

## AB Bank Limited

### Disclosures on Risk Based Capital (Basel II) Based on 31 December 2010

These disclosures have been made in accordance with the Bangladesh Bank BRPD Circular no. 35 of 29 December 2010 as to Guidelines on 'Risk Based Capital Adequacy for Banks' in line with Basel II.

#### 1. Capital Adequacy under Basel-II

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 II) have been introduced from January 01, 2009. Throughout the year 2009, Basel II reporting was parallel to Basel I which was the statutory requirement upto that year. However, beginning year 2010, Basel II became mandatory. Bangladesh Bank further reviewed the RBCA Guidelines on several occasions prior to Basel II became fully in force. Instructions regarding Minimum Capital Requirement (MCR), Adequate Capital, and Disclosure requirements as stated in these guidelines have to be followed by all scheduled banks for the purpose of statutory compliance.

Above guidelines were issued by Bangladesh Bank (BB) under section 13 and section 45 of Bank Company Act, 1991 and also in accordance with "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" of June, 2006 (popularly known as 'Basel II Capital Adequacy Framework') released by Basel Committee on Banking Supervision (BCBS).

Basel II 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 II 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 and 2 capital structure at the moment.*

#### 3. Capital base

Regulatory capital has been categorized into three tiers: Tier 1, Tier 2, and Tier 3 respectively.

##### a) Tier 1 capital

Tier 1 capital called '**Core Capital**' comprises of highest quality of capital elements that consists of:

- i) Paid up capital
- ii) Non-repayable share premium account
- iii) Statutory reserve
- iv) General reserve
- v) Retained earnings
- vi) Minority interest in subsidiaries
- vii) Non-cumulative irredeemable preference shares
- viii) Dividend equalization account

*Bank's Core Capital comprises of the above elements except for "Non-cumulative irredeemable preference shares' and 'Dividend Equalization Account'.*

## **AB Bank Limited**

### **b) Tier 2 capital**

Tier 2 capital called 'Supplementary 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 and consists of:

- i) General provision
- ii) Revaluation reserves
- iii) Revaluation reserve for fixed assets
- iv) Revaluation reserve for securities
- v) Revaluation reserve for equity instrument
- vi) All other preference shares
- vii) Subordinated debt

*Bank's Tier 2 capital comprises of above specified elements. However, Bank is yet to resort to preference shares or any kind of subordinate debts.*

### **c) Tier 3 capital**

Tier 3 capital called 'Additional Supplementary Capital', consists of short-term subordinated debt (original maturity less than or equal to five years but greater than or equal to two years) would be solely for the purpose of meeting a proportion of the capital requirements for market risk.

*Bank has no Tier 3 capital as mentioned earlier.*

## **4. Conditions for maintaining regulatory capital**

The calculation of Tier 1 capital, Tier 2 capital, and Tier 3 capital is subject to the following conditions:

- a) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
- b) 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital.
- c) 10% of revaluation reserves for equity instruments eligible for Tier 2 capital.
- d) Subordinated debt shall be limited to a maximum of 30% of the amount of Tier 1 capital.
- e) Limitation of Tier 3: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank's Tier 1 capital that is available after meeting credit risk capital requirement.

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

## **5. Eligible regulatory capital**

In order to obtain the eligible regulatory capital for the purpose of calculating Capital Adequacy Ratio (CAR), banks are required to make following deductions from their Tier-1 capital:

- a) Intangible asset e.g., book value of goodwill and value of any contingent assets, etc. which are shown as assets
- b) Shortfall in provisions required against classified assets
- c) Shortfall in provisions required against investment in shares
- d) Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities.
- e) Reciprocal/crossholdings of bank's capital/subordinated debt artificially intended to inflate the capital position of banks

## **AB Bank Limited**

- f) Holding of equity shares in any form exceeding the approved limit under section 26(2) of Bank Company Act, 1991. The additional/unauthorized amount of holdings will be deducted at 50% from Tier 1 capital and 50% from Tier 2 capital.
- g) Investments in subsidiaries which are not consolidated. The normal practice is to consolidate subsidiaries for the purpose of assessing the capital adequacy of banking groups. Where this is not done, deduction is essential to prevent the multiple uses of the same capital resources in different parts of the group. The deduction for such investments will be 50% from Tier 1 capital and 50% from Tier 2 capital. The assets representing the investments in subsidiary companies whose capital had been deducted from that of the parent would not be included in total assets for the purposes of computing the CAR

Eligible Tier 2 capital will be derived after deducting components (if any) qualified for deduction. Total eligible regulatory capital will be calculated by summing up the eligible Tier 1, Tier 2 and Tier 3 capital.

