

**First Security Islami Bank Ltd.**  
**Disclosure on Risk Based Capital (Basel III)**  
**Risk Based Capital Adequacy as on 31.12.2019**

<b>Risk Management</b>
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### **Capital Management**

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings. Strategic business and capital plan ensure that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank to support the strategy. The capital plan takes the following into account:

- regulatory capital requirements;
- forecast demand for capital to support the credit ratings;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- Internal controls and governances for managing the Bank's risk and performance.

The Bank assesses the capital demand for material risks, and supports its internal capital adequacy assessment. Each material risk is assessed; relevant risk mitigation is considered and an appropriate level of capital is determined. The capital adequacy is a key part of the Bank's management disciplines.

**Pillar-2** (Supervisory Review Process) intends to ensure that the banks have adequate capital to address all the risks in the business commensurate with Bank's risk profile and control environment. As required, the bank has put in place a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP).

**Pillar-3** refers to market discipline. As directed by the Risk Based Capital Adequacy (RBCA) guidelines on Basel III framework, a set of disclosures (both qualitative & quantitative) as per Basel-III guideline are annexed with regard to risk management in the bank, which will enable market participants to access key information on the scope of application, capital risk exposures, risk assessment processes, bank's risk profile and level of capitalization etc. This would also provide the market participants with the necessary data to evaluate the performance of the bank in various parameters.

**(a) Scope of Application**

**Qualitative Disclosures:**

a)	The name of the top corporate entity in the group to which this guidelines applies	First Security Islami Bank Limited (FSIBL)
b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	<p>The Financial Statement of the bank includes the financial statements of (i) First Security Islami Bank Limited and (ii) First Security Islami Capital &amp; Investment Limited.</p> <p>A brief description of the Bank and its subsidiary is given below:</p> <p><b><u>First Security Islami Bank Limited</u></b></p> <p>The First Security Islami Bank Limited (FSIBL)' was incorporated in Bangladesh on 29<sup>th</sup> August 1999 as a banking company under Companies Act 1994 to carry on banking business. It obtained permission from Bangladesh Bank on 22 September 1999 to commence its business. The Bank went for public issue on 20<sup>th</sup> July 2008. The Bank converted its banking operation into Islamic Banking based on Islamic Shari'ah from traditional banking operation on 01<sup>st</sup> January 2009 after obtaining approval from honorable High Court, Ministry of Finance and Bangladesh Bank. Presently the Bank is operating its business through head office having 184 branches including 05 (Five) Agri branches, 154 (One hundred fifty four) own ATM booths and 3,565 employees all over Bangladesh. The Bank is listed with both the Stock Exchanges of the country, i.e. Dhaka Stock Exchange Limited (DSE) and Chittagong Stock Exchange Limited (CSE).</p> <p>The principal activities of the bank are all kinds of commercial banking services to its customers through its branches following the provisions of the Bank Companies Act 1991(as amended in the year 2013), Bangladesh Bank's Directives and the principles of the Islamic Shari'ah.</p> <p><b><u>First Security Islami Capital &amp; Investment Limited.</u></b></p> <p>First Security Islami Capital &amp; Investment Limited a private company limited by shares has been formed and registered under the Companies Act, 1994 with the Registrar of Joint Stock Companies &amp; Firms, Dhaka vide certificate of incorporation No. C- 88567/10 dated 02<sup>nd</sup> December 2010. Bangladesh Securities and Exchange Commission (BSEC) vide its certificate No. MB-65/2011 dated 27 March 2011 has accorded approval to the bank for a full fledged Merchant Banking operation under the Securities and Exchange Commission Act, 1993. The First Security Islami Bank Limited holds 51% shares and 49% shares are held by other individuals. The company's reporting period is January To December. The main objective of the company is carry on business of stock broker/dealers in relation to shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the Company.</p>

		<p><b><u>First Security Islami Exchange Italy S.R.L.</u></b></p> <p>First Security Islami Exchange Italy S.R.L. has been formed as per approval of Bangladesh Bank vide letter no. BRPD(M)204/17/2009-95 dated 08 September 2009 for opening an owned exchange house. The main activities of the exchange house are to carry on the remittance business and to undertake and participate in transactions activities and operations commonly carried on or undertaken by remittance and exchange houses.</p>
c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not applicable.

