

## **Disclosure on Risk Based Capital Requirement under Pillar-3 of Basel III As on 31 December, 2016**

### **Disclosure Policy**

The following detailed qualitative and quantitative disclosures are provided in accordance with Bangladesh Bank rules and regulations on capital adequacy under Basel III issued through BRPD Circular no. 18 (21 December 2014). The purpose of these requirements is to complement the capital adequacy requirements and the Pillar III – supervisory review process. These disclosures are intended for market participants to assess key information about the Bank’s exposure to various risks and to provide a consistent and understandable disclosure framework as per regulatory requirement. The Bank has spelt out its position as per disclosure requirements set out by the Bangladesh Bank.

The major highlights of the Bangladesh Bank regulations are:

- Maintenance of Capital Adequacy Ratio (CAR) at a minimum of 10% of Risk Weighted Assets (RWA);
- Adoption of the standardized approach for credit risk for implementing Basel III, using national discretion for:
- Following the credit rating agencies as External Credit Assessment Institutions (ECAI) for claims on sovereigns and banks;
- Adopting simple/comprehensive approach for Credit Risk Mitigation (CRM);
- Making unrated corporate exposures risk weighted by assigning a risk weighting of 125%.
- Adoption of the standardized approach for market risk and basic indicator approach for operational risk.
- Furnishing Capital adequacy returns to Bangladesh Bank on a quarterly basis.

### **a) Scope of Application**

|                         |            |   |
|-------------------------|------------|---|
| Qualitative Disclosure  | <b>(a)</b> | The Risk Based Capital Adequacy (RBCA) framework which is called Basel-III guideline issued by Bangladesh Bank in December-2014 was duly applied to The Farmers Bank Limited. |
|                         | <b>(b)</b> | The Farmers Bank Limited prepared its RBCA report on „Solo Basis“ as well as “Consolidated Basis“ where one (01) subsidiary belongs to The Farmers Bank Ltd.                  |
|                         | <b>(c)</b> | No incidence occurred which may cause for imposing any regulatory restriction or impediment on transfer of funds or regulatory capital within the group.                      |
| Quantitative Disclosure | <b>(d)</b> | No Capital deficiency in solo and consolidated assessment was observed.   |

**b) Capital Structure**

|                        |   |
|------------------------|---|
| Qualitative Disclosure | <p><b>a)</b> The Farmers Bank Ltd's capital structure consists of Tier I and Tier II capital which is aligned with regulatory capital structure. Tier I capital is further categorized as Common Equity Tier 1 (CET1) and Additional Tier 1 capital. The computation of the amount of Common Equity Tier I, Additional Tier I and Tier II capital shall be subject to the following conditions:</p> <ul style="list-style-type: none"><li>• The Bank has to maintain at least 4.50% of total Risk Weighted Assets (RWA) as Common Equity Tier I capital.</li><li>• Tier I capital will be at least 5.50% of the total RWA.</li><li>• Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10% of the total RWA.</li><li>• Additional Tier I capital can be maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher.</li><li>• Tier II capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher.</li><li>• In addition to minimum CRAR, Capital Conservation Buffer (CCB) @ 0.625% of the total RWA will be maintained in the form of CET1 in a phased manner from 2016 to 2019.</li></ul> <p>Tier I capital of the Bank includes fully Paid Up Capital, Statutory Reserve, Minority Interest in Subsidiary and retained earnings. Tier 1 capital is also called 'Core Capital' of the Bank. According to BRPD letter ref no.BRPD(BFIS)661/14B(P)/2015-18014 dated 24 December 2015, 5% of deferred tax recognized on specific provision shall be allowable as CET 1 capital whilst all other deferred tax assets created on other items shall be deducted from the retained earnings when calculating the capital adequacy ratio.</p> <p>Tier II capital consists of General Provision and revaluation reserve for Held to Maturity (HTM) and Held for Trading (HFT) securities. General provision for inclusion in Tier II capital is limited to a maximum 1.25% of Credit RWA calculated under the standardized approach. Revaluation reserve for securities shown as Tier II capital as on 31 December 2014 will be nullified in a phased manner at the rate of 20% starting from 2015 and will be fully adjusted by 2020.</p> |
|------------------------|---|

**Quantitative disclosures:**

The details of capital structure are provided as under:

