

AB Bank Limited & its Subsidiaries Financial Statements 2015

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Disclosures on Risk Based Capital (Basel III) based on 31 December 2015

Annexure: E-1

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 (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect.

An NPA (impaired) is defined as a loan or an advance where interest and/or instalment of principal remain overdue for more than 90 days in respect of a Continuous credit, Demand loan or a Term Loan etc.

Classified loan is categorized under following 03 (three) categories:

- > Sub-standard
- > Doubtful
- > Bad & Loss

Any continuous loan will be classified as:

- > Sub-standard if it is past due/over due for 3 months or beyond but less than 6 months.
- > Doubtful if it is past due/over due for 6 months or beyond but less than 9 months.
- > Bad/Loss if it is past due/over due 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'.

In case of Fixed Term Loans:

- > If the amount of 'defaulted 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".
- > If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 6 (six) months, the entire loan will be classified as "Doubtful".
- > If the amount of 'defaulted 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".

If any Fixed Term Loan is repayable on monthly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 06 monthly installments. Similarly, if the loan is repayable on quarterly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 2 quarterly installments.

> Description of approaches followed for specific and general allowances and statistical methods

Particulars	Short Term Agri	Consumer Financing					Loans to BFs/MBs/SDs	All other Credit	Off Balance Sheet Exposures
		Other than HF, LP	HF	LP	SMEF	LP			
UC	Standard	2.50%	5%	2%	2%	0.25%	2%	1%	
	SMA	-	5%	2%	2%	0.25%	2%	1%	
	SS	5%	20%	20%	20%	20%	20%	1%	
Classified	DF	5%	50%	50%	50%	50%	50%	50%	
	BL	100%	100%	100%	100%	100%	100%	100%	

> Discussion of the Bank's credit risk management policy

The Board approves the credit policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in credit risk management and maintain quality of assets. Authorities are properly delegated in ensuring check and balance in credit operation at every stage i.e. screening, assessing risk, identification, management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early warning system. There is a separate Credit Risk Management Division for ensuring proper risk management of Loans and Credit Monitoring and Recovery Division for monitoring and recovery of irregular loans. Internal control & compliance division independently assess quality of loans and compliance status at least once in a year. Adequate provision is maintained against classified loans as per Bangladesh Bank Guidelines. Status of loans are regularly reported to the Board/Board Audit Committee. Besides, Credit risk management process involves focused on monitoring of Top 30 Loans, Top 20 Defaulters, Sectoral exposures vis-a-vis among other limits.

Quantitative Disclosure

	Taka In Crore			
	In %	Taka	In %	Taka
(b) Total gross credit risk exposures broken down by major types of credit exposure				
Overdraft	10.46%	2,193	13.66%	2,426
Cash Credit	0.11%	2	0.02%	4
Time loan	29.31%	6,272	39.91%	5,488
Term loan	50.29%	10,548	43.03%	7,641
Bic	0.11%	24	0.34%	60
TR	4.84%	1,016	6.78%	1,203
Packing credit	0.21%	44	0.26%	47
Loan-accr bill	2.35%	492	3.19%	566
Consumer Loan	0.65%	137	0.74%	132
Staff Loan	0.61%	129	0.41%	72
Bills Purchased & Discounted	0.55%	116	0.67%	118
Total	100%	20,973	100%	17,757
(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure				
Urban Branches				
Dhaka	66.46%	13,630	67.86%	11,740
Chittagong	25.93%	5,318	24.07%	4,165
Khulna	2.51%	516	2.78%	481
Sylhet	1.12%	229	1.23%	213
Barisal	0.14%	29	0.23%	39
Rajshahi	1.98%	406	2.00%	347
Rangpur	1.86%	381	1.83%	317
Total	100%	20,508	100%	17,301
Rural Branches				
Dhaka	85.80%	330	85.76%	314
Chittagong	12.48%	48	12.60%	46
Khulna	0.00%	-	0.00%	-
Sylhet	1.71%	7	1.64%	6
Barisal	0.00%	-	0.00%	-
Rajshahi	0.00%	-	0.00%	-
Rangpur	0.00%	-	0.00%	-
Total	100%	385	100%	366
Outside Bangladesh				
ABBL, Mumbai Branch	0.38%	80	0.50%	89
Total	100%	20,973	100%	17,757
(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure				
Agriculture	0.98%	206	1.58%	280
Large and medium scale industry	30.87%	6,473	26.90%	4,777
Working capital	17.53%	3,677	19.82%	3,519
Export	0.44%	92	0.61%	109
Commercial lending	26.72%	5,604	22.92%	4,069
Small and cottage industry	0.43%	90	0.57%	101
Others	23.03%	4,830	27.60%	4,902
Total	100%	20,973	100%	17,757
(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure				
Repayable - on demand	1.95%	410	1.76%	312
upto 3 months	40.72%	8,539	43.55%	7,734
over 3 months but below 1 year	39.97%	8,382	35.25%	6,260
over 1 year but below 5 years	16.51%	3,463	18.38%	3,264
over 5 years	0.85%	178	1.06%	187
Total	100%	20,973	100%	17,757

