BASEL II PILLAR 3 MARKET DISCIPLINE

Annual Disclosure for the year ended December 31, 2013

The public disclosure of prudential information is an important component of Basel Committee on Banking Supervision's framework of capital measurement and capital adequacy, known as Basel II. Bangladesh Bank has specified the standard of disclosure through Guidelines on Risk Based Capital Adequacy (December 2010). The standard aims to enhance the transparency in Bangladeshi financial market by setting minimum requirement for the disclosure of information on the risk management practice and capital adequacy.

In line with the Bangladesh Bank BRPD Circular no. 35 of 29 December 2010 as to Guidelines on 'Risk Based Capital Adequacy for Banks', following detailed qualitative and quantities disclosures are provided in accordance with the central bank directions covering scope of capital adequacy framework, capital of the bank, risk exposure and assessment methodology, risk mitigation strategies and capital adequacy of the bank.

1. Scope of application

Qualitative Disclosures	
a) The name of top corporate entity in the group to which this guidelines applies	**Bank Asia Limited**
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: (i) that are fully consolidated (ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk - weighted)	The consolidated financial statements of the Bank include the financial statements of i) Bank Asia Limited ii) Bank Asia Securities Limited and iii) BA Exchange Company (UK) Limited. Bank Asia holds 99.99% & 100% shares of Bank Asia Securities Limited and BA Exchange Company (UK) Limited respectively. The bank has an approved disclosure policy to observe the disclosure requirements set out by the Bangladesh Bank and International Financial Reporting Standard (IFRS) and International Accounting Standards (IAS) as adopted by the Institute of Chartered Accounts of Bangladesh (ICAB) into Bangladesh Financial Reporting Standards (BFRS) and Bangladesh Accounting Standards (BAS) where relevant to the bank. A brief description of these institutions are given below: **Bank Asia Limited** Bank Asia Limited ("the Bank") is one of the third generation private commercial banks (PCBs) incorporated in Bangladesh on 28 September 1999 as a public limited company under the Companies Act 1994, governed by the Banking Companies Act 1991. The Bank went for public issue of its shares on 23 September 2003 and its shares are listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. At present the Bank has 86 branches, 6 SME centres and 90 own ATM booths. The Bank has two subsidiary companies namely, Bank Asia Securities Limited incorporated in Bangladesh and BA Exchange Company (UK) Limited incorporated in United Kingdom. The Bank has also an Offshore Banking Unit (OBU) at Chittagong Export Processing Zone, Chittagong. **Bank Asia Securities Limited** Bank Asia Securities Limited, a majority owned subsidiary company of Bank Asia Limited was incorporated as a private limited company in Bangladesh on 04 August 2010 bearing certificate of incorporation no. C-86230/10 dated 04 August 2010 under the Companies Act 1994 having its registered office at Hadi Mansion (7th Floor), 2 Dilkusha Commercial Area, Dhaka 1000 which has commenced its business on the 17 April 2011. **BA Exchange Company (UK) Limited** BA Exchange Company (UK) Limited was incorporated as a private limited company under United Kingdom Companies Act and registered with Companies House of England and Wales vide registration no. 07314397 as a fully owned subsidiary company of Bank Asia Limited, BA Exchange Company (UK) Limited launched its operation in London on 16 May 2011. BA Exchange Company (UK) Limited attaches a fresh width to the Bank's remittance operation and expands its global presence for remittance services. Bank Asia stretched its business in United Kingdom through its wholly owned subsidiary to facilitate speedy and dependable medium for remitting the hard-earned money of expatriates to home.

c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not applicable for the bank
Quantitative Disclosures	
d) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not applicable for the bank

2. Capital Structure:

Qualitative Disclosures	
Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or Tier2.	The composition of regulatory capital is different than accounting capital. In line with Basel regime the structure of regulatory capital consists of Tier 1, Tier 2 & Tier 3. However the capital structure of Bank Asia Ltd consists of only Tier 1 and Tier 2 capital. Tier 1: capital of Bank Asia Ltd consists of Paid up capital, statutory reserve and retained earnings. Tier 2: capital of the bank consists of 50% revaluation reserve for fixed asset & securities, 10% of revaluation reserve against equity instruments, subordinated debts and general reserve. Tier 3: currently the bank does not maintain any tier 3 capital instrument.

