Any time
Anywhere

# disclosures on risk based capital (Basel II)

# DISCLOSURES ON RISK BASED CAPITAL (BASEL II)

## Scope of Application

| Qualitative Disclosures | | |
|---|---|---|
| a) | The name of the top corporate entity in the group to which this guidelines applies. | Dutch-Bangla Bank Limited (the Bank) |
| 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<br><br>(a) that are fully consolidated;<br><br>(b) that are given a deduction treatment; and<br><br>(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 Dutch-Bangla Bank Limited and the Off-shore Banking Units (OBUs). A brief description of the Bank and the OBUs are given below:<br><br>**The Bank [Main operation]**<br><br>Dutch-Bangla Bank Limited (the Bank) is a scheduled commercial bank set up as a joint venture between Bangladesh and the Netherlands. Incorporated as a public limited company under the Companies Act 1994, the Bank obtained licence from Bangladesh Bank on 23 July 1995 and started its banking business with one branch on 3 June 1996. The number of branches was 145 as on 31 December 2014 all over Bangladesh. The Bank is listed with Dhaka Stock Exchange and Chittagong Stock Exchange as a publicly quoted company.<br><br>**Mobile Banking Services**<br><br>The Bank obtained the permission for providing the Mobile Banking services under reference letter no. DCMPS/ PSD/37(H)/2010-408 dated 28 April 2010 of Bangladesh Bank.<br><br>The Bank started operation of Mobile Banking Services on 31 March 2011. The principal activities of the Mobile Banking services are to provide banking services to customers through Mobile Phone within the applicable rules & regulations and guidelines of Bangladesh Bank.<br><br>Mobile Banking Services are part of Main Operation of the Bank.<br><br>**Off-shore Banking Unit (OBU)**<br><br>The Off-shore Banking Unit (OBU) of the Bank is the separate business entity governed by the applicable rules & regulations and guidelines of Bangladesh Bank. The number of OBUs were 2 (two) as on reporting date 31 December 2014 located at Agrabad Branch-Chittagong and Dhaka EPZ Branch-Dhaka.<br><br>Investments in OBUs are risk weighted with the exposure of the Bank. |
| c) | Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group. | Not applicable |
| d) | The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the names(s) of such subsidiaries. | Not applicable |

## Capital Structure

| Qualitative Disclosures | | |
|---|---|---|
| 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. | In terms of Section 13 of the Bank Company Act, 1991 (Amended upto 2013), the terms and conditions of the main features of all capital instruments have been segregated in terms 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:<br><br>**Tier 1 capital instruments**<br><br>**Paid-up share capital:** Issued, subscribed and fully paid up share capital of the Bank.<br><br>**Share premium:** Amount of premium realized with the face value per share at the time of issuing shares through initial public offering.<br><br>**Statutory reserve:** As per Section 24 of the Bank Company Act, 1991 (Amended upto 2013), an amount equivalent to 20% of the profit before taxes for each year of the Bank has been transferred to the Statutory Reserve Fund.<br><br>**Dividend equalization account:** As per BRPD Circular Letter No. 18 dated 20 October 2002 issued by Bangladesh Bank, 'Dividend Equalization Account' has been created by transferring the amount from the profit that is equal to the cash dividend paid in excess of 20%.<br><br>**Retained earnings:** Amount of profit retained with the banking company after meeting up all expenses, provisions and appropriations.<br><br>**Tier 2 capital instruments**<br><br>**General provision maintained against unclassified loans and off-balance sheet exposures:** As per Bangladesh Bank directive, amount of provision maintained against unclassified loans and off-balance sheet exposures as of the reporting date has been considered.<br><br>**Subordinated debt capital:** Eligible subordinated debt within 30% of Tier 1 Capital has been considered.<br><br>**Assets revaluation reserves:** As per Bangladesh Bank's instruction, 50% of incremental value from there valuation of Bank's assets has been considered.<br><br>**Revaluation reserves of HTM securities:** As per Bangladesh Bank's instruction, up to 50% of revaluation reserves of HTM securities has been considered.<br><br>**Revaluation reserves of HFT securities**: As per Bangladesh Bank's instruction, up to 50% of other reserve (revaluation reserves of HFT securities) has been considered. |