	Taka In Crore			
	In %	Taka	In %	Taka
(f) By major industry or counterparty type:				
i. Amount of impaired loans and if available, past due loans, provided separately	3.19%	669	3.86%	686
ii. Specific and general provisions		18		485
iii. Charges for specific allowances and charge-offs during the period		0.14		229
(g) Gross Non Performing Assets (NPAs)				
Non Performing Assets (NPAs) to Outstanding				
2015		669	2014	686
Non Performing Assets (NPAs) to Outstanding Loans & Advances		3.19%	3.86%	
Movement of Non Performing Assets (NPAs)-Bangladesh Operations:				
Opening Balance		675.46	463.69	
Additions		398.99	443.52	
Reductions		101.20	231.75	
Closing Balance		650.83	675.46	
Movement of Specific Provision for Non Performing Assets (NPAs)				
Opening Balance		289.13	224.41	
Provision made during the period		101.20	205.93	
Write-off		133.88	141.21	
Closing Balance		256.45	289.13	
Provision held by Mumbai Branch		3.16	3.28	
Total		259.62	292.41	

F) 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

> 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

(b) Value disclosed in the balance sheet of investment, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.

(c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period (2015).

(d) > Total unrealized gains (losses) (167.63)

> Total latent revaluation gains (losses)

> Any amounts of the above included in Tier

(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

	Taka In Crore	
	31.12.2015	31.12.2014
(b) Investment in equity mainly for capital gain purpose but Bank has some investment for relationship and strategic reasons		
Quoted shares are valued at cost. Necessary provision is maintained if market price fall below the cost price. Unquoted shares are valued at cost.		
Not Applicable		
(c) Cumulative realized gains (losses) arising from sales and liquidations in the reporting period (2015)	0.06	
(d) Total unrealized gains (losses)	167.63	
Total latent revaluation gains (losses)	Nil	
Any amounts of the above included in Tier	Nil	
(e) Capital requirements broken down by appropriate equity grouping, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements	Nil	

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

Qualitative Disclosure

(a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding interest rate movements, and frequency of IRRBB measurement.

Interest rate risk is the potential that the value of the On Balance Sheet and the Off Balance Sheet position of the Bank would be negatively affected with the change in the Interest rate. The vulnerability of an asset/liability position is determined by the duration of the interest rate on its On Balance Sheet position (as the Bank holds no interest bearing Off Balance Sheet positions and Derivatives). Under the assumption of three different interest rate changes i.e. 1%, 2% and 3%.

AB Bank has also been exercising the Stress Testing using the Duration GAP for measuring the Interest Rate Risk on its On Balance Sheet exposure for estimating the impact of the net change in the market value of equity on its On Balance Sheet position (as the Bank holds no interest bearing Off Balance Sheet positions and Derivatives). Under the assumption of three different interest rate changes i.e. 1%, 2% and 3%.

	Taka In Crore	
	31.12.2015	31.12.2014
(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).		
Market Value of Assets	29,001	25,024
Market Value of Liability	27,011	23,467
Weighted Avg. Duration GAP	0.79	0.59
CRAR after different level of Shocks:		
Minor Level	10.36%	9.78%
Moderate Level	9.81%	9.23%
Major Level	8.61%	8.28%

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Annexure: E-1

G) Market Risk

Qualitative Disclosure

(a) > Views of BOD on trading/ investment activities

The Board approves all policies related to market risk, sets limits and reviews them on a regular basis. The objective is to provide cost effective funding last year to finance asset growth and trade related transaction.

> Methods used to measure Market risk

Standardized approach has been used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for 'specific risk' and 'general market risk'.

