DHAKA BANK LIMITED

Disclosures on Risk Based Capital
(Under Pillar-3 of Basel-II Framework)

For the year ended 31 December 2014

1. Capital Structure

1.1 Qualitative Disclosure

Under Basel-II Accord regulatory capital of a bank will be categorized into three tiers: (a) Tier – 1 Capital/Core Capital, (b) Tier-2 Capital/Supplementary Capital, and (c) Tier-3 Capital/Additional Supplementary Capital.

Total eligible regulatory capital of Dhaka Bank Limited consists of partly Tier-1 Capital and partly Tier-2 Capital. Almost 77.96% of total eligible capital is Tier-1 or core capital, which comprises of Paid-up Capital, Statutory Reserve, Retained Earnings, General Reserve etc. On the other hand, Tier-2 or supplementary capital (comprises of Non-convertible Subordinated Bond, General Provision, Asset Revaluation Reserve, and Revaluation Reserves for Securities) is 22.04% of total eligible capital and almost 28.28% of Tier-1 capital.

Non-convertible Subordinated Bond

Dhaka Bank Limited issued Redeemable Non Convertible Subordinated Bond of **BDT 2,000,000,000** for a term of 7 years to strengthen the capital base of the bank on the consent of SEC vides letter no.SEC/CI/CPLC-10/2001-256 dated 09.09.2010. As per BRPD Circular No. 10/2002 and BRPD Circular No. 13/2009 issued by Bangladesh Bank, among the total BDT 2,000,000,000 of Subordinated Bond, BDT 1,200,000,000 i.e. 9.97% of Tier-I capital has been considered as a component of Supplementary Capital (Tier-2) of the Bank.

1.2 Quantitative Disclosure

Sl. No.	Particulars	Amount (in crore BDT)	
		2014	**2013**
A.	**Tier-1 (Core) Capital:**		
	Fully Paid-up Capital	568.51	541.44
	Statutory Reserve	482.55	418.14
	General Reserve	16.03	13.99
	Retained Earnings	136.44	119.11
	Minority Interest in Subsidiaries		-
	Sub-Total:	**1203.54**	**1,092.68**
	Less : Other Deductions from Capital:		
	Capital Charge (50% from Tier-1) for exceeding the approved limit under Sec. 26(2) of Bank Company Act, 1991		-
	Tier-1 Capital/ Core Capital (A):	**1203.54**	**1,092.68**
B.	**Tier-2/ Capital/Supplementary Capital:**		
	General Provision (including provision for Off-Balance Sheet Exposure)	184.81	132.99
	Assets Revaluation Reserves up to 50%	32.42	32.42
	Revaluation Reserve for HTM & HFT Securities (up to 50%)	3.08	15.58
	Non-convertible Subordinated Bond	120.00	160.00
	Sub-Total:	**340.31**	**341.00**

Sl. No.	Particulars	Amount (in crore BDT)	
		2014	2013
	Less : Other deductions from Capital		
	Capital Charge (50% from Tier-1) for exceeding the approved limit Under Section 26(2) of Bank Company Act, 1991		-
	Total Tier-2 Capital/Supplementary Capital (B):	**340.49**	**341.00**
C.	**Total Eligible Regulatory Capital (A+B):**	**1,543.85**	**1,433.68**

2. Capital Adequacy

2.1 Qualitative Disclosure

As per the Guidelines on Risk Based Capital Adequacy (RBCA) for Banks under Basel-II Accord each banks have to maintain Capital Adequacy Ratio (CAR) on solo basis and consolidated basis as per instructions given by Bangladesh Bank from time to time. The minimum CAR for the year ended December, 2014 was 10% of total Risk Weighted Assets.

Dhaka Bank Limited strictly follows the guidelines of Bangladesh Bank regarding capital adequacy and its policy is to maintain regulatory capital at a level which is 1-3% higher than the minimum required capital.

2.2 Quantitative Disclosure

Sl. No.	Particulars	Amount (in crore BDT)	
		2014	2013
1.	**Risk Weighted Assets:**		
	For Credit Risk:		
	On-Balance Sheet	10,772.84	8,735.66
	Off-Balance Sheet	1,847.59	1,516.70
	For Market Risk	161.19	470.48
	For Operational Risk	1,002.54	1,046.46
	Total:	**13,784.16**	**11,769.30**
2.	**Minimum Capital Required:**		
	For Credit Risk	1,262.04	1,025.24
	For Market Risk	16.12	47.05
	For Operational Risk	100.25	104.64
	Total:	**1378.42**	**1,176.93**
3.	**Total Eligible Regulatory Capital:**		
	Tier-1 Capital/Core Capital	1,203.54	1,092.68
	Total Tier-2 Capital/Supplementary Capital	340.31	341.00
		1,543.85	**1,433.68**

Sl. No.	Particulars	Amount (in crore BDT)	
		2014	2013
4.	**Capital Adequacy Ratio:**		
	Tier-1 Capital to RWA	8.73%	9.28%
	Tier-2 Capital to RWA	2.47%	2.90%
	Total:	**11.20%**	**12.18%**

3. Credit Risk

3.1 Qualitative Disclosure

Exposure to Credit Risk

Credit risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to the Bank. Bank is exposed to credit risk from its dealing with or lending to corporate, individuals, and other banks or financial institutions.