**Fig in Cr**

| <b>Particulars</b>  | <b>Solo Basis</b> | <b>Consolidated Basis</b> |
|---|-------------------|---------------------------|
| Fully Paid Up Capital   | 401.61            | 401.61                    |
| Non-repayable share premium account   | Nil               | Nil                       |
| Statutory Reserve   | 16.73             | 16.73                     |
| General Reserve   | Nil               | Nil                       |
| Retained Earnings   | 14.85             | 15.63                     |
| Dividend Equalization Reserve   | Nil               | Nil                       |
| Minority Interest in subsidiaries   | Nil               | Nil                       |
| Others (If Any Item approved by Bangladesh Bank)  | Nil               | Nil                       |
| <b>Sub Total</b>  | <b>433.19</b>     | <b>433.97</b>             |
| <b>Regulatory Adjustment</b>  |                   |                           |
| Shortfall in Provisions Required Against NPLs   | Nil               | Nil                       |
| Shortfall in Provisions Required Against Investment in Shares   | Nil               | Nil                       |
| Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities | Nil               | Nil                       |
| Goodwill and all other Intangible Assets  | Nil               | Nil                       |
| Deferred Tax Assets (DTA)   | Nil               | Nil                       |
| Defined benefit pension fund assets   | Nil               | Nil                       |
| Gain on sale related to securitization transactions   | Nil               | Nil                       |
| Investment in own CET-1 Instruments/Shares (as per Para 3.4.7 of Basel III Guidelines)  | Nil               | Nil                       |
| Reciprocal Crossholdings in the CET-1 Capital of Banking, Financial and Insurance Entities  | Nil               | Nil                       |
| Any investment exceeding the approved limit under section 26(2) of Bank Company Act, 1991 (50% of Investment)                       | Nil               | Nil                       |
| Investments in subsidiaries which are not consolidated (50% of Investment)  | Nil               | Nil                       |
| Others if any   | Nil               | Nil                       |
| <b>Sub Total</b>  | <b>Nil</b>        | <b>Nil</b>                |
| <b>Total Common Equity Tier-1 Capital</b>   | <b>433.19</b>     | <b>433.97</b>             |
| <b>Additional Tier I Capital</b>  | <b>Nil</b>        | <b>Nil</b>                |
| <b>Total Tier I Capital</b>   | <b>433.19</b>     | <b>433.97</b>             |

## Tier II Capital

| <b>Particulars</b>   | <b>Solo Basis</b> | <b>Consolidated Basis</b> |
|--|-------------------|---------------------------|
| General Provision (Eligible for inclusion in Tier 2 will be limited to a maximum 1.25 percentage points of credit risk-weighted assets calculated under the standardized approach) | 39.60             | 39.60                     |
| All Other preference shares  | Nil               | Nil                       |
| Subordinated debt/Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital (as per Annex 4 of Basel III Guidelines)                                    | Nil               | Nil                       |
| Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties (for consolidated reporting only)   | Nil               | Nil                       |
| Revaluation Reserves as on 31 December, 2014 (50% of Fixed Assets and Securities & 10% of Equities)  | 0.73              | 0.73                      |
| Others (if any item approved by Bangladesh Bank)   | Nil               | Nil                       |
| <b>Sub Total</b>   | <b>40.33</b>      | <b>40.33</b>              |
| <b>Regulatory Adjustment</b>   |                   |                           |
| Revaluation Reserves for Fixed Assets, Securities & Equity Securities (follow Phase-in deductions as per Basel III Guidelines)   | 0.29              | 0.29                      |
| Investment in own T-2 Instruments/Shares (as per Para 3.4.7 of Basel III Guidelines)   | Nil               | Nil                       |
| Reciprocal crossholdings in the T-2 Capital of Banking, Financial and Insurance Entities   | Nil               | Nil                       |
| Any investment exceeding the approved limit under section 26(2) of Bank Company Act, 1991 (50% of Investment)  | Nil               | Nil                       |
| Investments in subsidiaries which are not consolidated (50% of Investment)   | Nil               | Nil                       |
| Others if any  | Nil               | Nil                       |
| <b>Total Tier-2 Capital Available</b>  | <b>40.04</b>      | <b>40.04</b>              |
| Maximum Limit of Tier-2 Capital (Tier 2 capital can be maximum up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher)   | 385.06            | 385.75                    |
| Excess Amount over Maximum Limit of T-2  | Nil               | Nil                       |
| <b>Total Admissible Tier-2 Capital</b>   | <b>40.04</b>      | <b>40.04</b>              |
| <b>Total Regulatory Capital (Tier I + Tier II )</b>  | <b>473.23</b>     | <b>474.00</b>             |

**(c) Capital Adequacy**

(BDT in Crore)

