Basel III Pillar 3 Market Discipline

Annual Disclosure for the year ended December 31, 2015

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 III. Bangladesh Bank has specified the standard of disclosure through Guidelines on Risk Based Capital Adequacy (December 2010) which revised in Basel III Guideline on December 2014 with effect from January 2015. 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 December 29, 2010 as to Guidelines on 'Risk Based Capital Adequacy for Banks' and subsequent BRPD Circular 18 dated December 21, 2014 on 'Guideline on Risk Base Capital Adequacy', following detailed qualitative and quantitative 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.

To cope up with the international best practices and to make the bank's capital shock absorbent 'Guidelines on Risk Based Capital Adequacy (RBCA) for banks' (Revised Regulatory Capital Framework in line with Basel II) was introduced from January 01, 2009 as a parallel run with BRPD Circular No. 10, dated November 25, 2002 (Basel I). At the end of parallel run, Basel II regime started from January 01, 2010 and the guidelines on RBCA came fully into force with its subsequent supplements/revisions. After that Bangladesh Bank issued 'Guidelines on Risk Based Capital Adequacy (RBCA) for banks' (Revised Regulatory Capital Framework in line with Basel III) vide its BRPD Circular 18 dated December 21, 2014 that Basel III reporting start from January 2015 and full implementation will start from January 2020. Instructions regarding Minimum Capital Requirement (MCR), Adequate Capital and Disclosure requirement as stated in the guidelines had to be followed by all scheduled banks for the purpose of statutory compliance.

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 iii) BA Exchange Company (UK) Limited. and iv) BA Express USA Inc. Bank Asia holds 99.99%, 100% and 100% shares of Bank Asia Securities Limited, BA Exchange Company (UK) Limited and BA Express USA Inc. 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 98 branches, 6 SME centres and 108 own ATM booths. The Bank has three subsidiary companies namely, Bank Asia Securities Limited incorporated in Bangladesh, BA Exchange Company (UK) Limited incorporated in United Kingdom and BA Express USA Inc. incorporated in USA. 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. **BA Express USA Inc.** BA Express USA Inc. is fully owned subsidiary company of Bank Asia Limited incorporated in New York State Department of Financial Services (NYSDFS) in USA. The company obtained license to receive money for transmission within USA and abroad and to transmit same, pursuant to the provision of Article 13-B of the USA Banking Law, subject to all rules and regulations made by the Superintendent of Financial Services of New York relating to such business, effective November 22, 2013. The company has started its commercial operation from June 01, 2014.

Qualitative Disclosures	
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) 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	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 Tier 2.	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, general reserve and retained earnings, Minority Interest. *Tier 2:* Capital of the bank consists of 50% revaluation reserve for fixed asset & securities, subordinated debts and general provision.

Quantitative Disclosures

Amount in BDT Million

Sl	Particulars	Solo	Consolidated
a)	**Tier-I (Core Capital)**		
a.1	Paid up capital	8,392.95	8,392.95
a.2	Non-repayable share premium account	-	-
a.3	Statutory reserve	5,876.25	5,876.25
a.4	General reserve	8.17	8.17
a.5	Retained earnings	2,152.33	1,867.69
a.6	Minority interest in subsidiaries	-	0.01
a.7	Non-cumulative irredeemable preference shares	-	-
a.8	Dividend equalization account	-	-
a.9	Sub-Total (a.1 to a.8)	16,429.70	16,145.07
	Less: Regulatory adjustments		
a.10	Reciprocal crossholding in the CET - 1 Capital of Banking, Financial and Insurance Entities	29.60	29.60
a.11	Common Equity Tier -1 capital (Going-Concern Capital)/ Core Capital (a.9 - a.10)	16,400.10	16,115.47
a.12	Additional Tier 1 Capital	-	
a.13	**Total Tier- 1 Capital**	16,400.10	16,115.47
b)	**Tier-II (Supplementary Capital)**		
b.1	General Provisions (provisions for unclassified loans + provision for Off-balance sheet exposure)	2,048.26	2,044.93