## Capital Structure (Continued)

**Quantitative Disclosures**

| | | | |
|---|---|---|---|
| b) | The amount of Tier 1 capital, with separate disclosure of | | **In million Taka** |
| | | **Particulars** | **Amount** |
| | | Paid up capital | 2,000.0 |
| | | Non-repayable share premium account | 11.1 |
| | | Statutory reserve | 6,234.1 |
| | | General reserve | - |
| | | Retained earnings (including proposed cash dividend for 2014) | 4,755.1 |
| | | Minority interest in subsidiaries | - |
| | | Non-cumulative irredeemable preference shares | - |
| | | Dividend equalization account | 566.8 |
| | | Other (if any item approved by Bangladesh Bank) | - |
| | | **Sub-Total of Tier 1 Capital [A]** | **13,567.1** |
| c) | The amount of Tier 2 and Tier 3 capital | | **In million Taka** |
| | | **Particulars** | **Amount** |
| | | General provision maintained against unclassified loans and off-balance sheet exposures | 1,643.0 |
| | | Assets Revaluation Reserves | 425.2 |
| | | Revaluation Reserve for Securities | 50.0 |
| | | Revaluation Reserve for equity instruments | - |
| | | All other preference shares | - |
| | | Subordinated debt | 3,683.0 |
| | | Other (if any item approved by Bangladesh Bank) | - |
| | | **Sub-Total of Tier 2 Capital** | **5,801.2** |
| | | Amount of Tier 3 capital | - |
| | | **Sub-Total of Tier 2 and Tier 3 Capital [B]** | **5,801.2** |
| d) | Other deductions from capital | | **In million Taka** |
| | | **Particulars** | **Amount** |
| | | Deferred tax assets against the specific loan loss provision* | 1,290.3 |
| | | **Sub-Total of Deduction [C]** | **1,290.3** |
| e) | Total eligible capital | **Total eligible capital [A+B-C]** | **18,078.0** |

* Deferred tax assets are deducted from total capital in compliance with the instruction contained in BRPD Circular No. 11 dated 12 December 2011.

## Capital Adequacy

| Qualitative Disclosures | | |
|---|---|---|
| a) | A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities. | The Bank assesses the adequacy of its capital in terms of Section 13 (1) of the Bank Company Act, 1991 (Amended upto 2013) and instruction contained in BRPD Circular No. 35 dated 29 December 2010 **[Guidelines on 'Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel II)]**. However, in terms of the regulatory guidelines, the Bank computes the capital charge / requirement as under:<br>i. Credit risk : On the basis of Standardized Approach;<br>ii. Market risk : On the basis of Standardized Approach; and<br>iii. Operational risk: On the basis of Basic Indicator Approach.<br>The Bank assesses the capital requirement considering the existing size of portfolio, concentration of portfolio to different risk weight groups, asset quality, profit trend etc. on quarterly rest. The Bank also forecasts the adequacy of capital in terms of its capacity of internal capital generation, maintaining the size of the portfolio, asset quality, conducting credit rating of the borrowers, segregation of portfolio to different risk weight groups etc. As of 31 December 2014, Bank maintained total capital (Tier 1 and Tier 2) of Taka 18.1 billion against the minimum requirement of Taka 13.1 billion with a surplus of Taka 5.0 billion. Bank's capital adequacy ratio (CAR) as of 31 December 2014 stood at 13.8% (consisting of 9.4% in Tier 1 capital and 4.4% in Tier 2 capital) against the regulatory requirement of minimum 10%. This surplus capital both in term of absolute amount and ratio (CAR) is considered to be adequate to absorb all the material risks to which the Bank may be exposed in future. The Bank maintained more than adequate capital against the regulatory requirement to upheld and strengthen the confidence of its investors, depositors and other stakeholders. |

### Quantitative Disclosures

b) Capital requirement for Credit Risk

**In million Taka**

| Particulars | Risk Weighted Assets (RWA) | Minimum Capital Requirement (MCR) |
|---|---|---|
| Credit Risk | | |
| On-balance sheet | 103,171.1 | 10,317.1 |
| Off-balance sheet | 6,812.5 | 681.2 |
| **Total** | **109,983.6** | **10,998.3** |

## Capital Adequacy (Continued)

c) Capital requirement for Market Risk

In million Taka

| Particulars | Risk Weighted Assets (RWA) | Minimum Capital Requirement (MCR) |
|---|---|---|
| Market Risk | | |
| Interest Rate related instruments | - | - |
| Equities | 22.5 | 2.2 |
| Foreign Exchange Position | 596.9 | 59.7 |
| Commodities | - | - |
| **Total** | **619.4** | **61.9** |

d) Capital requirement for Operational Risk

In million Taka

| Particulars | Risk Weighted Assets (RWA) | Minimum Capital Requirement (MCR) |
|---|---|---|
| Operational Risk | 20,106.5 | 2,010.6 |
| **Total** | **20,106.5** | **2,010.6** |

e) Total Risk Weighted Assets (RWA), Total Minimum Capital Requirement (MCR) and Total Eligible Regulatory Capital