Past due Claims

Special mention: These assets have potential weaknesses thus deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.

Sub–standard: These are the loans where bank has reason to doubt about the repayment of the loan although recovery prospect is encouraging.

Doubtful: Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.

Bad /Loss: These are the loans that have a bleak recovery possibility.

Capital Requirement for Credit Risk

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 both on-balance sheet and off-balance sheet exposures based on external credit rating (solicited) which mapped with the BB rating grade or a fixed weight specified by BB.

Minimum regulatory capital for credit risk is calculated by multiplying the Risk Weighted Assets (RWA) for both on balance sheet and off-balance sheet exposure with a certain percentage (10% for 2014).

Credit Risk Management System

Dhaka Bank is managing Credit Risk through a robust process that enables the bank to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders.

Credit risk is controlled and monitored by establishing appropriate limits and operational controls to constrain credit exposure to individual counter parties and counterparty groups. There are specific policies and procedures applicable to different business segments.

Credit Risk Mitigation

Banks use a number of techniques to reduce their credit risk to which they are exposed. Guidelines on Risk Based Capital Adequacy (RBCA) consider two aspects of credit risk mitigation:

a) Collateral for Credit Risk Mitigation

Taking collateral is the most common way to mitigate credit risk. The Bank generally takes collaterals in the form of pledges of sufficient eligible marketable securities or cash, mortgages over the property etc. All of the collaterals taken do not necessarily qualify for availing capital relief under the Basel-II Accord on capital adequacy.

Where a transaction is secured by eligible financial collateral and meets the eligibility criteria and minimum requirements, banks are allowed to reduce their credit exposure or potential credit exposure by taking into account the risk mitigating effect of the collateral for the calculation of capital charge.

To ensure with a high degree of certainty that the collateral value will cover the exposure, discounts ("haircuts") are generally applied to the current market value. These reflect the quality, liquidity, volatility and, in some cases, the complexity of the individual instruments. Exposures and collateral values are continuously monitored, and margin calls or close-out procedures are enforced, when the market value of collateral falls below a predefined trigger level. Concentrations within individual collateral portfolios and across clients are also monitored where relevant and may affect the discount applied to a specific collateral pool.

Dhaka Bank has developed stringent process on collateral management. The collaterals considered by Dhaka Bank for credit risk mitigation (for capital calculation under standardized approach) comprise of financial collaterals (Bank deposits, Gold, Debt securities, equities, units of mutual funds etc). A detail process of calculation of correct valuation and application of haircut has been put in place with the help of core banking software Flex-cube (State of the art banking software of Dhaka Bank).

Majority of financial collaterals held by Dhaka Bank are in the form of own deposits and thus are not exposed to any uncertainty in realization in case of default by counterparty. As such, there is no risk concentration on account of nature of collaterals.

b) Guarantee for Credit Risk Mitigation

To reduce credit risk transaction may be secured by guarantees. Where guarantees are direct, explicit, irrevocable and unconditional banks may consider such credit protections in calculating capital requirements through a substitution approach. Only guarantees issued by entities with a lower risk weight than the counterparty will lead to reduced capital charge, whereas the uncovered portion retains the risk weight of the underlying counterparty.

In Dhaka Bank only those guarantees that are direct, explicit, irrevocable and unconditional, are taken into consideration for calculating capital requirement. Use of such guarantees for capital calculation purpose is strictly as per Bangladesh Bank Guidelines on Risk Based Capital Adequacy.

