

Disclosures on Risk Based Capital Requirement under Pillar-III of Basel-II for the year ended December 31, 2010:

Disclosure Overview

The following detailed qualitative and quantitative disclosures are provided in accordance with the guidelines of Bangladesh bank for Risk Based Capital Adequacy Requirement under Basel-II issued through circular on December 31, 2008. This is intended to provide the users an insight about various risks exposures to which the bank is focused and maintained adequate capital against them. The users will also be able to compare the bank's performance within the banking industry.

BASIC Bank has an approved market disclosure policy to disclose adequate information to the users in accordance with the suggestions made by Bangladesh Bank which is consistent with Bangladesh Accounting Standards (BAS), Bangladesh Standards on Auditing (BSA).

Major Requirements of Bangladesh Bank' guidelines for Basel-II:

Pillar-I: Minimum Capital Requirement:

Bank shall maintain minimum capital against potential risks (Credit Risks, Market Risks, and Operational Risks) which will be at least 9% of total risk weighted assets. At present all banks operating in Bangladesh is instructed to follow Standardized approach for Credit Risk and Market Risk and Basic Indicator Approach for Operating Risk. Capital Adequacy Assessment and Maintenance shall be submitted to Bangladesh Bank on Quarterly basis.

Pillar-II: Supervisory Review:

The banks shall have a process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital at an adequate level. Adequate capital is an addition to minimum capital requirement which is 9% of RWA.

Bank should develop an Internal Capital Adequacy Assessment Process (ICAAP) for assessment and maintenance of adequate capital.

Pillar-III: Market Discipline:

Purpose of Market discipline is to establish more transparent and disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to that assets and capital adequacy to meet the probable loss of assets. Banks shall develop an approved market disclosure policy and publish the same at least once in a year along with annual financial statements and also through website.

The Disclosure:

Assets:

Bank's total asset mainly consists of loans and advances, investment in government securities and money market placements which is increasing gradually. Quality of these assets is standard and percentage of non performing asset is also at tolerable level.

Comments on nature of assets:

Bank's assets may be classified into several categories such as Banking Assets and Non Banking Assets, Trading Book Assets and Banking Book Assets, Earning Assets and Non Earning Assets.

Earning Assets (Trading book asset, Banking book asset, etc):

Earning Asset portfolio of the Bank consists of the followings:

- a. Loans and Advances
- b. Investment in Government Securities
- c. Investment in Equity Shares
- d. Investment in other approved Securities
- e. Investment in Call and Term Placement with Banks and Financial Institutions
- f. Balance with Other Banks (STD account, FC account)

Non-earning assets (Cash, Cash reserve with BB, etc.):

Non Earning Asset portfolio of the Bank consists of the followings:

- a. Cash and Cash Equivalents including foreign currency
- b. Balance with Bangladesh Bank Current Account for maintaining CRR
- c. Non Current Assets including Furniture and Fixtures, Machine and Equipments, Vehicles and Leased Assets.
- d. Other assets including receivables.

Definition of Default and Classified Assets:

The Bank follows classification of loans and advances as per applicable circular of Bangladesh Bank. According to Bank Companies Act-1991 the definition of Classified Loan is as follows:

The loans and advances along with interest accrued or a part thereof remaining overdue as per definition of Bangladesh Bank for 06 months or more is termed as Default or Classified Loans.

Addition/Reduction on Classified Assets:

Bank's nonperforming asset has increased slightly in the year 2010 comparing to that of 2009. Global economic recession has mainly contributed to such increase.

Policies and processes for protecting assets against Core Risks inherent with banking activities:

The Bank has developed its own core risks (Credit Risk, Foreign Exchange Risk, Asset Liability Management Risk, Money Laundering Risk and Internal Control and Compliance Risk & Information & Communication Technology Risk) manual in line with core risks guidelines of Bangladesh Bank. As per these guidelines Asset Liability Management Committee (ALCO)

regularly reviews bank's asset and liability position and suggests appropriate course of actions for mitigating any type of potential risks.

Bank has a Risk Management Unit to manage different types of risks. It is also committed to adhere to core risk guidelines to protect its assets from all sorts of risks.

Banking and Trading Book Asset:

(Amount in Crore)

SL	A. Banking Book Assets	Amount
1	Cash in hand & Balance with BB	34.40
2	Money at call	25.00
3	Investment	679.20
	a. Government – HTM, T. Bond, Prize Bond	197.64
	b. Qualifying (Claims on Banks, etc)	466.94
	c. Others (Private Investment)	14.62
4	Loans & advances:	4634.15
	a. Classified:	
	Sub-standard	29.66
	Doubtful	28.25
	Bad and Loss	166.09
	b. Unclassified	
	Special Mention Account	25.26
	Standard	4384.89
5	Risk Weighted Assets:	
	a. Below 100% RW	2880.25
	b. 100% RW	684.41
	c. Above 100% RW	2064.64
6	Rated Status:	
	a. Rated Assets	864.89
	b. Unrated Assets	4764.41
7	Other assets (Including Fixed Assets)	256.55
	A. Total Banking Book Assets (1+2+3+4+7)	5629.30

SL	B. Trading Book Assets:	Amount
1	FC held in hand	0.29
2	FC held in BB & Nostro account	67.95
3	Investment (trading)	459.40
	a. Govt. (part of govt. HTM if held above the required SLR amount)	0.00
	b. HFT	444.78
	c. AFS (if any) - Share of listed companies	14.62
	B. Total Trading Book Assets (1+2+3)	527.64
	Total Assets (A+B)	6156.94

Credit Risk on Banking Book

Credit Risk is the probability of loss arising from counterparties' failure to meet repayment obligation. Credit risk mainly arises from direct loans and advances, Trade Finance Business and Off Balance Sheet exposures.