#### Quantitative Disclosures:

d)	The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	There is no deficiency of the Capital in any Subsidiary.
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#### b) Capital Structure

#### Qualitative Disclosures:

a)	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 or Tier 2.	<p>Bangladesh Bank has issued guideline for issuing subordinated debt. In accordance with that guideline, the Bank issued fully Redeemable non-convertible FSIBL 2nd Mudaraba Subordinated Bond (Private Placement) amounting to BDT 450.00 (Four hundred fifty) crore only through private placements with 7 years maturity for enhancement of Tier-2 Capital (Gone-Concern Capital). The Bangladesh Securities and Exchange Commission has given consent vide their letter No. BSEC/CI/DS-08/2017/435 dated August 27, 2017 and Bangladesh Bank approval letter no. BRPD(BFIS)661/14B(P)/2017-6560 dated 05.10.2017. The FSIBL 2nd Mudaraba Subordinated Bond has fully been subscribed by BDT 450.00 (Four hundred fifty) crore only within 31 December 2017 and has been included in Tier-2 Capital (Gone-Concern Capital).</p> <p>The Bangladesh Securities and Exchange Commission vide their letter No. BSEC/CI/DS-21/2014/96 dated February 05, 2019 and Bangladesh Bank vide their letter no. BRPD (BPIS)661/14B(P)/2098-1542 dated February 18, 2019 have given their consent for raising regulatory capital by amount of BDT 700.00 (Seven hundred ) crore only through issuance of FSIBL 3rd Mudaraba Subordinated Bond (Private Placement) with 7 years maturity for enhancement of Tier-II capital as per requirement of Basel –III. The FSIBL 3rd Mudaraba Subordinated Bond has been fully subscribed by BDT 700.00 crore on 3rd July 2019 and has been included in Tier-2 Capital (Gone-Concern Capital).</p>
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**Quantitative Disclosures:**

**Regulatory Capital  
As on 31 December 2019**

(Taka in Crore)

Particulars	SOLO	CONS.
<b>Common Equity Tier-1 (Going-Concern Capital):</b>		
Fully Paid-up Capital	862.51	862.51
Statutory Reserve	434.00	434.00
General Reserve	113.33	113.33
Retained Earnings	88.47	98.34
Minority Interest in Subsidiaries	-	33.99
Deferred Tax	2.49	2.49
<b>Sub-Total (A)</b>	<b>1,500.79</b>	<b>1,544.66</b>
<b>Regulatory Adjustment:</b>		
Shortfall in provisions required against investment in shares	-	-
Deferred Tax Assets (DTA)	49.80	49.80
<b>Sub-Total (B)</b>	<b>49.80</b>	<b>49.80</b>
<b>Total Common Equity Tier-1 Capital (A-B)</b>	<b>1,450.99</b>	<b>1,494.86</b>
<b>Tier-2 Capital (Gone-Concern Capital):</b>		
General Provision	102.36	102.36
Subordinated debt/Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital (as per Annex 4 of Basel III Guidelines)	1,150.00	1,150.00
Revaluation Reserves as on 31 December, 2014 (50% of Fixed Assets and Securities & 10% of Equities)	19.12	19.12
<b>Sub-Total (A)</b>	<b>1,271.48</b>	<b>1,271.48</b>
<b>Regulatory Adjustment:</b>		
Revaluation Reserves for Fixed Assets, (follow Phase-in deductions as per Basel III) Guidelines)	19.12	19.12
Excess Amount over Maximum Limit of T-2	-	-
<b>Sub-Total (B)</b>	<b>19.12</b>	<b>19.12</b>
<b>Total Tier-2 Capital (Gone-Concern Capital) (A-B)</b>	<b>1,252.36</b>	<b>1,252.36</b>
<b>Total Regulatory Capital (Common Equity Tier-1 Capital+ Total Tier-2 Capital)</b>	<b>2,703.36</b>	<b>2,747.22</b>

