Tier 2 capital shall consist of the following items:

- a) General Provisions; (General provisions/general loan-loss reserve eligible for inclusion in Tier 2 will be limited to a maximum 1.25 percentage points of credit risk-weighted assets calculated under the standardised approach)
  - b) Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital;
  - c) Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties as specified
- Less: Regulatory adjustments applicable on Tier-2 capital;

## 4. Limits (Minima and Maxima)

These instructions will be adopted in a phased manner starting from the January 2015, with full implementation of capital ratios from the beginning of 2019. Banks will be required to maintain the following ratios on an ongoing basis:

- a) Common Equity Tier 1 of at least 4.5% of the total RWA.
- b) Tier-1 capital will be at least 6.0% of the total RWA.
- c) Minimum CRAR of 10% of the total RWA.
- d) Additional Tier 1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher
- e) Tier 2 capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher
- f) In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.5% of the total RWA is being introduced which will be maintained in the form of CET1.

### Following is the phase-in arrangement for the implementation of minimum capital requirements

Phase-in arrangement of minimum capital requirements

	2015	2016	2017	2018	2019
Minimum Common Equity Tier-1 Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	-	0.63%	1.25%	1.88%	2.50%
Minimum CET-1 plus Capital Conservation Buffer	4.5%	5.13%	5.75%	6.38%	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%	10.63%	11.25%	11.88%	12.50%

## 5. Capital Conservation Buffer

Banks are required to maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 capital, above the regulatory minimum capital requirement of 10%. Banks should not distribute capital (i.e. pay dividends or bonuses in any form) in case capital level falls within this range. However, they will be able to conduct business as normal when their capital levels fall into the conservation range as they experience losses. Therefore, the constraints imposed are related to the distributions only and are not related to the operations of banks. The distribution constraints imposed on banks when their capital levels fall into the range increase as the banks' capital levels approach the minimum requirements. The Table below shows the minimum capital conservation ratios a bank must meet at various levels of the Common Equity Tier 1 capital ratios.

### Bank's minimum capital conservation standards

CET-1 Ratio	Minimum Capital Conservation Ratio (expressed as percentage of earnings)
4.5% - 5.125%	100%
5.75%	80%
6.375%	60%
7.0%	40%
>7.0%	0%

## 6 Regulatory Adjustments / Deductions

In order to arrive at the eligible regulatory capital for the purpose of calculating CRAR, banks are required to make the following deductions from CET1/Capital:

- Shortfall in provisions against NPLs and Investments
- Goodwill and all other Intangible Assets
- Deferred tax assets (DTA)
- Defined benefit pension fund assets
- Gain on sale related to securitization transactions
- Investment in own shares
- Investments in the Capital of Banking, Financial and Insurance Entities
- (Reciprocal crossholdings in the Capital of Banking, Financial and Insurance Entities)

### Transitional Arrangements for Capital Deductions

Currently, 10% of revaluation reserves for equity instruments and 50% of revaluation reserves for fixed assets and securities are eligible for Tier 2 capital. However, Bangladesh Bank, in the light of Basel III proposals, has harmonized deductions from capital which will mostly be applied at the level of Tier 2. The regulatory capital adjustment will start in a phased manner from January, 2015 in the following manner:

Transitional Arrangements for Capital Deductions

Phase-in of deductions from Tier 2	2015	2016	2017	2018	2019
RR for Fixed Assets	20%	40%	60%	80%	100%
RR for Securities	20%	40%	60%	80%	100%
RR for Equity Securities	20%	40%	60%	80%	100%

**Bank complied with the conditions as embodied in this respect wherever applicable.**

## 7. Leverage Ratio

A minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level

The banks will maintain leverage ratio on quarterly basis. The calculation at the end of each calendar quarter will be submitted to BB showing the average of the month end leverage ratios based on the following definition of capital and total exposure.

$$\text{Leverage Ratio} = \frac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$$

### Transitional Arrangements

The parallel run period for leverage ratio will commence from January, 2015 and run until December 31, 2016. During this period, the leverage ratio and its components will be tracked to assess whether the design and calibration of the minimum tier 1 leverage ratio of 3% is appropriate over a credit cycle and for different types of business models, including its behavior relative to the risk based requirements.

Bank level disclosure of the leverage ratio and its components will start from January 1, 2015. However, banks should report their Tier 1 leverage ratio to the BB (Department of Off-Site Supervision) along with CRAR report from the quarter ending March, 2015. Based on the results of the parallel run period, any final adjustments to the definition and calibration of the leverage ratio will be made by BB in 2017, with a view to setting the leverage ratio requirements as a separate capital standard from January 1, 2018.

**Bank complied with the conditions as embodied in this respect wherever applicable.**

## 8. a) Credit Risk

Credit risk is the potential that a bank borrower or counterparty fails to meet its obligation in accordance with agreed term.

**Bank followed the suggested methodology, process as contained in the Guidelines.**

### b) Methodology

Bangladesh Bank adopted Standardized Approach for calculating Risk Weighted Assets. The capital requirement for credit risk is based on the risk assessment made by external credit assessment institutions (ECAIs) recognized by BB for capital adequacy purposes. Banks are required to assign a risk weight to all their on-balance sheet and off-balance sheet exposures. Risk weights are based on external credit rating (solicited) which was mapped with the BB rating grade or a fixed weight that is specified by Bangladesh Bank.

### c) Credit Risk Mitigation

AB Bank uses a number of techniques to reduce its credit risk to which the Bank is exposed. For example, exposures may be collateralized by first priority claims, in whole as in part with cash or securities, a loan exposure may be guaranteed by a third party. Additionally, Bank may agree to net loans owed to them against deposits from the same counterparty.