3.2 Quantitative Disclosure

Particulars	Amount (in crore BDT)	
	2014	2013
Total gross credit risk	12,620.43	10,252.36
Funded Domestic	10,772.84	8,735.66
Non-Funded Domestic	1,847.59	1,516.70
Geographical distribution of exposures		
- Domestic	12,656.64	10,252.36
- Overseas	-	-
Cash and Cash equivalents	-	-
Claims on Bangladesh Government and Bangladesh Bank	-	-
Claims on Banks & NBFI:	177.15	136.98
Claims on Corporate	6,740.60	5,218.00
Credit Risk Mitigation	354.37	444.97
Claims included in retail portfolio & Small Enterprise	989.22	848.17
Claims on Consumer Loan	97.93	55.00
Claims fully secured by residential property	51.89	60.25
Claims fully secured by commercial real estate	407.42	368.81
Past due claims	414.73	337.81
Other categories	1604.65	1,265.67
Total Risk weighted assets for On-balance sheet items	10,772.84	8,735.66
Risk weighted assets for Off-balance sheet exposure	1,847.59	1,516.70
Gross Non Performing Assets (NPAs)	565.73	413.67
Non Performing Assets (NPAs) to Outstanding Loans & Advances	5.49%	4.15%
Movement of Non Performing Assets (NPAs):		
Opening Balance	413.67	565.63
Additions	405.72	172.73
Reductions	(253.66)	(324.69)
Closing Balance	**565.73**	**413.67**
Movement of specific provisions for NPAs:		
Opening	218.57	249.79
Specific provision for the year	24.39	245.81
Fully provided debt written off	(12.96)	(117.53)
Provision no longer required due to recoveries	(17.97)	(159.49)
Closing Balance	**212.03**	**218.51**

4. Market Risk

4.1 Qualitative Disclosure

Views of Board of Directors (BODs) on trading/investment activities:

Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate due to changes in different market variables, namely:

- Interest Rate Risk
- Equity Position Risk
- Foreign Exchange Risk
- Commodity Risk

All these risks are monitored by the Treasury. The foreign exchange risk is managed by setting limits on open foreign exchange position.

Methods Used to Measure Market Risk

To measure of market risk the Bank uses Value-at-Risk (VaR).

Market Risk & Liquidity Risk Management Policies and System

The objective of investment policy covering various facets of Market Risk is to assess and minimize risks associated with treasury operations by extensive use of risk management tools. Broadly it encompasses policy prescriptions for managing systematic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

For market risks arising out of various products in trading book of the Bank and its business activities, the bank sets regulatory internal and ensure adherence thereto. Limits for exposure to counter-parties, industries and countries are monitored and the risks are controlled through Stop Loss limits, Overnight limit, Daylight limit, Aggregate Gap limit, Value at Risk (VAR) limit for forum, inter-bank dealing and investment limit etc.

For the Market Risk Management of the bank, it has a mid-office with separate Desks for Treasury & Asset Liability Management (ALM). Asset Liability Management Committee (ALCO) is primarily responsible for establishing the market risk management, asset liability management of the bank, procedures thereof, implementing core risk management framework issued by regulator, best risk management practices followed globally and ensuring that internal parameters, procedures, practices/polices and risk management prudential limits are adhered to.

Liquidity risk of the bank is assessed through Gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limit fixed thereon. Further bank is also monitoring the liquidity position through various stock ratios. The bank is proactively using duration gap and interest rate forecasting to minimize the impact of interest rate changes.

Interest Rate Risk in the Trading Book

Dhaka Bank uses maturity method in measuring interest rate risk in respect of securities in the trading book. However, the capital charge for entire market risk exposure is calculated under the standardized approach using the maturity method and guideline of Bangladesh Bank in this respect.

Dhaka Bank's investment in interest rate sensitive instruments (such as Government Treasury Bill & Bond, sub-ordinated bond, commercial paper etc.) stood at BDT 1,902.42 crore as on 31 December 2014.

Investment was mostly in long term Government Securities. The Government Treasury Bonds were purchased at higher rate of interest to cover the increased SLR arising from the growth of deposit liabilities.

Interest Rate Risk in the Banking Book

Interest rate risk is the risk where changes in the market interest rates might adversely affect a bank's financial condition. The immediate impact of changes in interest rates is on the Net Interest Income (NII). A long term impact of changing interest rates is on the bank's net worth since the economic value of banks' assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

In Dhaka Bank the responsibility of interest rate risk management rests with the bank's Assets Liability Management Committee (ALCO). The bank periodically computes the interest rate risks in the banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. For the purpose of monitoring such interest rate risk, the bank has in place a system that tracks the re-pricing mismatches in interest bearing assets and liabilities. For the computation of the interest rate mismatch the guidelines of the Bangladesh Bank are followed.

Equities

Dhaka Bank has considerable investment in equity shares of various companies and mutual funds and has active participation in the secondary market. The bank also participates in the primary market by the purchase of shares and securities from private placement for institutional investors. There is an investment committee for the management of investment portfolio and associated risk to which bank may be exposed. In the investment process Dhaka Bank strictly follow the internal policies and procedures put into place in this respect.

