Disclosures on Risk Based Capital (Basel II)

For the year ended 31 December 2012

1. Capital Structure

Qualitative Disclosure:

The capital of ONE Bank Limited is segregated into Tier-1 & Tier-2 capital as per the guideline of the Bangladesh Bank. Tier-1 capital is 87% of total capital and comprises of 56% Paid up capital, 31% Statutory Reserve & 13% Retained earnings. Tier-2 capital is 13% of total capital and comprises of 95% General Provision & 4% Revaluation Reserve for equity. Tier-2 Capital is 15% of Tier-1 capital.

Quantitative Disclosure:

SL No.	Particulars	Amount Tk. (Crore)
1.	**Amount of Tier-1 capital**	
	Fully Paid-up Capital	414.53
	Statutory Reserve	231.46
	Retained Earnings	93.10
	Total Tier -1 Capital (A)	739.09
2.	**Amount of Tier-2 capital**	
	General Provision	101.62
	Revaluation Reserve for HTM & HFT Securities (50%)	4.81
	Revaluation Reserves for equity instruments up to 10%	0.54
	Total Tier -2 Capital (B)	106.97
	Total Capital (A+B)	**846.06**

2. Capital Adequacy

Qualitative Disclosure:

The bank strictly follows the guidelines of Bangladesh Bank regarding capital adequacy.

Quantitative Disclosure:

SL No.	**Particulars**	**Amount Tk. (Crore)**
1.	Capital requirement for Credit Risk	701.51
	Capital requirement for Market Risk	42.46
	Capital requirement for Operational Risk	63.09
	Total	**807.06**
2.	Total Capital Ratio	10.48%
	Total Tier-1 Capital Ratio	9.16%

3. Credit Risk

Qualitative Disclosure:

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. ONE 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.

3.1 Definitions of past due and impaired

ONE Bank Limited follows the Bangladesh Bank guidelines and definitions of past due and impaired loans as below:

Loan Type	Default		Classified / Impaired		
	Past due	**Special Mention**	**SS**	**DF**	**BL**
Continuous Loan	If not repaid/renewed within the fixed expiry date for repayment or after the demand by the Bank is treated as past due/overdue from the following day of the expiry date.	A continuous Credit, Demand Loan or a Term Loan which will remain overdue for a period of 02 (two) months or more will be treated as Special Mention Account (SMA).	If it remains past due /overdue for 3 months or beyond but less than 6 months	If it remains past due /overdue for 6 months or beyond but less than 9 months	If it remains past due /overdue for 9 months or beyond.
Demand Loan	If not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue/ overdue from the following day of the expiry date.		If it remains past due/overdue for 3 months or beyond but not over 6 months from the date of expiry / claim by the bank or from the date of creation of the forced loan	If it remains past due / overdue for 6 months or beyond but not over 9 months from the date of claim by the bank or from the date of creation of the forced loan	If it remains past due / overdue for 9 months or beyond from the date of claim by the bank or from the date of creation of the forced loan
Term Loan upto Tk.10.00 lac	In case any installment (s) or part of installment (s) of a Fixed Term Loan upto Tk.10.00 lac is not repaid within the due date, the amount of unpaid installment (s)		If the amount of past due installment is equal to or more than the amount of installment (s) due within 6	If the amount of past due installment is equal to or more than the amount of installment (s) due within 9	If the amount of past due installment is equal to or more than the amount of installment (s) due within 12 months, the

	will be termed as past due /overdue installments from the following day of the due date		months, the entire loan will be classified as ``Sub-standard".	months, the entire loan will be classified as "Doubtful.	entire loan will be classified as "Bad /Loss"
Term Loan above Tk.10.00 lac	In case any installment (s) or part of installment (s) of a Fixed Term Loan above Tk. 10.00 lac is not repaid within the due date, the amount of unpaid installment (s) will be termed as past due /overdue installments from the following day of the due date		If the amount of past due installment is equal to or more than the amount of installment (s) due within 3 months, the entire loan will be classified as ``Sub-standard".	If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 months, the entire loan will be classified as "Doubtful.	If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 months, the entire loan will be classified as "Bad /Loss"
Short-term Agricultural and Micro - Credit	If not repaid within the fixed expiry date for repayment will be considered past due / overdue after six months of the expiry date.		If irregular status continues, the credit will be classified as 'Substandard ' after a period of 12 months,	after a period of 36 months	after a period of 60 months

3.2 Description of approaches followed for specific and general allowances

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

3.3 Methods used to measure credit risk

In compliance with Risk Based Capital Adequacy, OBL, as per BASEL-II Guideline, uses ratings assigned by External Credit Assessment Agencies (ECAIs) approved by Bangladesh Bank. The rating is used for both fund based and Non-fund based exposure for corporate borrowers. Corporate, which are yet to get the ratings from these rating agencies, are treated as 'Unrated'.

OBL also uses the Credit Risk Grading System prepared by Bangladesh Bank before taking any exposure on Corporate and Medium clients.

3.4 Credit Risk Management System

Credit Risk Management includes a host of management techniques, which help the banks in mitigating the adverse impacts of credit risk. The objective of the Credit Risk Management is to identify, measure, monitor and control credit risk by adopting suitable methodology.

OBL Credit Policy laid down clear outlines from managing credit risk of the Bank. It gives organization structure, defines role and responsibilities of credit handling officials and processes to identify, quantify and manage credit risk.