Quantitative Disclosures

Amount in BDT Million

Sl	Particulars	Solo	Consolidated
a)	**Tier-I (Core Capital)**		
a.1	Paid up capital	6,936.30	6,936.30
a.2	Non-repayable share premium account	-	-
a.3	Statutory reserve	4,208.08	4,208.08
a.4	General reserve	-	-
a.5	Retained earnings	759.75	699.45
a.6	Minority interest in subsidiaries	-	-
a.7	Non-cumulative irredeemable preference shares	-	-
a.8	Dividend equalization account	-	-
a.9	**Sub-Total (a.1 to a.8)**	11,904.15	11,843.36
b)	**Tier-II (Supplementary Capital)**		
b.1	General Provisions (provisions for unclassified loans + provision for Off-balance sheet exposure)	1,709.84	1,709.84
b.2	Asset revaluation reserves up to 50%	1,193.80	1,193.80
b.3	Revaluation reserve for equity instruments up to 50%	158.80	158.80
b.4	Subordinate debt	600.00	600.00
b.5	Other reserve	8.20	8.20
b.6	**Sub-Total (b.1 to b.5)**	3,670.70	3,670.70
c)	**Tier-III (Eligible for market risk only)**		
c.1	Short-term subordinated debt	-	-
c.2	**Sub-Total (c.1)**	-	-
d	**Total Eligible Capital (a.9+ b.6+ c.2)**	15,574.85	15,514.56

3. Capital Adequacy

Qualitative Disclosures

A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities

Capital calculation approach

With regard to regulatory capital computation approaches (Minimum Capital Requirement) the bank is following the prescribed approach of Bangladesh Bank. Below are risk wise capital computation approaches that the bank is currently applying:

- Credit Risk - Standardized Approach (SA)
- Market Risk - Standardized Approach (SA)
- Operational Risk – Basic Indicator Approach (BIA)

Capital of the Bank

In parallel to business growth, the bank is effectively manages its capital to meet regulatory requirement considering the risk profile. Below are few highlights:

- Currently Bangladesh Bank prescribed Minimum Capital Adequacy Ratio (CAR) is 10%, whereas as on December 2013 the CAR of the bank was 11.05%.
- During the same period Minimum Capital Requirement (MCR) of the bank was BDT 14,097.70 million and eligible capital was BDT 15,574.85 million; i.e. the bank hold BDT 1,477.16 million surplus capital.

Reduction of Capital Requirement through increasing Rated Clients

As per Basel-II norms capital adequacy i.e. buffer capital is a must for banks to protect the unexpected losses against the risk profile and future business growth of the bank. Under the Standardized Approach of the RBCA guidelines of Basel-II, counterparties credit rating are determined on the basis of risk profile assessed by the External Credit Assessment Institutions (ECAIs) duly recognized by Bangladesh Bank to derive risk-weights of exposures under the portfolio of claims. According to the guideline, the rated exposures of a bank will reduce the Risk Weights and the regulatory capital requirement as well as create the room to expand the business of the bank. This will also enable the bank to assess the creditworthiness of the borrowers as well, to an acceptable level.

To withstand these challenges, the Board of Directors & the Senior Management of the bank emphasized rigorously round the year 2013 on corporate borrowers credit rating to lower our risk profile as well as to reduce the capital requirement of the bank. Accordingly, the Risk Management Unit of the bank along with Corporate Asset and Client Origination (CACO) & Credit Risk Management (CRM) team has taken all-out efforts to increase the number of corporate borrower's exposures under rated. They are constantly taking the initiatives through guidance of the Senior Management; series of meetings, correspondence, awareness program with the allied concerns i.e. branches of the bank & ECAIs. As a result of strong persuasion & drive, the number of rated borrowers of the bank increased to 179 nos. at the end of the year 2013 from 160nos a year ago. A review of the capital relief (both funded & non-funded exposure) reveals that till December 31, 2013, we have achieved total capital relief of Tk.2,598.00 million from the rated borrowers.