Bank uses Comprehensive Approach as adopted by the Central Bank. In this approach when taking collateral, Bank will need to calculate adjusted exposure to a counterparty for capital adequacy purposes in order to take account of the effects of that collateral. Using haircut, Bank is required to adjust both the amount of the exposure to the counterparty and the value of any collateral received in support of that counterparty to take account of possible future fluctuations in the value of either, occasioned by market movements. This will produce volatility adjusted amounts for both exposure and collateral.

**9. a) Market Risk**

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The market risk positions subject to this requirement are:

- i) The risks pertaining to interest rate related instruments and equities in the trading book; and
- ii) Foreign exchange risk and commodities risk throughout the bank (both in the banking and in the trading book).

**b) Methodology**

In Standardized Approach, the capital requirement for various market risks (interest rate risk, equity price risk, commodity price risk, and foreign exchange risk) is determined separately. The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. The methodology to calculate capital requirement under Standardized Approach for each of these market risk categories is as follows:

- a) Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk.
- b) Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk.
- c) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk
- d) Capital Charge for Commodity Position Risk = Capital Charge for General Market Risk

**Bank followed the suggested methodology, process as contained in the Guidelines.**

**10. a) Operational Risk**

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

**b) Measurement Methodology**

Banks operating in Bangladesh shall compute the capital requirements for operational risk under the Basic Indicator Approach (BIA). Under BIA, the capital charge for operational risk is a fixed percentage, denoted by (alpha), of average positive annual gross income of the bank over the past three years. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator when calculating the average.

**Bank followed the suggested methodology, process as contained in the Guidelines.**

**11. Disclosure under Pillar III**

Disclosure given below as specified by RBCA Guidelines dated 21 December 2014:

**A) Scope of Application**

**Qualitative Disclosure**

<b>(a)</b> The name of the top corporate entity in the group to which this guidelines applies.	<b>AB Bank Limited</b>
<b>(b)</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 (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	The consolidated financial statements of the Bank include the financial statements of (a) AB Bank Limited (b) AB Investment Limited (c) AB Securities Limited (d) Cash Link Bangladesh Limited (e) AB International Finance Limited and (f) AB Exchange (UK) Limited. A brief description of these are given below: <b><u>AB Bank Limited (ABBL)</u></b> AB Bank Limited is one of the first generation private commercial banks (PCBs), incorporated in Bangladesh on 31 December 1981 as a public limited company under the Companies Act 1913, subsequently replaced by the Companies Act 1994, and governed by the Bank Company (Amendment upto 2013) Act 1991. The Bank went for public issue of its shares on 28 December 1983 and its shares are listed with Dhaka Stock Exchange and Chittagong Stock Exchange respectively. AB Bank Limited has 101 Branches including 1 Islami Banking Branch, 1 Overseas Branch in Mumbai, India. The Bank has six (06) subsidiary companies, AB Investment Limited (ABIL), AB Securities Limited (ABSL), CashLink Bangladesh Limited (CBL), AB International Finance Limited (ABIFL), incorporated in Hong Kong, AB Exchange (UK) Limited (ABEL) and Arab Bangladesh Bank Foundation (ABBF).

<p><b>(b)</b> Continued..</p>	<p><b><u>AB Investment Limited</u></b>  AB Investment Limited (ABIL), a Subsidiary of AB Bank Limited was incorporated under the Companies Act, 1994 on 24 December 2009 with a view to run and manage the operations of Merchant Banking Wing of AB Bank Limited independently. AB Investment Limited started its operation on 10 March 2010. AB Investment Limited has achieved an unparalleled reputation as a leading Merchant Banker through providing portfolio management services by maintaining a high level of professional expertise and integrity in client relationship. ABIL's Registered Office is located at WW Tower (Level 7), 68 Motijheel C.A., Dhaka. ABIL has two branch offices at Agrabad, Chittagong and Chowhatta, Sylhet.</p> <p><b><u>AB Securities Limited</u></b>  Brokerage business of Arab Bangladesh Bank Foundation has been transferred to the newly formed AB Securities Limited (ABSL) vide Bangladesh Bank approval letter BRPD(R-1)717/2009-493 dated 08 November 2009. Main objective of the company is to act as a stock broker to buy and sell Securities, Bond, Debenture, etc. on behalf of clients. ABSL also manages its own portfolio under Stock Dealer License. ABSL is a member of both Dhaka Stock Exchange Ltd. and Chittagong Stock Exchange Ltd. ABSL started its operation independently on 02 August 2010, before that it was operated under the ABBF License.</p> <p><b><u>Cashlink Bangladesh Limited</u></b>  Cashlink Bangladesh Limited (CBL) was incorporated on 24 September 2008 in Bangladesh under the Companies Act 1994 as a private company limited. AB Bank Limited presently holds 90% shares in CBL. The principal activity of the company is to install and operate a switched Automated Teller Machines (ATM) and Point of Sales (POS) network on behalf of a number of local and foreign banks enabling these member bank customers who are active cardholders to withdraw cash, make utility bill payments (e.g. water, gas, electricity and telephone bills) and to purchase commodity goods from any of the ATM and POS terminals established under the network.</p> <p><b><u>AB International Finance Limited</u></b>  AB International Finance Limited (ABIFL) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Unit 1201-B, 12/F, Admiralty Centre, Tower One, 18 Harcourt, Hong Kong.</p> <p><b><u>AB Exchange (UK) Limited</u></b>  AB Exchange (UK) Limited (ABEL) is a company incorporated and domiciled in United Kingdom (UK) and has its registered office 69 Whitechapel High Street, London, E1 7PL. Its registered number is 07272766 (England &amp; Wales). ABEL is fully owned (100%) Subsidiary of AB Bank Limited.</p> <p><b><u>Arab Bangladesh Bank Foundation</u></b>  Bank also has a Subsidiary (99.60% owned by AB Bank) for philanthropic/ CSR activities known as Arab Bangladesh Bank Foundation (ABBF). This has not been included in the Consolidation as ABBF operated only for philanthropic purpose and its profit is not distributable to the shareholders. Thus, for ensuring the fair presentation of the Financial Statements of the Parent Company (the Bank), the Financial Statements of ABBF has not been consolidated.</p>
<p><b>(c)</b> Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group</p>	<p>Not Applicable</p>
<p><b>(d)</b> 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.</p>	<p>Aggregate amount of Capital: Tk. 20,000,000  Name of Subsidiary: Arab Bangladesh Bank Foundation (ABBF)</p>