### c) Capital Adequacy

#### Qualitative Disclosures:

##### a. A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities:

As banks in Bangladesh are now in a stage of developing risk management models, Bangladesh Bank suggested the banks for using Standardized Approach for credit risk capital requirement for banking book and Standardized (rule based) Approach for market risk capital charge in their trading book. FSIBL used the Basic Indicator Approach (BIA), as prescribed by Bangladesh Bank in determining capital charge against 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.

#### Quantitative Disclosures:

(Taka in Crore)

Sl. No.	Particulars	Solo	Cons
a.	Capital requirement for Credit Risk	2,228.40	2,233.40
b.	Capital requirement for Market Risk	21.90	21.90
c.	Capital requirement for Operational Risk	149.50	152.10
d.	<b>Total capital, CET1 capital, Total Tier 1 capital and Tier 2 capital ratio:</b>	11.26%	11.41%
	<b>Total Capital</b>	2,703.36	2,747.22
	<b>CET1 Capital</b>	1,450.99	1,494.86
	<b>Total Tier 1 Capital Ratio</b>	6.05%	6.21%
	<b>Tier 2 Capital Ratio</b>	5.22%	5.20%
e.	Capital Conservation Buffer	1.26%	1.41%

### d) Investment Risk

#### Qualitative Disclosures:

##### 1. Investment (Credit) Risk:

Investment (Credit) risk is the risk of loss that may occur from the failure of any counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments. Investment (Credit) Risk is broadly the possibility of losses associated with iminution in the credit quality of borrowers or counterparties.

Investment (Credit) Risk or default risk involves inability or unwillingness of a customer or counterparty to meet commitments in relation to investing, trading, settlement and other financial transactions. The Investment (Credit) Risk is generally made up of transaction risk or default risk and portfolio risk.

The unsecured portion of any claim or exposure (other than claims secured by residential property) that is past due for 60 days or more, net of specific provisions (including partial write-off) will be risk weighted as per Table 7 of Basel III guidelines. For the purpose of defining the net exposure of the past due Investment, eligible financial collateral (if any) may be considered for Investment (Credit) Risk Mitigation. General provision maintained against Special Mention Account (SMA) Investment will not be eligible for such net off.

## 2. Description of approaches followed for specific and general allowances and statistical methods.

### a) **General Provision: The Bank maintains General Provision in the following way:**

- @ 0.25% against all unclassified loans of Small and Medium Enterprise (SME) as defined by the SME & Special Programme Department of Bangladesh Bank from time to time and @ 1% against all unclassified Investments (other than Investments under Consumer Financing, Investment to Brokerage House, Merchant Banks, Stock dealers etc., Special Mention Account as well as SME Financing.)
- @ 5% on the unclassified amount for Consumer Financing whereas it has to be maintained @ 1% on the unclassified amount for (i) Housing Finance and (ii) 2% on Investments for Professionals to set up business under Consumer Financing Scheme.
- @ 2% on the unclassified amount for Investments to Brokerage House, Merchant Banks, Stock dealers, etc.
- @ Same as standard on the outstanding amount of Investments kept in the 'Special Mention Account'.
- @1% on the off-balance sheet exposures. (Provision will be on the total exposure and amount of cash margin or value of eligible collateral will not be deducted while computing Off-balance sheet exposure.)

### b) **Specific Provision :** Banks will maintain provision at the following rates in respect of classified Continuous, Demand and Fixed Term Investments:

1. Sub-Standard-20%
2. Doubtful-50%
3. Bad/Loss-100%

### c) **Provision for Short-term Agricultural and Micro-Investments:**

1. Unclassified @ 01.00%
2. Sub-Standard and Doubtful @ 05%
3. Bad/Loss @100%

## 3. Investment (Credit) Risk Management Policies

Credit risk is one of the major risks faced by the Bank. This can be described as potential loss arising from the failure of a counter party to perform according to contractual arrangement with Bank. The failure may arise due to unwillingness of the counter party or decline in economic condition etc. Bank's risk management has been designed to address all these issue.

