Disclosures on Risk Based Capital (BASEL II)

For the year ended 31 December 2014

Introduction

In accordance to Pillar III of the revised Framework for International Convergence of Capital Measurement and Capital Standards (BASEL II) and adopted under the Bangladesh Bank rules and regulations on risk based capital adequacy (issued through Revised RBCA Guidelines, dated December 29, 2010), we are now required to make more in-depth and expanded public disclosure regarding our risk profile (capital structure capital adequacy, risk management and measurement).

Disclosure Policy

The Bank calculates Risk Weighted Assets (RWA) as per BASEL-II guidelines (BRPD circular no.09 dated December 31, 2008) under:

a) Standardized approach for credit risk,
b) Standardized approach for market risk and
c) Basic indicator approach for operational risk.

Components of Disclosure Framework

1. Scope of application
2. Capital Structure
3. Capital Adequacy
4. Credit Risk
5. Equities: disclosures for banking book positions
6. Interest rate risk in the banking book
7. Market Risk
8. Operational Risk

1. Scope of Application

The Risk Based Capital Adequacy framework applies to all banks on Solo and consolidated basis, where 'Solo' basis refers to all positions of the bank and 'Consolidated' basis includes subsidiary company of ONE Securities Limited.

2. Capital Structure

Qualitative Disclosure:

The terms and conditions of the main features of all capital instruments have been segregated in terms of eligibility criteria (BRPD) circular no. 35 dated December 29, 2010 and other instructions given by Bangladesh Bank).

Core Capital (Tier-1) comprises of paid up capital, statutory reserve, retained earnings and minority interest in subsidiaries.

Supplementary Capital (Tier-2) comprises of general provision(unclassified loans and off-balance sheet exposure), revaluation reserve for HTM securities up to 50%, surplus value of equity instruments up to 10% and Subordinated Debt as approved by Bangladesh Bank and Securities and Exchange Commission.

Quantitative Disclosure:

Amount in Crore Taka

SL No.	Particulars	Solo	Consolidated
1.	**Amount of Tier-1 capital**		
	Fully Paid-up Capital	524.38	524.38
	Statutory Reserve	330.60	330.60
	Retained Earnings	162.69	98.51
	Minority interest in subsidiaries	-	0.82
	Total Tier -1 Capital (A)	**1,017.67**	**954.31**
2.	**Amount of Tier-2 capital**		
	General Provision	207.02	207.02
	Revaluation Reserve for HTM Securities up to	4.22	4.22
	(50%)	2.20	2.20
	Revaluation Reserves for equity instruments up to (10%)	220.00	220.00
	Subordinated Debt		
	Total Tier -2 Capital (B)	**433.44**	**433.44**
	Total Capital (A+B)	**1,451.11**	**1,387.75**

3. Capital Adequacy

Qualitative Disclosure:

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

Quantitative Disclosure:

Amount in Crore Taka

SL No.	Particulars	Solo	Consolidated
1.	Capital requirement for Credit Risk	953.90	942.12
	Capital requirement for Market Risk	40.42	54.10
	Capital requirement for Operational Risk	82.82	82.52
	Total	**1,077.14**	**1,078.74**
2.	Total Capital Ratio	13.47%	12.86%
	Total Tier-1 Capital Ratio	9.45%	8.85%

4. 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.

4.1 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		If the amount of past due installment is equal to or more than the amount	If the amount of past due installment is equal to or more than the amount of	If the amount of past due installment is equal to or more than the amount of

Loan Type	**Default**		**Classified / Impaired**		
	Past due	**Special Mention**	**SS**	**DF**	**BL**
	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		of installment (s) due within 6 months, the entire loan will be classified as ``Sub-standard".	installment (s) due within 9 months, the entire loan will be classified as "Doubtful.	installment (s) due within 12 months, the 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

4.2 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.

4.3 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.

4.4 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 Limited 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.

4.5 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.

4.6 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:

Amount in Crore Taka

Particulars	Solo	Consolidated
Total gross credit risk	9,538.94	9,421.19
Funded Domestic	8,127.48	8,009.73
Non-Funded Domestic	1,411.46	1,411.46
Geographical distribution of exposures		
Domestic	9,538.94	9,421.19
Overseas	-	-
Cash and Cash equivalents		
Claims on Bangladesh Government and Bangladesh Bank		
Claims on Banks & NBFI:	65.42	66.20
Claims on Corporate	5,561.60	5,561.60
Claims on SME	760.92	760.92
Claims under Credit Risk Mitigation	4.95	4.95
Claims included in retail portfolio & Small Enterprise	12.18	12.18

Amount in Crore Taka

Particulars	Solo	Consolidated
Claims on Consumer Loan	38.66	38.66
Claims Fully secured by residential property	91.82	91.82

Claims Fully secured by commercial real estate	6.12	6.12
Past due claims	296.28	296.28
Unlisted equity investments and regulatory capital	194.04	12.91
Investment in venture capital	420.81	420.81
Investment in premises, plant and equipment and all other	140.17	140.58
All other categories	534.51	596.70
Risk weighted assets for On-balance sheet items	8,127.48	8,009.73
Risk weighted assets for Off-balance sheet exposure	1,411.46	1,411.46
Gross Non Performing Assets (NPAs)	427.33	427.33
Non Performing Assets (NPAs) to Outstanding Loans & Advances	4.72%	4.72%
Movement of Non-Performing Assets (NPAs)		
Opening Balance	374.08	374.08
Additions	211.37	211.37
Reductions	158.12	158.12
Closing Balance	427.33	427.33
Movement of specific provisions for NPAs		
Opening Balance	178.84	178.84
Provision made during the period	70.67	70.67
written off	-	-
Write back of excess provision	79.36	79.36
Closing balance	170.15	170.15