Sl	Particulars	Solo	Consolidated
b.2	Asset revaluation reserves up to 50%	1,168.44	1,168.44
b.3	Revaluation reserve for equity instruments up to 50%	172.85	172.85
b.4	Subordinate debt	3,315.44	3,315.44
b.5	Other reserve	-	-
b.6	Sub-Total (b.1 to b.5)	6,704.99	6,701.66
	Less: Regulatory adjustments		
b.7	20 % of revaluation reserve for fixed assets, securities and equity securities	268.26	268.26
b.8	**Total Tier- 2 Capital (b.6 - b.7)**	6,436.73	6,433.40
	Total Eligible Capital (a.13+ b.8)	22,836.83	22,548.87

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 2015 the CAR of the bank was 12.46%. ■ During the same period, Minimum Capital Requirement (MCR) of the bank was BDT 18,324.74 million and eligible capital was BDT 22,836.83 million; i.e. the bank hold BDT 4,512.09 million surplus capital. **Reduction of Capital Requirement through increasing Rated Clients:** As per Basel-III 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-III, 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 2015 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 and Large Loan (C&LL) & 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, significant no of rated clients increased in the year 2015 from the year 2014. A review of the capital relief (both funded & non-funded exposure) reveals that till December 31, 2015, we have achieved total capital relief of Tk. 5,122 million from the rated borrowers.

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Quantitative Disclosures

Amount in BDT Million

Sl.	Risk Category	Solo	Consolidated
Details of Risk Weighted Assets (RWA)			
a	Credit Risk		
a.1	On- Balance sheet	123,596.60	123,330.66
a.2	Off-Balance sheet	40,263.74	40,263.74
a.3	Total Credit Risk (a1+a2)	163,860.34	163,594.40
b	Market Risk	4,676.60	4,676.60
c	Operational Risk	14,710.45	14,444.72
	Total RWA	183,247.39	182,715.72
Detail of Risk Wise Minimum Capital Requirement (MCR)			
a	Credit Risk		
a.1	On- Balance sheet	12,359.66	12,333.07
a.2	Off-Balance sheet	4,026.37	4,026.37
a.3	Total Credit Risk (a1+a2)	16,386.03	16,359.44
b	Market Risk	467.66	467.66
c	Operational Risk	1,471.05	1,444.47
Total Minimum Capital Requirement		18,324.74	18,271.57
Total Maintained Capital		22,836.83	22,548.87
Total Capital Surplus		4,512.09	4,277.30
Detail of Tier wise Capital of the Bank			
a.	Tier-1 Capital	16,400.10	16,115.47
b.	Tier-2 Capital	6,436.73	6,433.40
c.	Tier-3 Capital	-	-
	Total Capital	22,836.83	22,548.87
Total Capital Adequacy Ratio (CAR) [Total capital/RWA]		12.46%	12.34%
Tier 1 CAR [Tier 1 capital / RWA]		8.95%	8.82%

4. Credit Risk:

Qualitative Disclosures	
a) The general qualitative disclosure requirement with respect to credit risk, including:	
Definitions of past due and impaired (for accounting purposes)	Bank classifies loans and advances (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. An NPA (impaired) is defined as a loan or an advance where interest and/ or 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 **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".

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Qualitative Disclosures

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

Types of loans and advances Std.		Provision				
		SMA	SS	DF	BL	
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		2.5%	2.5%	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 and Large Loan (C&LL)" 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

Amount in BDT Million

Particular	Outstanding
b) Total gross credit risk exposures broken down by major types of credit exposure	136,396.34
Chief Executives & Others senior executives	190.34
Agriculture	1,758.34
Industry	65,328.36
Constructions	4,913.52