In Million Taka

| Particulars | Amount |
|---|---|
| **Total Risk Weighted Assets (RWA)** | |
| Credit Risk | |
| On-balance sheet | 103,171.1 |
| Off-balance sheet | 6,812.5 |
| Total Credit Risk [i] | 109,983.6 |
| Market Risk [ii] | 619.4 |
| Operational Risk [iii] | 20,106.5 |
| **Total Risk Weighted Assets (RWA) [i+ii+iii]** | **130,709.5** |
| | |
| **Total Minimum Capital Requirement (MCR)** | |
| Credit Risk | |
| On-balance sheet | 10,317.1 |
| Off-balance sheet | 681.2 |
| Total Credit Risk | 10,998.3 |
| Market Risk | 61.9 |
| Operational Risk | 2,010.6 |
| **Total Minimum Capital Requirement (MCR)** | **13,070.8** |
| | |
| **Total Eligible Regulatory Capital** | **18,078.0** |

f) Total and Tier 1 capital ratio:

**For the consolidated group**

| Particulars | Ratio (%) |
|---|---|
| Total CAR | **13.8%** |
| Tier 1 CAR | **9.4%** |

**For stand alone**

| Particulars | Ratio (%) |
|---|---|
| Total CAR | **13.8%** |
| Tier 1 CAR | **9.4%** |

## Credit Risk

| Qualitative Disclosures | | |
|---|---|---|
| a) | The general qualitative disclosure requirement with respect to credit risk, including: | |
| | i) Definitions of past due and impaired (for accounting purposes) | As per relevant Bangladesh Bank guidelines, the Bank defines the past due and impaired loans and advances for strengthening the credit discipline and mitigating the credit risk of the Bank. The impaired loans and advances are defined on the basis of (i) Objective / Quantitative Criteria and (ii) Qualitative judgment. For this purposes, all loans and advances are grouped into four (4) categories namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural & Micro Credit.<br><br>**Definition of past due/overdue:**<br><br>i) Any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date;<br><br>ii) Any Demand Loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date;<br><br>iii) In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue from the following day of the expiry date;<br><br>iv) The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date.<br><br>However, a continuous loan, demand loan or a term loan which will remain overdue for a period of 2 (two) months or more, will be put into the **"Special Mention Account (SMA)"**, the prior status of becoming the loan into impaired/classified/ non-performing.<br><br>Definition of impaired / classified / non-performing loans and advances are as follows:<br><br>**Continuous loan are classified are as follows:**<br><br>• **Substandard:** If it is past due /overdue for 3 (three) months or beyond but less than 6 (six) months;<br><br>• **Doubtful:** If it is past due / overdue for 6 (six) months or beyond but less than 9 (nine) months;<br><br>• **Bad / Loss:** If it is past due / overdue for 9 (nine) months or beyond<br><br>**Demand loan are classified are as follows:**<br><br>• **Substandard:** If it remains past due / overdue for 3 (three) months or beyond but not over 6 (six) months from the date of expiry or claim by the Bank or from the date of creation of forced loan;<br><br>• **Doubtful:** If it remains past due / overdue for 6 (six) months or beyond but not over 9 (nine) months from the date of expiry or claim by the Bank or from the date of creation of forced loan;<br><br>• **Bad / Loss:** If it remains past due / overdue for 9 (nine) months or beyond from the date of expiry or claim by the Bank or from the date of creation of forced loan. |

## Credit Risk (Continued)

| | | |
|---|---|---|
| | | **Fixed Term Loans are classified are as follows:**<br><br>**a) In case of any installment (s) or part of installment (s) of a Fixed Term Loan amounting upto Taka 10 lacs is not repaid within the due date, the classfication is as under:**<br><br>• **Substandard :** If the amount of past due 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';<br><br>• **Doubtful:** If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 (nine) months, the entire loan will be classified as 'Doubtful';<br><br>• **Bad / Loss:** If the amount of past due installment is equal to or more than the amount of installment (s) due within 12 (twelve) months, the entire loan will be classified as 'Bad/Loss';<br><br>**b) In case of any installment (s) or part of installment (s) of a Fixed Term Loan amounting more than Taka 10 lacs is not repaid within the due date, the classfication is as under:**<br><br>• **Substandard :** If the amount of past due installment is equal to or more than the amount of installment (s) due within 3 (three) months, the entire loan will be classified as 'Sub- standard';<br><br>• **Doubtful:** If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 (six) months, the entire loan will be classified as 'Doubtful';<br><br>• **Bad / Loss:** If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 (nine) months, the entire loan will be classified as 'Bad/Loss'.<br><br>**Short-term Agricultural and Micro-Credit:** The Short-term Agricultural and Micro-Credit will be considered irregular if not repaid within the due date as stipulated in the loan agreement. If the said irregular status continues, the credit will be classified as 'Sub-standard' after a period of 12 months, as 'Doubtful' after a period of 36 months and as 'Bad/Loss' after a period of 60 months from the stipulated due date as per the loan agreement. |
| | ii) Description of approaches followed for specific and general allowances and statistical methods | The Bank follows the relevant Bangladesh Bank guideline for determination of general and specific allowances for loans and advances. **Firstly,** the base for provision for the unclassified and classified loans are calculated as under:<br><br>a) **Calculation of base for provision for unclassified /standard loans:** Outstanding amount ***less*** suspended interest, if any;<br><br>b) **Calculation of base for provision for the classified loans, the higher of the following two amounts:**<br><br>i. Outstanding amount ***less*** suspended interest ***less*** value of eligible securities;<br>**or**<br>ii. 15% of outstanding amount.<br><br>**Secondly,** the following rates are applied on base for provision for determination of general and specific allowances for loans: |