| <b>Qualitative Disclosure</b>                        | <p><b>a)</b> For accessing Capital Adequacy the Bank has adopted Standardized Approach for Credit Risk measurement, Standardized (Rule Based) Approach for Market Risk measurement and Basic Indicator Approach for Operational Risk measurement.</p> <p>Adequate capital means enough capital to compensate with Bank's risks profile. For assessing overall risk profile and a strategy for maintaining adequate capital, Bank has developed an Internal Capital Adequacy Assessment Process (ICAAP) for practicing better risk management techniques.</p> <p>Bank has strengthened effectiveness its risk management process and internal control system in assessing and planning of economic capital against all risks. The strategic planning process critically analyses of bank's current and future capital requirements. The strategic plan includes the bank's capital needs, anticipated capital expenditures, desirable capital level, and external capital sources.</p>  |                           |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
|--|--|---------------------------|-------------------|---------------------------|--|--------|--------|--|------|-------|---|-------|-------|---------------------------------|---------|---------|--------------------------|--------|-----|--|-------|-------|---|------|------|-----------------------------|------|------|------------------------------|------|------|-----------------------------|--------|--------|--------------------------------|-------|-------|---|-------|-------|
| <b>Quantitative Disclosure</b>                       | <table border="1"> <thead> <tr> <th></th> <th style="text-align: center;"><b>Solo Basis</b></th> <th style="text-align: center;"><b>Consolidated Basis</b></th> </tr> </thead> <tbody> <tr> <td>b) Capital requirement for Credit Risk</td> <td style="text-align: center;">413.34</td> <td style="text-align: center;">401.99</td> </tr> <tr> <td>c) Capital requirement for Market Risk</td> <td style="text-align: center;">9.72</td> <td style="text-align: center;">12.35</td> </tr> <tr> <td>d) Capital requirement for Operational Risk</td> <td style="text-align: center;">21.88</td> <td style="text-align: center;">22.00</td> </tr> <tr> <td>Total Risk Weighted Asset (RWA)</td> <td style="text-align: center;">4449.44</td> <td style="text-align: center;">4363.42</td> </tr> <tr> <td>Total Regulatory Capital</td> <td style="text-align: center;">473.23</td> <td style="text-align: center;">474</td> </tr> <tr> <td>e) Total Capital to Risk Weighted Asset Ratio (CRAR)</td> <td style="text-align: center;">10.64</td> <td style="text-align: center;">10.86</td> </tr> <tr> <td>Common Equity Tier 1 (CET 1) Capital to RWA Ratio</td> <td style="text-align: center;">9.74</td> <td style="text-align: center;">9.94</td> </tr> <tr> <td>Tier 1 Capital to RWA Ratio</td> <td style="text-align: center;">9.74</td> <td style="text-align: center;">9.94</td> </tr> <tr> <td>Tier II Capital to RWA Ratio</td> <td style="text-align: center;">0.90</td> <td style="text-align: center;">0.92</td> </tr> <tr> <td>Minimum Capital Requirement</td> <td style="text-align: center;">444.94</td> <td style="text-align: center;">436.34</td> </tr> <tr> <td>f) Capital Conservation Buffer</td> <td style="text-align: center;">27.81</td> <td style="text-align: center;">27.27</td> </tr> <tr> <td>g) Available Capital Under Pillar 2 Requirement</td> <td style="text-align: center;">28.29</td> <td style="text-align: center;">37.66</td> </tr> </tbody> </table> |                           | <b>Solo Basis</b> | <b>Consolidated Basis</b> | b) Capital requirement for Credit Risk | 413.34 | 401.99 | c) Capital requirement for Market Risk | 9.72 | 12.35 | d) Capital requirement for Operational Risk | 21.88 | 22.00 | Total Risk Weighted Asset (RWA) | 4449.44 | 4363.42 | Total Regulatory Capital | 473.23 | 474 | e) Total Capital to Risk Weighted Asset Ratio (CRAR) | 10.64 | 10.86 | Common Equity Tier 1 (CET 1) Capital to RWA Ratio | 9.74 | 9.94 | Tier 1 Capital to RWA Ratio | 9.74 | 9.94 | Tier II Capital to RWA Ratio | 0.90 | 0.92 | Minimum Capital Requirement | 444.94 | 436.34 | f) Capital Conservation Buffer | 27.81 | 27.27 | g) Available Capital Under Pillar 2 Requirement | 28.29 | 37.66 |
|  | <b>Solo Basis</b>  | <b>Consolidated Basis</b> |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| b) Capital requirement for Credit Risk               | 413.34   | 401.99                    |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| c) Capital requirement for Market Risk               | 9.72   | 12.35                     |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| d) Capital requirement for Operational Risk          | 21.88  | 22.00                     |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| Total Risk Weighted Asset (RWA)                      | 4449.44  | 4363.42                   |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| Total Regulatory Capital                             | 473.23   | 474                       |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| e) Total Capital to Risk Weighted Asset Ratio (CRAR) | 10.64  | 10.86                     |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| Common Equity Tier 1 (CET 1) Capital to RWA Ratio    | 9.74   | 9.94                      |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| Tier 1 Capital to RWA Ratio                          | 9.74   | 9.94                      |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| Tier II Capital to RWA Ratio                         | 0.90   | 0.92                      |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| Minimum Capital Requirement                          | 444.94   | 436.34                    |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| f) Capital Conservation Buffer                       | 27.81  | 27.27                     |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |
| g) Available Capital Under Pillar 2 Requirement      | 28.29  | 37.66                     |                   |                           |  |        |        |  |      |       |   |       |       |                                 |         |         |                          |        |     |  |       |       |   |      |      |                             |      |      |                              |      |      |                             |        |        |                                |       |       |   |       |       |

