DHAKA BANK
LIMITED

Disclosures on Risk Based Capital
(Under Pillar-3 of Basel-III Framework)
For the year ended 31 December 2021

BACKGROUND:

The Disclosure on Risk Based Capital (under pillar 3 of Basel III framework) has been prepared in accordance with the Guidelines on 'Risk Based Capital Adequacy' published by Bangladesh Bank on December 2014. These disclosures are purported to affirm the information on Minimum Capital Requirement (MCR) under Pillar 1 and Supervisory Review Process (SRP) under Pillar 2 and ensure transparency about the capital adequacy of the Bank, capital adequacy framework, risk assessment and mitigation methodologies, risk exposure in various spectrum so that the stakeholders of the industry can examine the risk related compliance of the Bank.

1. SCOPE OF APPLICATION:

1.1 Qualitative Disclosure:

a) The Risk Based Capital Adequacy and related disclosures are applicable for **Dhaka Bank Limited** which is the top corporate entity of the group having 2 (two) subsidiaries-viz. 1) Dhaka Bank Securities Limited and 2) Dhaka Bank Investment Limited.

b) **Brief Description of the Subsidiaries:**

1. **Dhaka Bank Securities Limited:**
   Dhaka Bank Securities Limited (the name of company has been changed from DBL Securities Limited to Dhaka Bank Securities Limited dated 27 April 2014) was incorporated with the Registrar of Joint Stock Companies and Firms (RJSCF) vide registration no. C-85857/10 dated 19 July 2010 as a Private Company limited by Shares having its registered office at Adamjee Court (1st Floor), 115-120, Motijheel C/A, Dhaka -1000. The company is the Trading Right Entitlement Certificate (TREC) holder of both the stock exchanges of the country (TREC No. 193 in DSE and TREC No. 081 in CSE). The Company commenced its business operations from 13 February 2011 as a wholly owned subsidiary of Dhaka Bank Limited.

2. **Dhaka Bank Investment Limited:**
   Dhaka Bank Investment Limited was incorporated with the Registrar of Joint Stock Companies and Firms (RJSCF) vide registration no. C-112730/13 dated 02 December, 2013 as a Private Company limited by Shares having its registered office at Biman Bhaban (1st Floor), 100, Motijheel C/A, Dhaka -1000. The company is yet to obtain registration certificates from Securities and Exchange Commission.

Basis for Consolidation:
The quantitative disclosures are made on the basis of audited financial statements of the bank and its subsidiaries as at and for the year ended December 31, 2021. The consolidated financial statements have been prepared in accordance with Bangladesh Accounting Standard-27 "Consolidated and Separate Financial Statements". The consolidated financial

Dhaka Bank Limited
Corporate Office, Dhaka
BASEL

statements are prepared to a common financial year ended December 31, 2021.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Profit and loss resulting from transaction between Groups is also eliminated on consolidation.

c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group: **Not applicable.**

1.2 Quantitative Disclosure:

d) 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: **Not applicable**

2. CAPITAL STRUCTURE

2.1 Qualitative Disclosure

Under Basel-III 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 **62.02%** (Solo basis) 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 General Provision and Non-convertible Subordinated Bond) is **37.98%** of total eligible capital and almost **88.89%** of Tier-1 capital.

Non-convertible Subordinated Bond

Dhaka Bank Limited issued Redeemable Non-Convertible 3rd Subordinated Bond of **BDT 5,000,000,000** for a term of 7 years to strengthen the capital base of the bank on the consent of SEC vide letter no. BSEC/CI/CPLC/DS-210/2009/210 dated 28.03.2018. As per BRPD Circular No. 10/2002 and BRPD Circular No. 13/2009 issued by Bangladesh Bank, the total BDT 5,000,000,000 of 3rd Subordinated Bond has been considered as a component of Supplementary Capital (Tier-2) of the Bank. Dhaka Bank Limited previously issued Redeemable Non-Convertible 2nd Subordinated Bond of **BDT 3,000,000,000** for a term of 7 years to strengthen the capital base of the bank, repayment of principal of which started from May 2019 @ Tk. 60.00 crore. Now 2nd Subordinated Bond outstanding is BDT 1,200,000,000.00.

