

Dhaka Bank Limited**Disclosures on Risk Based Capital (Basel II)***For the year ended December 31, 2009***Part-1****1. ASSETS****Qualitative Disclosure:****Views of BOD on assets lying with bank**

As of 31st December 2009 total assets of the Bank stood at Tk. 7,775 Crore, an increase of 9% against 2008. The increase in asset was mainly driven by significant growth of customer deposits. The growth of deposits was used for funding in loans & advances and holding of securities for SLR.

Comments on nature of assets

The Cash & Bank balances with Bangladesh Bank and its agent: The cash and balances with Bangladesh bank and its agent registered 33% growth as of 31st December 2009. The growth of deposits increased the balances with Bangladesh Bank and its agent for maintaining the cash reserve requirement (CRR), which was maintained adequately.

Balance with other Banks and Financial Institution: The balance with other banks and financial institutions increased by 9% which was mainly due to transfer of fund to Current Account of different bank for covering the payments against Inward Foreign Remittances to beneficiaries.

Money at call and Short Notice: This was the major functional area of the treasury division of the bank. The Bank registered a growth of 35% in Money at Call & Short Notice as against previous year. The amount of placement was invested at higher rate of interest to NBFIs during the year 2009.

Investment: The Bank's Investment during the year 2009 were mostly in long term Government Securities which stood at Tk. 866 crore as against Tk. 724 crore making a growth of 20% over the last year. The Government Treasury Bonds purchased at higher rate of interest to cover the increased SLR arising from the growth of deposit liabilities.

Loans and Advances: The bank implemented the system of credit risk assessment and lending procedures by stricter separation of responsibilities between risk assessment, lending decisions and monitoring functions to improve the quality and soundness of loan portfolio. The bank recorded 6% growth in advances with a total loans and advances portfolio of Tk. 5,291 crore at the end of December 2009 compared to Tk. 4,970 crore at the end of year 2008.

As of 31st December 2009, 94.43% of the total Bank's loan portfolio was regular while only 5.57% of the total portfolio was non-performing as compare to 31st December 2008. Bank made required provision as of 31st December against performing and non-performing loans as per rate and classification norm provided by Bangladesh Bank. The volume of non-performing loans and advances stood at Tk. 294.5 crore in 2009 from Tk. 190.8 crore in 2008. Of the total loan provision of Tk. 211.3 crore, Tk. 62.5 crore was general provision, which was 30% of the total provision. The rest Tk. 148.8 crore was against the classified accounts.

A wide range of business industries and sectors constitutes the Bank's advance portfolio. Major sectors where the Bank extended credit include steel & engineering, ship breaking, edible oil, sugar, housing & construction, pharmaceuticals, chemicals, electronic & automobiles, energy & power, service industries, trade finance, personal / consumer credit, leasing, etc. The Bank continued to support Small & Medium Enterprises (SME) and expended credit facilities to them through its SME Cell.

Premises & Fixed Assets: The premises and fixed assets registered 10% growth as of 31st December 2009. The total fixed assets stood at Tk. 42.4 crore in 2009 from Tk. 38.7 crore in 2008.

Other Assets: The other assets registered 2% growth as of 31st December 2009. Other assets stood at Tk. 224.3 crore in 2009 from Tk. 220.7 crore in 2008.

Definition of Default and Classified Assets

Special mention:

These assets have potential weaknesses thus deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.

Sub-standard:

These are the loans where bank has reason to doubt about the repayment of the loan although recovery prospect is encouraging.

Doubtful:

Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.

Bad /Loss:

These are the loans that have a bleak recovery possibility.

Unclassified:

These are the loans where bank is fully satisfied about its repayment.

Addition/Reduction on Classified Assets

Figure in Tk. (Crore)

Classification of loans & advances	Year 2008	Year 2009	Increase/(Decrease)
Sub-Standard	14.0	43.2	29.2
Doubtful	90.5	59.1	(31.4)
Bad or Loss	86.3	192.3	106
Total	190.8	294.6	103.8

Policies and processes for protecting assets against Core Risks inherent with banking activities

Dhaka Bank has adopted all the core Risk frameworks devised by the Bangladesh Bank and made mandatory part of its policies and procedures to conduct its banking activities and to protect its assets. Some major policies are:

Credit Risk Management (CRM) Policy:

The CRM Policy emphasizes on Lending Guidelines, Credit Assessment & Risk Grading, Approval Authority, Segregation of Duties, Credit Administration, Monitoring and Recovery etc.