## B) Capital Structure

### Qualitative Disclosure

<p>(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.</p>	<p>The terms and conditions of the main features of all capital instruments have been segregated in line with of the eligibility criteria set forth vide BRPD Circular No. 18 dated 21 December 2014 and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments are as follows:</p> <p>Common Equity Tier 1 capital instruments</p> <p>Paid-up share capital: Issued, subscribed and fully paid up share capital of the Bank. It represents Paid up Capital, Right Shares as well as Bonus Shares issued from time to time.</p> <p>Statutory Reserve: As per Section 24(1) of the Bank Company (Amendment upto 2013) Act, 1991, an amount equivalent to 20% of the profit before taxes for each year of the Bank has been transferred to the Statutory Reserve Fund.</p> <p>General reserve: Any reserve created through Profit and Loss Appropriation Account for fulfilling any purpose.</p> <p>Retained Earnings: Amount of profit retained with the banking company after meeting up all expenses, provisions and appropriations.</p> <p><b>In this respect, Bank is complied.</b></p> <p><b>Additional Tier 1 Capital</b> Bank has no any type of Additional Tier I Capital.</p> <p><b>Tier 2 Capital</b></p> <p>a) General Provisions; (General provisions/general loan-loss reserve eligible for inclusion in Tier 2 will be limited to a maximum 1.25 percentage points of credit risk-weighted assets calculated under the standardised approach)</p> <p>b) Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital;</p> <p>c) Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties as specified</p> <p>Less: Regulatory adjustments applicable on Tier-2 capital;</p>				
<b>Taka in Crore</b>					
		<b>31.12.2015</b>		<b>31.12.2014</b>	
		<b>Solo</b>	<b>Conso</b>	<b>Solo</b>	<b>Conso</b>
<p>(b) The amount of Regulatory capital, with separate disclosure of: CET 1 Capital</p>	<p>&gt; Paid up Capital</p> <p>&gt; Non- repayable share premium account</p> <p>&gt; Statutory reserve</p> <p>&gt; General reserve</p> <p>&gt; Retained earnings</p> <p>&gt; Minority Interest in Subsidiaries</p> <p>&gt; Non- cumulative irredeemable preference shares</p> <p>&gt; Dividend equalization account</p>	<p>599</p> <p>-</p> <p>611</p> <p>122</p> <p>683</p> <p>-</p> <p>-</p> <p>-</p> <p><b>2,015</b></p>	<p>599</p> <p>-</p> <p>611</p> <p>140</p> <p>744</p> <p>(0.22)</p> <p>-</p> <p>-</p> <p>-</p> <p><b>2,094</b></p>	<p>532</p> <p>-</p> <p>558</p> <p>4</p> <p>561</p> <p>-</p> <p>-</p> <p>-</p> <p><b>1,656</b></p>	<p>532</p> <p>-</p> <p>558</p> <p>12</p> <p>603</p> <p>(0.94)</p> <p>-</p> <p>-</p> <p>-</p> <p><b>1,705</b></p>
Additional Tier 1 Capital		-	-	-	-
Total Tier 1 Capital		<b>2,015</b>	<b>2,094</b>	<b>1,656</b>	<b>1,705</b>
Tier 2 Capital		999	1,004	624	638
(c) Regulatory Adjustments/Deductions from capital		182	183	-	2
(d) Total eligible capital		<b>2,833</b>	<b>2,915</b>	<b>2,280</b>	<b>2,341</b>

### C) Capital Adequacy

#### Qualitative Disclosure

<b>(a)</b> A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Capital Adequacy is the cushion required to be maintained for covering the Credit risk, Market risk and Operational risk so as to protect the depositors and general creditors interest against such losses. In line with BRPD Circular No. 18 dated 21 December, 2014, the Bank has adopted Standardized Approach for Credit Risk, Standardized (Rule Based) Approach for Market Risk and Basic Indicator Approach for Operational Risk for computing Capital Adequacy.													
<b>Taka in Crore</b>														
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;"><u>31.12.2015</u></th> <th colspan="2" style="text-align: center;"><u>31.12.2014</u></th> </tr> <tr> <th></th> <th style="text-align: center;">Solo</th> <th style="text-align: center;">Conso</th> <th style="text-align: center;">Solo</th> <th style="text-align: center;">Conso</th> </tr> </thead> </table>						<u>31.12.2015</u>		<u>31.12.2014</u>			Solo	Conso	Solo	Conso
	<u>31.12.2015</u>		<u>31.12.2014</u>											
	Solo	Conso	Solo	Conso										
<b>(b)</b> Capital requirement for Credit Risk:	2,284	2,294	1,969	1,979										
<b>(c)</b> Capital requirement for Market Risk:	78	86	74	85										
<b>(d)</b> Capital requirement for Operational Risk:	193	200	166	173										
<b>(e)</b> Total capital, CET 1 capital, Total Tier 1 capital and Tier 2 capital ratio:														
> For the Bank alone	71.13%	-	72.64%	-										
> For the consolidated group	-	71.83%	-	72.77%										
<b>(f)</b> Capital Conservation Buffer	N/A	N/A	N/A	N/A										
<b>(g)</b> Available Capital under Pillar 2 Requirement	999.36	1,003.75	623.76	637.70										

