Bangladesh Development Bank Limited (BDBL)

Market Disclosures for December 2016 under Pillar-III of Risk Based Capital Adequacy (RBCA) - Basel III.

The regulatory requirement of market disclosure is imposed by Bangladesh Bank to ensure the implementation of RBCA – Basel-III and making banks more transparent to the stakeholders so that they can take rational economic decision. The reports will enable market participants to assess more effectively key information relating to a bank's regulatory capital and risk exposures in order to instill confidence about a bank's exposure to risk and overall regulatory capital adequacy.

The qualitative and quantitative disclosures of the bank under Basel-III requirements based on the provisional financial statements as of 31 December 2016 are prepared as per the guidelines of Bangladesh Bank on "Risk Based Capital Adequacy for Banks" to establish more transparent and more disciplined financial market.

1. Scope of application

Basel III guidelines apply to all scheduled banks on, "Solo" basis as well as on "Consolidated" basis where-

- Solo Basis refers to all position of the bank and its local and overseas branches/offices; and
- Consolidated Basis refers to all position of the bank (including its local and overseas branches/offices) and its subsidiary company or companies engaged in financial (excluding insurance) activities like merchant banks, brokerage firms, discount houses, etc (if any).

Bangladesh Development Bank Limited follows the scope narrated above. BDBL has Tier 1 and Tier 2 capital structure.

2. Capital Structure

The capital of BDBL can be classified into two tiers. The total regulatory capital will consist of sum of the following categories: 1 Tier 1 Capital (going-concern capital), (a) Common Equity Tier 1, (b) Additional Tier 1 and 2.Tier 2 Capital (gone-concern capital).

Tier-1 capital consists of CET1 and Additional Tier1 Capital highest quality capital items which are stable in nature and allow a bank to absorb losses on an ongoing basis. CET1 includes paid-up capital, statutory reserve, general reserve, retained earnings, minority interest in subsidiaries.

Tier-2 capital lacks some of the characteristics of the core capital but also bears loss absorbing capacity to a certain extent. Capital consists of applicable percentage of revaluation reserves and general provision (against unclassified loans, SMA and off-balance sheet exposures). Presently the bank does not have any debt instruments eligible for capital counting.

3. Calculation of Capital Adequacy Ratio

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

Bank followed the given guidelines in proper terms.

4. Minimum Capital Requirements

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

BDBL adequately maintains required Capital to Risk Weighted Assets Ratio (CRAR).

5. Credit Risk

BDBL follows the suggested methodology, process as contained in the Guidelines.
Credit risk is the potential that a bank borrower or counterparty fails to meet its obligation in accordance with agreed term. Bangladesh Bank adopted Standardized Approach for calculating Risk Weighted Assets. The capital requirement for credit risk is based on the risk assessment made by external credit assessment institutions (ECAIs) recognized by BB for capital adequacy purposes. Banks are required to assign a risk weight to all their on-balance sheet and off-balance sheet exposures. Risk weights are based on external credit rating (solicited) which was mapped with the BB rating grade or a fixed weight that is specified by Bangladesh Bank.

6. a) Market Risk

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

Market risk is defined as the risk or losses in on and off-balance sheet positions arising from movements in market prices. The market risk positions subject to these requirements are:

I. The risks pertaining to interest rate related instruments and equities in the trading book; and
II. Foreign exchange risk and commodity risk throughout the bank (both in the banking book and in the trading book).

b) Methodology

In Standardized Approach, the capital requirement for various market risks (interest rate risk, equity price risk, commodity price risk, and foreign exchange risk) is determined separately. The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. The methodology to calculate capital requirement under Standardized Approach for each of these market risk categories is as follows:

a) Capital Charge for Interest Rate Risk = Capital Charge for Specific Market Risk + Capital Charge for General Market Risk.
b) Capital Charge for Equity Position Risk = Capital Charge for Specific Market Risk + Capital Charge for General Market Risk.
c) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk

7. a) Operational Risk

Bank followed the suggested methodology, process as contained in the Guideline. Operational Risk is defined as the risk or losses resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk, risk arising from staff inefficiency, risk arising from inadequacy in using ICT in full range.

b) Measurement Methodology

Banks operating in Bangladesh shall compute the capital requirements for operational risk under the Basic Indicator Approach (BIA). Under BIA, the capital charge for operational risk is a fixed percentage, denoted by (alpha), of average positive annual gross income of the bank over the past three years. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator when calculating the average.