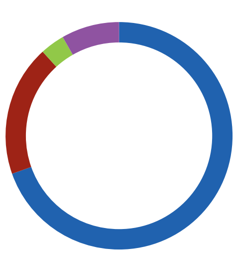
Quantitative Disclosures (as on December 2013)

Amount in BDT Million

Sl.	Risk Category	Solo	Consolidated
Details of Risk Weighted Assets (RWA)			
a	**Credit Risk**		
a.1	On- Balance sheet	98,096.90	99,389.50
a.2	Off-Balance sheet	26,308.40	26,308.40
a.3	**Total Credit Risk (a1+a2)**	124,405.30	125,697.90
b	**Market Risk**	4,917.30	4,937.30
c	**Operational Risk**	11,654.50	12,661.30
	Total RWA	**140,977.10**	**143,296.50**

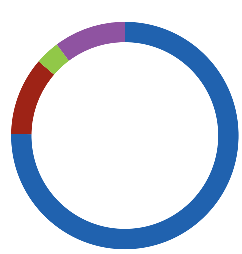
Detail of Risk Wise Minimum Capital Requirement (MCR)			
a	**Credit Risk**		
a.1	On- Balance sheet	9,809.69	9,938.95
a.2	Off-Balance sheet	2,630.84	2,630.84
a.3	**Total Credit Risk (a1+a2)**	12,440.53	12,569.79
b	**Market Risk**	491.73	493.73
c	**Operational Risk**	1,165.45	1,266.13
Total Minimum Capital Requirement		14,097.70	14,329.70
Total Maintained Capital		15,577.50	15,517.20
Total Capital Surplus		1,479.80	1,187.50
Detail of Tier wise Capital of the Bank			
1	Tier-1 Capital	11,904.15	11,843.86
2	Tier-2 Capital	3,670.70	3,670.70
3	Tier-3 Capital	-	-
	Total Capital	15,574.85	15,514.56
Total Capital Adequacy Ratio (CAR) [Total capital/RWA]		11.05%	10.83%
Tier 1 CAR [Tier 1 capital / RWA]		8.44%	8.27%

Risk Composition-2012



69.58% Credit risk on Balance sheet
18.66% Credit risk off Balance sheet
3.49% Market Risk
8.27% Operational Risk

Risk Composition-2013



75.21% Credit risk on Balance sheet
11.1% Credit risk off Balance sheet
3.48% Market Risk
10.21% Operational Risk

4. Credit Risk:

Qualitative Disclosures

The general qualitative disclosure requirement with respect to credit risk, including:

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 installment of principal remain overdue for more than 90 days in respect of a Continuous credit, Demand loan or a Term Loan etc except term loan below Tk 10 lac.

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

- Sub-standard
- Doubtful
- Bad & Loss

Definitions of past due and impaired (for accounting purposes)

Any continuous loan will be classified as

i. 'Sub-standard' if it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months.

ii. 'Doubtful' if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months

iii. 'Bad/Loss' if it is past due/overdue for 09 (nine) months or beyond.

Any Demand Loan will be classified as

i. 'Sub-standard' if it remains past due/overdue for 03 (three) months or beyond but not over 06 (six) months from the date of expiry or claim by the bank or from the date of creation of forced loan.

ii. 'Doubtful' if it remains past due/overdue for 06 (six) months or beyond but not over 09 (nine) months from the date of expiry or claim by the bank or from the date of creation of forced loan.

iii. 'Bad/Loss' if it remains past due/overdue for 09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan.