FSIBL recognizes the importance in having effective risk management systems to address these risks. The system involves a framework for measuring and monitoring profit rate, liquidity, investment and foreign currency risk on a continuous basis. It involves the assessment of the risk and altering the assets and liability portfolio to confirm to exposure and tolerance levels set by the management committee.

**Quantitative Disclosures:**

a) Total gross Investment (credit) risk exposures broken down by major types of credit exposure:	<b>Total gross Investment/ Credit risk exposures broken down by major types of Investment exposure of the Bank are as under:</b>	
	<b>Particulars</b>	<b>Figure in Crore</b>
	Bai- Murabaha	32,905.86
	Hire-Purchase Sirkatul Meelk	3,336.46
	Bai-Muajjal	0.45
	Bai-Salam	10.95
	Quard	123.85
	Bill Purchased and Negotiated	70.84
	<b>Total:</b>	<b>36,448.41</b>
b) Geographical distribution of exposures, broken down in significant areas by major types of Investment (credit) exposure.	<b>Geographical Distribution of exposures, broken down in significant areas by major types of Investment/ credit exposure of the Bank are as under:</b>	
	<b>Particulars</b>	<b>Figure in Crore</b>
	In Urban Areas	35,875.08
	In Rural Areas	573.33
	<b>Total:</b>	<b>36,448.41</b>
	<b>Division wise distribution of Investment/ credit exposure of the Bank are as under:</b>	
	<b>Particulars</b>	<b>Figure in Crore</b>
	Dhaka	10,693.08
	Chattogram	25,200.55
	Barisal	42.06
	Rajshahi	97.22
	Khulna	237.62
	Rangpur	40.67
	Sylhet	87.74
	Mymensingh	49.47
	<b>Total:</b>	<b>36,448.41</b>
c) Industry or counterparty type distribution of exposures, broken down by major types of Investment (credit) exposure.	<b>Economic Sector wise Investments:</b>	
	<b>Particulars</b>	<b>Figure in Crore</b>
	Agriculture	171.97
	Textile and Readymade Garments	6,932.39
	Internal Trade Finance	17,713.59
	House Building	1,977.61
	Special Program	9,652.85
	<b>Total:</b>	<b>36,448.41</b>

d) <b>Residual contractual maturity breakdown of the whole portfolio, broken down by major types of Investment (credit) exposure.</b>	<b>Particulars</b>	<b>Figure in Crore</b>
	Payable on demand	5,296.86
	Up to three month	6,967.28
	Three month to One year	8,121.80
	One year to five years	9,377.80
	More than five years	6,684.67
	<b>Total:</b>	<b>36,448.41</b>
e) <b>By major industry or counterparty type:</b>	<b>i) Amount of impaired Investments and if available, past due Investments:</b>	
	<b>Particulars</b>	<b>Figure in Crore</b>
	Sub Standard	175.58
	Doubtful	421.05
	Bad & loss	1,204.77
	<b>Total:</b>	<b>1,801.40</b>
	<b>ii) Charges for specific allowances and charge-offs during the period:</b> During the period the specific and general provision were made on the amount of classified investment, Unclassified Investment and Off Balance sheet exposures.	
	<b>Particulars</b>	<b>Figure in Crore</b>
	Specific Provision for Classified Investments	426.03
	General Provision	(244.65)
	Off -Balance Sheet exposure	7.38
	<b>Total:</b>	<b>188.76</b>
f) <b>Gross Non-Performing Assets (NPAs)</b>	<b>i) Gross Non-Performing Assets (NPAs)</b>	
	<b>Particulars</b>	<b>Figure in Crore</b>
	Substandard	175.58
	Doubtful	421.05
	Bad & Loss	1,204.77
	<b>Total:</b>	<b>1,801.40</b>
	Non-Performing Assets (NPAs) to outstanding Investments	4.94%
	<b>ii) Movement of Non-Performing Assets (NPAs) ( Excluding SMA)</b>	
	<b>Particulars</b>	<b>Figure in Crore</b>
	Opening balance	1,042.14
	Additions	759.26
	Reductions	-
	<b>Closing balance</b>	<b>1,801.40</b>