8. Disclosures under Pillar III
Disclosures are given below as specified by RBCA Guideline:

A) **Scope of Application**

Qualitative Disclosure

(a) The name of the corporate entity to which this guidelines applies	BANGLADESH DEVELOPMENT BANK LIMITED
(b) A brief description of the entity	Bangladesh Development Bank Limited (“BDBL” or the “Bank”) was incorporated under the Companies Act, 1994 on 16 November 2009 to acquire and take-over, as going concern, the undertakings and businesses of statutory bodies of Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS) constituted respectively under the Bangladesh Shilpa Bank Order, 1972 (President Order No.129 of 1972) and Bangladesh Shilpa Rin Sangstha Order, 1972 (President Order No.128 of 1972) with all of their

	assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings and obligations and to carry on with the same business. Two vendors agreement was executed between the Government of the Peoples Republic of Bangladesh and Bangladesh Development Bank Limited on 31 December 2009 in this regard. The registered office of the Bank is located at 8 Rajuk Avenue, Motijheel, Dhaka-1000. BDBL established two subsidiary companies; named BDBL Securities Limited, a fully owned subsidiary company which was incorporated on 23 May, 2011 with the Registrar of Joint Stock Companies & Firms with paid up capital of Tk. 200.00 million. The company is a member of Dhaka Stock Exchange Ltd. (DSE) and Chittagong Stock Exchange Ltd. and obtained Stock Broker and Stock Dealer License of DSE on 18.01.2012 and CSE on 15.05.2012 and BDBL Investment Services Limited, a fully owned subsidiary company which was incorporated on 06 August, 2014 with authorized and paid up capital of Tk. 500.00 million and 200.00 million respectively. A vendors Agreement was signed on 11 September, 2014 between BDBL and BISL for transfer of membership of DSE Trading Right Entitlement Certificate (TREC) # 152 & Shares (7,215,106 share per 10TK). DSE approved conversion of DSE TREC # 152 & Shares in favor of BISL at its 813th Board Meeting held on 26 November 2015 and then BSEC issued Stock Dealer and Stock Broker Registration Certificate in favor of BISL on 19 January 2016.
(c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not Applicable
Quantitative Disclosure (d) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the names of such subsidiaries	Not Applicable

B) Capital Structure

Qualitative Disclosure

(a) Summary information on the terms and conditions of the main features of all capital components, especially in the case of eligible capital components for inclusion in CET1, Additional Tier-1 and in Tier-2.	The capital of BDBL can be classified into two tiers. The total regulatory capital will consist of sum of the following categories: 1. Tier 1 Capital (going-concern capital) a) Common Equity Tier 1 b) Additional Tier 1 2. Tier-2 Capital (gone-concern capital). Tier-1 capital consists of CET1 and Additional Tier1 Capital highest quality capital items which are stable in nature and allow a bank to absorb losses on an ongoing basis. CET1 includes paid-up capital, statutory reserve, general reserve, retained earnings, minority interest in subsidiaries. Tier-2 capital lacks some of the characteristics of the core capital but also bears loss absorbing capacity to a certain extent. Capital consists of applicable percentage of revaluation reserves and general provision (against unclassified loans, SMA and off-balance sheet exposures). Presently the bank does not have any debt instruments eligible for capital counting.

Quantitative Disclosure

Amount in "000" Tk

		Solo	Consolidated
(b) The amount of Regulatory Capital Tier 1 Capital, with separate disclosure of (as on 31.12.2015):	> Paid up Capital > Statutory reserve > General reserve > Retained earnings	4000,000 2074221 3597755 775674 **10447650**	4000,000 2074221 3597755 856628 **10528605**
(c) Tier 2 capital	> General Provision > Asset Revaluation Reserve	174833 - 2071410 **2246243**	174833 - 2071410 **2246243**
(d) Total amount of Tier I & Tier II Capital		**12693893**	**12774848**

(f) Other deduction from Capital		**408766**	**435112**
(g) Total Regulatory capital		**12285127**	**12339736**