Term loan will be classified as

(A) In case of any installment(s) or part of installment(s) of a Fixed Term Loan

amounting upto Tk. 10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of such types of Fixed Term Loans:

i. If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as 'Sub-standard".

ii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as "Doubtful".

iii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be

Classified as "Bad/Loss'

(B) In case of any installment(s) or part of installment(s) of a Fixed Term Loan

amounting more than Tk. 10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of such types of Fixed Term Loans:

i. If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loan will be classified as "Sub-standard".

ii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as "Doubtful".

iii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as "Bad/Loss".

	Types of loans and advances		Provision				
			UC	SMA	SS	DF	BL
> Description of approaches followed for specific and general allowances and statistical methods	Consumer	House building and professional	2%	2%	20%	50%	100%
		Other than housing finance & professionals to setup business	5%	5%	20%	50%	100%
	Provision for loan to broker house, merchant banks, stock dealers, etc		2%	2%	20%	50%	100%
	Short-term agri-credit and micro credit		5%	0%	5%	5%	100%
	Small and medium enterprise finance		0.25%	0.25%	20%	50%	100%
	Others		1%	1%	20%	50%	100%

> Discussion of the Bank's credit risk management policy

The Bank has a well structured delegation and sub-delegation of credit approval authority for ensuring good governance and better control in credit approval system. The Board of Directors and its Executive Committee hold the supreme authority for any credit approval in line with the credit committee consisting of the senior management of the bank. Credit proposal processing, assessment of risks and mitigates there against, placing before credit committee, seeking approval from the competent authority, assisting in completion of documentation formalities and above all maintaining relationship with the branches and customers have so long been done by Credit Risk Management (CRM). The function of CRM department has redefined by (i).Credit Assessment, (ii). Credit Monitoring, (iii). Credit Information & Policy Development for smoothly execution of the credit risk management through segregating internal units. Separate segments for Corporate, Retail, SME, Credit Cards have been formed in order to diversify the credit risk. Towards mitigating the risks, Bank Asia has developed a robust credit approval system. Under the ongoing system, the approval and disbursement of all business loans are centralized at Corporate Office. The credit proposals recommended by branches are scrutinized by CRM Department. Sanctions are conveyed to the Branches after getting approval from Credit Committee of Corporate Office or Board of Directors if needed. Limits are loaded into the system by Credit Administration Department but it is not operative until the branch complies all the terms and conditions incorporated in the sanction advice. The above arrangement ensures the segregation of duties & responsibilities and thus minimizes the credit risk.

In the process of restructuring credit operation mechanism as per guidelines of BB, recently, a new division has been created namely "Corporate Assets & Client Origination (CACO)" to maintain a healthy credit portfolio by managing risk at the portfolio level as well as at the individual transaction level. Credit proposal format is also redefined as it is one of the key tools to maintain quality portfolio since its informs us risk, credit requirement, performance, liability position, compliance, financial position, environmental issues, effective rate of return, details of business etc. of the customer to mitigate credit risk.

The standardized approach is applied for risk weighting of exposure as per directive of Bangladesh Bank. It requires banks to use risk assessment. The Bank is following Credit Risk Grading (CRG) manual for assessing a borrower and making decisions of disbursing loans and advances/ investments while nominating the External Credit Assessment Institutions (ECAIs) duly recognized by Bangladesh Bank to derive risk-weights of exposures under the portfolio of claims. Maximum counterparty/group exposure are limited to 15% (funded) of the bank's capital base as stipulated by BB where a higher limit is required for projects of national importance subject to prior approval of Bangladesh Bank. The single borrower exposure limit has been increasing day by day of the bank with the increase of the total capital of the bank. But the management of the bank is exercising the prudential limit to a single borrower in order to minimize concentration risk of the bank considering the security coverage, satisfactory performance, credit risk grading status, earning potentials, capital requirement, etc. against the limit.