	<b>iii) Movement of specific provisions for NPAs</b>	
	<b>Particulars</b>	<b>Figure in Crore</b>
	Opening balance	593.06
	Provisions made during the period	426.03
	Write-off/Write-back of excess provisions	(2.09)
	Recovery from write-off	-
	<b>Closing Balance</b>	<b>1,017.00</b>

<b>e) Equities: Disclosure for Banking Book Position</b>
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**Qualitative Disclosures:**

**Equity risk:** Equity risk is the risk that one's investments will depreciate because of stock market dynamics causing one to lose money. The capital charge for equities would apply on their current market value in bank's trading book. This capital charge for both specific risk and the general market risk will be at the rate of the required minimum capital adequacy ratio. This is applied to all instruments that exhibit market behavior similar to equities. The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, for example: units of mutual funds, and commitments to buy or sell equity.

**Quantitative Disclosures:**

**Bank's Holdings of Shares**

Sl. No.	Particulars	Market Value of Shares	Total Liabilities	% of value of shares to Total Liabilities
a)	Own Portfolio	29.09		0.10%
b)	Market value of liened shares	-		
c)	Custody	-		
	<b>Total Holdings</b>	<b>29.09</b>		

**Capital requirements for equity position risk:**

Sl. No.	Particulars	Amount (Market Value)		Weight	Capital Charge	
	1	2		3	4=(2X3)	
		Solo	Cons		Solo	Cons
a)	Specific Risk :	29.09	29.09	0.10	2.91	2.91
b)	General Market Risk:	29.09	29.09	0.10	2.91	2.91
	<b>Total</b>	<b>58.18</b>	<b>58.18</b>		<b>5.82</b>	<b>5.82</b>

## f) Profit Rate Risk

### Qualitative Disclosures:

#### Profit Rate Risk in the Banking Book:

Profit Rate Risk is the risk which affects the Bank's financial condition due to changes in the market Profit rates. Changes in Profit rates affect both the current earnings (earnings perspective) as also the net worth of the Bank (economic value perspective). The risk from earnings perspective can be measured as impact in the Net Investment Income (NII) or Net Investment Margin (NIM). Similarly, the risk from economic value perspective can be measured in the Economic Value of Equity (EVE).

The Bank identifies the risks associated with the changing Profit rates from short term (Earnings perspective). The impact on income (Earnings perspective) is measured through use of gap analysis by applying notional rate shock.

## g) Market Risk

### Qualitative Disclosures:

Trading book consists of positions in financial instruments held with trading intent. A capital charge is applicable for financial instruments which are free from any restrictive covenants on tradability in line with Basel III guidelines issued by Bangladesh Bank.

#### Market Risk:

Market Risk is defined as the possibility of loss to a Bank caused by changes/movements in the market variables such as Profit rates, foreign currency exchange rates, equity prices and commodity prices. The objective of the market risk management is to minimize the impact of losses on earnings and equity.

#### Policies for Management of Market Risk:

The policies set various risk limits for effective management of Market Risk and ensuring that the operations are in line with Bank's expectation of return to market risk through proper Asset Liability Management.