**(d)Credit Risk**

|                               |  |
|-------------------------------|--|
| <b>Qualitative Disclosure</b> | <p><b>(a)</b> Credit risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to the Bank. Credit risk arises from the bank's dealings with or lending to corporate, individuals and other banks or financial institutions. The Farmers Bank Ltd. is managing Credit Risk through a robust process that enables the bank to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders.</p> <p><b><u>Past Due/Impaired Loans</u></b></p> <p>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 is defined as a loan or an advance where interest and/ or installment of principal remain overdue for more than 90 days in respect of a Continuous credit, Demand loan or Term Loan .</p> <p>Classified loan is categorized under following 03 (three) categories:</p> <ol style="list-style-type: none"><li>1. Sub-standard</li><li>2. Doubtful</li><li>3. Bad &amp; Loss</li></ol> <p><b><u>Any continuous loan will be classified as:</u></b></p> <ul style="list-style-type: none"><li>• 'Sub-standard' if it is past due/over due for 3 months or beyond but less than 6 months.</li><li>• 'Doubtful' if it is past due/over due for 6 months or beyond but less than 9 months.</li><li>• 'Bad/Loss' if it is past due/over due for 9 months or beyond.</li></ul> <p><b><u>Any Demand Loan will be classified as:</u></b></p> <ul style="list-style-type: none"><li>• '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.</li><li>• '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.</li><li>• '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.</li></ul> |
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**Term Loan up to Tk.10.00 lac**

- If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 months, the entire loan will be classified as "Sub-standard".
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 months, the entire loan will be classified as "Doubtful".
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 12 months, the entire loan will be classified as "Bad /Loss".

**Term Loan above Tk.10.00 lac**

- In case any installment (s) or part of installment (s) of a Fixed Term Loan above Tk. 10.00 lac is not repaid within the due date, the amount of unpaid installment (s) will be termed as past due /overdue installments from the following day of the due date.
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 3 months, the entire loan will be classified as "Sub-standard".
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 months, the entire loan will be classified as "Doubtful".
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 months, the entire loan will be classified as "Bad /Loss"

**Agricultural Credit & Micro Credit loan will be classified as:**

- If not repaid within the fixed expiry date for repayment will be considered past due / overdue after 6 months of the expiry date.
- If irregular status continues, the credit will be classified as 'Substandard ' after a period of 12 months.
- If irregular status continues, the credit will be classified as 'Doubtful' after a period of 36 months.
- If irregular status continues, the credit will be classified as 'Bad or Loss ' after a period of 60 months.

**Description of approaches followed for specific and general allowances:**

The Farmers Bank Limited follows the General and Specific Provision requirement as prescribed by Bangladesh Bank time to time.

General provision on all unclassified loans of Small and Medium Enterprise 0.25%

General provision against all unclassified loans (other than loans under consumer Financing, Loans to Brokerage House, Merchant Banks, Stock Dealers etc. Special Mention Account as well as SME Financing) 1%

General provision on the unclassified amount for Consumer Financing ( other than Housing Finance and Loans for professionals to set up business) 5%

General provision on the unclassified amount for Housing Finance and Loans for professionals to set up business under consumer financing scheme 2%

General provision on the unclassified amount for Loans to Brokerage House, Merchant Banks, Stock dealers, etc 2%

General provision on the outstanding amount of loans kept in the Special Mention Account 5%

General provision on the off-balance sheet exposures 1%

Specific Provision for classified Continuous, Demand and Fixed Term Loans:

Substandard 20%

Doubtful 50%

Bad/Loss 100%

Specific Provision for Short-term Agricultural and Micro-Credits:

All Credits except Bad/Loss 5%

Bad/Loss 100%

**Methods used to measure credit risk**

In compliance with Risk Based Capital Adequacy, FBL, as per BASEL-II Guideline, uses ratings assigned by External Credit Assessment Agencies (ECAIs) approved by Bangladesh Bank. The rating is used for both fund based and non-fund based exposure for corporate borrowers. FBL also uses the Credit Risk Grading System prepared by Bangladesh Bank before taking any exposure on Corporate and Medium clients.