Foreign Exchange Risk Management Policy:

This policy deals with dealing limit, position reconciliation's, Nostro A/c reconciliation, stop loss limits, valuation, internal audit etc.

Investment Policy:

This policy regulates investment portfolio of the bank including meeting CRR & SLR, money market operation through call lending/borrowing, term placement, REPO & Reverse REPO, bank's own share investment portfolio, delegation of authority, Risk management and internal control.

Quantitative Disclosure:

SIn	Particulars	Amount Tk. (Crore)
A.	Banking Book Assets:	
1.	Cash in Hand & Balance with BB (excluding FC)	
	In local currency	48.61
	ATM Teller	3.09
	Balance With Bangladesh Bank	282.81
	Balance With Sonali Bank as agents of BBK	8.69
	Sub Total	343.20
2.	Balance with Other Banks	
	Current Account	193.81
	STD/Mudaraba Account	208.08
	Sub Total	401.89
3.	Money at Call	
	Call Lending	26.98
	Placement	325.84
	Sub Total	352.82
4.	Investment (HTM):	
	➤ Government (Treasury Bills and Bond / Zero coupon)	503.60
	➤ Qualifying (Zero Coupon Bond)	4.82
	Others:	
	➤ Prize Bond	0.27
	➤ Debenture	0.60
	➤ DSE	0.91
	➤ CSE	0.50
	➤ CDBL	0.40
	➤ Investment of Reg	0.14
	Total Investment	511.24
5.	Loans & Advances:	
	Classified (SMA, SS, DF, & BL)	
	➤ SMA	116.71
	➤ SS	43.16
	➤ DF	59.12
	➤ BL	192.33
	Sub Total	411.32
	Unclassified	4879.66
	Total Loans & Advances	5290.98

Sln	Particulars	Amount Tk. (Crore)
6	Risk Weighted Assets: (Including Off Balance Sheet Items duly converted into Credit by Credit Conversion Factor)	
	➤ Below 100% RW	1354.46
	➤ 100% RW	459.02
	➤ Above100% RW	5715.41
	Total	7528.89
7	Rated Assets:	
	➤ Rated Assets	--
	➤ Unrated Assets	5290.98
	Total	5290.98
8	Assets	
	Fixed Assets	55.72
	Less: Accumulated Depreciation	13.82
	Sub Total	41.90
	Other Assets	
	Stationery, Stamps, Printing, Materials etc	0.73
	Accrued Interest	33.33
	Advance rent & Advertisement	11.32
	Prepaid expenses	25.39
	Suspense Account	8.05
	Branch Adjustment	(0.09)
	Export Development Fund	18.09
	Cheques in Hand for Clearing	(0.65)
	Branch opening Expenses	3.52
	BSP / PSP	5.03
	Advance Tax Paid	111.99
	Account Receivable - others	5.92
	Sub Total	222.64
	Total Assets (Including Fixed Assets)	265.09
	Total Banking Book Assets (1+2+3+4+5+8)	7165.21
B.	Trading Book Assets:	
1	FC held in hand	2.99
2	FC held in BB	157.38
3	Balance With Foreign Bank (Nostro Account)	94.76
4	Investment (Trading):	
	➤ GOVT. (part of Govt. HTM if held above the required SLR amount)	--
	➤ HFT	340.18
	➤ AFS (Shares in Hand)	14.54
	Total Trading Book Assets (1+2+3+4)	609.86
	Total Assets (A+B)	7775.07

Part-2

2. CREDIT RISK ON BANKING BOOK

Qualitative Disclosure:

Views of BOD on Credit Risk

Credit risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to the Bank. **Credit risk** arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. Dhaka Bank is managing Credit Risk through a robust process that enables the bank to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders.