Asset Liability Management is the key success of any financial intermediary especially for Banks. Asset Liability Committee (ALCO) of the Bank monitors Balance Sheet Risk and liquidity risks of the bank. The Balance Sheet Risk encompasses most part of the Asset Liability risk and deal with change in earnings due to change in rate of profit, foreign exchange rates which are not of trading nature on the other hand, liquidity risk can be defined as the risk or chance of failure to meet up any withdrawal /disbursement request by a counterparty/customer. Asset Liability Committee (ALCO) reviews Liquidity requirement of the bank, the maturity of assets and liabilities, deposits and investments pricing strategy and the Liquidity contingency plan. The primary objective of the Asset Liability Committee (ALCO) is to monitor and avert significant volatility in Net Investments Income (NII), investment value and exchange earnings for the purpose of taking future action plan for better interest of the organization.

### Quantitative Disclosures:

1	The Capital Requirements for	Solo	Cons
	1.1 Profit (Interest) rate risk	-	-
	1.2 Equity position risk	5.82	5.82
	1.3 Foreign exchange risk	16.08	16.08

## **h) Operational Risk**

### **Qualitative Disclosures:**

Operational risk is FSIBL's exposure to potential losses that may be caused from inadequate internal processes or systems, inadequate employee performance, external events and may also cause from the breach of compliance, contracts or internal regulation.

### **Operational Risk includes:**

- IT (back up), interface, information and other system failures and deficiencies, including viruses.
- Confidentiality or security breaches
- human error
- fraud and theft
- weakness in internal controls/supervision
- physical disasters involving people, premises or equipment
- delivery failures
- regulatory/ compliance requirements
- third party payments

### **Quantitative Disclosures:**

In line with the final guidelines issued by Bangladesh Bank, the Bank has adopted the Basic Indicator Approach for computing capital for operation risk. As per the guidelines, the capital for operational risk is equal to 15% of average positive annual Gross Income of the previous three years, as defined by the Bangladesh Bank.

<b>Capital Requirement</b>	<b>SOLO</b>	<b>CONSOLO</b>
Operational Risk	149.51	152.05

## **i) Liquidity Ratio**

### **Qualitative Disclosures:**

### **Liquidity Risk:**

Liquidity risk is the potential for loss to bank arising from either its inability to meet its obligations as they fall due or to fund increases in assets without incurring unacceptable cost or losses. Liquidity risk arises when the liquid assets are not sufficient enough to meet maturing obligations.

### **Measurement of Liquidity Risk:**

An effective liquidity risk measurement system not only helps in managing liquidity in times of crisis but also optimize return through efficient utilization of available funds. To measure liquidity risk 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 also Asset Liability Management (ALM) desk to measure this risk with active measuring, monitoring and management of Liquidity risk.

### **Managing Liquidity Risk:**

Sound liquidity risk management involves in measuring, monitoring and controlling liquidity risk of the bank. 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.

**Liquidity Risk Management Process:**

An effective liquidity risk management process will include systems to identify measure, monitor and control its liquidity exposures. 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.

**Quantitative Disclosures:**

Particular	Amount in Crore
Liquidity Coverage Ratio	188.72%
Net Stable Funding Ratio (NSFR)	108.46%
Stock of High quality liquid assets	4,712.58
Total net cash outflows over the next 30 calendar days	2,497.12
Available amount of stable funding	37,513.97
Required amount of stable funding	34,588.59

**j) Leverage Ratio****Qualitative Disclosures:**

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:

- constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and
- reinforce the risk based requirements with an easy to understand and a non-risk based measure.

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:

- on-balance sheet, non-derivative exposures are included in the exposure measure net of specific provision;
- physical or financial collateral is not considered to reduce on-balance sheet exposure;
- Investment 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. Commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is applied;
- item deducted from Tier I capital such as deferred tax assets is excluded.