Particular	Outstanding
Power, Gas, Water and Sanitary Services	690.12
Transport, Storage and Communication	3,551.82
Trade Services	27,009.00
Housing Services	10,443.78
Banking and Insurance	6,273.08
Professional and Misc. services	16,237.98
c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure	136,396.34
Dhaka Division	102,700.68
Chittagong Division	25,314.24
Khulna Division	2,118.08
Rajshahi Division	4,206.80
Barisal Division	320.25
Sylhet Division	1,607.80
Rangpur Division	128.48
d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	136,396.34
Agriculture	1,758.34
Food Manufacturing	12,589.41
Beverage industry	137.23
Tobacco industry	363.93
RMG industry	15,002.06
Textile industry	9,680.05
Wood cork and allied products	43.73
Furniture and Fixture	111.27
Paper and paper products	3,633.85
Leather and leather products	1,140.87
Rubber products	1,466.53
Chemical and chemical products	184.88
Basic metal products	4,209.13
Electrical machinery and apparatus	1,638.68
Other manufacturing industries	11,513.57
Ship building	1,508.70
Ship breaking	1,669.42
Pharmaceutical	435.06
Constructions	4,913.52
Power, Gas, Water and Sanitary Services	690.12
Transport, Storage and Communication	3,551.82
Trade Services	27,009.00

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Particular	Outstanding
Housing Services	10,443.78
Banking and Insurance	6,273.08
Professional and Misc. services	16,237.98
Others	190.34
e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure	136,396.34
Repayable on demand	28,470.00
Not more than 3 months	36,890.00
More than 3 months but not more than 1 year	44,766.30
More than 1 year but not more than 5 years	17,506.47
More than 5 years	8,763.57
f) By major industry or counterparty type:	
Sector wise past due loan classification categories:	
Sub- Standard	312.96
Doubtful	249.40
Bad and Loss	5,246.51
Total	5,808.87
Specific and general provisions	6,996.66
Total General Provision:	3,085.01
Total Specific Provision:	2,911.65
g) Gross Non Performing Assets (NPAs)	5,808.87
Non Performing Assets (NPAs) to Outstanding Loans Advances	4.26%
Movement of Non Performing Assets (NPAs)	
Opening balance	6,200.55
Additions	20,473.97
Reductions	(20,865.64)
Closing balance	5,808.87
Movement of specific provisions for NPAs	
Opening balance	3,981.26
Less: Transferred to General Provision	(230.00)
Less: Write-off	(974.27)
Add: Recovery from previously written off	55.04
Add: Provisions made during the period	79.62
Closing balance	2,911.65

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 strategize 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 Mln.
a)	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 (2015)	Nil
c)	Total unrealized gains (losses) Total latent revaluation gains (losses) Any amounts of the above included in Tier 2 capital.	Nil Nil 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	840.70
d.2	General Market Risk	840.70
d3.	**Total (d1+d2)**	1,681.40

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 affected 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 Stress Testing using the Duration GAP for measuring the Interest Rate Risk on its On Balance Sheet exposure for estimating the impact of the net change in the market value of equity on 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 interests rate changes i.e. 1%, 2% and 3%.

Quantitative Disclosures

Sl.	Particular	Amount in BDT Million		
1	Market Value of Assets	216,440.20		
2	Market Value of Liabilities	202,606.80		
3	Weighted Average of Duration of Liabilities (DL)	1.03		
4	Weighted Average of Duration of Assets (DA)	1.32		
5	Duration GAP (DA-DL)	0.36 years		
6	Yield to Maturity (YTM -Assets)	11.38%		
	Yield to Maturity (YTM -Liability)	6.93%		
	Magnitude of Interest Rate Change	1%	2%	3%
7	Fall in Market Value of Equity	(690.32)	(1,380.64)	(2,070.96)
Stress Testing		Minor	Moderate	Major
8	Regulatory capital (after shock)	22,179.70	21,489.40	20,799.00
9	RWA (after shock)	182,559.70	181,869.40	181,179.00
10	CAR (after shock)	12.15%	11.82%	11.48%

7. Market Risk

Qualitative Disclosures	
Views of BOD on trading/ investment activities	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		
Sl.	**Particular**	**Amount in BDT Million**
	The capital requirement for:	
1.	Interest Rate Risk	140.70
2.	Equity Position Risk	168.14
3.	Foreign exchange	158.82
4.	Commodity Risk	-
Total capital requirement against Market Risk		467.66