### **6. Calculation of Capital Adequacy Ratio**

In order to calculate CAR, banks are required to calculate their Risk Weighted Assets (RWA) on the basis of credit, market, and operational risks. Total RWA will be determined by multiplying the amount of capital charge for market risk and operational risk by the reciprocal of the minimum CAR and adding the resulting figures to the sum of risk weighted assets for credit risk. The CAR is then calculated by taking eligible regulatory capital as numerator and total RWA as denominator.

*Bank followed the given guidelines in proper terms.*

### **7. Minimum capital requirements**

- a) No Scheduled Bank in Bangladesh shall commence and carry on its business unless it has the minimum required capital fixed by BB from time to time as per section 13 of Bank Company Act, 1991.
- b) Banks have to maintain minimum CAR on 'Solo' basis as well as on 'Consolidated' basis as per instruction(s) given by BB from time to time.

*Bank has been able to maintain required CAR on both 'Solo' as well as 'Consolidated' basis. Banks presents Tier I Capital ratio is 84.66% and 84.57% to total Capital on Solo and Consolidated basis respectively.*

- c) Banks have to maintain at least 50% of required capital as Tier 1 capital

### **8 a) Credit Risk**

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

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

#### **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.

## **AB Bank Limited**

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**

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

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

### **10. a) Operational Risk**

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

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.

**AB Bank Limited**

**11 Disclosure under Pillar III**

Disclosure given below as specified by RBCA Guideline dated 29 December:

**A) Scope of Application**

**Qualitative Disclosure**

(a) The name of the top corporate entity in the group to which this guidelines applies.	<b>AB Bank Limited</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. A brief description of these are given below:  <b>AB Bank Limited (ABBL)</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 Banking Companies 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 82 Branches including 1 Islami Banking Branch, 1 Overseas Branch in Mumbai, India. The Bank has four subsidiary companies, AB Investment Limited, AB Securities Limited, CashLink Bangladesh Limited and AB International Finance Limited, incorporated in Hong Kong.

**AB Bank Limited**

	<p><b>AB Investment Limited</b></p> <p>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>AB Securities Limited</b></p> <p>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, and 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. Respectively. ABSL started its operations independently on 02 August 2010, before that it operated under the ABBF License.</p> <p><b>Cashlink Bangladesh Limited</b></p> <p>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 60% 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>AB International Finance Limited</b></p> <p>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>Bank also has a Subsidiary (100% owned) for philanthropic/ CSR activities known as Arab Bangladesh Bank Foundation (ABBF). This has not been included in the Consolidation because Board of Directors have resolved to transform ABBF into the Societies Registration Act No. XXI of 1860.</p>
(c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	<b>Not Applicable</b>

**AB Bank Limited**

**Quantitative Disclosure**

(d) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	<b>Not applicable</b>
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**B) Capital Structure**

**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 Tier 1 or in Tier 2.	<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. 35 dated 29 December 2010 and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments are as follows:</p> <p><b>Tier 1 capital instruments</b></p> <p><b>Paid-up share capital:</b> 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><b>Statutory Reserve:</b> As per Section 24(1) of the Bank Companies 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><i>Bank is complied in this respect.</i></p> <p><b>General reserve:</b> Any reserve created through Profit and Loss Appropriation Account for fulfilling any purpose.</p> <p><i>Bank is complied in this respect.</i></p> <p><b>Retained Earnings:</b> Amount of profit retained with the banking company after meeting up all expenses, provisions and appropriations.</p> <p><i>Bank is complied in this respect.</i></p> <p><b>Tier 2 capital instruments</b></p> <p>General provision maintained against unclassified loans and off-balance sheet exposures: As per BB directive, amount of provision maintained against unclassified loans and off-balance sheet exposures as of the reporting date has been considered.</p> <p><b>Asset revaluation reserve:</b> 50% of Assets Revaluation Reserve is considered as Tier 2 Capital. The revaluation reserve was formally conducted by the Professionally Qualified valuation firm and duly certified by the external auditor of the Bank.</p> <p><b>Revaluation reserves of securities:</b> As per Bangladesh Bank's instruction, up to 50% of revaluation reserves of Governments securities has been considered as Tier 2 Capital. This comprises of revaluation results of HFT and HTM securities.</p>
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**AB Bank Limited**