## Credit Risk (Continued)

| General provisions for unclassified loans and advances: | Rates [%] |
|---|---|
| All unclassified loans (Other than loans under special mention account, short term agricultural credit, loans to Brokerage Houses (BHs) / Merchant Banks (MBs) / Stock Dealers (SDs) against Shares, consumer financing, small and medium enterprise financing, and staff loans) | 1.00% |
| Small and medium enterprise financing | 0.25% |
| Consumer financing (other than housing finance and loans for professionals under consumer financing scheme) | 5.00% |
| Consumer financing (for housing finance) | 2.00% |
| Consumer financing (for professionals) | 2.00% |
| Loans to Brokerage Houses (BHs) / Merchant Banks(MBs) / Stock Dealers (SDs) against Shares etc. | 2.00% |
| Short term agricultural credit | 2.50% |

| General provisions against Special Mention Account (SMA) loans and advances: | Rates [%] |
|---|---|
| All unclassified loans (other than loans under small enterprise and consumer financing and BHs, MBs, SDs) | 1.00% |
| Small and medium enterprise financing | 0.25% |
| Consumer financing (other than housing finance and loans for professionals under consumer financing scheme) | 5.00% |
| Consumer financing (for housing finance) | 2.00% |
| Consumer financing (for professionals) | 2.00% |
| Loans to Brokerage Houses (BHs) / Merchant Banks(MBs) / Stock Dealers (SDs) against Shares etc. | 2.00% |
| Short term agricultural credit | 2.50% |

| Specific provision for classified loans and advances: | Rates [%] |
|---|---|
| Substandard | 20.00% |
| Doubtful | 50.00% |
| Bad/loss | 100.00% |

Mentionable that, all interest accrued is credited to interest suspense account instead of crediting the same to income account if the loan is classified as sub-standard and doubtful. However, charging of interest is discontinued when the loan is classified as bad/loss.

<table>
<tr>
<td></td>
<td>iii) Discussion of the Bank's credit risk management policy</td>
<td>
The salient features of DBBL credit risk management policy and procedures are as under:
<ul>
<li>Credit policy approved by the Board: The Board approves the Credit Risk Management Policy of DBBL for ensuring the best practice in credit risk management and maintaining quality of assets. The credit policy/manual has been put in place in compliance with Bangladesh Bank's guidelines on credit risk management and other rules & regulations circulated by BB from time to time. The policy envisages making credit decisions based on sound lending principles and practices supported by reliable and accurate financials, management integrity, industry/ technical analysis, environmental due diligence, industry information of the borrowing entity/company.</li>
<li>Credit approval is delegated properly: Authorities are properly delegated 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.</li>
<li>Independent Credit Risk Management Division: There is an independent credit division (credit risk management division) to assess credit risks and suggest the mitigation procedures & techniques while processing the credit proposals by the Corporate Banking Division for approval.</li>
<li>Separate Credit Administration Division: A separate credit administration division confirms that perfected security documents are in place before disbursement. DBBL is continuing a unique process of rechecking security documentation by a second legal advisor other than the lawyer who vetted it originally. The division also monitors borrower's compliance with lending covenants and agreed terms and conditions.</li>
<li>Independent Credit Monitoring & Recovery Division and Management Recovery Committee: An independent and fully dedicated credit monitoring and recovery division monitors the performance and recovery of loans, identify early signs of delinquencies in portfolio and take corrective measures including legal actions to mitigate risks, improve loan quality and to ensure timely recovery of loans. This division also monitors risk status of loan portfolio and ensures adequate loan loss provision. There is a dedicated and high-level management recovery committee to deal with the problem loans for early and most appropriate settlements.</li>
<li>Credit operations are subject to independent Internal Audit: Internal Control & Compliance Division independently verifies and ensures, at least once in a year, compliance with approved lending guidelines, Bangladesh Bank guidelines, operational procedures, adequacy of internal control, documentation and overall Credit Risk Management System.</li>
<li>Reporting to Board/ Executive Committee/ Risk Management Committee: Overall quality, performance, recovery status, risks status, adequacy of provision of loan portfolio are regularly reported to the Board of Directors/ Executive Committee/ Risk Management Committee of the Board for information and guidance.</li>
</ul>
Above all, the Risk Management Division is regularly guiding the credit risk management division(s) on increasing the collateral coverage, product/sector specific diversification of credit exposures, single borrower exposures limit, large loan portfilio ceiling as stipulated by Bangladesh Bank, improving the asset quality, conducting credit rating of the borrowers to minimize the capital charge against credit risk of the Bank.
Adequate provision is maintained against classified loans as per Bangladesh Bank Guidelines. Status of loans are regularly reported to the Board of Directors/ Executive Committee/ Risk Management Committee of the Board.
</td>
</tr>
</table>