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

Amount in BDT Million

Particular	**Solo**	**Consolidated**
Capital Requirement for Operational Risk under MCR	1,471.05	1,444.47

9. Liquidity Ratio

Qualitative Disclosures	
Views of BOD on system to reduce liquidity Risk	Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or when a bank is unable to fulfill its commitments in time when payment falls due. Thus, liquidity risk can be of two types: a) Funding liquidity risk: The risk that a firm will be unable to meet its current and future cash flow and collateral needs without affecting its daily operations or its financial condition b) Market liquidity risk: The risk that a firm cannot easily offset or sell a position without incurring a loss because of inadequate depth in the market Banking organization, where off-balance sheet exposure is significant or has strong dependency on corporate deposit or experiencing step asset (i.e. primarily credit portfolio or investment book) growth is exposed to high level of Liquidity risk. Liquidity risk should not be seen in isolation, because financial risks are not mutually exclusive and liquidity risk is often triggered by consequence of other financial risks such as credit risk, interest rate risk, foreign exchange risk etc.
Methods used to measure Liquidity Risk	In context of Pillar 3 (Supervisory Review Process) of RBCA, the necessity of proper assessment and management of liquidity risk carries pivotal role in ICAAP of banks. In the perspective of Bangladesh, identifying and monitoring the driving factors of liquidity risk is viewed from the following aspects: Regulatory Liquidity Indicators (RLIs): ■ Cash Reserve Requirement (CRR) ■ Statutory Liquidity Ratio (SLR) ■ Medium Term Funding Ratio (MTFR) ■ Maximum Cumulative Outflow (MCO) ■ Advance Deposit Ratio (ADR)/Investment Deposit Ratio (IDR) ■ Liquidity Coverage Ratio (LCR) ■ Net Stable Funding Raito (NSFR) Bank's own liquidity monitoring tools: ■ Wholesale Borrowing and Funding Guidelines ■ Liquidity Contingency Plan ■ Management Action Trigger (MAT) Computation of Capital Charge against Liquidity Risk: If annual average of any RLIs of any bank falls bellow Bangladesh Bank's requirement the bank will be required to maintain additional capital for that RLI (or those RLIs).
Liquidity Risk Management System	As per Bangladesh Bank guideline management maintain sufficient CRR and SLR. In December 2014, the Bangladesh Bank started to two new liquidity metrics as part of the implementation of Basel III. These are a short term liquidity stress metric, the Liquidity Coverage Ratio (LCR), and a longer term funding metric, the Net Stable Funding Ratio (NSFR). Banks have to maintain LCR and NSFR are at a minimum of 100%.
Policies and processes for mitigating liquidity risk	Bank Asia Limited Asset-Liability Management Committee (ALCO) has responsibility for monitoring liquidity measures and limits. Liquidity is maintained in excess of the maximum cumulative outflows calculated within these stress tests. Board Risk Management Committee set policies and process to mitigate all risks including Liquidity risk.

Quantitative Disclosures	
	Amount in BDT Million
Particular	
Liquidity Coverage Ratio	122.03%
Net Stable Funding Ratio (NSFR)	111.53%
Stock of High quality liquid assets	55,710.19
Total net cash outflows over the next 30 calendar days	45,652.55
Available amount of stable funding	174,293.95
Required amount of stable funding	156,271.36

10. Leverage Ratio

Qualitative Disclosures	
Views of BOD on system to reduce excessive leverage	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 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: a) constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy b) reinforce the risk based requirements with an easy to understand and a non-risk based measure The policy for Leverage Ratio including off and on balance sheet exposure and capital related 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.
Policies and processes for managing excessive on and off balance sheet leverage	There are approved limits for instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against such risk.
Approach for calculating exposure	Calculation of Leverage Ratio A minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level. $\text{Leverage Ratio} = \dfrac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$ The exposure measure for the leverage ratio will generally follow the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following will be applied by the bank: i) On balance sheet, non-derivative exposures will be net of specific provisions and valuation adjustments (e.g. surplus/ deficit on Available for sale (AFS)/ Held-for-trading (HFT) positions). ii) Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure. iii) Netting of loans and deposits is not allowed.