### D) Credit Risk

#### Qualitative Disclosure

<b>(a)</b> The general qualitative disclosure requirement with respect to credit risk, including:	
> Definitions of past due and impaired (for accounting purposes)	<p>Bank classifies loans and advances (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect.</p> <p>An NPA (impaired) is defined as a loan or an advance where interest and/ or installment of principal remain overdue for more than 90 days in respect of a Continuous credit, Demand loan or a Term Loan etc.</p> <p>Classified loan is categorized under following 03 (three) categories:</p> <ul style="list-style-type: none"> <li>&gt; Sub-standard</li> <li>&gt; Doubtful</li> <li>&gt; Bad &amp; Loss</li> </ul> <p>Any continuous loan will be classified as:</p> <ul style="list-style-type: none"> <li>&gt; 'Sub-standard' if it is past due/over due for 3 months or beyond but less than 6 months.</li> <li>&gt; 'Doubtful' if it is past due/over due for 6 months or beyond but less than 9 months.</li> <li>&gt; 'Bad/Loss' if it is past due/over due for 9 months or beyond.</li> </ul> <p>Any Demand Loan will be classified as:</p> <ul style="list-style-type: none"> <li>&gt; 'Sub-standard' if it remains past due/overdue for 3 months or beyond but not over 6 months from the date of claim by the bank or from the date of creation of forced loan.</li> <li>&gt; 'Doubtful' if it remains past due/overdue for 6 months or beyond but not over 9 months from the date of claim by the bank or from the date of creation of forced loan.</li> <li>&gt; 'Bad/Loss' if it remains past due/overdue for 9 months or beyond from the date of claim by the bank or from the date of creation of forced loan.</li> </ul> <p>In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'defaulted installment'.</p>

> Definitions of past due and impaired (for accounting purposes)	<p>i. In case of Fixed Term Loans :</p> <p>&gt; If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 3 (three) months, the entire loan will be classified as "Sub-standard".</p> <p>&gt; If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 6 (six) months, the entire loan will be classified as "Doubtful".</p> <p>&gt; If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 9 (nine) months, the entire loan will be classified as "Bad/Loss".</p> <p>If any Fixed Term Loan is repayable on monthly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 06 monthly installments. Similarly, if the loan is repayable on quarterly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 2 quarterly installments.</p>
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> Description of approaches followed for specific and general allowances and statistical methods	Particulars	Short Term Agri Credit	Consumer Financing			SMEF	Loans to BHS/MBs/SDs	All other Credit	Off Balance Sheet Exposures	
			Other than HF, LP	HF	LP					
	UC	Standard	2.50%	5%	2%	2%	0.25%	2%	1%	1%
		SMA	-	5%	2%	2%	0.25%	2%	1%	
	Classified	SS	5%	20%	20%	20%	20%	20%	20%	
		DF	5%	50%	50%	50%	50%	50%	50%	
BL		100%	100%	100%	100%	100%	100%	100%		

> Discussion of the Bank's credit risk management policy	<p>The Board approves the credit policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in credit risk management and maintain quality of assets. Authorities are properly delegated in ensuring check and balance in credit operation at every stage i.e. screening, assessing risk, identification, management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early warning system. There is a separate Credit Risk Management Division for ensuring proper risk management of Loans and Credit Monitoring and Recovery Division for monitoring and recovery of irregular loans. Internal control &amp; compliance division independently assess quality of loans and compliance status at least once in a year. Adequate provision is maintained against classified loans as per Bangladesh Bank Guidelines. Status of loans are regularly reported to the Board/ Board Audit Committee. Besides, Credit risk management process involves focused on monitoring of Top 30 Loans, Top 20 Defaulters, Sectoral exposures viz-a-viz among others limit.</p>
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## Quantitative Disclosure

		Taka in Crore			
		31.12.2015		31.12.2014	
		In %	Taka	In %	Taka
(b) Total gross credit risk exposures broken down by major types of credit exposure	Overdraft	10.46%	2,193	13.66%	2,426
	Cash Credit	0.01%	2	0.02%	4
	Time loan	29.91%	6,272	30.91%	5,488
	Term loan	50.29%	10,548	43.03%	7,641
	Blc	0.11%	24	0.34%	60
	TR	4.84%	1,016	6.78%	1,203
	Packing credit	0.21%	44	0.26%	47
	Loan-accp bills	2.35%	492	3.19%	566
	Consumer Loan	0.65%	137	0.74%	132
	Staff Loan	0.61%	129	0.41%	72
	Bills Purchased & Discounted	0.55%	116	0.67%	118
<b>Total</b>		<b>100%</b>	<b>20,973</b>	<b>100%</b>	<b>17,757</b>