## Credit Risk (Continued)

**Quantitative Disclosures**

b) Total gross credit risk exposures broken down by major types of credit exposures

Major types of credit exposure as per disclosures in the audited financial statements as of 31 December 2014

**In Million Taka**

| Particulars | Outstanding Amount | Mix (%) |
|---|---|---|
| Overdraft | 13,821.7 | 11.1% |
| Cash credit | 38,375.5 | 30.8% |
| Export cash credit | 10,364.4 | 8.3% |
| Transport loan | 1,229.1 | 1.0% |
| House building loan | 259.9 | 0.2% |
| Loan against trust receipt | 6,787.0 | 5.5% |
| Term loan – industrial | 34,207.0 | 27.5% |
| Term loan – other | 9,401.9 | 7.6% |
| Payment against document- cash | 28.0 | 0.0% |
| Payment against document- EDF | 2,067.6 | 1.7% |
| Consumer Finance | 2,138.3 | 1.7% |
| Staff loan | 537.2 | 0.4% |
| Bills purchased and discounted | 5,205.4 | 4.2% |
| **Total Loans and advances** | **124,423.0** | **100.0%** |

c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure

Geographical distribution of credit exposures as per the disclosures in the audited financial statements as of 31 December 2014 are as follows:

**In Million Taka**

| Particulars | Outstanding Amount | Mix (%) |
|---|---|---|
| **Urban** | | |
| Dhaka Division | 107,760.9 | 86.6% |
| Chittagong Division | 11,189.4 | 8.9% |
| Khulna Division | 1,200.0 | 1.0% |
| Sylhet Division | 171.5 | 0.1% |
| Barisal Division | 60.1 | 0.1% |
| Rajshahi Division | 429.2 | 0.3% |
| Rangpur Division | 219.6 | 0.2% |
| **Sub-total (Urban)** | **121,030.7** | **97.2%** |
| **Rural** | | |
| Dhaka Division | 2,463.0 | 2.0% |
| Chittagong Division | 552.9 | 0.4% |
| Sylhet Division | 214.0 | 0.2% |
| Rajshahi Division | 97.2 | 0.1% |
| Rangpur Division | 65.2 | 0.1% |
| **Sub-total (Rural)** | **3,392.3** | **2.8%** |
| **Grand Total (Urban and Rural)** | **124,423.0** | **100.0%** |

## Credit Risk (Continued)

**d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposures.**

Industry or counterparty type distribution of exposures, broken down by major types of credit exposures as per the disclosures in the audited financial statements as of 31 December 2014 are as follows:

(i) Loans and advances including bills purchased and discounted on the basis of significant concentration:

**In Million Taka**

| Particulars | Outstanding Amount | Mix (%) |
|---|---|---|
| Commercial lending | 9,892.1 | 8.0% |
| Agricultural loan | 1,837.7 | 1.5% |
| Export financing | 10,874.4 | 8.7% |
| Consumer credit scheme | 3,174.4 | 2.5% |
| Small and medium enterprise financing | 22,478.8 | 18.1% |
| Staff loan | 537.2 | 0.4% |
| House building loan (other than the employees) | 259.9 | 0.2% |
| Others | 75,368.5 | 60.6% |
| **Total** | **124,423.0** | **100.0%** |

(ii) Industry-wise Loans and advances including bills purchased and discounted:

**In Million Taka**

| Particulars | Outstanding Amount | Mix (%) |
|---|---|---|
| Agriculture, fisheries and forestry | 1,837.7 | 1.5% |
| Pharmaceutical industries | 1,835.8 | 1.5% |
| Textile industries | 41,257.6 | 33.2% |
| Ready- made garment industries | 24,178.6 | 19.4% |
| Chemical industries | 225.2 | 0.2% |
| Bank and other financial institutions | 2,212.7 | 1.8% |
| Transport and communication | 869.7 | 0.7% |
| Electronics and automobile industries | 860.7 | 0.7% |
| Housing and construction industries | 4,488.3 | 3.6% |
| Energy and power industries | 1,453.3 | 1.2% |
| Cement and ceramic industries | 2,439.4 | 2.0% |
| Food and allied industries | 2,545.3 | 2.0% |
| Engineering and metal industries including ship breaking | 8,565.9 | 6.9% |
| Service industries | 10,218.4 | 8.2% |
| Other industries | 21,434.4 | 17.1% |
| **Total** | **124,423.0** | **100.0%** |

## Credit Risk (Continued)

e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposures

Residual contractual maturity of exposures as per the disclosures furnished in the audited financial statements as of 31 December 2014 are as follows:

**In Million Taka**

| Repayable | Outstanding Amount | Mix (%) |
|---|---|---|
| On demand | 7,619.9 | 6.1% |
| Within one to three months | 34,530.3 | 27.8% |
| Within three to twelve months | 50,301.9 | 40.4% |
| Within one to five years | 21,048.7 | 16.9% |
| More than five years | 10,922.2 | 8.8% |
| **Total** | **124,423.0** | **100.0%** |

f) By major industry or counterparty type

**a) Amount of impaired loans and if available, past due loans, provided separately**

i) Amount of impaired / classified loans by major industry/sector-type as of 31 December 2014 was as under:

**In Million Taka**

| Major industry/sector type | Outstanding Amount | Mix (%) |
|---|---|---|
| Agriculture financing | - | - |
| Ready made garments (RMG) industries | 190.9 | 3.5% |
| Textile industries | 3,087.5 | 56.5% |
| Other manufacturing industries | 15.5 | 0.3% |
| Small & medium enterprise (SME) loans | 1,545.8 | 28.2% |
| Commercial real estate including construction industries | 147.0 | 2.7% |
| Residential real estate financing | 6.8 | 0.1% |
| Power and Gas industries | 21.7 | 0.4% |
| Transport, storage and communication industries | 150.1 | 2.7% |
| Trade services | 207.9 | 3.8% |
| Consumer credit | 66.8 | 1.2% |
| Others | 35.3 | 0.6% |
| **Total** | **5,475.3** | **100.0%** |

ii) Amount of impaired / classified loans by major counterparty type as of 31 December 2014 was as under:

**In Million Taka**

| Major counterparty type | Status-wise amount of impaired / classified loans | | | Total |
|---|---|---|---|---|
| | Substandard | Doubtful | Bad /Loss | |
| Continuous loan | 8.2 | 486.3 | 908.8 | 1,403.3 |
| Demand loan | 1.0 | 12.1 | 305.1 | 318.2 |
| Term loan | 466.1 | 278.7 | 3,009.0 | 3,753.8 |
| Other loans | - | - | - | - |
| **Total** | **475.3** | **777.1** | **4,222.9** | **5,475.3** |

| | | |
|---|---|---|
| | | **b) Specific and general provisions** |

Specific and general provisions for loans portfolio and general provision for off-balance sheet exposures of the Bank as per audited financial statements as of 31 December 2014 was as under:

**In Million Taka**

| Particulars of specific and general provisions for entire loan portfolio and off-balance sheet exposures | Amount |
|---|---|
| Specific provision for loans and advances | 3,036.1 |
| General provision for loans and advances | 1,170.2 |
| General provision for off-balance sheet exposures | 472.8 |
| **Total** | **4,679.1** |

**c) Charges for specific allowances and charges-offs (general allowances) during the period**

The Specific and general provisions for loans portfolio and general provision for off-balance sheet exposures of the Bank charged during the year as per audited financial statements for the year ended 31 December 2014 was as under:

**In Million Taka**

| Particulars | Amount |
|---|---|
| Specific provision for loans and advances | 670.7 |
| General provision for loans and advances | 106.4 |
| General provision for off-balance sheet exposures | 7.2 |
| **Total** | **784.3** |

| | | |
|---|---|---|
| g) | Non Performing Assets (NPAs) | Position of Non Performing Loans and Advances including bills purchased and discounted of the Bank as per audited financial statements for the year ended 31 December 2014 was as under: |

**In Million Taka**

| Particulars | Amount |
|---|---|
| Gross Non Performing Assets (NPAs) | 5,475.3 |
| Non Performing Assets (NPAs) to Outstanding Loans & advances | 4.4% |
| **Movement of Non Performing Assets (NPAs)** | |
| Opening balance | **4,175.6** |
| Additions/ adjustment during the year (net) | 1,299.7 |
| **Closing balance** | **5,475.3** |
| **Movement of specific provisions for NPAs** | |
| Opening balance | **2,297.4** |
| **Add:** Provision made during the year | 670.7 |
| **Less:** Write-off | - |
| **Add:** Write-back of excess provisions | 68.0 |
| **Closing balance** | **3,036.1** |