Valuation of Equity Securities

Shares and securities are valued as per the prescribed guideline of Bangladesh Bank and adequate provision is maintained accordingly for unrealized losses (if any).

Capital Charge for Equity Position Risk

Capital charge for equities are calculated on the basis of their current market value in the bank's trading book. This capital charge is calculated taking into account both the specific risk and the general market risk factor by applying the same rate of minimum capital adequacy ratio (10% for 2014).

4.2 Quantitative Disclosure

4.2.1 Equity Position

Sl. No.	Particulars	Amount (in Crore BDT)	
		2014	**2013**
1.	Investment in Equity Securities:		
	Cost price	67.08	255.76
	Market Price	50.87	178.19
	Difference	**(16.21)**	**(77.57)**
2.	The cumulative realized gains (losses) arising from sales and liquidation	(58.51)	6.68
3.	Total unrealized gains (losses)	(16.21)	(77.57)

Sl. No.	Particulars	Amount (in Crore BDT)	
		2014	2013
4.	Total latest revaluation gains (losses)	-	-
5.	Any amount of the above included in Tier 2 capital	-	-
6.	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 (10% on market value).		
	• Specific Market Risk	28.27	24.05
	• General Market Risk	28.27	24.05

4.2.2 Capital Requirement for Market Risk

Particulars	Amount (in Crore BDT)	
	2014	2013
The capital requirements for:		
Interest Rate Risk	9.64	0.97
Equity position risk	5.65	35.64
Foreign exchange risk	0.83	10.44
Commodity risk	-	-
Total	**16.12**	**47.05**

4.2.3 Interest rate risk in the Banking Book (for 1% change in the market risk of interest)

The Increase (decline) in earning 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):

Particulars	Up to 01 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years
Rate Sensitive Assets	2,991.01	2,511.17	3,137.38	3,301.73	1,008.54
Rate Sensitive Liabilities	1,655.94	1,876.00	7,200.39	1,640.48	1,054.01
GAP	1,335.07	635.18	-4,063.01	1,661.24	-45.46
Cumulative GAP	1,335.07	1,970.24	-2,092.77	-431.53	-476.99
Adjusted Interest Rate Changes	1%	1%	1%	1%	1%
Quarterly Earnings Impact	3.34	1.59	-10.16	4.15	-0.11
Accumulated Earnings Impact	3.34	4.93	-5.23	-1.08	-1.19
Earning Impact/Avg Quarterly Net Profit	6.24%	2.97%	-18.99%	7.76%	-0.21%

5. Operational Risk

5.1 Qualitative Disclosure

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example failed IT systems, or fraud perpetrated by a DBL employee), or from external causes, whether deliberate, accidental or natural. It is inherent in all of the Bank's activities.

Views of Board of Directors (BODs) to Operational Risk

Dhaka Bank's approach to operational risk is not designed to eliminate risk altogether but rather, to contain risks within levels deemed acceptable by senior management. Operational risks are monitored and, to the extent possible, controlled and mitigated.

All functions, whether business, control or logistics functions, must manage the operational risks that arise from their activities. Operational risks are pervasive, as a failure in one area may have a potential impact on several other areas. The Bank has therefore established a cross-functional body to actively manage operational risk as part of its governance structure.

The foundation of the operational risk framework is that all functions have adequately defined their roles and responsibilities. The functions can then collectively ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability. All the functions use their controls to monitor compliance and assess their operating effectiveness in several ways, including self-certification by staff, tracking of a wide range of metrics (for example, the number and characteristics of client complaints, deal cancellations and corrections, un-reconciled items on cash and customer accounts, and systems failures), and the analysis of internal and external audit findings.

Performance Gap of Executives and Staffs

Dhaka Bank always tries to be the best pay master in the sector and ensure best workplace safety for its employees to avoid inconsistent employment practices and unsound workplace safety caused by way of discrimination regarding employee's compensation, health and safety.

Potential External Events

Dhaka Bank has invested heavily in IT infrastructure for better automation and online transaction environment. The bank also has huge investment on alternative power supply (both UPS & generators) and network links to avoid business description and system failure. Its IT system does not allow any kind of external access to avoid external fraud by way of theft/ hacking of information assets, forgery etc. Dhaka Bank has also invests considerable on security from terrorism and vandalism to avoid damage to physical assets.

Approach for Calculating Capital Charges for Operational Risk

For calculating eligible regulatory capital under Basel-II Capital Accord, Dhaka Bank follows the Basic Indicator Approach.

5.2 Quantitative Disclosure

Capital requirement for Operational Risk exposure of Dhaka Bank is as below:

Particulars	Amount (in Crore BDT)	
	2014	2013
The capital requirements for Operational Risk	100.25	104.65