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|  | <p><b>Credit Risk Management Policy</b></p> <p>Given the fast changing dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, The Farmers Bank has a robust credit risk management policy and procedures that are sensitive and responsive to these changes. A clearly defined, well-planned, comprehensive and appropriate Credit Risk Management Policy of the Bank provides a board guideline for the Credit Operation towards efficient management of its Credit portfolio.</p> <p>The Bank has adopted numerous strategies to manage its credit risk including:</p> <ul style="list-style-type: none"><li>• Creating credit risk awareness culture</li><li>• Approved credit policy by the Board of Directors</li><li>• Separate credit risk management division</li><li>• Formation of law and recovery team</li><li>• Independent internal audit and direct access to Board/Audit committee</li><li>• Credit quality and portfolio diversification</li><li>• Early warning system</li><li>• Provision and suspension of interest</li><li>• Scientific lending and credit approval process</li><li>• Counterparty credit rating</li><li>• Strong NPL management system</li></ul> |
|--|---|

|                         |              |   |   |
|-------------------------|--------------|---|---|
| Quantitative Disclosure | b)           | <b>Total gross credit risk exposure broken down by major types of credit exposure</b> | <b>Amount in Crore</b>                              |
|                         |              | Term Loan   | 728.26  |
|                         |              | Time Loan   | 242.75  |
|                         |              | LTR   | 232.96  |
|                         |              | Packing Credit  | 5.26  |
|                         |              | House Building Loan   | 92.89   |
|                         |              | Lease Finance   | 3.83  |
|                         |              | Hire Purchase   | 1.33  |
|                         |              | EDF Loan  | 0.19  |
|                         |              | Payment Against Documents   | 0.98  |
|                         |              | Cash Credit   | 1926.37   |
|                         |              | Overdraft   | 1074.68   |
|                         |              | Personal Loan   | 12.87   |
|                         |              | Consumer Credit   | 0.18  |
|                         |              | Staff Loan  | 22.40   |
|                         |              | Agricultural Credit   | 34.41   |
|                         |              | Bill Purchased and Discounted Inland  | 18.46   |
|                         |              | Bill Purchased and Discounted Foreign   | 15.57   |
|                         |              | <b>Total</b>  | <b>4413.38</b>                                      |
|                         |              | c)  | <b>Geographical Distribution of Credit Exposure</b> |
|                         | Dhaka        |   | 2588.79   |
|                         | Chittagong   |   | 551.13  |
|                         | Khulna       |   | 104.22  |
|                         | Rajshahi     |   | 14.08   |
|                         | Barisal      |   | 65.83   |
|                         | Mymensing    |   | 1088.10   |
|                         | Sylhet       |   | 1.23  |
|                         | Rangpur      |   | 0.00  |
|                         | <b>Total</b> |   | <b>4413.38</b>                                      |

|  |            |   |                     |
|--|------------|---|---------------------|
|  |            | Industry or counter party type distribution of exposures, broken down by major types of credit exposures            | <b>BDT in Crore</b> |
|  | <b>(d)</b> | Agriculture   | 34.41               |
|  |            | RMG   | 123.26              |
|  |            | Textile   | 51.49               |
|  |            | Ship Building   | 10.87               |
|  |            | Ship Breaking   | 149.43              |
|  |            | Other Manufacturing Industry  | 19.51               |
|  |            | SME Loans   | 1244.05             |
|  |            | Construction  | 120.26              |
|  |            | Power, Gas  | 87.29               |
|  |            | Transport, Storage & Communication  | 52.89               |
|  |            | Trade service   | 1645.47             |
|  |            | Commercial real estate financing  | 189.29              |
|  |            | Residential real estate financing   | 49.09               |
|  |            | Consumer Credit   | 104.33              |
|  |            | Loans to Brokerage House  | 9.13                |
|  |            | NBFI  | 0.00                |
|  |            | Others  | 522.60              |
|  |            | <b>Total</b>  | <b>4413.38</b>      |
|  | <b>(e)</b> | Residual Contractual maturity breakdown of the whole portfolio broken down by major types of credit exposures       | <b>BDT in Crore</b> |
|  |            | Up to 1 (One) Month   | 1146.25             |
|  |            | Over 1 Month but less Than 3 months   | 329.07              |
|  |            | Over 3 Month but less Than 1year  | 2069.90             |
|  |            | Over 1 Year but not more than 5 Years   | 439.53              |
|  |            | Over 5 Years  | 428.63              |
|  |            | Total   | 4413.38             |
|  | <b>(f)</b> | By major industry or counterparty Type: Amount impaired loans and if available, past due loans, provided separately | <b>BDT in crore</b> |
|  |            | Corporate   | 240.48              |
|  |            | SME   | 115.08              |
|  |            | Consumer Financing  | 0.47                |
|  |            | others  | 20.23               |
|  |            | Specific and general provisions and charges for specific allowances and charge off during the period                | 91.81               |

|                 |       |   |        |
|-----------------|-------|---|--------|
|                 | (g)   | <b>Gross Nonperforming Assets (NPAs)</b>              | 177.09 |
|                 |       | Non Performing Assets to Outstanding Loans & Advances | 4.01%  |
|                 |       | <b>Movement of Non Performing Assets</b>              |        |
|                 |       | Opening balance                                       | 41.41  |
|                 |       | Additions   | 135.68 |
|                 |       | Reductions  | 0.00   |
|                 |       | Closing Balance                                       | 177.09 |
|                 |       | <b>Movement of Non Performing Assets</b>              |        |
|                 |       | Opening balance                                       | 11.42  |
|                 |       | Provisions made during the period                     | 40.79  |
|                 |       | Write-off   | 0.00   |
|                 |       | Write-back of excess provisions                       | 0.00   |
| Closing Balance | 52.21 |   |        |

