

Disclosure on Risk-Based Capital under Basel III

For the Year Ended on December 31, 2023

BRAC Bank PLC.

Anik Tower, 220/B, Tejgaon Gulshan Link Road
Tejgaon, Dhaka 1208.



Background

The Basel III framework was introduced by the Basel Committee on Banking Supervision (BCBS) with the aim of strengthening the financial system and improving the shock resilience capacity of banks. This framework comprises capital rules that establish minimum capital ratios, overall capital adequacy standards, and liquidity standards to ensure that banks remain financially stable. To enhance transparency and discipline in the financial market, Pillar III Market discipline was introduced, enabling stakeholders to assess the position of a bank.

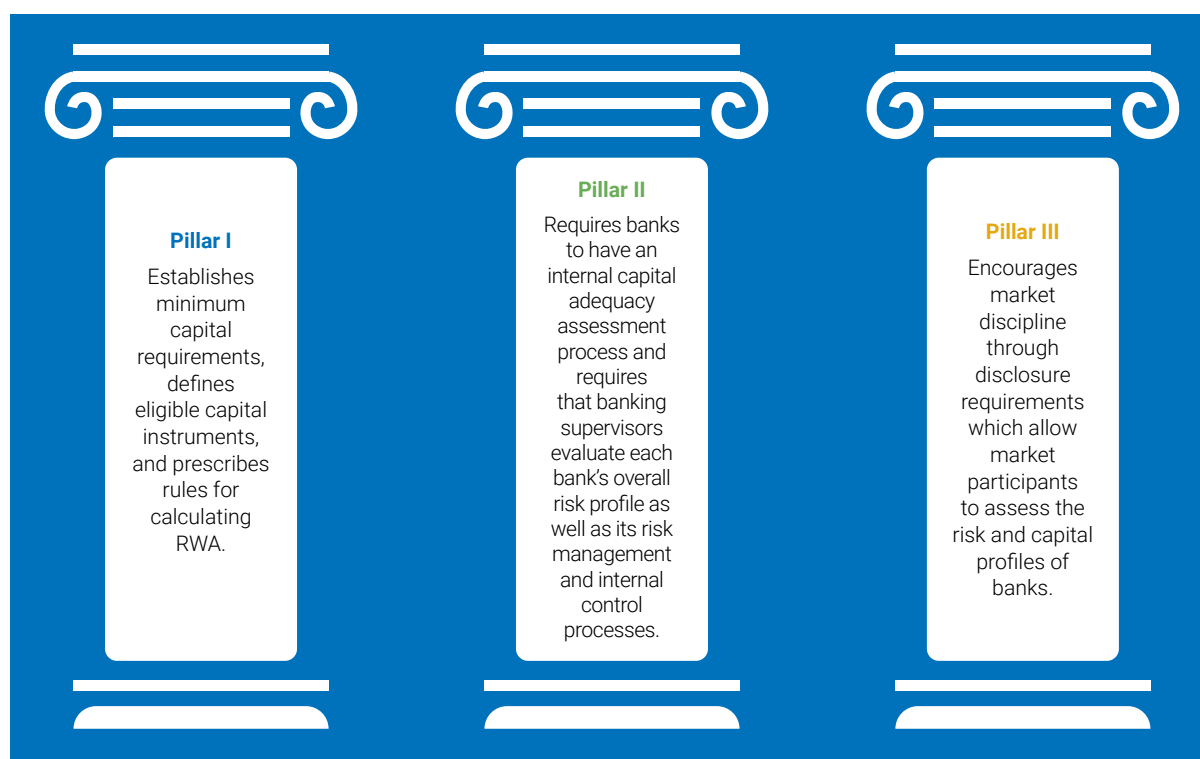
BRAC Bank PLC has adopted the Basel III framework as part of its capital management strategy in accordance with the guidelines on Risk-Based Capital Adequacy (RBCA) provided by the Bangladesh Bank. The Pillar III disclosure framework includes comprehensive information on the scope of application, capital, risk exposures, risk assessment processes, capital adequacy, liquidity position, and leverage of the bank. This framework serves as a testament to BRAC Bank's commitment to ensuring the safety and soundness of its operations.