> Market risk Management system

The Treasury Division manage market risk covering liquidity, interest rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. Also meets at least once in a month.

> Policies and process for mitigating market risk

There are approved limits for Market risk related instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against market risks. The exchange rate committee of the Bank meets on a daily basis to review the prevailing market condition, exchange rate, forex position and transactions to mitigate foreign exchange risks.

	Taka In Crore	
	31.12.15	31.12.14
(b) The capital requirements for:		
Interest rate risk	30.33	25.78
Foreign position risk	44.49	47.21
Equity exchange risk	3.14	0.76
Commodity risk	77.96	73.75

H) Operational Risk

Qualitative Disclosure

(a) > Views of BOD on system to reduce Operational Risk

The policy for operational risks including internal control & compliance risk is approved by the board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board oversees the activities of Internal Control & Compliance Division (ICCD) to protect against all operational risk.

> Performance gap of executives and staffs

AB has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. AB's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.

> Potential external events

No potential external events is expected to expose the Bank to significant operational risk.

> Policies and processes for mitigating operational risk

The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Policy guidelines on Risk Based Internal Audit system is in operation as per RBA branches are rated according to their risk status and branches scoring more on risk status are subjected to more frequent audit by Internal Control & Compliance Division (ICCD). It is the policy of the Bank to put all the branches of the bank under an form of audit at least once in a year. ICCD directly reports to Audit Committee of the Board. In addition there is a Vigilance Cell established in 2009 to reinforce operational risk management of the bank. Bank's Anti-Money laundering activities are headed by CAMELCO and its activities are devoted to protect against all money laundering and terrorist financing 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 over 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.

	Taka In Crore	
	31.12.15	31.12.14
(b) The capital requirements for Operational Risk	193.15	166.17

I) Liquidity Ratio

Qualitative Disclosure

(a) > Views of BOD on system to reduce Liquidity Risk

Liquidity risk is the potential for loss to the bank arising from either its inability to meet its obligations of depositors as they fall due or to fund in increased assets as per commitment.

To mitigate liquidity risk bank assess its risk appetite and manage the risk within a structured framework. Professional resources are deployed to set the limits and procedures and get them approved by the Board.

To reduce the liquidity risk in a structured way, Bank monitors various indicators like regulatory indicators (CRR, SLR, MFR, MCO, ADR, LCR, NSFR) and uses internal monitoring tools (WBS, CLP and MAST).

Liquidity measurement involves forecasting the bank's cash inflows against its outflows to identify the potential for any net shortfall going forward. For measuring Bank uses some simple techniques as mentioned below:

- > Bank prepares Structural Liquidity Profile (SLP) on monthly basis. SLP is used to estimate the Bank's cash inflows and outflows and thus net deficit or surplus (GAP) over a series of specified time periods. Bank focuses on the maturity of its assets and liabilities in different terms. Excessive longer term lending against shorter-term borrowing is monitored as this can put the Bank's balance sheet in a very critical and risky position.
- > Bank has a Contingency Funding Plan (CFP) in place. Contingency Funding Plan (CFP) is a set of policies and procedures that serves as a blueprint for the Bank to meet its funding needs in a timely manner and at a reasonable cost. Bank maintains sufficient High Quality Liquid Assets to meet the liquidity crisis period.
- > Bank estimates the funding requirement both in normal and stress conditions arising from on and off balance sheet exposures. Bank monitors its products which are interest rate sensitive. Those are taken care of at the time of interest rate movement in the market based on behavior of clients and other competitors.
- > Bank monitors liability concentration level. Highly concentrated deposits means bank is relying on too few providers or funding sources. Bank has to be ready for arranging fund if concentrated deposits are withdrawn at a time or Bank place this fund for short term lending.
- > Bank uses variety of ratios to quantify the liquidity and interpret them taking into account the qualitative factors.

> Liquidity risk management system

The Management of the Bank measures the liquidity risk and manage them under the Board approved guidelines and policies. Bank prepares external reports for monitoring the balance sheet movement on daily basis. Bank also monitors the Market Information of the country and global market. Bank has an Asset Liability Committee (ALCO).

ALCO is a senior management level committee responsible for supervision and management of liquidity and other risks using different monitoring tools. They monitor the key indicators set by Bangladesh Bank as well as Bank's Board.