**Quantitative Disclosure**

		Amount in Taka	
		<b>Bank</b>	<b>Consolidated</b>
(b) The amount of Tier I Capital, with separate disclosure of: (as of 31.12.2010).	> Paid up Capital	3,205,316,500	3,205,316,500
	> Non- repayable share premium account	-	-
	> Statutory reserve	4,395,659,026	4,395,659,026
	> General reserve	42,199,200	110,939,676
	> Retained earnings	4,768,418,491	4,979,771,371
	> Minority Interest in Subsidiaries	-	3,747,308
	> Non- cumulative irredeemable preference shares	-	-
		12,411,593,217	12,695,433,881
(c) Total amount of Tier II & Tier III Capital		2,248,967,605	2,316,951,830
(d) Other deduction from Capital		-	-
<b>(e) Total eligible capital</b>		<b>14,660,560,821</b>	<b>15,012,385,711</b>

**C) Capital Adequacy**

**Qualitative Disclosure**

(a) 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. 35 dated 29 December, 2010, 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.
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**Quantitative Disclosure**

		Amount in Taka	
		<b>Bank</b>	<b>Consolidated</b>
(b) Capital requirement for Credit Risk:		11,236,099,208	11,265,078,001
(C) Capital requirement for Market Risk:		796,573,802	872,954,117
(d) Capital requirement for Operational Risk:		1,282,704,037	1,367,984,037
(e) Total and Tier I Capital Ratio:			
> For the Bank alone		84.66%	-
> For the consolidated group		-	84.57%

**AB Bank Limited**

**D) Credit Risk**

**Qualitative Disclosure**

<p>(a) The general qualitative disclosure requirement with respect to credit risk, including:</p> <p>* Definitions of past due and impaired (for accounting purposes)</p>	<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 <b>continuous loan</b> will be classified as:</p> <ul style="list-style-type: none"><li>&gt; Sub-standard' if it is past due/over due for 6 months or beyond but less than 9 months.</li><li>&gt; "Doubtful' if it is past due/over due for 9 months or beyond but less than 12 months.</li><li>&gt; 'Bad/Loss' if it is past due/over due for 12 months or beyond.</li></ul> <p>Any <b>Demand Loan</b> will be classified as:</p> <ul style="list-style-type: none"><li>&gt; Sub-standard' 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; Doubtful' if it remains past due/overdue for 9 months or beyond but not over 12 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 12 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 <b>Fixed Term Loan</b> is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'defaulted installment'.</p> <p>i. In case of Fixed Term Loans, which are repayable <b>within maximum five years</b> of time:</p>
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**AB Bank Limited**