D) Credit Risk

Qualitative Disclosure

(a)The general qualitative disclosure requirement with respect to credit risk, including: * Definitions of past due and impaired (for accounting purposes)	Bank classifies loans and advances into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. An NPA (impaired is defined as a loan or an advance where interest and/ or Installments of principal remain overdue for more than 90 days in respect of a Continuous credit, Demand loan or Term Loan etc. Classified loan is categorized under following 03(three) categories: >Substandard >Doubtful >Bad & Loss Any **continuous loan** will be classified as: > Sub-standard' if it is past due/overdue for 3 months or beyond but less than 6 months. > "Doubtful' if it is past due/overdue for 6 months or beyond but less than 9 months. > Bad/Loss' if it is past due/overdue for 9 months or beyond. Any **Demand Loan** will be classified as > Sub-standard' if it remains past due/overdue for 3 months or beyond but not over 6 months from the date of claim by the bank or from the date of creation of forced loan. > Doubtful' if it remains past due/overdue for 6 months or beyond but not over 9 months from the date of claim by the bank or from the date of creation of forced loan. > Bad/Loss' if it remains past due/overdue for 9 months or beyond from the date of claim by the bank or from the date of creation of forced loan. In case of any installment(s) or part of installment(s) of a **Fixed Term Loan** is not repaid within the due date, the amount of unpaid installment(s) will be termed as `Defaulted installment'. I. In case of Fixed Term Loans, which are repayable **within**

	maximum five years of time: > If the amount of 'defaulted installment' is equal to or more than the amount of installment due within 3 (six) months, the entire loan will be classified as "Sub-standard". > If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 6 (twelve) months, the entire loan will be classified as "Doubtful". > If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 9 (eighteen) months, the entire loan will be classified as "Bad/Loss" ii. In case of Fixed Term Loans, which are repayable in **more than five years** of time: > If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as "Sub-standard".

* Description of approaches followed for specific and general allowances and statistical methods	> If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loan will be classified as "Doubtful". > If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 24 (twenty four) months, the entire loan will be classified as "Bad/Loss".

Types of loans	Provision				
	UC	SMA	SS	DF	BL
House building And professionals	2%	5%	20%	50%	100%
Other than Housing Finance	5%	5%	20%	50%	100%
Professionals to setup business	2%	5%	20%	50%	100%
Short term Agri. Credit and Micro Credit	2.5%	5%	20%	50%	100%
Small & Medium Enterprise	0.25%	0.25%	20%	50%	100%
Others	1%	5%	20%	50%	100%

* Discussion of the Bank's credit risk management policy	Credit risk is the risk that the counterparty of a financial institution fails to meet its obligation and causes to incur a financial loss. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or activities in the same geographical region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Credit risk in the Bank's Portfolio is monitored, reviewed and analyzed by the Credit Risk Management Department (CRMD). CRMD determines the quality of the credit portfolio and assists in minimizing potential losses.

Amount in "000" Tk

		Solo	Consolidated
(B) Total gross credit risk exposures broken down by major types of credit exposure.	Cash Credit	4222060	4222060
	Long Term Loan	8056030	8056030
	Over Draft	455072	55072
	Local Documentary Bill Purchase	314066	314066
	Bridge Loan	4326	4326
	Consumer Loan	307558	307558
	Loan Under Investors Scheme	1370162	1500793
	Staff Loan	3349096	3349096
		18078369	**17809001**
(C) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.	**Division wise Loans and Advances:**		
	Dhaka Division	12041538	11772170
	Mymenshing Division	650841	650841
	Khulna Division	766387	766387
	Chittagong Division	1060477	1060477
	Rajshahi Division	1832017	1832017
	Barishal Division	426351	426351
	Sylhet Division	212245	212245
	Rangpur Division	1088514	1088514
		18078369	**17809001**
(D) Sector wise Loans and Advances	**Industrial Sector**		
	Food & Allied Products	3327914	3427771
	Jute & Allied Fiber Products	- 184544	- 126480
	Cotton, Woolen & Synthetic Textile	- 4720325	- 5220415
	Paper, Paper Products & Printing	- 106389	- 105574
	Tannery & its Products	58200	58200
	Non-metallic mineral	-	-