Credit Risk management system of the Bank clearly defines the roles and responsibilities of the Marketing Division, CRM Division & Credit Administration Department. Marketing division is responsible for Business Solicitation / Relationship Management. CRM Division has been vested with the responsibilities relating to credit approval, credit review, risk grading, credit MIS. The Bank has setup Project Appraisal & Monitoring [PAM] Department under CRM Division manned with qualified Engineers for pre-sanction project appraisal & monitoring of post-disbursement project implementation. Special Asset Management Department also reports to Head of CRM Division relating to the management of impaired assets. Credit Administration Division has been entrusted with completion of documentation formalities, loading of credit limits in the system, monitoring of account movements & repayments.

The policy covers a structured and standardized credit approval process including a comprehensive credit appraisal procedure. In order to assess the credit risk associated with any financing proposal, the Bank assesses a variety of risks relating to the borrower and the relevant industry. The Bank evaluates borrower risk by focusing:

- Borrower's standing
- Borrower's business and market position
- Financial position of the borrower by analyzing the financial statements, its past financial performance, its financial flexibility in terms of ability to raise capital and its cash flow adequacy.

The Board of Directors of the Bank has delegated Business Approval Power to the Head Of CRM and Managing Director. Credit facilities beyond the delegation are approved by the EC and / or Board.

The Bank manages its credit risk through continuous measuring and monitoring of risks at each obligor (borrower) and portfolio level. One Bank is also considering credit ratings of the client assessed by ECAIs while initiating any credit decision. A well structured Delegation and Sub-delegation of Credit Approval Authority is prevailing at One Bank Limited for ensuring goods governance and better control in credit approval and monitoring.

3.5 Credit Risk Mitigation

Banks, for mitigating credit risks, usually accepts collaterals viz. cash and cash equivalents, registered mortgage on land and building and hypothecation of inventory, receivables and machinery, motor vehicles, aircraft etc. Housing loans are secured by the property/ asset being financed.

However, in compliance with Risk Based Capital Adequacy as prescribed by Bangladesh Bank OBL only considers eligible financial collateral for risk mitigation as per Basel II guidelines.

The Bank accepts guarantees from individuals with considerable net worth and the Corporate, besides guarantee issued by Government, other Commercial banks in line with present BASEL-II guidelines.

3.6 Policies and Processes for Collateral Valuation and Management

OBL has specific stipulations about acceptability, eligibility and mode of valuation of real estate collaterals whereby independent qualified surveyors have been enlisted to perform the valuation job. Apart from professional valuation, RMs and credit officers at Branch level physically verify the collateral offered and cross check the professional valuation. Subsequently entire chain documents of the collateral are checked and vetted both by OBL enlisted Panel Lawyers and Head Office Loan Administration Division so as to ensure clean title and enforceability of the collateral.

Quantitative Disclosure:

Particulars	Amount Tk. (Crore)
Total gross credit risk	7,015.07
Funded Domestic	6,012.60
Non-Funded Domestic	1,002.47
Geographical distribution of exposures	
Domestic	7,015.07
Overseas	
Cash and Cash equivalents	
Claims on Bangladesh Government and Bangladesh Bank	
Claims on Banks & NBFI:	193.06
Claims on Corporate	4,654.05
Claims included in retail portfolio & Small Enterprise	165.22
Claims on Consumer Loan	160.00
Claims Fully secured by residential property	131.82
Claims Fully secured by commercial real estate	15.61
Past due claims	216.12
Other categories	456.71
Credit Risk Mitigation	20.01
Risk weighted assets for On-balance sheet items	6,012.60
Claims secured by financial collateral	
Risk weighted assets for Off-balance sheet exposure	1,002.47
Gross Non Performing Assets (NPAs)	332.29
Non Performing Assets (NPAs) to Outstanding Loans & Advances	5.52%
Movement of Non-Performing Assets (NPAs)	
Opening Balance	213.72
Additions	169.46
Reductions	50.89
Closing Balance	332.29
Movement of specific provisions for NPAs	
Opening Balance	98.31
Provision made during the period	92.80
written off	-
Write back of excess provision	37.83
Closing balance	153.28

4. Market Risk

Qualitative Disclosure:

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 2012 was Tk. 979.19 crore. Investment was mostly in long term Government Securities which stood at Tk. 786.21 crore. The Government Treasury Bonds were purchased at higher rate of interest to cover the increased SLR arising from the growth of deposit liabilities.

4.1 Methods Used to Measure Market Risk

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

4.2 Market Risk & Liquidity Risk Management Policies and System

The objective of investment policy covering various fach 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 risk 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 counterparties, 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), 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/polices 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.

4.3 Market Risk in Trading Book

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

Quantitative Disclosure:

SL No.	Particulars	Amount Tk. (Crore)
1.	The capital requirements for: Interest Rate Risk Equity Position risk Foreign Exchange Risk Commodity Risk	 4.06 32.00 6.40 -
	Total	**42.46**

5. Operational Risk

Qualitative Disclosure:

5.1 Views of BOD on system to reduce Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems (for example failed IT system, or fraud perpetrated by a OBL 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.

5.2 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 system failure. ONE Bank invests heavily on security from terrorism and vandalism to avoid damage to physical assets.

5.3 Approach for Calculating Capital Charges for Operational Risk

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

Quantitative Disclosure:

SL No.	Particulars	Amount Tk. (Crore)
1.	**The capital requirements for:** Operational Risk	 63.09