<p>* Description of approaches followed for specific and general allowances and statistical methods</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 "Sub-standard".</p> <p>&gt; If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) 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 18 (eighteen) months, the entire loan will be classified as "Bad/Loss".</p> <p>ii. In case of Fixed Term Loans, which are repayable in <b>more than five years</b> of time:</p> <p>&gt; If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) 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 18 (eighteen) 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 24 (twenty four) months, the entire loan will be classified as "Bad/Loss".</p>																																																							
	<table border="1"> <thead> <tr> <th colspan="2" data-bbox="589 743 998 800">Types of loans and advances</th> <th colspan="5" data-bbox="998 743 1531 772">Provision</th> </tr> <tr> <th colspan="2" data-bbox="589 772 998 800"></th> <th data-bbox="998 772 1081 800">UC</th> <th data-bbox="1081 772 1164 800">SMA</th> <th data-bbox="1164 772 1247 800">SS</th> <th data-bbox="1247 772 1330 800">DF</th> <th data-bbox="1330 772 1531 800">BL</th> </tr> </thead> <tbody> <tr> <td data-bbox="589 800 699 890" rowspan="2">Consumer</td> <td data-bbox="699 800 998 829">House building and professional</td> <td data-bbox="998 800 1081 829">2%</td> <td data-bbox="1081 800 1164 829">5%</td> <td data-bbox="1164 800 1247 829">20%</td> <td data-bbox="1247 800 1330 829">50%</td> <td data-bbox="1330 800 1531 829">100%</td> </tr> <tr> <td data-bbox="699 829 998 890">Other than Housing Finance &amp; Professionals to setup business</td> <td data-bbox="998 829 1081 890">5%</td> <td data-bbox="1081 829 1164 890">5%</td> <td data-bbox="1164 829 1247 890">20%</td> <td data-bbox="1247 829 1330 890">50%</td> <td data-bbox="1330 829 1531 890">100%</td> </tr> <tr> <td colspan="2" data-bbox="589 890 998 919">Provision for loan against shares</td> <td data-bbox="998 890 1081 919">2%</td> <td data-bbox="1081 890 1164 919">5%</td> <td data-bbox="1164 890 1247 919">20%</td> <td data-bbox="1247 890 1330 919">50%</td> <td data-bbox="1330 890 1531 919">100%</td> </tr> <tr> <td colspan="2" data-bbox="589 919 998 949">Short term Agri. Credit and Micro Credit</td> <td data-bbox="998 919 1081 949">5%</td> <td data-bbox="1081 919 1164 949">5%</td> <td data-bbox="1164 919 1247 949">5%</td> <td data-bbox="1247 919 1330 949">5%</td> <td data-bbox="1330 919 1531 949">100%</td> </tr> <tr> <td colspan="2" data-bbox="589 949 998 978">Small &amp; Medium Enterprise Finance</td> <td data-bbox="998 949 1081 978">1%</td> <td data-bbox="1081 949 1164 978">5%</td> <td data-bbox="1164 949 1247 978">20%</td> <td data-bbox="1247 949 1330 978">50%</td> <td data-bbox="1330 949 1531 978">100%</td> </tr> <tr> <td colspan="2" data-bbox="589 978 998 1008">Others</td> <td data-bbox="998 978 1081 1008">1%</td> <td data-bbox="1081 978 1164 1008">5%</td> <td data-bbox="1164 978 1247 1008">20%</td> <td data-bbox="1247 978 1330 1008">50%</td> <td data-bbox="1330 978 1531 1008">100%</td> </tr> </tbody> </table>	Types of loans and advances		Provision							UC	SMA	SS	DF	BL	Consumer	House building and professional	2%	5%	20%	50%	100%	Other than Housing Finance & Professionals to setup business	5%	5%	20%	50%	100%	Provision for loan against shares		2%	5%	20%	50%	100%	Short term Agri. Credit and Micro Credit		5%	5%	5%	5%	100%	Small & Medium Enterprise Finance		1%	5%	20%	50%	100%	Others		1%	5%	20%	50%	100%
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Small & Medium Enterprise Finance		1%	5%	20%	50%	100%																																																		
Others		1%	5%	20%	50%	100%																																																		
<p>* Discussion of the Bank's credit risk management policy</p>	<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>																																																							

**AB Bank Limited**

**Quantitative Disclosure**

		<u>In %</u>	<u>Amount in Taka</u>
(b) Total gross credit risk exposures broken down by major types of credit exposure	Overdraft	16.12%	14,233,823,128
	Cash credit	0.00%	-
	Time loan	20.08%	17,731,113,022
	Term loan	32.50%	28,700,771,656
	Blc	1.80%	1,593,434,004
	TR	21.98%	19,409,679,799
	LIM	0.00%	-
	Packing credit	0.40%	352,644,189
	Demand loan	0.04%	36,203,050
	Loan-accepted bills	2.12%	1,869,436,030
	Bill Purchased & Discount	2.72%	2,403,972,354
	Card Loan	0.26%	232,291,155
	Consumer loan	1.53%	1,346,941,764
	Staff Loan	0.42%	372,872,129
Others	0.02%	15,641,201	
	<b>Total</b>	<b>100.00%</b>	<b>88,298,823,480</b>
(C) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure	Urban Branches		
	Dhaka	58.88%	51,993,962,706
	Chittagong	26.01%	22,969,180,387
	Khulna	2.69%	2,375,300,000
	Sylhet	1.36%	1,201,500,000
	Barisal	0.27%	237,000,000
	Rajshahi	4.38%	3,870,300,000
		<u>93.60%</u>	<u>82,647,243,093</u>
	Rural Branches		
	Dhaka	3.11%	2,743,700,000
	Chittagong	0.87%	765,000,000
	Khulna	1.37%	1,207,900,000
	Sylhet	0.64%	565,500,000
	Barisal	0.00%	-
	Rajshahi	0.00%	-
	<u>5.98%</u>	<u>5,282,100,000</u>	
<b>Outside Bangladesh</b>			
ABBL, Mumbai Branch	0.42%	369,480,387	
	<b>100.00%</b>	<b>88,298,823,480</b>	