	Products	199703	199703
	Forest, Wood Products &	-	-
	Saw Mills	115624	115624
	Metal Products	522287	522287
	Electrical Machinery &	-	-
	Goods	117287	117287
	Machinery & Spare Parts	15529	15529
	Transport	74484	74484
	Chemicals &	-	-
	Pharmaceuticals	319062	319062
	Petro- Chemicals	291120	291120
	Service Industries	763371	763371
	Rubber & Rubber	-	-
	Products	9458	9458
	Miscellaneous	7253072	6983704
		18078369	**17809001**
(E) Classification Status of Loans and Advances	**Classification Status**		
	Standard	9785432	9516064
	Special Mentioned	-	-
	Accounts	983202	983202
	Sub-Standard	743757	743757
	Doubtful	538991	538991
	Bad/Loss	6026987	6026987
		18078369	**17809001**
(F) Residual contractual maturity breaks down of the whole portfolio, broken down by major types of credit exposure.	Repayable – on demand	16500	16500
	– upto 3 months	2072200	1802832
	– over 3 months but below		
	1 year	4135100	4135100
	– over 1 year but below 5	-	-
	years	7730100	7730100
	– over 5 years	4124469	4124469
		18078369	**17809001**

(G) Provision Against Loans & Advances	**Provision for Un-Classified Loan**		
	Provision held at the beginning of the year	184112	184112
	Fully provided debts written off (-)	-	
	Recoveries of amount Previously Written off (+)		-
	Specific provision for the year (+)	-	
	Provision Transfer to other Assets	-	-
	Excess provision transferred to provision for CI Loan (-)	-	- -
	Specific Provision For Special Mentioned	(71553) -	(71553) -
	Provision held at the end of the year	**112559**	**112559**
	Provision for Classified Loan		
	Provision held at the beginning of the year	2904132	2239181
	Fully provided debts written off (-)	-	-
	Recoveries of amount Previously Written off (+)	-	
	Specific provision for the year (+)	- 80000	- 80000
	Recoveries & provision no longer required (-)	-	-
	Excess provision transferred for Off-Balance Sheet Items(-)	-	-
	Excess provision transferred from provision for unclassified loan(+)	- 57279	- 57279
	Provision held at the end of the year	**3041411**	**3041411**

E) Equities: Disclosures for Banking Book Positions
Qualitative Disclosure

(a) The general qualitative disclosure requirement with respect to the equity risk, including : Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and 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.	Investment in equity is mainly for investment like investment in shares, Marketable securities, Bond, Debentures etc. Quoted shares are valued at cost. Sufficient provision is maintained as per requirement. Unquoted shares are valued at cost. As per Basel-III, Provision on Shares was 408766 as on 31-12-2016 and it was deducted from common equity tier-1 capital accordingly for calculation of regulatory capital.
(b) Value disclosed in the balance sheet of investment, as well as the fair value of those investments for quoted securities, a comparison to publicly quoted share values where share price is materially different from fair value.	Value of quoted and unquoted shares has been shown at cost and market price in the financial statements as well as in the Basel-III statement.
(C) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	The cumulative realized gains (losses) arising from sales and liquidations is shown in the financial statements at reporting period.
(d) * Total unrealized gains (losses) * Total latent revaluation gains (losses) * Any amounts of the above included in Tier 2 capital	 13782200 - -
(e) Capital requirements broken down by appropriate equity grouping, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.	Regulatory capital requirement has been calculated through breaking down equities consisting with the bank's methodology. Such as Investment in quoted and unquoted shares.

F) Market Risk
Qualitative Disclosure

(a) Views of BOD on trading/ investment activities	The Board Of Directors (BOD) keeps tight watch on the activities and trading in order to maximize profit without violating banking rules, regulations.
(b) Methods used to measure Market risk	Standardized approach has been used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk according to sub-categories. For each risk category, minimum capital requirement is measured separately. Capital is charged for 'specific risk' and 'general market risk' respectively.
(c) Market risk Management system	The Central Accounts Departments(CAD) manage market risk covering liquidity, interest rate and foreign exchange risks with oversight from Asset-Liability Management Committee(ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meeting is held at least once in a month.
d) Policies and process for mitigating market risk	There are approved policies for Market risk related instruments both on-balance sheet and off-balance sheet items. The investments are monitored and enforced on a regular basis to protect against market risks. Prevailing market condition, exchange rate, forex position and transactions are reviewed time to time to mitigate market risks.