Methods Used to Measure Credit Risk

Credit risk is inherent in traditional banking products such as loans, commitments to lend and contingent liabilities (for example, letters of credit) as well as in "traded products": repurchase agreements (repos and reverse repos); and securities borrowing and lending transactions. The risk control processes applied to these products are fundamentally the same, although the accounting treatment varies, as they can be carried at amortized cost or fair value, depending on the type of instrument and, in some cases, the nature of the exposure.

Credit Risk Management System

Credit risk is controlled and monitored by establishing appropriate limits and operational controls to constrain credit exposure to individual counter parties and counterparty groups. There are specific policies and procedures applicable to different business segments.

Credit risk regulatory capital requirements are computed based on the standardized approach prescribed by Bangladesh Bank. In The Standardized Approach credit risk is measured in a standardized manner supported by external credit assessments. Under this approach, risk weightings are mapped to exposure types.

Credit Risk Mitigation

Taking collateral is the most common way to mitigate credit risk. The Bank generally takes collaterals in the form of pledges of sufficient eligible marketable securities or cash, mortgages over the property etc. All of the collaterals taken do not necessarily qualify for availing capital relief under the capital adequacy framework. To ensure with a high degree of certainty that the collateral value will cover the exposure, discounts ("haircuts") are generally applied to the current market value. These reflect the quality, liquidity, volatility and, in some cases, the complexity of the individual instruments. Exposures and collateral values are continuously monitored, and margin calls or close-out procedures are enforced, when the market value of collateral falls below a predefined trigger level. Concentrations within individual collateral portfolios and across clients are also monitored where relevant and may affect the discount applied to a specific collateral pool.

Policies and Processes for Collateral Valuation and Management

The bank has developed stringent process on collateral management. The collaterals issued by the bank as the risk mitigant (for capital calculation under standardized approach) comprise of financial collaterals (Bank deposits, Gold, Debt securities, equities, units of

mutual funds etc). A detail process of calculation of correct valuation and application of haircut has been put in place with the help of flexcube (State of the art banking software Dhaka Bank).

Guarantees which are direct, explicit, irrevocable and unconditional, are taken into consideration by the Bank for calculating capital requirement. Use of such guarantees for capital calculation purpose is strictly as per Bangladesh Bank Risk Based Capital Adequacy Guidelines on the subject.

Majority of financial collaterals held by the Bank are by way of own deposits, which do not have any issue in realization. As such, there is no risk concentration on account of nature of collaterals.

The total exposure for disclosed credit risk portfolio (under the standardized approach) is covered by:

	31.12.09
Eligible financial collateral after the application of Haircut	330.18

Figures in Tk. Crore

Quantitative Disclosure:

SIn	Particulars	Amount Tk. (Crore)
1	Funded Domestic	5290.98
2	Non-Funded Domestic	2051.68
3	Distribution of Risk exposure by claims:	
	➤ Claims on Sovereigns and central Banks	--
	➤ Claims on other official entities	--
	➤ Claims on Banks and securities firms	911.30
	➤ Claims on Corporate (Medium Enterprise loans to be shown separately)	3194.64
	➤ Claims included in the retail portfolio & small enterprise	636.30
	➤ Claims on Consumer loan	88.23
	➤ Claims secured by residential property	92.03
	➤ Claims secured by commercial real estate	--
	➤ Investment against Share Margin	201.52
	➤ Other Categories:	
	• Past due loans/NPL	262.63
	• OBS items	2051.68
4	Credit Risk Mitigation:	
	➤ Claims secured by financial collateral	450.22
	➤ Net exposure after the application of haircuts	330.18
	➤ Claims secured by eligible guarantee	--

Part-3

3. MARKET RISK ON TRADING BOOK

Qualitative Disclosure:

Views of BOD on trading/investment activities

Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate due to changes in different market variables, namely:

- Interest Rate Risk
- Equity Position Risk
- Foreign Exchange Risk
- Commodity Risk

All these risks are monitored by the Treasury. The foreign exchange risk is managed by setting limits on open foreign exchange position.

The Bank's Investment during the year 2009 were mostly in long term Government Securities which stood at Tk. 866 Crore as against Tk. 724 Crore making a growth of 20% over the last year. The Government Treasury Bonds were purchased at higher rate of interest to cover the increased SLR arising from the growth of deposit liabilities.