Quantitative Disclosures

Amount in BDT Million

Particular	Solo	Consolidated
Tier-1 Capital (A)	16,400.10	16,115.47
Exposure measure :		
On balance sheet exposure	221,255.33	222,571.20
Off balance sheet exposure	53,397.15	53,397.15
Less: Regulatory adjustment made to Tier I capital	29.60	29.60
Total exposure (B)	274,622.88	275,938.75
Leverage Ratio (A/B)	5.97%	5.84%

11. Remuneration

Qualitative Disclosures

a) Information relating to the bodies that oversee remuneration.

Name, composition and mandate of the main body overseeing remuneration

Managing Director, Mancom & Head of Human Resources division governs the remuneration related policies and practices in alignment of the banks' short & long term objectives. They plays an independent role, operating as an overseer; and if required, makes recommendation to the Board of Directors of the Bank for its consideration and final approval for any remuneration related policy. The main work includes presenting recommendations to the Board regarding remuneration, compensation packages of senior Management, incentive schemes and retirement benefits. They also assist the Board of Directors to ensure that all employees are remunerated fairly and get performance based compensation by ensuring effective remuneration policy, procedures and practices aligned with the Banks' strategy and applied consistency for all employee levels.

A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches:

Remuneration Committee of Bank Asia also oversee its two foreign subsidiary i.e. BA Exchange Company (UK) Limited and BA Express USA Inc. and one local subsidiary i.e. Bank Asia Securities Limited.
A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group:

Risk Takers are senior employees who can take, or influence the taking of, material risk for Bank Asia or for a material business unit.

Designation	No of Employee
President and Managing Director	01
Additional Managing Director	02
Deputy Managing Director	05
Senior Executive Vice President	11
Executive Vice President	12
Senior Vice President	13

Qualitative Disclosures	
b) Information relating to the design and structure of remuneration processes.	**Key features of remuneration policy** We target a fair human resources management by using a performance based system. Our salary policy is the same in all branches and service points for the beginner level. In addition, to drive further development of individual skill sets and competencies, speaking foreign languages is compensated. There is no incident of discrimination has been occurred in terms of remuneration provided to male and female employees. Bank Asia compensation program focuses on individual short-term goals vis-a-vis long-term success and overall profitability of the Bank. Both our short-term annual incentive and long-term compensation plans promote our pay-for-performance philosophy, as well as our goal of having a meaningful amount of pay at-risk, and we believe both plans provide us a competitive advantage in talent acquiring and retaining. **Objectives of remuneration policy** The overall objective of the Bank's remuneration policy is to establish a framework for attracting, retaining and motivating emvployees, and creating incentives for delivering long-term performance within established risk limits. Performance is judged, not only on what is achieved, but also on how it is achieved as well as alignment to the Bank's values. Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made: The remuneration committee reviewed the firm's remuneration on 2014 and revised the remuneration by conducting a survey considering the following facts: ■ Oversee Banks remuneration position and revise the structure according to the competitive market ■ Align compensation strategy with business strategy ■ Determine the percentage of increment at each job grade ■ Get acquaint with the economy inflation Based on the survey, Bank changes the remuneration on Compa-Ratio based of its existing employees A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee : Control function of internal control and compliance directly respond of Audit Committee of the Board and dotted report to the President and Managing Director. Credit Risk Officer report to President and Managing Director directly.
c) Description of the ways in which current and future risks are taken into account in the remuneration processes.	An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed): A balanced scorecard approach has been adopted by the Board with real-life SMART KPI to evaluate the contribution of all individuals in a transparent manner to assess quantitative and/or qualitative performance vis-a-vis set target of a given year. We have infused 80/20 strategy in performance measurement system; as such 80% Objective and 20% Organizational & Personnel behavior factors. A discussion of the ways in which these measures affect remuneration: The way in which each individual contributes to or impacts on the key criteria differs depending on the area of the business/target activities in which they operate and nature of activities specified by the management. These differences are reflected in the expected outcomes and performance indicators developed for each individual employee/role and satisfactory performance against these indicators is required to qualify for annual increment of remuneration, performance bonus, promotion and other benefits. A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration: Since the implementation of real-life SMART KPI to evaluate the contribution of all individuals no changes has been took place.