Dhaka Bank Limited BASEL Corporate Office, Dhaka

DHAKA BANK
LIMITED

2.2 Quantitative Disclosure

Sl. No.	Particulars	Amount (in Crore BDT)	
		Consolidated	Solo
A.	**Tier-1 Capital (Going-Concern Capital):**		
	Common Equity Tire- 1 Capital (CET- 1)		
	Fully Paid-up Capital	949.62	949.62
	Statutory Reserve	908.63	908.63
	General Reserve	0.66	0.66
	Retained Earnings	230.20	163.18
	Minority Interest in Subsidiaries	0.01	0.00
	Sub-Total:	**2,089.11**	**2,022.09**
	Less : Regulatory Adjustment:		
	Book value of Goodwill and value of all other Intangible Assets**	49.35	49.35
	Deferred Tax Assets (DTA)	36.82	29.48
	Sub-Total:	**86.17**	**78.82**
	Total Common Equity Tire- 1 Capital (CET 1)	**2,002.95**	**1,943.26**
	Additional Tire- 1 Capital (AT- 1)	-	-
	Total Tier-1 Capital (A):	**2,002.95**	**1,943.26**
B.	**Tier-2 Capital (Gone Concern Capital):**		
	General Provision (including provision for Off-Balance Sheet Exposure)	830.18	830.18
	Assets Revaluation Reserves up to 80%	-	-
	Revaluation Reserve for HTM & HFT Securities (up to 80%)	-	-
	Non-convertible Subordinated Bond	360.00	360.00
	Sub Total:	**1,190.18**	**1,190.18**
	Less : Regulatory Adjustment	-	-
	Total Tier-2 Capital (B):	**1,190.18**	**1,190.18**
C.	**Total Eligible Regulatory Capital (A+B):**	**3,193.13**	**3,133.44**

**Written down value of Software which is treated as Intangible Assets

Dhaka Bank Limited ★ Corporate Office Dhaka ★

DHAKABANK
LIMITED

3. CAPITAL ADEQUACY

3.1 Qualitative Disclosure

As per the Guidelines on Risk Based Capital Adequacy (RBCA) for Banks under Basel-III Accord each bank have to maintain Capital to Risk-weighted Asset Ratio (CRAR) on solo basis and consolidated basis as per instructions given by Bangladesh Bank from time to time. The requirement for minimum CRAR for the year ended December, 2021 was 12.50% 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 higher than the minimum required capital.

3.2 Quantitative Disclosure:

Sl. No.	Particulars	Amount (in Crore BDT)	
		Consolidated	Solo
1.	**Risk Weighted Assets:**		
	For Credit Risk:		
	On-Balance Sheet	15,734.68	15,770.59
	Off-Balance Sheet	3,659.72	3,659.72
	For Market Risk	709.84	310.60
	For Operational Risk	1,684.10	1,648.95
	Total:	**21,788.33**	**21,389.86**
2.	**Minimum Capital Required:**		
	For Credit Risk	1,939.44	1,943.03
	For Market Risk	70.98	31.06
	For Operational Risk	168.41	164.90
	Total:	**2,178.83**	**2,138.99**
3.	**Total Eligible Regulatory Capital:**		
	Tier-1 Capital/Core Capital	2,002.95	1,943.26
	Total Tier-2 Capital/Supplementary Capital	1,190.18	1,190.18
		3,193.13	**3,133.44**
4.	**Capital Adequacy Ratio:**		
	Tier-1 Capital to RWA	9.19%	9.09%
	Tier-2 Capital to RWA	5.47%	5.56%
	Total:	14.66%	14.65%

Dhaka Bank Limited Corporate Office Dhaka

4. CREDIT RISK

4.1 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 (12.50% for 2021).

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.

<u>Credit Risk Mitigation</u>

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:

Dhaka Bank Limited
Corporate Office Dhaka

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-III 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 (FDR & DPS), Gold, Debt securities, equities, units of mutual funds etc.).

Majority of financial collaterals held by Dhaka Bank are in the form of own deposits (FDR & DPS), 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.