**(e) Equities: Disclosures for Banking Book Positions:**

|                        |     |   |
|------------------------|-----|---|
| Qualitative Disclosure | (a) | <p>The general qualitative disclosure requirement with respect to the equity risk, including:</p> <p>The Bank does not hold any value which is describe as “Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons” in RBCA Guidelines of Bangladesh bank.</p> <p>Therefore the Bank does not need to narrate any “Discussion of important policies covering the valuation and accounting of equity holding 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”.</p> <p>Apart from above, the Bank has calculated value at cost method for Quoted shares &amp; Unquoted Shares.</p> |
|------------------------|-----|---|

|                         |     |  |
|-------------------------|-----|--|
| Quantitative Disclosure | (b) | 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.<br><br><div style="text-align: right;">Tk. Crore</div> Quoted shares <span style="float: right;">20.00</span><br>Unquoted shares <span style="float: right;">371.50</span> |
|                         | (c) | The cumulative realized gain (losses) arising from sales and liquidations in the reporting period. Realized gain (losses) from equity investments.   |
|                         | (d) | Total unrealized gains ( losses) - <span style="float: right;">0.00</span><br>Total latent revaluation gains (losses) - <span style="float: right;">0.00</span><br>Any amounts of the above included in Tier 2 Capital-<br>0.00  |
|                         | (e) | There are no 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.  |

**(f) Interest Rate Risk in the Banking Book (IRRBB):**

|                        |     |  |
|------------------------|-----|--|
| Qualitative Disclosure | (a) | <p>The Banking Book consists of assets and liabilities contracted basically on account of relationship or for steady income and statutory obligations and are generally held till maturity/payment by counter party.</p> <p>The earnings or changes in the economic value are the main focus in banking book. Interest rate risk is the risk that a bank will experience deterioration in its financial position as interest rates move over time. Interest rate risk in the banking book arises from a bank's core banking activities. Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. Changes in interest rates affect a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses.</p> |
|------------------------|-----|--|

|                         |     |  |        |          |        |
|-------------------------|-----|--|--------|----------|--------|
| Quantitative Disclosure | (b) | CAR before-shock (%)                                 | 10.86  |          |        |
|                         |     | Interest Rate Stress Test                            | Minor  | Moderate | Major  |
|                         |     | Assumed change in Interest Rate                      | 1.00%  | 2.00%    | 3.00%  |
|                         |     | Net interest income impact                           |        |          |        |
|                         |     | <12 months   | 4.90   | 9.79     | 14.69  |
|                         |     | Capital after-shock                                  | 478.90 | 483.79   | 488.69 |
|                         |     | CAR after-shock (%)                                  | 11.98  | 11.09    | 11.20  |
|                         |     | Change in CAR after-shock (%)                        | 0.11   | 0.22     | 0.34   |
|                         |     | Re pricing impact                                    |        |          |        |
|                         |     | Change in the value of the bond portfolio            | -16.10 | -32.20   | -48.31 |
|                         |     | Capital after-shock                                  | 462.79 | 451.59   | 440.38 |
|                         |     | CAR after-shock (percent)                            | 10.61  | 10.35    | 10.09  |
|                         |     | Change in CAR after-shock (%)                        | -0.37  | -0.74    | -1.11  |
|                         |     | Overall change in CAR (NII and re pricing impact, %) | -0.26  | -0.51    | -0.77  |

**(g) Market Risk Qualitative Disclosure: Qualitative Disclosures**

|                                      |  |  |  |
|--------------------------------------|--|--|--|
| <p><b>Qualitative Disclosure</b></p> | <p><b>Views of BOD on trading/investment activities:</b><br/> Market risk is potential for loss resulting from adverse movement in market risk factors such as interest rates, For-ex rates, and equity and commodity prices. The important aspect of the Market Risk includes liquidity management, interest rate risk management and the pricing of assets and liabilities. There are three types of Market Risk such as Interest Rate Risk, Foreign Exchange Risk &amp; Equity Price Risk. The Board will have to approve all policies related to market risk, sets limits and reviews compliance on a regular basis.</p> <p><b>Method used to measure Market Risk:</b><br/> 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.</p> <p><b>Market Risk Management System:</b><br/> The Treasury Division manage market risk covering Liquidity, interest rate and foreign exchange risk 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.</p> <p><b>Policies and Processes for mitigating market risk:</b><br/> 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 For-ex position. The limits are monitored and enforced on a regular basis to protect against market risk. The exchange rate committee of the Bank meets on a daily basis to review the prevailing market condition, exchange rate, For-ex position and transactions to mitigate foreign exchange risks.</p> |  |  |
|                                      | <p><b>The Capital Requirement for:</b></p> <p>Interest Rate Risk</p> <p>Equity Position Risk</p> <p>Foreign Exchange Risk</p> <p>Commodity Risk</p>  | <p><b>Solo</b></p> <p>4.89</p> <p>4.00</p> <p>0.83</p> <p>0.00</p> | <p><b>Consolidated</b></p> <p>4.89</p> <p>6.63</p> <p>0.83</p> <p>0.00</p> |