Methods Used to Measure Market Risk

To measure of market risk the Bank uses – Value-at-Risk (VaR).

Market Risk & Liquidity Risk Management Policies and System

The objective of investment policy covering various facet of Market Risk, is to assess and minimize risks associated with treasury operations by extensive use of risk management tools. Broadly it encompasses policy prescriptions for managing systematic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

For market arising out of various products in trading book of the Bank and its business activities, the bank sets regulatory internal and ensure adherence thereto. Limits for exposure to counter-parties, industries and countries are monitored and the risks are controlled through Stop Loss limits, Overnight limit, Daylight limit, Aggregate Gap limit, Value at Risk (VAR) limit for Forum, Inter-bank dealing and investment limit etc.

For the Market Risk Management of the bank, it has a mid-office with separate Desks for Treasury & Asset Liability Management (ALM)

Asset Liability Management Committee (ALCO) is primarily responsible for establishing the market risk management, asset liability management of the bank, procedures thereof, implementing core risk management framework issued by regulator, best risk management practices followed globally and ensuring that internal parameters, procedures, practices/policies and risk management prudential limits are adhered to.

Liquidity risk of the bank is assessed through Gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limit fixed thereon. Further bank is also monitoring the liquidity position through various stock ratios. The bank is proactively using duration gap and interest rate forecasting to minimize the impact of interest rate changes.

Market Risk in Trading Book.

Market risk regulatory capital requirements are computed based on the standardized approach prescribed by BB.

Quantitative Disclosure:

SIn	Particulars	Amount (Crore Tk)
1	The capital requirements for:	
	➤ Interest Rate Risk	8.13
	➤ Equity position risk	3.59
	➤ Foreign exchange risk	3.13
	➤ Commodity risk	--
	Total	14.85

Part-4

4. OPERATIONAL RISK

Qualitative Disclosure:

Views of BOD on system to reduce Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example failed IT systems, or fraud perpetrated by a DBL employee), or from external causes, whether deliberate, accidental or natural. It is inherent in all of the Bank's activities. Operational risks are monitored and, to the extent possible, controlled and mitigated.

The Bank's approach to operational risk is not designed to eliminate risk altogether but rather, to contain risks within levels deemed acceptable by senior management.

All functions, whether business, control or logistics functions, must manage the operational risks that arise from their activities. Operational risks are pervasive, as a failure in one area may have a potential impact on several other areas. The Bank has therefore established a cross-functional body to actively manage operational risk as part of its governance structure.

The foundation of the operational risk framework is that all functions have adequately defined their roles and responsibilities. The functions can then collectively ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability. The functions use their controls to monitor compliance and assess their operating effectiveness in several ways, including self-certification by staff, tracking of a wide range of metrics (for example, the number and characteristics of client complaints, deal cancellations and corrections, un-reconciled items on cash and customer accounts, and systems failures), and the analysis of internal and external audit findings.

Performance Gap of Executives and Staffs

Dhaka Bank always tries to be the best pay master in the sector and ensure best workplace safety for its employees to avoid inconsistent employment practices and unsound workplace safety by way of discrimination regarding employee's compensation, health and safety.

Potential External Events

The bank invests heavily in IT infrastructure for better automation and online transaction environment. The bank also has huge investment on alternative power supply (both UPS & generators) and network links to avoid business description and system failure. The Bank's IT system does not allow any kind of external access to avoid external fraud by way of theft/ hacking of information assets, forgery etc. Dhaka Bank invests heavily on security from terrorism and vandalism to avoid damage to physical assets.

Approach for Calculating Capital Charges for Operational Risk

For local regulatory capital measurement purposes, the Bank follows the Basic Indicator Approach.

Quantitative Disclosure:

SIn	Particulars	Tk. (Crore)
1	The capital requirements for:	
	• Operational Risk	57.05

Part-5

5. MAINTENANCE OF SPECIFIC PROVISION

Qualitative Disclosure:

Views of BOD on System of Maintaining Specific Provision

The guidelines established by Bangladesh Bank for CIB reporting, provisioning and write off of bad and doubtful debts, and suspension of interest is followed in all cases. These requirements are the minimum and Bank will maintain more than minimum required provision and follow stringent write off policy.