Dhaka Bank Limited
BASEL
Corporate Office

DHAKA BANK
LIMITED

4.2 Quantitative Disclosure:

4.2.1 Total gross credit risk exposures broken down by major types of credit exposure

(Amount in Crore BDT)

Particulars	Consolidated	Solo
Cash and Cash equivalents	230.15	230.14
Claims on Bangladesh Government and Bangladesh Bank	5,613.38	5,613.38
Claims on Banks & NBFI	3,128.40	3,102.85
Claims on Corporate	11,992.27	12,115.72
Claims under Credit Risk Mitigation	4,994.83	4,994.95
Claims included in retail portfolio & Small Enterprise	1,015.52	1,127.87
Claims on Consumer Loan	173.24	173.24
Claims fully secured by residential property	53.99	53.99
Claims fully secured by commercial real estate	216.04	216.04
Past due claims	1,068.70	1,068.70
Capital market exposure	244.36	268.58
Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book	980.68	889.50
Investments in venture capital	100.00	100.00
Investments in premises, plant and equipment and all other fixed assets	897.49	895.49
All other assets:		
I) Claims on GOB & BB	1,010.04	1,010.04
ii) Staff Loan / Investment	130.34	130.34
iii) Claims on OFFshore OBU	1,025.48	1,025.48
iv) Other Assets	152.32	121.28
Total:	**33,027.23**	**33,137.57**

Dhaka Bank Limited Corporate Office Dhaka

DHAKABANK
LIMITED

4.2.2 Types of Credit Exposure:

(Amount in Crore BDT)

Types of Loan	DECEMBER, 2021	DECEMBER, 2020
Secured Overdraft/Quard	4,301.91	4,575.25
Cash Credit/Murabaha	385.77	474.72
House Building Loan	247.27	246.40
Transport Loan	258.99	268.27
Term Loan	7,795.31	7,416.53
Loan Against Trust Receipt	463.67	710.10
Payment Against Documents	1.87	4.74
Loan Against Imported Merchandize	-	-
Loan Against Accepted Bills	154.14	371.04
Packing Credit	66.19	49.20
Lease Finance / Izara	490.69	560.83
Credit Card	70.86	58.93
Retail Loan	103.51	106.73
Bills Purchased and discounted	316.75	247.60
Other Loans (Including Bai-Muajjal)	6,888.91	4,775.72
Grand Total	**21,545.86**	**19,866.05**

4.2.3 Geographical Distribution of Exposure (Region Based):

(Amount in Crore BDT)

	DECEMBER, 2021	DECEMBER, 2020
Urban		
Dhaka Region	16,289.63	15,341.54
Chittagong Region	3,391.28	2,721.33
South Region	193.40	189.72
North Region	325.95	326.38
Sylhet Region	88.71	101.83
Other	73.46	16.37
Sub. Total	**20,362.43**	**18,697.17**
Rural		
Dhaka Region	912.93	868.89
Chittagong Region	104.04	112.74
South Region	-	-
North Region	159.85	180.70
Sylhet Region	6.61	6.55
Other	-	-
Sub. Total	**1,183.43**	**1,168.88**
Grand Total	**21,545.86**	**19,866.05**

Dhaka Bank Limited Corporate Office

4.2.4 Industry or counterparty type distribution of exposures:

(Amount in Crore BDT)

INDUSTRY TYPE	DECEMBER, 2021	DECEMBER, 2020
AGRICULTURE	264.37	224.59
RMG	3,423.37	2,851.29
TEXTILE	1,733.03	1,630.45
SHIP BUILDING	320.79	289.29
SHIP BREAKING	195.76	205.41
OTHER MANUFACTURING	6,010.30	4,247.15
SME LOANS	2,586.85	2,615.99
CONSTRUCTION	1,416.09	1,390.88
POWER, GAS	925.04	646.52
TRANSPORT, STORAGE & COMMUNICATION	368.88	324.74
TRADE SERVICE	1,275.21	948.00
COMMERCIAL REAL ESTATE FINANCE	438.52	369.58
RESIDENTIAL REAL ESTATE FINANCING	55.52	29.51
CONSUMER CREDIT	562.95	572.47
CAPITAL MARKET	268.55	195.70
OTHERS	1,386.33	3,275.95
NON-BANK FINANCIAL INSTITUTIONS	314.31	48.53
GRAND TOTAL	**21,545.86**	**19,866.05**

4.2.5 Residual contractual maturity of credit exposure:

(Amount in Crore BDT)

PARTICULARS	DECEMBER, 2021	DECEMBER, 2020
On demand	2,129.04	3,822.15
Upto one month	2,193.89	1,287.78
Not more than three months	3,459.12	2,478.26
More than three months but not more than six months	3,748.21	2,943.80
More than six months but not more than one year	2,401.04	2,131.80
More than one year but not more than five years	4,071.16	4,849.58
More than five years	3,543.42	2,352.67
TOTAL	**21,545.86**	**19,866.05**