**(h) Operational Risk**

|                                      |   |
|--------------------------------------|---|
| <b><u>Qualitative Disclosure</u></b> | <p><b>(a)</b></p> <p><b>Views of BOD on system to reduce Operational Risk:</b><br/>Operational risk is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system; technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems. Operational risk exists in all products and business activities.<br/>In addressing Operational Risk, Bank has been strengthened its Internal Control System, and ensure sound Corporate Governance in all sphere of Management and Operation level as well.<br/>The Bank should maintain a robust CBS (Core Banking Software) and enriches its IT infrastructure in terms of demand of time. Besides, in order to capacity building of its Human Resources division may be taken a number of steps like training, workshop etc.</p> <p><b>Performance gap of executives and staffs:</b><br/>FBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. FBL's strong brand image plays an important role in employee motivation. As a result there is no significant performance gap.</p> <p><b>Potential external events:</b><br/>No potential external events are expected to expose the Bank to significant operational risk.</p> <p><b>Policies and Processes for mitigating operational risk:</b><br/>To mitigate operational risk, Bank use basic indicator approach to calculate capital charge against operational risk. The policy for operational risks including internal control &amp; compliance risk is approved by Board taking into account relevant guidelines of Bangladesh Bank. The Bank developed a Risk Management Division and supervisory review Committee for review and managing operation risk as well as evaluating of the adequacy of the capital. For mitigating operational risk Internal Control and compliance division undertakes periodical and special audit of the branches and departments at the Head Office for review of the operation and compliance of statutory requirements.</p> <p><b>Approach for calculating capital charge for operational risk:</b><br/>The Bank followed Basic Indicator Approach (BIA) for measuring capital charges for operational risk. Under the Basic Indicator Approach (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.</p> |
| Quantitative Disclosure              | The Capital Requirement for operational Risk:<br>In Solo-21.88 cr and in Consolidated 22.00 cr  |



**(i) Liquidity Risk**

|                               |   |
|-------------------------------|---|
| <b>Qualitative Disclosure</b> | <p><b>(a)</b> Liquidity Risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at excessive cost. The risk arises from mismatch in the timing of cash flows. The objective of liquidity framework is to allow the Bank to withstand very severe stresses. It is designed to be adaptable to change the business modes, markets and regulators. The liquidity risk management frameworks require:</p> <ul style="list-style-type: none"><li>• Liquidity to managed by Bank on stand-alone basis with no reliance on the Bangladesh Bank</li><li>• To comply with all regulatory limits;</li><li>• To maintain positive stressed cash flow;</li><li>• Monitoring the contingent funding commitments;</li><li>• Monitoring the structural term mismatch between maturing assets and liabilities;</li><li>• Maintenance of robust and practical liquidity contingency plan;</li><li>• Maintain diverse sources of funding and adequate back up lines.</li></ul> <p>Liquidity management of the Bank is centered on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) based on BASEL III. The Bank has Asset Liability Management (ALM) desk to manage this risk with active monitoring and management.</p> <p>The Bank has adopted Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) for liquidity risk Management. LCR ensures that banks maintain enough high quality unencumbered liquid assets to meet its liquidity needs for 30 calendar time-line whereas NSFR ensures availability of stable funding is greater than required funding over 1 year period.</p> <p>Bank has Asset Liability Management Committee (ALCO) to monitor the liquidity risk on a monthly basis. Based on the detail recommendation from ALM desk, ALCO take appropriate action to manage the liquidity risk. To have more conservative approach towards liquidity risk measurement, the Bank has set internal LCR and NSFR limits which are more stringent and set higher than the regulatory limit of 100%. These ratios are regularly monitored at ALCO. Also Bank has internal risk control framework which outlines clear and consistent policies and principles for liquidity risk management.</p> |
|-------------------------------|---|

|                                   |         |  |                       |
|-----------------------------------|---------|--|-----------------------|
| Quantitative Disclosure           | (b)     | Particulars  | Solo and Consolidated |
|                                   |         | Liquidity coverage ratio (%)                           | 105.07%               |
|                                   |         | Net Stable Funding Ratio (%)                           | 122.82%               |
|                                   |         | Stock of High quality liquid assets                    | 825.94                |
|                                   |         | Total net cash outflows over the next 30 calendar days | (593.67)              |
|                                   |         | Available amount of stable funding                     | 5031.92               |
| Required amount of stable funding | 4097.14 |  |                       |