Taka in Crore

**Qualitative Disclosure: credit risk (cont..)**

		31.12.2015		31.12.2014	
		In %	Taka	In %	Taka
<b>(C)</b> Geographical distribution of exposures, broken down in significant areas by major types of credit exposure	<b>Urban Branches</b>				
	Dhaka	66.46%	13,630	67.86%	11,740
	Chittagong	25.93%	5,318	24.07%	4,165
	Khulna	2.51%	516	2.78%	481
	Sylhet	1.12%	229	1.23%	213
	Barisal	0.14%	29	0.23%	39
	Rajshahi	1.98%	406	2.00%	347
	Rangpur	1.86%	381	1.83%	317
		100%	20,508	100%	17,301
	<b>Rural Branches</b>				
	Dhaka	85.80%	330	85.76%	314
	Chittagong	12.48%	48	12.60%	46
	Khulna	0.00%	-	0.00%	-
	Sylhet	1.71%	7	1.64%	6
	Barisal	0.00%	-	0.00%	-
Rajshahi	0.00%	-	0.00%	-	
Rangpur	0.00%	-	0.00%	-	
	100%	385	100%	366	
<b>Outside Bangladesh</b>					
ABBL, Mumbai Branch	0.38%	80	0.50%	89	
	100%	20,973	100%	17,757	
<b>(d)</b> Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	Agriculture	0.98%	206	1.58%	280
	Large and medium scale industry	30.87%	6,473	26.90%	4,777
	Working capital	17.53%	3,677	19.82%	3,519
	Export	0.44%	92	0.61%	109
	Commercial lending	26.72%	5,604	22.92%	4,069
	Small and cottage industry	0.43%	90	0.57%	101
	Others	23.03%	4,830	27.60%	4,902
		100%	20,973	100%	17,757
<b>(e)</b> Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Repayable – on demand	1.95%	410	1.76%	312
	– upto 3 months	40.72%	8,539	43.55%	7,734
	– over 3 months but below 1 year	39.97%	8,382	35.25%	6,260
	– over 1 year but below 5 years	16.51%	3,463	18.38%	3,264
	– over 5 years	0.85%	178	1.06%	187
	100%	20,973	100%	17,757	
<b>(f)</b> By major industry or counterparty type: i. Amount of impaired loans and if available, past due loans, provided separately ii. Specific and general provisions iii. Charges for specific allowances and charge-offs during the period		3.19%	669	3.86%	686
			188		485
			0.14		229
<b>(g)</b> Gross Non Performing Assets (NPAs) Non Performing Assets (NPAs) to Outstanding				<b>2015</b>	<b>2014</b>
	Non Performing Assets (NPAs)			<b>669</b>	<b>686</b>
	Non Performing Assets (NPAs) to Outstanding Loans & Advances			<b>3.19%</b>	<b>3.86%</b>
	<b>Movement of Non Performing Assets (NPAs)-Bangladesh Operations:</b>				
	<b>Opening Balance</b>			<b>675.46</b>	<b>463.69</b>
	Additions			398.99	443.52
	Reductions			423.62	231.75
	<b>Closing balance</b>			<b>650.83</b>	<b>675.46</b>
	<b>Movement of Specific Provision for Non Performing Assets (NPAs)</b>				
	Opening Balance			289.13	224.41
	Provision made during the period			101.20	205.93
	Write-off			133.88	141.21
	<b>Closing balance</b>			<b>256.45</b>	<b>289.13</b>
	Provision held by Mumbai Branch			3.16	3.28
				<b>259.62</b>	<b>292.41</b>

## E) Equities: Disclosures for Banking Book Positions

### Qualitative Disclosure

<p>(a) The general qualitative disclosure requirement with respect to the equity risk, including:</p> <ul style="list-style-type: none"> <li>&gt; differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons</li> <li>&gt; 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</li> </ul>	<p>Investment in equity mainly for capital gain purpose but Bank has some investment for relationship and strategic reasons.</p> <p>Quoted shares are valued at cost. Necessary provision is maintained if market price fall below the cost price. Unquoted shares are valued at cost.</p>
<p>(b) Value disclosed in the balance sheet of investment, 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.</p>	<p>Not Applicable</p>
<p>(c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period (2015)</p>	<p><b><u>Taka in Crore</u></b> 0.06</p>
<p>(d) &gt; Total unrealized gains (losses)</p> <p>&gt; Total latent revaluation gains (losses)</p> <p>&gt; Any amounts of the above included in Tier</p>	<p>(167.63)</p> <p>Nil</p> <p>Nil</p>
<p>(e) Capital requirements broken down by appropriate equity grouping, 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</p>	<p>Nil</p>

## F) Interest Rate Risk in the Banking Book (IRRBB)

### Qualitative Disclosure

<p>(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.</p>	<p>Interest rate risk is the potential that the value of the On Balance Sheet and the Off Balance Sheet position of the Bank would be negatively effected with the change in the Interest rate. The vulnerability of an institution towards the advance movement of the interest rate can be gauged by using Duration GAP under Stress Testing Analysis.</p> <p>AB Bank has also been exercising the Stress Testing using the Duration GAP for measuring the Interest Rate Risk on its On Balance Sheet exposure for estimating the impact of the net change in the market value of equity on the Capital Adequacy Ratio (CAR) due to change in interest rates only on its On Balance Sheet position (as the Bank holds no interest bearing Off Balance Sheet positions and or Derivatives). Under the assumption of three different interest rate changes i.e. 1%, 2% and 3%.</p>
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### Quantitative Disclosure

<p>(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).</p>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th colspan="2" style="text-align: center;"><b>Taka in Crore</b></th> </tr> <tr> <th></th> <th style="text-align: center;"><b>31.12.15</b></th> <th style="text-align: center;"><b>31.12.14</b></th> </tr> </thead> <tbody> <tr> <td>Market Value of Assets</td> <td style="text-align: right;">29,001</td> <td style="text-align: right;">25,024</td> </tr> <tr> <td>Market Value of Liability</td> <td style="text-align: right;">27,011</td> <td style="text-align: right;">23,467</td> </tr> <tr> <td>Weighted Avg. Duration GAP</td> <td style="text-align: right;">0.79</td> <td style="text-align: right;">0.59</td> </tr> <tr> <td colspan="3"><b>CRAR after different level of Shocks:</b></td> </tr> <tr> <td>Minor Level</td> <td style="text-align: right;">10.36%</td> <td style="text-align: right;">9.78%</td> </tr> <tr> <td>Moderate Level</td> <td style="text-align: right;">9.61%</td> <td style="text-align: right;">9.23%</td> </tr> <tr> <td>Major Level</td> <td style="text-align: right;">8.85%</td> <td style="text-align: right;">8.68%</td> </tr> </tbody> </table>		<b>Taka in Crore</b>			<b>31.12.15</b>	<b>31.12.14</b>	Market Value of Assets	29,001	25,024	Market Value of Liability	27,011	23,467	Weighted Avg. Duration GAP	0.79	0.59	<b>CRAR after different level of Shocks:</b>			Minor Level	10.36%	9.78%	Moderate Level	9.61%	9.23%	Major Level	8.85%	8.68%
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Major Level	8.85%	8.68%																										

**G) Market Risk**  
**Qualitative Disclosure**

(a) > Views of BOD on trading/ investment activities	The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to provide cost effective funding last year to finance asset growth and trade related transaction.
> Methods used to measure Market risk	Standardized approach has been used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for 'specific risk' and 'general market risk'.
> Market risk Management system	The Treasury Division manage 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. Alco meets at least once in a month.
> Policies and process for mitigating market 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. The exchange rate committee of the Bank meets on a daily basis to review the prevailing market condition, exchange rate, forex position and transactions to mitigate foreign exchange risks.