Dhaka Bank Limited

4.2.6 Major Industry type amount of impaired loans (as of December, 2021):

(Amount in BDT Crore)

INDUSTRY TYPE	SS	DF	BL	TOTAL
AGRICULTURE	-	0.22	0.80	1.02
RMG	-	-	86.20	86.20
TEXTILE	-	-	-	-
SHIP BUILDING	-	-	-	-
SHIP BREAKING	-	-	-	-
OTHER MANUFACTURING	0.88	-	111.29	112.17
SME LOANS	33.34	4.36	353.14	390.84
CONSTRUCTION	1.71	-	-	1.71
POWER, GAS	-	-	2.55	2.55
TRANSPORT, STORAGE & COMMUNICATION	-	-	29.57	29.57
TRADE SERVICE	1.16	-	70.57	71.74
COMMERCIAL REAL ESTATE FINANCE	-	-	7.67	7.67
RESIDENTIAL REAL ESTATE FINANCING	0.18	-	0.83	1.02
CONSUMER CREDIT	1.97	0.98	7.04	9.99
CAPITAL MARKET	-	-	-	-
OTHERS	-	-	-	-
NON-BANK FINANCIAL INSTITUTIONS	-	-	-	-
GRAND TOTAL	**39.24**	**5.56**	**669.66**	**714.47**

4.2.7 Gross Non Performing Assets (NPAs)

(Amount in Crore BDT)

	2021	2020
Gross Non-Performing Assets (NPAs)	714.47	622.71
Non-Performing Assets (NPAs) to Outstanding Loans & Advances	3.32%	3.13%
Movement of Non-Performing Assets (NPAs):		
Opening Balance	622.71	927.79
Additions	286.84	6.90
Reductions	195.08	311.98
Closing Balance	**714.47**	**622.71**
Movement of specific provisions for NPAs:		
Provision held at the beginning of the year	749.34	460.12
Specific provision	25.21	308.99
Recoveries from written off loans	0	-
Fully provided debt written off	37.25	(1.01)
Provision no longer required	(77.69)	(18.75)
Provision held at the end of the year	**734.11**	**749.34**

Dhaka Bank Limited ★ Corporate Office Dhaka

5. Equities: Disclosures for Banking Book Positions

5.1 Qualitative Disclosures

Dhaka Bank has considerable investment in equity shares of various companies and mutual funds and has active participation in the secondary market through Dhaka Bank Securities Ltd. The bank also participates in the primary market by the purchase of shares and securities from IPOs. In the investment process Dhaka Bank Ltd. 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 (12.50% for 2021).

5.2 Quantitative Disclosure

5.2.1 Equity Position

Sl. No.	Particulars	Amount (in Crore BDT)	
		Consolidated	Solo
1.	Investment in Equity Securities:		
	Cost price	266.63	38.39
	Market Price	275.19	75.57
	Difference	-8.56	37.18
2.	The cumulative realized gains (losses) arising from sales and liquidation	9.68	0.26
3.	Total unrealized gains (losses)	28.62	37.18
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	27.52	7.56
	General Market Risk	27.52	7.56

DHAKA BANK
LIMITED

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

6.1 Qualitative Disclosures

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.

6.2 Quantitative Disclosures (for 1% change in interest rate for both asset and liability portfolio of the bank)

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	3 months	6 months	1 year	Above 1 year	Total
Rate Sensitive Assets	10,079.03	2,192.61	4,385.21	12,028.08	28,684.93
Rate Sensitive Liabilities	10,870.47	2,534.37	5,068.75	4,214.75	22,688.34
GAP	(791.44)	(341.77)	(683.53)	7,813.33	5,996.59
Cumulative GAP	(791.44)	(1,133.21)	(1,816.74)	5,996.59	-
Adjusted Interest Rate Changes	1.00%	1.00%	1.00%	1.00%	1.00%
Quarterly Earnings Impact	(7.91)	(3.42)	(6.84)	78.13	59.97
Accumulated Earnings Impact	(7.91)	(11.33)	(18.17)	59.97	-

Dhaka Bank Limited Corporate Office Dhaka

7. Market Risk

7.1 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 facts 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.