Key elements of an effective liquidity risk management process include an efficient MIS to measure, monitor and control existing as well as future liquidity risks and reporting them to senior management and the Board. Bank is therefore working for continuous improvement of MIS.

> Policies and processes for mitigating liquidity risk

Bank has set of policies duly approved by the Board for mitigating liquidity risk. These policies are supported by effective procedures to measure, achieve and maintain liquidity. The ALCO recommends the policies for liquidity risk which is reviewed and approved by the Board.

Operating liquidity is managed by the Bank for day to day fund requirements. And for managing the crisis period Bank follows the CFP approved by the Board.

For regulatory purposes, Bank maintains audit of assets classified as "liquid", based on its liabilities. In addition, the Bank has to maintain excess liquid assets as per CFP.

	Taka In Crore	
	31.12.2015	31.12.2014
(b) Liquidity Coverage Ratio	82.21%	
Net Stable Funding Ratio (NSFR)	95.79%	
Stock of High quality liquid assets	4,657.59	
Total net cash outflows over the next 30 calendar days	5,434.12	
Available amount of stable funding	21,736.36	
Required amount of stable funding	22,700.95	

J) Leverage Ratio

Qualitative Disclosure

(a) > Views of BOD on system to reduce excessive leverage

For reducing the leverage up to an optimum level, the Board of Directors of the Bank always concern to maximise the core capital portion and keep the growth on an off balance sheet exposures at a favourable level.

- Key initiatives of the Board:
- > Emphasized to keep LD ratio at the optimal level/budgeted level
- > Stressed to keep the interest rate spread at the optimal level for ensuring the profitability of the Bank
- > Market competitive Cost of Fund must be maintained
- > Non-funded business i.e. Import, export and bank guarantee to be expedited as per budget
- > Operational expenses must be reduced at rational level
- > Decentralization of portfolio in SME and Retail business
- > Special Mentioned Account (SMA) and classified loans are to be closely monitored for ensuring asset quality, and
- > Recovery cell must ensure the monitoring of risk assets frequently to maintain the asset quality.

> Policies and processes for managing excessive leverage

Primary principle of the Board is to enhance the core capital of the Bank. To keep the leverage at a reduced level, Board emphasized Management to build strong internal control system specifically in the risk points by putting dual control in each phase. Apart from this, by the instruction of the Board, Management formed different Committees to work under specific Terms of Reference (TOR) and to report to the Board.

All these above measures as a whole, helps the Management to keep the exposures at sound level.

> Approach for calculating exposure

The exposure calculation for the leverage ratio is generally following the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following is applied by the bank:

- On balance sheet and non-derivative exposures are net of specific provisions and valuation adjustments (e.g. surplus/deficit on Available for Sale (AFS) Held-for-trading (HFT) positions)
- Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure.
- Netting of loans and deposits is not allowed.

On-Balance Sheet Items

Bank included items using their accounting balance sheet for the purposes of the leverage ratio. In addition, the exposure measure is included the following treatments for Securities Financing Transactions (e.g. repo, reverse repo etc.):

Reseachure Agreements and Securities Financing.

Securities Financing Transactions (SFT) are a form of secured funding and therefore an important source of balance sheet growth that included in the leverage ratio. Therefore Banks calculate SFT for the purposes of leverage ratio by applying:

- > The accounting measure of exposure; and
- > Without netting various long and short positions with the same counterparty

Exposures Types	CCF	Notional Amount (In Taka)		Exposure (In Taka)
		31.12.2015	31.12.2014	
Direct credit substitutes	100%	24,778,187,732	24,778,187,732	
Performance related contingencies	50%	9,794,073,141	4,892,036,570	
Short-term self-liquidating trade letters of credit	20%	23,014,237,561	4,602,847,512	
Lending of securities or posting of securities as collateral	100%	-	-	
Other commitments with certain breakdown	100%	-	-	
Commitments with original maturity of one year or less	20%	12,236,173,810	2,447,234,762	
Commitments with original maturity of over one year	50%	-	-	
Other commitments that can be unconditionally cancelled by any time	10%	21,604,558,201	2,160,455,820	
Market related Off-Balance sheet exposures	-	-	-	
Total		91,417,230,445	38,880,762,396	

	Taka In Crore	
	31.12.2015	31.12.2014
(b) Leverage Ratio		
On balance sheet exposure	28,241.41	
Off balance sheet exposure	3,889.08	
Total exposure	32,130.49	