**Quantitative Disclosure**

(b) The capital requirements for:	<b>Taka in Crore</b>	
	<b>31.12.15</b>	<b>31.12.14</b>
Interest rate risk	30.33	25.78
Equity position risk	44.49	47.21
Foreign exchange risk	3.14	0.76
Commodity risk	-	-
	<b>77.96</b>	<b>73.75</b>

**H) Operational Risk**

**Qualitative Disclosure**

(a) > Views of BOD on system to reduce Operational Risk	The policy for operational risks including internal control & compliance risk is approved by the board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Borad oversees the activities of Internal Control & Compliance Division (ICCD) to protect against all operational risk.
> Performance gap of executives and staffs	AB has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. AB's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.
> Potential external events	No potential external events is expected to expose the Bank to significant operational risk.
> Policies and processes for mitigating operational risk	The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh bank. Policy guidelines on Risk Based Internal Audit system is in operation as per RBA branches are rated according to their risk status and branches scoring more on risk status are subjected to more frequent audit by Internal Control & Compliance Division (ICCD). It is the policy of the bank to put all the branches of the bank under any form of audit at least once in a year. ICCD directly reports to Audit Committee of the Board. In addition there is a Vigilance Cell established in 2009 to reinforce operational risk management of the bank. Bank's Anti-Money laundering activities are headed by CAMELCO and their activities are devoted to protect against all money laundering and terrorist finance related activities. Apart from that, there is adequate check & balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.
> Approach for calculating capital charge for operational risk	Basic Indicator Approach was used for calculating capital charge for operational risk as of the reporting date.

**Quantitative Disclosure****(b)** The capital requirements for Operational Risk**Taka in Crore**

<b>31.12.15</b>	<b>31.12.14</b>
193.15	166.17

**I) Liquidity Ratio****Qualitative Disclosure**

<b>(a)</b> > Views of BOD on system to reduce liquidity Risk	<p>Liquidity risk is the potential for loss to the bank arising from either its inability to meet its obligations of depositors as they fall due or to fund in increased assets as per commitment.</p> <p>To mitigate liquidity Risk bank assesses its risk appetite and manages the risk within a structured framework. Professional resources are deployed to set the limits and procedures and get them approved by the Board.</p> <p>To reduce the liquidity Risk in a structured way, Bank monitors various indicators like regulatory indicators (CRR, SLR, MTFR, MCO, ADR, LCR, NSFR) and uses internal monitoring tools (WBG, CLP and MAT)</p>
> Methods used to measure Liquidity risk	<p>Liquidity measurement involves forecasting the bank's cash inflows against its outflows to identify the potential for any net shortfalls going forward. For measuring Bank uses some simple techniques as mentioned below:</p> <p>&gt; Bank prepares Structural Liquidity Profile (SLP) on a monthly basis. SLP is used to estimate the Bank's cash inflows and outflows and thus net deficit or surplus (GAP) over a series of specified time periods. Bank focuses on the maturity of its assets and liabilities in different tenors. Excessive longer tenor lending against shorter-term borrowing is monitored as this can put the Bank's balance sheet in a very critical and risky position.</p> <p>&gt; Bank has a Contingency Funding Plan (CFP) in place. Contingency Funding Plan (CFP) is a set of policies and procedures that serves as a blueprint for the Bank to meet its funding needs in a timely manner and at a reasonable cost. Bank maintains sufficient High Quality Liquid Assets to meet the liquidity crisis period.</p> <p>&gt; Bank estimates the funding requirement both in normal and stress conditions arising from on and off balance sheet exposures. Bank monitors its products which are interest rate sensitive. These are taken care of at the time of interest rate movement in the market based on behavior of clients and other competitors.</p> <p>&gt; Bank monitors liability concentration level. Highly concentrated deposits mean the bank is relying on too few providers or funding sources. Bank has to be ready for arranging funds if concentrated deposits are withdrawn at a time or Bank places this fund for short-term lending.</p> <p>&gt; Bank uses a variety of ratios to quantify the liquidity and interprets them taking into account the qualitative factors.</p>
> Liquidity risk management system	<p>The Management of the Bank measures the liquidity risk and manages them under the Board approved guidelines and policies. Bank prepares extensive reports for monitoring the balance sheet movement on a daily basis. Bank also monitors the Market information of the country and global market. Bank has an Asset Liability Committee (ALCO).</p> <p>ALCO is a senior management level committee responsible for supervision and management of liquidity and other risks using different monitoring tools. They monitor the limit for indicators set by Bangladesh Bank as well as Bank's Board.</p> <p>Key elements of an effective liquidity risk management process include an efficient MIS to measure, monitor and control existing as well as future liquidity risks and reporting them to senior management and the Board. Bank is therefore working for continuous improvement of MIS.</p>

<p>&gt; Policies and processes for mitigating liquidity risk</p>	<p>Bank has set of policies duly approved by the Board for mitigating liquidity risk. These policies are supported by effective procedures to measure, achieve and maintain liquidity. The ALCO recommends the policies for liquidity risk which is reviewed and approved by the Board.</p> <p>Operating liquidity is managed by the Bank for day to day fund requirements. And for managing the crisis period Bank follows the CFP approved by the Board.</p> <p>For regulatory purposes the Bank maintains specific amount of assets classed as "liquid", based on its liabilities. In addition, the Bank has to maintain excess liquid assets as per CFP.</p>
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### Quantitative Disclosure