7.2 Quantitative Disclosure: Capital Requirement for Market Risk

Particulars	Amount (in Crore BDT)	
	Consolidated	Solo
The capital requirements for:		
Interest Rate Risk	0.00	0.00
Equity position risk	55.03	15.11
Foreign exchange risk	15.95	15.95
Commodity risk	-	-
Total	**90.98**	**31.06**

8. OPERATIONAL RISK

8.1 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 disruption 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 invested considerable amount for 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.

8.2 Quantitative Disclosure

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

Particulars	Amount (in Crore BDT)	
	Consolidated	Solo
The capital requirements for Operational Risk	168.41	164.90

9. LIQUIDITY RATIO

9.1 Qualitative Disclosure

Qualitative Disclosures	(a)	**Views of Board of Directors on system to reduce liquidity Risk:** The Board reviews and approves the Assets Liability Management Policies and ensures that senior management manages liquidity risk effectively in the context of the Bank's business plan, long term funding plan and economic and financial position. DBL uses liquidity ratios and stressed liquidity gaps as key metrics to establish its liquidity risk tolerance levels. These metrics measures the Bank's ability to fulfill all its payment obligations stemming from ongoing business operations under various stress scenarios. The tolerance levels are defined either in the form of limits or management action triggers (MAT) and are part of the Bank's overall liquidity management framework which is approved and reviewed by the Board on an annual basis.

DHAKABANK
LIMITED

		Methods used to measure Liquidity risk: There are different tools prescribed by Bangladesh Bank to measure and monitor liquidity risks. Following ratios are used by DBL as indicators for liquidity risks: i. Statutory Liquidity Requirement (SLR); ii. Cash Reserve Ratio (CRR); iii. Asset to Deposit Ratio (ADR); iv. Structural Liquidity Profile (SLP); v. Maximum Cumulative Outflow (MCO); vi. Medium Term Funding Ratio (MTF); vii. Liquidity Coverage Ratio (LCR); viii. Net Stable Funding Ratio (NSFR); ix. Liquid Asset to Total Deposit Ratio; x. Liquid Asset to Short Term Liabilities; In addition to the above, DBL uses Stress Testing report and Liquidity mismatch profile as the methods to measure Liquidity risk.
		Liquidity risk management system: Asset Liability Management Committee (ALCO) of DBL sets the direction for the Bank's liquidity management. ALCO meets at least once in every month and more as and when required. ALM desk of the Treasury Division closely monitors and controls liquidity requirements on regular basis by proper coordination of funding activities. It also monitors market developments, understanding their implications for the Bank's liquidity risk exposure and recommends appropriate risk management measures to ALCO. Another strategy of liquidity risk management is to develop a diversified funding base. It aims to align sources of funding with their use.
		Policies and processes for mitigating liquidity risk: Dhaka Bank Ltd. has Contingency Funding Plan and Treasury Policy as a policy support to mitigate liquidity risk. The Board and the management of DBL put into operation the following check points and mechanisms for superior liquidity risk management: • **Liquidity risk tolerance:** Bank set liquidity risk tolerance like Maximum Cumulative Outflow at 19%; • Maintaining adequate levels of liquidity considering the average daily withdrawal by the customers; • Identification and measurement of contingent liquidity risks arising from unseen scenarios. • **Contingency funding plan:** Contingency funding plans incorporate events that could rapidly affect the bank's liquidity arising from sudden inability to call back long-term loans and advances, or the loss of a large depositor or counterparties. • Public disclosure in promoting market discipline under Pillar 3 of Basel III. • Maturity ladder of cash inflows and outflows are effective tool to determine banks cash position; that estimates cash inflows and outflows with net deficit or surplus (GAP) both on a day to day basis and over a series of specified time periods. • A bucket wise (e.g. call, 2-7 days, 1 month, 1-3 months, 3-12 months, 1-5 years, over 5 years) maturity profile of the assets and liabilities is prepared to understand mismatch in every bucket.