Quantitative Disclosures

(as on December 2013)

Amount in BDT Million

Particular	Outstanding
a) Total gross credit risk exposures broken down by major types of credit exposure	104,911
i) Chief Executives & Others senior executives	148
ii) Consumers	38,515
iii) Industries	56,857
iv) Infrastructural	9,391

b) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure	104,911
Dhaka Division	69,185
Chittagong Division	30,576
Khulna Division	1,332
Rajshahi Division	2,370
Barisal	126
Sylhet Division	1,324
c) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure	104,911
Commercial lending	26,100
Export financing	812
House building loan	2,653
Consumer credit scheme	961
Small and medium enterprises	2,606
Staff loan	667
Credit card	952
Non-banking financial institutions	3,764
Agricultural and jute	3,216
Cement	1,046
Chemical	1,219
Electronics	987
Food and allied	5,883
Paper	3,584
Readymade garments	7,924
Real estate	3,947
Steel	6,882
Textile	6,985
Power	1,714
Telecom	848
Construction	3,233
Transport	3,597
Other	15,330
d) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure	
By major industry or counterparty type Sector wise past due loan	
Classification categories:	
Sub- Standard	517.38
Doubtful	544.31
Bad and Loss	4,817.09
Total	5,878.79

Specific and general provisions (Required)	
Provision on classified loans and advances / investments	3,074.43
Provision on unclassified loans and advances / investments	1,038.19
Provision on Off-balance sheet exposures	671.64
Total General Provision	1,709.84
Total Specific Provision	3,074.43
f) Gross Non Performing Assets (NPAs)	5,878.79
Non Performing Assets (NPAs) to Outstanding Loans Advances	5.60%
Movement of Non Performing Assets (NPAs)	
Opening balance	5,251.48
Additions	29,954.33
Reductions	20,327.02
Closing balance	5,878.79
Movement of specific provisions for NPAs	
Opening balance	2,641.11
Less: Interest waiver during the year	0.12
Add: Provisions made during the period	1,519.80
Less: Write-off	1,209.66
Add: Write-back of excess provisions	123.31
Closing balance	3,074.43

Sector wise Non-Performing Loan (NPL)-2013

Figure in crore Taka

Name of the Sector	NPL amount
Agriculture	8.18
RMG	26.36
Textile	21.61
Ship building	-
Ship breaking	11.27
Other manufacturing industry	351.22
SME	17.12
Construction	0.27
Power, Gas	0.84
Transport, storage and communication	18.57
Trade Service	64.23
Commercial real state financing	19.92
Residential real estate financing	4.22
Consumer credit	14.60
Capital market (loan provided for brokerage or merchant banking)	-
Non-bank financial institutions	-
Others	29.47
Total	**587.88**

5. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons	Investment in equity mainly for capital gain purpose but Bank has some investment 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.	The equity markets are traditionally volatile with a high-risk, high-returns profile. As such investors in the equity market have to plan and strategies to reduce their risks and increase their returns. Equity investments must therefore go hand in hand with a good risk management plan in place. In an uncertain marketplace like the present, investor cannot afford to place all hope in only one thing. Therefore, it is very important to protect the total investment value by means of diversification. Bank Asia has been operating in the capital market of Bangladesh since 2009. The Bank invested in shares both in primary as well as secondary market. Bank Asia has been started its own portfolio operation from May 04, 2010. Since then the Bank was mainly involved in "Own Portfolio Management" activity. Investments in shares of Bank Asia are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. The Bank recognizes that no investment is totally free from risk and that occasional measured losses are inevitable in a diversified portfolio and will be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best interest of the Bank. The Management of the Bank has constituted an Investment Committee / team comprising of members from the senior executives of the Bank who have sound experiences and knowledge on Capital Market activities. Investment team of Bank Asia reviews status of the own portfolio investment on regular basis and follows top-down approach where they review and analyze economy outlook, Sectoral growth and specific company analysis. Company specific risk is minimized through proper diversification. To manage market risk, we follow economic research. Moreover, it has been noted that, the major source of market risk comes from the frequent change of regulation. Thus, it is important to maintain close relationship with the regulator body and keep aware if there is any upcoming regulation change. Our investment in shares are being monitored and controlled by the Investment Committee are reflected in accounts through proper methodologies and accounting standards of the local & international. Investments are valued on mark to mark basis on a particular period