#### (j) Leverage Ratio

|                        |     |   |
|------------------------|-----|---|
| Qualitative Disclosure | (a) | <p>Leverage ratio is the ratio of tier 1 capital to total on and off-balance sheet exposures. The leverage ratio was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced by the Bangladesh Bank. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives:</p> <ul style="list-style-type: none"> <li>• Constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and</li> <li>• Reinforce the risk based requirements with an easy to understand and a non-risk based measure.</li> </ul> <p>The Bank has calculated the regulatory leverage ratio as per the guideline of Basel III. The numerator, capital measure is calculated using the new definition of Tier I capital applicable from 01 January 2015. The denominator, exposure measure, is calculated on the basis of the Basel III leverage ratio framework as adopted by the Bangladesh Bank. The exposure measure generally follows the accounting value, adjusted as follows:</p> <ul style="list-style-type: none"> <li>• On-balance sheet, non derivative exposures are included in the exposure measure net of specific provision;</li> <li>• Physical or financial collateral is not considered to reduce on-balance sheet exposure;</li> <li>• Loans are not netted with deposits; off balance sheet items are converted into credit exposure equivalents through the use of credit conversion factors (CCFs). Depending on the risk category of the exposure a CCF of 20%, 50% or 100% is applied.</li> <li>• Item deducted from Tier I capital such as deferred tax assets is excluded.</li> </ul> |
|------------------------|-----|---|

| Quantitative Disclosure | (b) | Leverage ratio (%)         | Solo    | Consolidated |
|-------------------------|-----|----------------------------|---------|--------------|
|                         |     | On balance sheet exposure  | 7.27%   | 7.27%        |
|                         |     | Off balance sheet exposure | 5837.82 | 5846.48      |
|                         |     | Total Exposure             | 120.52  | 120.52       |
|                         |     |                            | 5958.34 | 5967.00      |

**(k) Remuneration:**

|                        |    |  |  |
|------------------------|----|--|--|
| Qualitative disclosure | a) | i) Information relating to the bodies that oversee remuneration  | The Executive committee of the Bank oversees the remuneration on as and when required basis. No external consultant's advice has been sought. The Bank has approved pay scale approved by the Board of Directors. Employee type in FBL is Regular & Contractual. |
|                        |    | ii) Information relating to the design and structure of remuneration processes   | There is a pay scale approved by the competent authority where the salaries and increments are fixed designation wise and the same is followed accordingly.  |
|                        |    | iii) Description of the ways in which current and future risks are taken into account in the remuneration processes.                         | The approved pay scale was initialized considering the packages provided by peer Banks so that the employee retention risk is lower. For the future risks the pay scale is every now and then considered for revision.   |
|                        |    | iv) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration. | Half-Yearly and Annual appraisal is sought from the competent authority to link performance during a performance measurement period with levels of remuneration.   |
|                        |    | v) Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.                         | To take account of longer-term performance the Bank seeks to adjust remuneration through Promotion.  |
|                        |    | vi) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms     | There are no other forms but cash form of variable remuneration is utilized by the Bank.   |

**BDT in Million**

|  |     |  |                                |
|--|-----|--|--------------------------------|
| Quantitative disclosure  | b)  |  | <b>Solo &amp; Consolidated</b> |
|  |     | Number of meetings held by the main body overseeing remuneration and remuneration paid to its member.                    | Nil                            |
|  |     | Number of employees having received a variable remuneration award (incentive bonus).                                     | N/A                            |
|  |     | Number of guaranteed bonuses awarded (festival bonus).   | 02                             |
|  |     | Total amount of guaranteed bonuses awarded.  | 6.86 Cr                        |
|  |     | Number of sign-on awards made.   | N/A                            |
|  |     | Total amount of sign-on awards made.   | N/A                            |
|  |     | Number of severance payments made.   | N/A                            |
|  |     | Total amount of severance payments made.   | N/A                            |
|  |     | Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. | N/A                            |
|  |     | Total amount of deferred remuneration paid out (incentive bonus).  | N/A                            |
|  |     | Breakdown of amount of remuneration awards for the financial year to show:   |                                |
|  |     |  | <b>BDT in Crore</b>            |
|  |     | Fixed (Salary & Allowances)  | 47.20                          |
|  |     | Variable   | N/A                            |
|  |     | Deferred   | N/A                            |
|  |     | Non- deferred  | N/A                            |
| Different forms used (Cash, shares and share linked instrument, other forms).                  | N/A |  |                                |
| Total amount of outstanding deferred remuneration  | N/A |  |                                |
| Total amount of retained remuneration exposed to ex post explicit and/or implicit adjustments. | N/A |  |                                |
| Total amount of reductions during the financial year due to ex post explicit adjustments.      | N/A |  |                                |
| Total amount of reductions during the financial year due to ex post implicit adjustments       | N/A |  |                                |