9.2 Quantitative Disclosure:

Particulars	Unit	Position
Liquidity Coverage Ratio (LCR)	%	103.59%
Net Stable Funding Ratio (NSFR)	%	101.98%
Stock of High Quality Liquid Assets	(in Crore BDT)	5,897.40
Total net cash outflows over the next 30 calendar days	(in Crore BDT)	5,693.02
Available amount of stable funding	(in Crore BDT)	25,003.65
Required amount of stable funding	(in Crore BDT)	24,517.88

10. LEVERAGE RATIO

10.1 Qualitative Disclosure

Qualitative Disclosures	(a)	**Views of Board of Directors on system to reduce liquidity Risk:** An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. At the height of the crisis, financial markets forced the banking sector to reduce its leverage in a manner that amplified downward pressures on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital and shrinking credit availability. To defuse the crisis, the Basel III framework introduced a non-risk-based capital measure, the leverage ratio, as an additional prudential tool to complement minimum capital adequacy requirements. Leverage ratio is the relative amount of Tier 1 capital to total exposure of the Bank (not risk-weighted) which has been set at minimum 3%. Under Basel III, a simple, transparent, non-risk based regulatory leverage ratio has been introduced to achieve the following objectives: ➢ Restrict the leverage in the banking sector, thus helping to mitigate the risk of the destabilizing deleveraging processes which can damage the financial system and the economy ➢ Reinforce the risk-based requirements with a simple, transparent, independent measure of risk The Board of Risk Management Committee regularly reviews the leverage ratios and advises the management to strictly monitor the ratio in addition to the Pillar- 1 Minimum Capital Requirement.
		Policies and processes for managing excessive on and off-balance sheet leverage: The bank reviews its leverage position as per the Guidelines on Risk Based Capital Adequacy (revised regulatory capital framework for banks in line with Basel III). In addition, the bank has Risk Appetite as per Credit Risk Management Policy. Bank also employs Annual Budget Plan and Capital Growth Plan for managing excessive on and off-balance sheet leverage.
		Approach for calculating exposure: The bank calculates the exposure under standardized approach as per the Guidelines on Risk Based Capital Adequacy (revised regulatory capital framework for banks in line with Basel III).

10.2 Quantitative Disclosure:

(in Crore BDT)

Particulars	Amount (Consolidated)	Amount (Solo)
Leverage Ratio	4.65%	4.52%
On balance sheet exposure	32,922.97	32,801.01
Off balance sheet exposure	10,239.36	10,239.36
Total exposure	**43,076.17**	**42,961.55**

**Leverage ratio come into effect from March 31, 2015 as per RBCA Guidelines.*

11. REMUNERATION

11.1 Qualitative Disclosure

Qualitative Disclosures	(a)	The remuneration committee provides assistance to the Board in relation to the remuneration arrangements of the Bank. The Board makes all final decisions in relation to those arrangements. The current members of the Committee are as follows: 1. Emranul Huq, Managing Director & CEO 2. Sahabub Alam Khan, EVP & CFO 3. M Rezaur Rahman, EVP & Head, Human Resources Division The committee is responsible to give input into the total risk framework in relation to remuneration risk, in particular, recommending to the Board the remuneration arrangements. The Committee's remuneration responsibilities include conducting reviews of, and making recommendations to the Board on, the remuneration policy taking into account the Bank's strategy, objectives, risk profile, shareholder interests, regulatory requirements, corporate governance practices and employee interests. The Committee may consult a professional adviser or expert, at the cost of the Bank, if the committee considers it necessary to carry out its duties and responsibilities. No remuneration recommendations were obtained from external consultants during the reporting period. The Board has approved a remuneration policy which applies to the Bank. The policy does not apply to service contracts with third parties. The policy deals with base remuneration and performance based remuneration including the deferral of short-term incentive payments. As on 31 December 2021, we have 109 branches, 3 SME service centers and 2 Offshore Banking Unit in different areas of Bangladesh. The Bank has no foreign subsidiaries and branches. For the purposes of the accompanying remuneration disclosures, the "senior managers" of the bank comprise of Managing Director, the heads of appropriate big branches, the heads of operation, corporate, and credit risk functions and the company secretary. There were 57 senior managers as at the end of the reporting period.