(b)	Taka in Crore
	31.12.2015
Liquidity Coverage Ratio	82.21%
Net Stable Funding Ratio (NSFR)	95.75%
Stock of High quality liquid assets	4,467.59
Total net cash outflows over the next 30 calendar days	5,434.12
Available amount of stable funding	21,736.36
Required amount of stable funding	22,700.95

### J) Leverage Ratio

#### Qualitative Disclosure

<p>(a) &gt; Views of BOD on system to reduce excessive leverage</p>	<p>For reducing the leverage up to an optimum level, the Board of Directors of the Bank always keen to focus on the capital strength and the quality of the assets. Board is always concern to maximise the core capital portion and keep the growth of on and off balance sheet exposures at a favourable level.</p> <p>Key initiatives of the Board:</p> <ul style="list-style-type: none"> <li>• Emphasized to keep LD ratio at the optimal level/budgeted level</li> <li>• Stressed to keep the interest rate spread at the optimal level for ensuring the profitability of the Bank</li> <li>• Market competitive Cost of Fund must be maintained</li> <li>• Non-funded business i.e. import, export and bank guarantee to be expedited as per budget</li> <li>• Operational expenses must be reduced at rational level</li> <li>• Decentralization of portfolio in SME and Retail business</li> <li>• Special Mentioned Account (SMA) and classified loans are to be closely monitored for ensuring asset quality, and</li> <li>• Recovery cell must ensure the monitoring of risk assets frequently to maintain the asset quality.</li> </ul>
<p>&gt; Policies and processes for managing excessive on and off-balance sheet leverage</p>	<p>Primary principle of the Board is to enhance the core capital of the Bank. To keep the leverage at a reduced level, Board emphasised Management to build strong internal control system specifically in the risk points by putting dual control in each phase. Apart from this, by the instruction of the Board, Management formed different Committees to work under specific Terms of Reference (ToR) and to report to the Board.</p> <p>All these above measures as a whole, helps the Management to keep the exposures at sound level.</p>
<p>&gt; Approach for calculating exposure</p>	<p>The exposure calculation for the leverage ratio is generally followed the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following is applied by the bank:</p> <ol style="list-style-type: none"> <li>i. On balance sheet and non-derivative exposures are net of specific provisions and valuation adjustments (e.g. surplus/ deficit on Available for sale (AFS)/ Held-for-trading (HFT) positions).</li> <li>ii. Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure.</li> <li>iii. Netting of loans and deposits is not allowed.</li> </ol>

> Approach for calculating exposure  
(Continued...)

**On-Balance Sheet Items**

Bank included items using their accounting balance sheet for the purposes of the leverage ratio. In addition, the exposure measure is included the following treatments for Securities Financing Transactions (e.g. repo, reverse repo etc.):

**Repurchase Agreements and Securities Financing:**

Securities Financing Transactions (SFT) are a form of secured funding and therefore an important source of balance sheet leverage that included in the leverage ratio. Therefore Banks calculate SFT for the purposes of leverage ratio by applying:

- The accounting measure of exposure; and
- Without netting various long and short positions with the same counterparty

**Off-Balance Sheet Items**

Bank calculates the Off-Balance Sheet (OBS) items specified in Risk based Capital Adequacy Guidelines issued by Bangladesh Bank vide BRPD Circular No. 18 dated December 21, 2014. OBS exposures calculation is given below for considering Leverage Ratio of the Bank:

Exposures Types	CCF	Notional Amount (In Taka)	Exposure (In Taka)
Direct credit substitutes	100%	24,778,187,732	24,778,187,732
Performance related contingencies	50%	9,784,073,141	4,892,036,570
Short-term self-liquidating trade letters of credit	20%	23,014,237,561	4,602,847,512
Lending of securities or posting of securities as collateral	100%	-	-
Other commitments with certain drawdown	100%	-	-
Commitments with original maturity of one year or less	20%	12,236,173,810	2,447,234,762
Commitments with original maturity of over one year	50%	-	-
Other commitments that can be unconditionally cancelled by any time	10%	21,604,558,201	2,160,455,820
Market related Off-Balance sheet exposure		-	-
<b>Total</b>		<b>91,417,230,445</b>	<b>38,880,762,396</b>

**Quantitative Disclosure**

<b>(b)</b>	<b>Leverage Ratio</b>	<b>Taka in Crore</b>
	On balance sheet exposure	<b><u>31.12.2015</u></b>
	Off balance sheet exposure	<b>5.74%</b>
	<b>Total exposure</b>	28,241.41
		3,888.08
		<b><u>31,947.96</u></b>