Basel III, Pillar 3 Market Discipline

Qualitative Disclosures	
d) Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.	**An overview of main performance metrics for bank, top-level business lines and individuals** Bank Asia is solely depending on the contribution of its existing talents. From the year 2013, Bank Asia introduced a real-life SMART KPI to evaluate the contribution of all individuals in a transparent manner to assess quantitative and/or qualitative performance vis-a-vis set target of a given year. We have infused 80/20 strategy in performance measurement system; as such 80% Objective and 20% Organizational & Personnel behavior factors are introduced. The benefits of using KPI are the followings: ■ Reduce the number of decisions and make decisions based on objectivity and facts. ■ Quantify the achievement of goals ■ Focus on facts and see where individual improvement is/are needed. ■ As individual initiative grows, it becomes more difficult to remain as close to the operational details as it is, in such case, KPI results can bring back to reality. ■ Employees are clear about his/her obligations to deliver during the year and accordingly would be able to plan to meet the expectation. ■ Last but not least, unbiased performance evaluation at the end of the year. **A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance:** Yearly performance bonus, salary increment, staff house building loan are directly linked with employee's individual performance. **A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak:** Variance performances like performance bonus, salary increment are determined by the outcome of scorecard in prescribed KPI of the individual.
e) Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.	Bank Asia provides its Employees incentive compensation delivered in the form of deferred cash awards, subject to performance based on Key Performance Indicators (KPI).
f) Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms.	**A summary of Short-term and Long-term compensation plan are as follows:** Total Compensation = Fixed Pay (Salary)+Variable Pay (Bonus)+Variable Pay (Long term incentive) Form of variable remuneration offered by Bank Asia: **Cash Form:** Short-Term Incentives / Rewards 1. Yearly fixed and incentive bonus; 2. Yearly Increment; 3. Business accomplishment financial award; 4. Special Increment for especial assignments/accomplishment; 5. Car, fuel and car maintenance allowance for executives; 6. Cash Risk allowance for cashier; 7. Charge allowance for Head of Branches **Long-Term Incentives / Rewards** 1. Provident fund; 2. Gratuity; 3. Benevolent fund 4. Employee house building loan with minimum interest rate 5. Provident fund loan with minimum interest rate 6. Periodically salary review (enhancement) 7. Furniture allowance for executives 8. Yearly professional membership fees for professional certificates holder **Non-Cash Form:** **Short-Term Incentives / Rewards** 1. Medical insurance coverage for self, wife and two children; 2. Accelerate promotion for top talents; 3. Study leave **Long-Term Incentives / Rewards** 1. Foreign training award;

Quantitative Disclosures

Particular	Amount in BDT Million
g) Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	Meeting regarding overseeing the remuneration was held on need basis.

	No.	Amount
h) Number and total amount of guaranteed bonuses awarded made during the financial year.	Nil	
Number and total amount of sign-on awards made during the financial year.	Nil	
Number and total amount of severance payments made during the financial year	Nil	

i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Nil
Total amount of deferred remuneration paid out in the financial year.	Nil

j) Breakdown of amount of remuneration awards for the financial year to show:

- fixed and variable

Breakdown of Remuneration is as follows(Taka in million):

Basic salary	768,42
Allowances	796,35
Festival bonus	122,91
Gratuity	186,57
Provident fund contribution	71,59
Performance bonus	210,00
Total :	2,155,84

- deferred and non-deferred.	Nil
- different forms used (cash, shares and share linked instruments, other forms).	All the remunerations are provided in the form of cash

k) Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (eg claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:

different forms used (cash, shares and share linked instruments, other forms).	All the remunerations are provided in the form of cash
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	Nil
Total amount of reductions during the financial year due to ex post explicit adjustments.	Nil
Total amount of reductions during the financial year due to ex post implicit adjustments.	Nil