	(b)	The policy establishes a remuneration framework designed to attract, retain, and motivate employees to achieve the objectives of the bank. The framework is structured to provide the desired flexibility and reward arrangements to support the Bank's strategy. The main features of the remuneration framework are: simplicity, fairness, alignment with values, appropriate risk behavior and transparency. Salary & benefits structure implemented with effect from 1 July 2016. The major objectives of the remuneration policy includes: 1. To ensure market driven pay and benefits, 2. To retain bright professionals of the bank; 3. To take the advantage over other banks in terms of attracting prospective employees due to less advantageous pay and benefits compared to the competitors. Dhaka Bank reviewed its employee remuneration during 2016. Accordingly, changes were made. Managers to manage the branch and employees to handle the cash are remunerated by charge allowance and risk allowance respectively. Risk and control personnel are still eligible to receive an annual bonus payment under the performance bonus plan.
	(c)	The remuneration framework includes the following arrangements and processes designed to ensure that remuneration outcomes appropriately take into account the impact of business risk. The Board has discretion, having regard to the recommendation of the Committee, to provide variable remuneration to reflect the following: i. The outcomes of business activities; ii. The risk related to the business activities taking into account, where relevant. iii. Unexpected or unintended consequences that are not foreseen by the Board. On recommendation of the Management, the Board at its discretion may approve the performance/incentive bonus for the employees of the bank as a financial measure to minimize the risk. Risk and Compliance requirements represent a gateway to whether a bonus payment is made and the size of the payment. Notwithstanding financial performance and an individual's contribution and performance, if the individual does not meet, or only partially meets, risk and compliance requirements, no award or a reduced award may be made. There were no changes to the nature and type of measures used during the reporting period.

Dhaka Bank Limited
Corporate Office, Dhaka

	(d)	The remuneration framework includes the following arrangements designed to ensure that remuneration outcomes are linked to performance: **Fixed base:** There is an annual review for all eligible employees. Performance ratings for the performance period are taking into consideration as well as individual circumstances for annual increment. **Performance base:** Performance bonus or incentive bonus are given to all eligible employees as per performance ratings for a performance period. Amounts of individual remuneration are linked to individual performance as per their performance ratings for the performance period. In addition, amounts of individual remuneration also linked to bank's growth. In determining the payment of a bonus to individuals, the factors taken into account include: 1. Team financial and strategic performance; 2. Individual contribution to team performance; 3. Individual performance including alignment with corporate values and meeting performance objectives. Long term incentives are designed to link a component of remuneration with key performance measures that underpin sustainable longer term growth in shareholder value.
	(e)	The remuneration framework describes short term and long term benefits. Short term benefits include salary, festival bonus, Travel Passage, and performance bonus as variable payments. Long term benefits include Gratuity, Provident Fund, Superannuation Fund and Leave encashment.
	(f)	Dhaka Bank Limited has no variable remuneration like cash, shares and share-linked instruments and other forms.

11.2 Quantitative Disclosure:

Number of meeting held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	(g)	The Committee met twice during the financial year. No additional fees are paid for serving on board committees.
Number of employees having received a variable remuneration award during the financial year.	(h)	Performance bonuses/Incentives: 10,84,51,740 Number of total guaranteed bonus(festival bonus): 2 Total amount of guaranteed bonus (festival bonus): BDT 14,64,94,906

Dhaka Bank Limited * BAL * Corporate Office, Dhaka *

DHAKA BANK LIMITED

Number and total amount of guaranteed bonuses awards made during the financial year. Number and total amount of sign-on awards made during the financial year. Number and total amount of severance payments made during the financial year.		Number of severance payments: 61 employees Total amount of severance payments: BDT. 16,88,43,617.00 which includes Provident Fund, Gratuity Fund, Superannuation Fund. PF : BDT 8,02,74,635.00 to 54 employees SF: BDT 1,26,34,956.00 to 49 employees GF : BDT 7,59,34,026.00 to 49 employees Total : BDT 16,88,43,617.00
Total amount of outstanding deferred remuneration, spilt into cash, shares and share-linked instruments and other forms. Total amount of deferred remuneration paid out in the financial year	(i)	Not applicable for Dhaka Bank Limited
Breakdown of amount of remuneration awards for the financial year to show: - Fixed and variable. -Deferred and non-deferred. -Different forms used (cash, shares, and share linked instruments, other forms).	(j)	• Fixed: BDT 2,69,92,05,056.00, Variable: BDT. 12,00,00,000.00 • Deferred: BDT 29,78,70,237.00 • Non-deferred: Nil • Different forms used: Nil
Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of share or performance units) and explicit adjustments (e.g. claw backs or similar reversals or downward revaluations of awards) of deferred remuneration: Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments. Total amount of reductions during the financial year due to ex post implicit adjustments.	(k)	Not applicable for Dhaka Bank Limited

Dhaka Bank Limited ★ Corporate Office, Dhaka ★