**AB Bank Limited**

		In %	Amount in Taka
(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	Agriculture	2.45%	2,159,300,000
	Large and medium scale industry	17.55%	15,497,100,000
	Working capital	19.16%	16,915,700,000
	Export	1.70%	1,505,300,000
	Commercial lending	42.52%	37,549,072,354
	Small and cottage industry	0.11%	96,900,000
	Others	16.51%	14,575,451,126
		<b>100.00%</b>	<b>88,298,823,480</b>
(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Repayable – on demand	15.27%	13,485,188,891
	– upto 3 months	21.91%	19,342,545,344
	– over 3 months but below 1 year	29.95%	26,448,585,826
	– over 1 year but below 5 years	30.77%	27,170,000,000
	– over 5 years	2.10%	1,852,503,419
		<b>100.00%</b>	<b>88,298,823,480</b>
(f) By major industry or counterparty type:			
	i. Amount of impaired loans and if available, past due loans,	2.10%	1,852,480,771
	ii. Specific and general provisions		1,962,814,882
iii. Charges for specific allowances and charge-offs during the period			709,237,082
(g) Gross Non Performing Assets (NPAs)			
Non Performing Assets ( NPAs) to Outstanding Loans & advances	<b>Movement of Non Performing Assets (NPAs)</b>		
	Opening Balance		1,949,168,813
	Additions		402,118,745
	Reductions		498,806,787
	Closing balance		<b>1,852,480,771</b>
	<b>Movement of Specific Provision for Non Performing Assets (NPAs)</b>		
	Opening Balance		823,960,313
	Provision made during the period		214,500,000
	Write - off		-
	Write - back of excess provisions		-
	Closing balance		1,038,460,313
	Provision held by Mumbai Branch		2,911,900
			<b>1,041,372,213</b>

**AB Bank Limited**

**E) Equities: Disclosures for Banking Book Positions**

Qualitative Disclosure

<p>(a) The general qualitative disclosure requirement with respect to the equity risk, including:</p> <p>* differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</p> <p>* 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.</p>	<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>
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**Quantitative Disclosure**

Amount in Taka

<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><b>Not Applicable</b></p>
<p>(C) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.</p>	<p>3,268,488,614</p>
<p>(d)</p> <p>* Total unrealized gains (losses)</p> <p>* Total latent revaluation gains (losses)</p> <p>* Any amounts of the above included in Tier 2 capital</p>	<p>279,733,144</p> <p>Nil</p> <p>Nil</p>

**AB Bank Limited**

(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	Nil
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**F) 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 behaviour of non-maturity deposits, and frequency of IRRBB measurement.	<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 Strees 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**

		<u>Taka in Million</u>		
(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).	Market Value of Assets	134,918		
	Market Value of Liability	122,968		
	Weighted Avg. Duration GAP	0.822		
	Yield to Maturity	9.76%		
	<u>Magnitude changes:</u>	<u>1%</u>	<u>2%</u>	<u>3%</u>
	Fall in MV of Equity	866.33	1,732.66	2,598.98
Tax adjusted loss	498.14	996.28	1,494.42	

**AB Bank Limited**

**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.
(b) 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'.
(c) 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.
(d) 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**

	<u>Amount in Taka</u>
(b) The capital requirements for:	
Interest rate risk	170,917,967
Equity position risk	589,424,252
Foreign exchange risk	36,151,925
Commodity risk	-
	<b>796,494,145</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.

**AB Bank Limited**

> 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 report 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**

		<u>Amount in Taka</u>
(b) The capital requirements for Operational Risk		1,282,704,037