Policies and processes for maintaining Specific Provision

Regardless of the length of time a loan is past due, provision will be raised against the actual and expected losses at the time they are estimated. The approval to take provisions, write offs or release of provisions/ upgrade of an account will be restricted to the I/lead of Credit and / or the MD based on recommendation from the recovery department.

The Recovery Department Account Manager should determine the Forced Sale Value for accounts graded as sub-standard or worse. Forced Sale Value is generally the amount that is expected to be realized through the liquidation of collateral held as security or through the available operating cash flows of the business, net of any realization costs. Provision will be maintained for any shortfall in the Forced Sale Value to cover total loan outstanding once an account is downgraded to Doubtful.

The amount of required provision may, in some circumstances, be reduced by an estimated realizable forced sale value (i.e. Salvage Value) of any tangible collateral held (viz: mortgage of property, pledged goods / or hypothecated goods repossessed by the bank, pledged readily marketable securities etc). Hence, in these situations, it will be advisable to evaluate such collateral, estimate the most realistic sale value under duress and net-off the value against the outstanding before determining the Net Loan value for provision purposes. Conservative approach should be taken to arrive at provision requirement and Bangladesh Bank guideline to be properly followed.

Approach for calculating capital charge for operational risk

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), will be risk-weighted as follows:

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan;
- 100% risk weight when specific provisions are no less than 20% of the outstanding amount of the loan;
- 100% risk weight when specific provisions are no less than 50% of the outstanding amount of the loan, but with supervisory discretion to reduce the risk weight to 50%.

Quantitative Disclosure:

SIn	Particulars	Amount Tk. (Crore)
1	Gross Non-Performing Assets (NPAs) ➤ NPA to Outstanding Loans and Advances	294.61 5.57%
2	Movement of NPA	
	➤ Opening Balance	190.83
	➤ Addition	153.93
	➤ Reductions	(50.15)
	Closing Balance	294.61
3	Movement of specific provisions for NPAs	
	➤ Opening balance	82.53
	➤ Write-off	(0.75)
	➤ Recoveries of amounts previously written-off	0.74
	➤ Provisions made during the period	103.15
	➤ Provisions no longer required due to recoveries	(36.86)
	Closing balance	148.80

Part-6

6. Maintenance of Regulatory Capital

Qualitative Disclosure:

The capital of Dhaka Bank Limited is segregated into Tier-1 & Tier-2 capital. Tier-1 capital is 82% of total capital and comprises of 46% Paid up capital & 43% Statutory Reserve. Tier-2 capital is 18% of total capital and comprises of 84% General Provision & 16% Revaluation Reserves for Securities. Tier-2 Capital is 22% of Tier-1 capital.

Quantitative Disclosure:

SIn	Particulars	Amount Tk. (Crore)
1	Amount of Tier-1 capital	
	➤ Fully Paid-up Capital/Capital Deposited with BB	212.77
	➤ Statutory Reserve	197.02
	➤ General Reserve	0.34
	➤ Retained Earnings	53.23
2	Amount deducted from Tier-1 capital	
	➤ Good will	--
	➤ Shortfall	--
	➤ Others	--
	Total Tier-1 Capital	463.36
3	Total amount of Tier-2 capital (net of deductions from Tier-2 capital)	100.00
	Total eligible capital	563.36

Part-7**7. CAPITAL ADEQUACY****Qualitative Disclosure:**

Dhaka Bank's policy is to maintain 1-2% higher than the minimum required capital. The bank strictly follows the guidelines of Bangladesh Bank regarding capital adequacy.

Quantitative Disclosure:

SIn	Particulars	Amount Tk. (Crore)
1	Amount of Regulatory Capital to meet unforeseen loss	
	➤ Amount to meet Credit Risk	555.57
	➤ Amount to meet Market Risk	18.56
	➤ Amount to meet Operational Risk	57.05
2	Some additional capital over MCR maintained by the banks	--
	Total	631.18