Methods used to measure credit risk:

As per guidelines of Bangladesh Bank for Risk Based Capital Adequacy for Banks Standardized Approach for Credit Risk measurement has been applied. Standardized approach requires risk weight based on risk assessment done by External Credit Assessment Institutions recognized by Bangladesh Bank. Credit exposure not rated by any ECAI will get fixed weight as per Standardized approach.

Quantitative disclosure of credit risk:

(Amount in Crore)

Sl no.	A) Total Exposures of Credit Risk	Amount
1	Funded:	
	a) Domestic	5629.30
	b) Overseas	0.00
2	Non-Funded	
	a) Domestic	848.87
	b) Overseas	0.00
3	Distribution of risk exposure by claims	
	A. Claims on sovereigns and central banks	466.37
	B. Claims on other official entities	138.16
	C. Claims on banks and securities firms	441.06
	D. Claims on corporate	2710.63
	E. Claims included in the retail portfolio & small enterprises	437.27
	F. Claims secured by residential property	328.33
	G. Claims secured by commercial real estate	360.05
	H. Consumer finance	6.63
	I. Other Categories:	
	- Past due loans/NPL (Net of Specific Provision)	176.00
- Off-balance sheet items	848.87	
4	Credit Risk Mitigation	
	Claims secured by financial collateral	184.26
	Net exposure after the application of haircuts.	61.19
	Claims secured by eligible Guarantee	0.00

Market risk on Trading Book

Market risk is the probability of losing assets in balance sheet and off balance sheet position arising out of the volatility in market variables i.e., interest rate, exchange rate and price.

Bank uses standardized approach to calculate market risk for trading book exposure as per instruction of Bangladesh Bank. Trading book exposures consists of position in financial instruments held with trading intent. Generally investment in Held for Trading category is main part of trading book exposures.

Trading steps are taken after considering regular update about the market. Bank diversifies its assets in various categories of trading assets. Bank has also a limit policy to mitigate unwanted market risk factors.

Quantitative Disclosure:

(Amount in Crore)

SL no.	The capital requirements for:	Amount
1	Interest rate risk	8.66
2	Equity position risk	1.96
3	Foreign exchange risk	1.28
4	Commodity risk	0.00

Operational risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

Bank has internal manuals on Internal Control and Compliance, Human Resource where details of operational policies, procedures and HR related activities have been stated.

Bank regularly monitor and reviews the performance of executives both quantitatively and qualitatively through analysis of achievement of business target in various parameters and behavioral, tactical and leadership aspects through confidential evaluation process.

Bank is running through centralized real time online system. External events like natural disaster and unauthorized access to Bank’s centralized computer system can affect the bank significantly. Bank has alternative arrangement for disaster recovery and a highly qualified team of IT experts is working to prevent any type of unauthorized access.

Bank has an Audit and Inspection Division and Compliance Division. Audit and Inspection team regularly work to detect and remove procedural flaws, error and fraud. Compliance Division is working to ensure all sorts of regulatory and policy compliance to help smooth operation and maintain consistency and thus reduce risk.

Bank uses Basic Indicator approach for calculating operational Risk as per instruction of Bangladesh Bank.

Quantitative Disclosure:

The capital requirements for:	Amount in Crore
Operational Risk	43.12

Maintenance of Specific Provision

Bank determines Specific Provision on Non Performing Assets as per relevant circulars of Bangladesh bank and maintains adequate provision as required which is quarterly reported to Bangladesh Bank.

As per instruction of Bangladesh Bank specific provisions is calculated and maintained under the following categories of classified assets:

SL	Non Performing Assets Categories	Percentage of Specific Provision
1	Substandard loans and advances	20%
2	Doubtful loans and advances	50%
3	Bad and Loss loans and advances	100%

Apart from above quantitative loan provisioning system bank also applies qualitative judgment to determine the quality of loans and advances and makes appropriate specific provision if necessary.

(Amount In Crore)

A	Gross Non-performing Assets	223.99
	Non-Performing Assets to Outstanding Loans and Advances	4.83%
B	Movement of Non-performing Assets	
	Opening balance	141.24
	Movement during the year	82.75
	Closing Balance	223.99
C	Movement of Specific Provision for NPAs	
	Opening Balance	52.34
	Provisions made during the year	33.32
	Write off/Interest Waiver	(12.21)
	Write back of excess provisions	0.00
	Closing Balance	73.45

Maintenance of Regulatory Capital

Capital Instruments eligible for inclusion in Tier 1 or in Upper Tier 2.

(Amount In Crore)

A	Amount of Tier-1 Capital	Amount
	Paid up Capital	196.47
	Statutory Reserve	182.00
	General reserve	7.41
	Retained Earnings	27.30
	Total of Tier –I	413.18
B	Amount deducted from Tier-1 Capital	
	Good will	00.00
	Shortfall	00.00
	Others	00.00
C	Total amount of Tier 2 capital	78.14

	(net of deductions from Tier 2 capital)	
D	Total eligible capital.	491.32

Capital Adequacy

A summary presentation of the bank's approach to assessing the regulatory capital:

		(Amount In Crore)
A	Amount of Regulatory Capital to meet unforeseen loss	485.16
	Amount to meet Credit Risk	430.15
	Amount to meet Market Risk	11.89
	Amount to meet Operational Risk.	43.12
B	Some additional capital over MCR maintained by the banks”	00.00