## Equities: Disclosures for Banking Book Positions

<table>
<tr><th colspan="3">Qualitative Disclosures</th></tr>
<tr><td>a)</td><td colspan="2">The general qualitative disclosure requirement with respect to the equity risk, including:</td></tr>
<tr><td></td><td>Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</td><td>Not Applicable</td></tr>
<tr><td></td><td>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.</td><td>Despite, at the end of 31 December 2014, the Bank had no investment to the equity instruments/exposures, but the accounting policies, techniques and valuation methodologies were put in places as under:<br><br><table><tr><th>Particulars</th><th>Valuation method</th></tr><tr><td colspan="2">Shares:</td></tr><tr><td>Quoted</td><td>Cost or market price whichever is lower</td></tr><tr><td>Unquoted</td><td>Cost or Book value, as per latest audited financial statements of that entity (ies), whichever is lower</td></tr><tr><td colspan="2">Bonds:</td></tr><tr><td>Subordinated bonds</td><td>At redemption value</td></tr></table></td></tr>
<tr><th colspan="3">Quantitative Disclosures</th></tr>
<tr><td>b)</td><td>Value, disclosed in the balance sheet, of investments, 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.</td><td>Not applicable</td></tr>
<tr><td>c)</td><td>The cumulative realized gain (losses) arising from sales and liquidations in the reporting period.<br>- Realized gain (losses) from equity investments</td><td>-</td></tr>
<tr><td>d)</td><td>• Total unrealized gains (losses)<br>• Total latent revaluation gains (losses)<br>• Any amounts of the above included in Tier 2 capital</td><td>-</td></tr>
<tr><td>e)</td><td>Capital requirements broken down by appropriate equity groupings, 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.<br><br>• Capital requirements for equity investments<br>- For Specific market risk<br>- For General market risk</td><td>The capital requirements for equity investments as of 31 December 2014 was as under:<br><br>In Million Taka<br><table><tr><th>Particulars</th><th>Amount (Market Value)</th><th>Weight</th><th>Capital Charge</th></tr><tr><td>Specific Risk</td><td>11.3</td><td>10%</td><td>1.1</td></tr><tr><td>General Market Risk</td><td>11.3</td><td>10%</td><td>1.1</td></tr><tr><td colspan="3">Total</td><td>2.2</td></tr></table></td></tr>
</table>

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

| | | |
|---|---|---|
| **Qualitative Disclosures** | | |
| a) | The general qualitative disclosure requirement including the nature of IRRBB and key assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement. | Interest rate risk is the potential impact on the Bank's earnings (Net Interest Income-NII) and net asset values due to changes in market interest rates. Interest rate risk arises when the Bank's principal and interest cash flows (including final maturities), for both On and Off-balance sheet exposures, have mismatched re-pricing dates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. The portfolio of assets and liabilities in the banking book sensitive to interest rate changes is the element of interest rate risk.<br><br>The immediate impact of changes in interest rates is on the Bank's net interest income (difference between interest income accrued on rate sensitive asset portfolio and interest expenses accrued on rate sensitive liability portfolio) for particular period of time, while the long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures are affected.<br><br>**Key assumptions on loan prepayments and behavior of non-maturity deposits:**<br><br>a) loans with defined contractual maturity are re-priced in the respective time buckets in which it falls as per the loan repayment schedule;<br><br>b) loans without defined contractual maturity are segregated into different time buckets based on the past trend, seasonality, geographical perspective and re-priced accordingly;<br><br>c) Non-maturity deposits namely current, saving deposits are segregated into different time buckets on the basis of past trend of withdrawal, seasonality, religious festivals, geographical perspective and re-priced accordingly. However, the behavior of withdrawal of non-maturity deposits of DBBL is more or less stable.<br><br>DBBL measures the IRRBB as per the regulatory guidelines on a quarterly rest. |
| **Quantitative Disclosures** | | |
| b) | The impact of changes in interest rate for On-balance sheet rate sensitive assets and liabilities of DBBL as per the audited financial statements as of 31 December 2014 is furnished below: | |

**In Million Taka**

| Particulars | Residual maturity bucket | | | |
|---|---|---|---|---|
| | 1-90 Days | 91-180 Days | 181-270 Days | 271-364 Days |
| Rate sensitive assets **[A]** | 77,908.5 | 27,305.0 | 15,874.3 | 18,328.2 |
| Rate sensitive liabilities **[B]** | 51,345.7 | 18,504.2 | 12,131.5 | 12,250.7 |
| GAP **[A-B]** | 26,562.8 | 8,800.8 | 3,742.8 | 6,077.5 |
| Cumulative GAP | 26,562.8 | 35,363.6 | 39,106.4 | 45,183.9 |
| Interest rate change (IRC) **[Note 1]** | 1% | 1% | 1% | 1% |
| Quarterly earnings impact [Cumulative GAP x IRC] | 66.4 | 22.0 | 9.4 | 15.2 |
| Cumulative earnings impact | 66.4 | 88.4 | 97.8 | 113.0 |

**Note 1:** Assuming 1% rise in interest rates for both asset and liability portfolio of the Bank.

## Market risk

### Qualitative Disclosures

a)

**i) Views of Board of Directors (BOD) on trading / investment activities**

The Board approves all policies related to market risk, set limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance assets growth and trade related transactions. The market risk covers the followings risks of the Bank's balance sheet:

i) Interest rate risk;
ii) Equity price risk;
iii) Foreign exchange risk; and
iv) Commodity price risk

**ii) Methods used to measure Market risk**

Methods used to measure Market risk

As per relevant Bangladesh Bank guidelines, Standardized Approach has been used to measure the Market Risk for capital requirement for trading book of the Bank. 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" as under:

| Component of Market Risk | Capital Charged for Market Risk | |
|---|---|---|
| | General Market Risk | Specific Market Risk |
| Interest Rate Risk | Applied | Applied |
| Equity Price Risk | Applied | Applied |
| Foreign Exchange Risk | Applied | |
| Commodities Price Risk | Applied | |

**iii) Market Risk Management system**

The Treasury Division of the Bank manages market risk covering liquidity, interest rate and foreign exchange risks with oversight from Assets-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.