Quantitative Disclosures

Sl.	Particular	Amount in BDT Million
a)	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:	Not Applicable
b)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period (2013)	Nil
c)	Total unrealized gains (losses)	246.84
	Total latent revaluation gains (losses)	Nil
	Any amounts of the above included in Tier 2 capital.	Nil
d)	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.	Nil
d.1	Specific Risk	91.9
d.2	General Market Risk	91.9
d.3	Total (d1+d2)	183.8

6. Interest Rate Risk In the Banking Book

Qualitative Disclosures	
The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, 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 effected with the change in the Interest rate. The vulnerability of an institution towards the advance movement of the interest rate can be gauged by using Duration GAP under Stress Testing Analysis. Bank has also been exercising the Strees 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 the Capital Adequacy Ratio (CAR) due to change in interest rates only on its On Balance Sheet position (as the Bank holds no interest bearing Off Balance Sheet positions and or Derivatives). Under the assumption of three different interest rate changes i.e. 1%, 2% and 3%.

Quantitative Disclosures
(as on December 2012)

Sl.	Particular			Amount in BDT Million
1	Market Value of Assets	168,649.4		
2	Market Value of Liabilities	147,405.8		
3	Leverage Adjusted Duration of Liabilities (DL)	0.95		
4	Weighted Average of DA	1.42		
5	Duration GAP (DA-DL)	0.59 years		
6	Yield to Maturity (YTM -Assets)	9.86%		
	Yield to Maturity (YTM -Liability)	9.49%		
	Magnitude of Interest Rate Change	1%	2%	3%
7	Fall in Market Value of Equity	(904.5)	(1,808.9)	(2,713.3)
Stress Testing		Minor	Moderate	Major
8	Regulatory capital (after shock)	14,673.1	13,768.7	12,864.3
9	RWA (after shock)	140,072.7	139,168.3	138,263.9
10	CAR (after shock)	10.48%	9.89%	9.3%

7. Market Risk

Qualitative Disclosures	
Views of BOD on trading/ investment actives	The Board approves all policies related to market risk, sets limits and reviews compliance 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. Alco 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.

Quantitative Disclosures (as on December 2012)		
Sl.	**Particular**	Amount in BDT Million
	The capital requirement for:	
	Interest Rate Risk	283.1
	Equity Position Risk	183.8
	Foreign exchange	24.8
	Commodity Risk	-
Total capital requirement against Market Risk		491.7

8. Operational Risk

Qualitative Disclosures	
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 to protect against all operational risk.
Performance gap of executives and staffs	Bank has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. BA'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 event is expected to expose the Bank to significant operational risk.
Policies and processes for mitigating operational risk	Operational risk, defined as any risk that is not categorized as market or credit risk, is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It is inherent in every business organization and covers a wide spectrum of issues. In order to mitigate this, internal control and internal audit systems are used as the primary means. The Bank Asia Limited manages this risk through a control based environment in which processes are documented, authorization is independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the bank stays in line with industry best practice and takes account of lessons learned from publicized operational failures within the financial services industry. Bank Asia Limited has operational risk management process which explains how the bank manages its operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with central bank requirements. Operational risk management responsibility is assigned to different level of management within the business operation. Information systems are used to record the identification and assessment of operational risks and to generate appropriate regular management reporting. Risk assessment incorporates a regular review of identified risks to monitor significant changes. On top of that, as part of recent development, the bank is in the process of adoption of globally recognized operational risk assessment tools, e.g. Risk Control Self Assessment for assessment of all possible operational risk and adoption of Key Risk Indicator (KRI) to help the bank to set operational risk trigger parameters.
Approach for calculating capital charge for operational risk	Basic Indicator Approach was used for calculating capital charge for operational risk as of the reporting date.
Quantitative Disclosures (as on December 2013)	

Amount in BDT Million

Particular	**Solo**	**Consolidated**
Capital Requirement for Operational Risk under MCR	11,65.50	12,66.130