5. Equities: Disclosures for banking book positions

Qualitative Disclosure

Nature and Purpose of the Equity

Investment in equity mainly for capital gain and dividend purpose but OBL has some investment for relationship and strategic reasons. Investments of OBL in equity security are broadly categorized into two parts:

i Quoted Securities (ordinary shares, mutual funds) that are traded in the secondary market (trading book assets);

ii Unquoted Securities (private placement, mutual funds) are categorized as banking book equity.

Policies for valuation and accounting of equity holding

Dividends received from equity securities are accounted for as and when received. Both quoted and unquoted securities are valued at cost, and necessary provisions are maintained if the price fall below the cost price.

Quantitative Disclosure

Value disclosed in the Balance Sheet of investments as well as the fair value of those investments for quoted securities:

Amount in Crore Taka

Particulars	Cost		Market Value	
	Solo (Bank)	Consolidated	Solo (Bank)	Consolidated
Quoted Share	96.41	216.54	118.41	186.82
Unquoted Share	10.33	10.33	10.33	10.33
Total	**106.74**	**226.87**	**128.74**	**197.15**

Other information related to equity investments:

Amount in Crore Taka

Partculars	Solo (Bank)	Consolidated
Cumulative realized gains (losses) arising from sale	4.07	4.07
Total unrealized gains (losses)	21.99	-29.73
Total latent revaluation gains (losses)	0	0
Any amounts of the above included in Tier 2 Capital	2.19	2.19

Capital required for quoted securities:

Amounts in Crore Taka

Particulars	Solo (Bank)	Consolidated
Specific	11.84	18.68
General	11.84	18.68

6. Interest rate risk in the banking book

Qualitative Disclosure

Interest Rate Risk in the Banking Book (IRRBB) is the potential risk to the interest rate sensitive assets and liabilities of a bank balance sheet as well as off-balance sheet items arising out of adverse or volatile movements in market interest rate.

The immediate impact of changes in interest rates is on the Net Interest Income (NII). A long term impact of changing interest rate is on the Bank's net worth, liabilities and cash flow. Bank's lending, funding and investment activities give rise to interest rate risk.

The responsibility of interest rate risk management rests with the Bank's Assets and Liability Management Committee (ALCO).OBL periodically computes the interest rate risk on the banking book that arises due to re-pricing mismatch in interest rate sensitive assets and liabilities. The Duration Gap analysis is also being done on quarterly basis. The Duration Gap indicates how the market value of equity (MVE) of the bank will change with a certain change in interest rate. In the year 2014 the duration Gap found positive in OBL which indicates that the assets are relatively more interest rate sensitive than liabilities.

At present OBL follow Bangladesh Bank prescribed format for assessing the economic value due to change in interest rates.

Quantitative Disclosure

The risk from earnings perspective can be measured as impact in the Net Investment Income (NII) due to change in interest rate. Details of Interest Rate Risk as on 31 December, 2014 are presented below:

Figures in Crore Taka

Interest Rate Risk in Banking Book

Total Interest rate sensitive Assets	10,482.85
Total Interest rate sensitive Liabilities	8,800.77
Cumulative Gap:	
<3 months	-1,805.37
3-6 months	-659.74
6-12 months	1,682.08
CAR before Shock (%)	13.47%

Repricing impact:

Particulars	**Minor (1%)**	**Moderate (2%)**	**Major (3%)**
Capital after Shock	1,439.68	1,428.26	1,416.83
CAR after Shock	13.37%	13.26%	13.15%

7. 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 2014 was Tk. 1,472.39 crore. Investment was mostly in long term Government Securities which stood at Tk. 1,309.25 crore.

7.1 Methods Used to Measure Market Risk

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

7.2 Market Risk & Liquidity Risk Management Policies and System

The objective of investment policy covering various face 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 Trigger Point, Stop Loss limits, Overnight limit, Daylight limit, Dealers limit, Dealing Room limit, Counter Party limit, Aggregate Gap limit, Value at Risk (VAR), Inter-bank dealing limit 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.

7.3 Market Risk in Trading Book

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

Quantitative Disclosure:

Amount in Crore Taka

SL No.	Particulars	Solo	Consolidated
1.	The capital requirements for:		
	Interest Rate Risk	2.53	2.53
	Equity Position risk	23.68	37.36
	Foreign Exchange Risk	14.21	14.21
	Commodity Risk	-	-
	Total	**40.42**	**54.10**

8. Operational Risk

Qualitative Disclosure:

8.1 Views of Board of Directors 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 an 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.

8.2 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.

8.3 Approach for Calculating Capital Charges for Operational Risk

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

Quantitative Disclosure:

Amount in Crore Taka

SL No.	Particulars	Solo	Consolidated
1.	**The capital requirements for:** Operational Risk	82.82	82.52