The Risk Management Division also reviews the market risk parameters on monthly basis and recommends on portfolio concentration for containing the RWA.

**iv) Policies and processes for mitigating market risk**

There are approved limits for credit deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items and borrowing from money market and foreign exchange position. 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, foreign exchange position, and transactions to mitigate foreign exchange risks.

### Quantitative Disclosures

b)

| **The capital requirements for:** | **In million Taka** |
|---|---|
| • Interest rate risk | - |
| • Equity position risk | 2.2 |
| • Foreign exchange risk | 59.7 |
| • Commodity risk | - |
| **Total capital requirement for Market risk** | **61.9** |

## Operational risk

| Qualitative Disclosures | | |
|---|---|---|
| a) | i) Views of Board of Directors (BOD) on system to reduce Operational Risk | The policy for operational risks including internal control and compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance Division (IC&CD) to protect against all operational risks.<br><br>As a part of continued surveillance, the management committee (MANCOM), Risk Management Committee (at the management level), independent Risk Management Division regularly reviews different aspects of operational risk. The analytical assessment was reported to the Board/ Risk Management Committee/Audit Committee of the Bank for review and formulating appropriate policies, tool & techniques for mitigation of operational risk. |
| | ii) Performance gap of executives and staffs | DBBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. DBBL's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap. |
| | iii) Potential external events | Like other peers, DBBL operates its business with few external risk factors relating to the socio-economic condition, political atmosphere, regulatory policy changes, natural disaster etc. Based on the overall perspective of the country. Potential external events and related downside risk, namely, political impasse, damage of Bank's delivery channel including ATM, Fast Track, fear of theft/ robbery in banks vaults, compliance/adjustment due to changes of regulatory policy stance, laws & regulations etc. are managed to keep within tolerable limit. |
| | iv) Policies and processes for mitigating operational risk | The policy for operational risks including internal control and compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. A policy guideline on Risk Based Internal Audit (RBIA) System is in operation. As per RBIA, branches with high risk status and subjected to more frequent audit by Internal Control and Compliance Division (IC&CD). IC&CD directly report to Audit Committee of the Board.<br><br>Currently, DBBL are using some models or tools for mitigating operational risk such as Self Assessment of Anti-fraud Internal Control; Quarterly Operational Report (QOR) and Departmental Control Function Check List (DCFCL) in line with the Bangladesh Bank's relevant Instructions and recommendations. It is required to submit the statement on Self Assessment of Anti-fraud Internal Control to Bangladesh Bank on quarterly rest.<br><br>In addition, there is a Vigilance Cell established in 2009 to reinforce the operational risk management of the Bank. Bank's Anti- Money laundering activities are headed by CAMLCO and their activities are devoted to protect against all money laundering and terrorist finance related activities. The newly established Central Customer Service & Complaint Management Cell was also engaged in mitigating the operation risks of the Bank. Apart from that, there is adequate check and 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. |

## Operational risk (Continued)

| | | |
|---|---|---|
| | v) Approaches for calculating capital charge for operational risk | The Bank follows the Basic Indicator Approach (BIA) in terms of BRPD Circular No. 35 dated 29 December2010 **[Guidelines on 'Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel II)]**. The BIA stipulates the capital charge for operational risk is a fixed percentage, denoted by $\alpha$ (alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula:<br><br>$K = [(GI\,1 + GI2 + GI3)\,\alpha]/n$<br><br>**Where:**<br><br>K = the capital charge under the Basic Indicator Approach<br><br>GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)<br><br>$\alpha$ = 15 percent<br><br>n = number of the previous three years for which gross income is positive.<br><br>Besides, Gross Income (GI) is calculated as "Net Interest Income" plus "Net non-Interest Income". The GI is also the net result of :<br><br>i) Gross of any provisions;<br><br>ii) Gross of operating expenses, including fees paid to outsourcing service providers;<br><br>iii) Excluding realized profits/losses from the sale of securities held to maturity in the banking book;<br><br>iv) Excluding extraordinary or irregular items;<br><br>v) Excluding income derived from insurance. |

| **Quantitative Disclosures** | | **In Million Taka** |
|---|---|---|
| b) | The capital requirements for operational risk | 2,010.6 |