## K) Remuneration

### Qualitative Disclosure

(a)	<b>Information relating to the bodies that oversee remuneration.</b>	
	> Name of the bodies that oversees remuneration	The primary body that currently oversees remuneration practices includes: In-charge of remuneration & payroll, Head of HR, and Managing Director of the bank.
	> Name, composition and mandate of the main body overseeing remuneration.	Board of Directors of the bank is the main body which approves the remuneration proposals/changes as when needed based on the recommendation of the primary body
	> External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.	Periodically services of external consultants are sought in the process of remuneration update/survey in every 2/3 years to ensure competitive effectiveness of remuneration structure. Survey focuses on gross remuneration package in each job grade i.e. Minimum, Mid Point & Maximum in the given scale. Gross salary includes different elements like Basic pay and other admissible emoluments.
	> A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.	Key objective of the remuneration policy is to offer competitive remuneration package to employees in each job grade commensurate with job responsibilities irrespective of any location/region. It is done through periodical remuneration survey with local comparators engaging consultant. Similarly, for foreign subsidiaries, it is done in context of specific country remuneration market status to remain competitive in the foreign market that ensures attracting and retention of the best performers.
	> A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	Divisional Heads, Departmental Heads, Senior Members of Management, Head of Branches/Business Units supported by MANCOM are the material risk takers in business.
(b)	<b>Information relating to the design and structure of remuneration processes.</b>	
> An overview of the key features and objectives of remuneration policy.	<p>#A scale of salary structure with a minimum – mid point and maximum package for each job grade is available #The package includes: Basic pay, Housing, Medical, conveyance (when car is not allowed), Utilities, Maintenance, Leave fare assistance, Personal pay (in appropriate cases) etc.</p> <p>#Salary progression in the form of annual merit pay linked to individual performance within the scale etc. #Service benefits like Provident Fund, Gratuity, Group term insurance, festival bonus, car facilities and related cost as per bank,s service rules are components of total compensation.</p> <p>#Objective of remuneration policy is to pay competitively within industry norms in order to attract &amp; retain good employees,</p> <p>#Pay for performance link to merit measured in terms of delivery of set KPI annually (annual merit pay)</p> <p>#Bank's service rules stands as a guide besides instructions &amp; guidance from the Board from time to time</p>	
> Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.	Remuneration structure is updated periodically usually in an interval of 2/3 years to remain competitive in the market with the approval of the Board of Directors of the bank. No major change made in the recent past	

	<p>&gt; A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</p>	<p>Risks &amp; compliance employees carry out their job independently as per terms of reference. In respect of remuneration, they are treated equally in line with other regular employees</p>
<b>(c)</b>	<p><b>Description of the ways in which current and future risks are taken into account in the remuneration processes.</b></p>	
	<p>&gt; An overview of the key risks that the bank takes into account when implementing remuneration measures.</p>	<p>The business risks including credit/default risk, compliance &amp; reputational risk, financial and liquidity risk are considered while implementing remuneration measures for each employee/group of employees.</p>
	<p>&gt; An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure</p>	<p>Different set of measures are in practice based on nature of business lines/segments etc. these measures are primarily focused on the business targets/goals set for each area of operation, branch vis-à-vis actual results achieved as of the reporting date. The most important tools &amp; indicators used for measuring the risks are asset quality (NPL ratio), LD ratio, Net Interest Margin (NIM), provision coverage ratio, cost income ratio, cost of fund, growth of net profit as well as non-financial indicators i.e. compliance status with regulatory norms/instructions, service delivery etc. are brought to all concerned of the bank from time to time.</p>
	<p>&gt; A discussion of the ways in which these measures affect remuneration.</p>	<p>Individual employee's performance standards are set in term of financial &amp; non-financial indicators (KPI) early each year which are expected to be delivered by them individually. Performance evaluation at the end of year results in variation in performance outcome (KPI fully achieved, partially achieved &amp; not achieved) leading to variation in performance reward (annual merit pay) thus affects in remuneration.</p>
	<p>&gt; 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.</p>	<p>Based on differentiating performance outcome employees are rewarded annually. Differentiating reward i.e. good, better &amp; best impact on competitive motivation at work as usual. No material change in remuneration package.</p>
<b>(d)</b>	<p><b>Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.</b></p>	
	<p>An overview of main performance metrics for bank, top-level business lines and individuals.</p>	<p>Performance matrix in terms of broad KPI is set by the Board for the Management covering business lines/different segments of businesses each year. The Management in turn develops strategies and set performance KPI for individual employees across functions/business to activate and achieve the set targets/KPI in delivering business results. The most common KPIs are loan deposit ratio, cost of fund, cost income ratio, yield on loan, quality of asset, profit target, provision coverage ration, capital to risk weighted ratio, ROE, ROA, Liquidity position, naintenance of CRR and SLR etc. beside non-financial KPI.</p>
	<p>&gt; A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.</p>	<p>Annual merit pay i.e. merit increment of employees are linked to performance outcome based on individual performance criteria (KPI). Merit increase is also liked to other elements of remuneration package, so aggregate of all employees has reasonable impact on the remuneration package and not insignificant.</p>
	<p>&gt; A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak</p>	<p>No documented criteria as such is available to adjust remuneration of employees in the event of weak business performance matrix. If profit target is not met in a given year, generally annual merit increment is lower.</p>



	<b>Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.</b>	
(e)	> 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.	The concept of variable remuneration or for that matter deferred payment system is not in practice. A share of profit in the form of incentive bonus is allowed to employees as approved by the board when profit target is favorably met.
	> A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.	Not applicable
	<b>Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms.</b>	
(f)	> An overview of the forms of variable remuneration offered (ie cash, shares and share-linked instruments and other forms	Not applicable
	> 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.	Not applicable

#### Quantitative Disclosure

(g)	<b>Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.</b>	The main body that oversees remunerations organizes meeting as & when needed to discuss issues arising in the process of administration.
	> Number of employees having received a variable remuneration award during the financial year.	Not applicable (Variable remuneration practice is not available)
	> Number and total amount of guaranteed bonuses awarded during the financial year.	Bank has disbursed 02(two) festival bonus among the employees amounting to taka 172,574,517 during the year 2015.
	> Number and total amount of sign-on awards made during the financial year.	Not applicable
	> Number and total amount of severance payments made during the financial year	None during the financial year

	> Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and	Not applicable
	> Total amount of deferred remuneration paid out in the financial year.	Not applicable

(j)	<b>Breakdown of amount of remuneration awards for the financial year to show:</b>	
	Fixed and variable.	BDT 283.41 crore (Fixed including annual merit pay)
	Deferred and non-deferred.	Not applicable
	Quantitative information about employees' exposure to implicit and explicit adjustments of deferred remuneration and retained remuneration:	
	> Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	Not applicable
	> Total amount of reductions during the financial year due to ex post explicit adjustments.	Not applicable
	> Total amount of reductions during the financial year due to ex post implicit adjustments.	Not applicable