**Quantitative Disclosures:****Tk. in Crore**

<b>Particular</b>	<b>SOLO</b>	<b>CONS.</b>
Leverage Ratio	3.37%	3.47%
On balance sheet exposure	42,700.88	42,766.16
Off balance sheet exposure	374.21	374.21
Regulatory Adjustment	(49.80)	(49.80)
Total Exposure	43,025.29	43,090.56

**k) Remuneration****Qualitative Disclosures:**

<b>a) Information relating to the bodies that oversee remuneration.</b>	<p>The management of the Bank submits the remuneration policy to the Board of Directors considering bank's economic strength &amp; comparing existing remuneration policy with other Banks' policy to keep best employees in the organization. After getting approval from the Board of directors, the remuneration policy is implemented by Human Resources Division with the consent of the management.</p> <ul style="list-style-type: none"> <li>• No external consultant</li> <li>• Scope of the Bank's remuneration policy: <ul style="list-style-type: none"> <li>➤ Industry average remuneration</li> <li>➤ Bank's financial condition</li> <li>➤ Retention policy, etc.</li> </ul> </li> <li>• Material risk takers: <ul style="list-style-type: none"> <li>➤ Senior Management at Head Office</li> <li>➤ Branch Management</li> </ul> </li> </ul>
<b>b) Information relating to the design and structure of remuneration processes.</b>	<p>The key features and objectives of remuneration policy:</p> <ul style="list-style-type: none"> <li>➤ Competitive</li> <li>➤ Helpful for retaining best employees.</li> <li>➤ Based on financial strength of the Bank.</li> <li>➤ Commensurate to the market.</li> </ul> <p>The remuneration committee did not review the remuneration in the year 2019.</p> <p>Every employee of the Bank is responsible for his/her own tasks, takes risk and be compliant. So, the Bank does not remunerate independently.</p>
<b>c) Description of the ways in which current and future risks are taken into account in the remuneration processes.</b>	<p>Key Risk-</p> <ul style="list-style-type: none"> <li>➤ Financial Health of the Bank.</li> <li>➤ Future Profitability</li> <li>➤ Feasibility</li> </ul> <p>Nature and types of key measures-</p> <ul style="list-style-type: none"> <li>➤ Profitability of the bank for the last year(s)</li> <li>➤ Market competition</li> </ul> <p>Measures affect remuneration: Basically, remuneration policy related with economic condition of the Bank and market situation. If the economic condition is well enough to fix competitive pay structure, then bank can do that easily.</p>

<p><b>d)</b> Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.</p>	<p>The performance metrics of the bank are amount of profit, deposit and investment. To be a compliant bank in the eye of regulatory authority, keeping the classified investments in an acceptable level and maintaining sustainability of growth are also performance metrics. In case of individual performance metrics which includes individual job assignment, knowledge of banking, creativity, sense of responsibility, quality &amp; quantity of work etc.</p> <p>Individual is the smallest unit to accomplish bank's tasks. Every individual is assigned for his/her respective duties. Although, every individual's remuneration is not based on his/her own performance, it depends on accumulation of all individuals' collective performance.</p> <p>Basically, the bank follows general policy for all individuals instead of separate policy.</p>
<p><b>e)</b> Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.</p>	<p>There are some deferral variable benefits for the employees of the bank these are Incentive Bonus, Gratuity, Provident Fund, Leave Salary and Social Security &amp; Benevolent Fund. Some of these benefits depend on individual performance &amp; rank and these lead to organizational profitability.</p> <p>If any employee is bestowed with deferral remuneration, this is adjusted from his/her monthly salary and after vesting it is paid fully after deducting any due with the bank as per rules.</p>
<p><b>f)</b> Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.</p>	<p>Basically, our bank provides cash variable remuneration.</p>

**Quantitative Disclosures:**

Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	Meeting for overseeing remuneration by main body held when required. Basically, the Board of Directors of the bank is the main body for setting remuneration and human resources division execute the same. The member of the Board is not paid any remuneration.
Number of employees having received a variable remuneration award during the financial year.	No. of Employee awarded- 3,163
Number and total amount of guaranteed bonuses awarded during the financial year:	No. of Employee awarded- 3,170 Amount of Tk. 18,81,33,281.00
Sign-on awards made during the financial year.	Nil
Severance payments made during the financial year	Nil
Amount of outstanding deferred remuneration (in cash)	Amount of Tk. 220,40,00,000.00
Amount of deferred remuneration paid out in the financial year	Amount of Tk. 6,88,69,501.00

**END**