Qualitative Disclosure

Amount in "000" Tk

	Solo	**Consolidated**
(b) The capital requirements for:		
Interest rate risk		
Equity position risk	1128211	1221051
Foreign exchange risk	15714	15714
Commodity risk	-	-
	1143925	**1236765**

H) Operational Risk
Qualitative Disclosure

(a) > Views of BOD on system to reduce Operational Risk	The BOD keeps tight watch on the activities and trading in order to maximize profit without violating banking rules, regulations. The policy for operational risks including internal control & compliance risk is approved by the board taking into account relevant guidelines of Bangladesh bank. Audit committee of the Bank oversees the activities of Internal Control & Compliance Division (ICCD) to protect against all operational risk.
>Performance gap of executives and staffs	BDBL has a policy to provide equal opportunity and best working environment to the employees. BDBL's strong image plays an important role in employee motivation. As a result, there is no significant performance gap.
>Potential external events	No potential external events are expected to expose the Bank to significant operational risk.
>Policies and processes for mitigating operational risk	The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh bank. Policy guidelines on Internal Audit system is in operation. Branches are audited regularly by Internal Control & Compliance Division (ICCD). It is the policy of the bank to put all the branches of the bank under any form of audit at least once in a year. ICCD directly report to Audit Committee of the Bank. Bank's Anti- Money laundering activities are supervised by CAMELCO and their activities are devoted to protect against all money laundering and terrorist finance related activities. Apart from that, there is adequate check & balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.
> Approach for calculating capital charge for operational risk	Basic Indicator Approach was used for calculating capital charge for operational risk as of the reporting date.

Quantitative disclosure

	Solo	Consolidated
b) The capital requirements for Operational Risk	417558	428724

I) Liquidity Ratio

Qualitative Disclosure

Liquidity ratios are a class of financial metrics used to determine a company's ability to pay off its short-terms debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts. Common liquidity ratios include the Statutory Liquidity Requirement, Cash Reserve Ratio, Advanced Deposit Ratio/Credit Deposit Ratio, Liquid Asset to total Deposit, Liquid Asset to Short term liabilities, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio, Leverage Ratio, Liquidity stress test. A company's ability to turn short-term assets into cash to cover debts is of the utmost importance when creditors are seeking payment. Bankruptcy analysts and mortgage originators frequently use the liquidity ratios to determine whether a company will be able to continue as a concern. Liquidity Ratio is calculated in every month in the ALCO paper and it is shown it the structural Liquidity profile (SLP). The ratio is favorable to the Bank.

Views of BOD on system to reduce liquidity risk: N/A

Methods used to measure Liquidity risk: N/A

Liquidity risk management system:

At any gap at any particular maturity bucket, the liquidity risk will be managed through following systems:

- **(i) Fund will be mobilized first from money market.**
- **(ii) Withdrawal of balance will be deposited with other banks.**
- **(iii) The excess amount of CRR with BB will be withdrawn.**
- **(iv) Marketable securities will be sold with no or very negligible losses.**
- **(v) Fund will be mobilized through Repo or Reverse Repo activities**

Policies and process for mitigating liquidity risk: N/A

Quantitative disclosure

SL No.	Components	Solo (Ratio/Amount)	Consolidated (Ratio/Amount)
1.	Liquidity Coverage Ratio	1.46	1.51
2.	Net Stable Funding Ratio (NSFR)	4.10	4.11
3.	Stock of High quality liquid assets (In "000")	5598106	5781014
4.	Total net cash outflows over the next 30 calendar days (In "000")	3836800	3836800
5.	Available amount of stable funding (In "000")	18965928	19020536
6.	Required amount of stable funding (In "000")	4630700	4658004

J) Leverage Ratio

Qualitative Disclosure

Views of BOD on system to reduce excessive leverage:

The Board of Director is well acquainted regarding the leverage ratio and they instructed to sanction and disburse loans and advances to good borrowers.

Policies and process for mitigating excessive on and off-balance sheet leverage: N/A

Approach for calculating exposure:

Leverage ratio is calculated on the basis of Basel-III guidelines and the bank's outstanding data & information.

Quantitative disclosure:

SL No.	Components	Solo (Amount in "000")	Consolidated (Amount in "000")
1.	Leverage Ratio	19.38%	19.46%
2.	On-balance sheet exposure	54541433	54541433
3.	Off-balance sheet exposure	825734	825734