Key Basel III Matrices 2023

Particulars	Minimum Regulatory Requirement	2023		2022	
		Solo	Consolidated	Solo	Consolidated
CRAR	12.50%	14.00%	18.61%	14.04%	19.37%
CET 1 Ratio	7.00%	12.44%	17.17%	12.41%	17.87%
CCB	2.50%	4.00%	8.61%	4.04%	9.37%
Leverage Ratio	3.25%	6.36%	8.43%	7.17%	9.83%
LCR	100%	170.38%	N/A	227.96%	N/A
NSFR	>100%	120.72%	N/A	117.74%	N/A
Total Eligible Capital (BDT mn)	-	55,093	79,655	49,119	73,698
Total RWA (BDT mn)	-	393,464	428,039	349,920	380,522

Basel Framework at a Glance

The Basel framework consists of a three "Pillar" approach:



Bangladesh's banking sector began implementing Basel regulations in 1996. The phase-in arrangement for Basel III implementation started in 2015 and was completed in 2019.

Consistency and Validation

The quantitative disclosures are made based on consolidated audited financial statements of BRAC Bank and its Subsidiaries for the year ended on December 31, 2023, and prepared according to the relevant International Accounting and Financial Reporting Standards and related circulars/instructions issued by Bangladesh Bank from time to time. The assets, liabilities, revenues, and expenses of the subsidiaries are combined with those of the parent company (BRAC Bank), eliminating inter-company

transactions. Assets of the subsidiaries were risk-weighted, and equities of subsidiaries were crossed out with the investment of BRAC Bank while consolidating. Therefore, the information presented in the "Quantitative Disclosures" section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements 2023 of BRAC Bank and its Subsidiaries along with separate audited financial statements of the Bank available on the website of the Bank (www.bracbank.com). The report is prepared once a year and is available on the website.



1. Scope of Application

Qualitative Disclosures

a) The name of the top corporate entity in the group to which this guideline applies



The framework applies to BRAC Bank PLC. on a 'Consolidated Basis' as there were four subsidiaries of the Bank and one associate as of the reporting date, December 31, 2023. However, 'Solo Basis' information has been presented, in addition to 'Consolidated Basis,' to facilitate comparison.

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

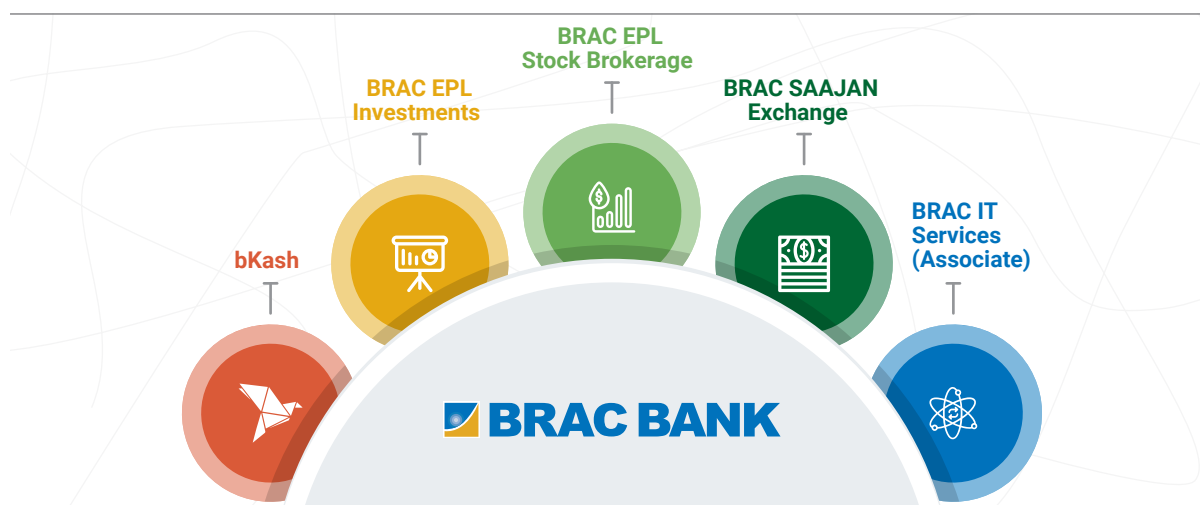
BRAC Bank PLC.:

BRAC Bank PLC. is one of the third-generation private commercial banks (PCBs), which inaugurated its

banking operation on July 4, 2001, under the Banking Companies Act 1991. The Bank went for public issue of its shares in 2006, and its shares were listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited in 2007. At present, the Bank has 187 banking branches, 40 sub-branches, 198 area offices, 457 SME unit offices, 329 ATMs, 68 RCDMs and 10 CRMs, and 1,094 agent banking outlets across the country which are in operation.

Subsidiaries: Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. A parent of a subsidiary should present consolidated financial statements according to BAS-27: Consolidated and Separate Financial Statements and BFRS 10: Consolidated Financial Statements. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control effectively commences until the date that the control effectively ceases.

The Bank has four subsidiary companies and one associate:



(i) bKash Limited (Subsidiary)

BRAC Bank PLC. formed bKash Limited, a private company limited by shares incorporated on March 01, 2010, under the Companies Act, 1994. bKash Limited was established to introduce mobile financial services in Bangladesh. The Bank has obtained a license from Bangladesh Bank for bKash Limited to render mobile financial services. BRAC Bank currently holds 51% equity shares in the company.

With the consent of all existing shareholders, in 2014, Bill & Melinda Gates Foundation (B&M), in 2018, Alipay Singapore E-Commerce Private Limited ("Alipay"), and in 2021, SoftBank further invested in bKash Limited in the form of convertible preference shares. As of December 31, 2021, out of the total 163,104 convertible preference shares, B&M holds 22,525 shares, Alipay holds 55,433 shares, and SoftBank holds 85,146 shares. Preference shareholders do not have any voting rights but have the same rights as equity shareholders with respect to an economic interest in the company. These preference shares are convertible at a 1:1 basis to ordinary shares subject to consent as per the shareholders' agreement. Consolidated financial statements have been prepared using 35.74% instead of 51% considering the potential dilution or otherwise according to economic interest on bKash.

(ii) BRAC EPL Investments Limited (Subsidiary)

BRAC Bank acquired 51% of Equity Partners Limited on July 31, 2009. This entity was incorporated in Bangladesh on April 19, 2000, as a private limited company under the Companies Act 1994 and was subsequently renamed "BRAC EPL Investments Limited." Since 2019, BRAC Bank has held 99.945% of the total shares.

BRAC EPL Investments was established to cater to the needs of Bangladesh's fast-growing capital markets. It is a merchant bank with a full-fledged merchant banking license from the Bangladesh Securities and Exchange Commission (BSEC). The company's service portfolio comprises lead management of initial public offerings, domestic and international placements, portfolio management, project development, and consultancy.

(iii) BRAC EPL Stock Brokerage Limited (Subsidiary)

BRAC Bank PLC. acquired 51% shares of Equity Partners Securities Limited on July 31, 2009. Equity Partners Securities Limited was incorporated in Bangladesh on May 16, 2000, as a private limited company under the Companies Act, 1994. Subsequently, the management decided to rename Equity Partners Securities Limited as BRAC EPL Stock Brokerage Limited. In 2011, the Bank acquired an additional 39% shares of EPL Stock Brokerage Limited. As a result, the Bank's controlling interest has risen to 90% of EPL Stock Brokerage Limited.

BRAC EPL Stock Brokerage Limited was established to serve the brokerage business in Bangladesh. It has corporate memberships in both the Dhaka Stock Exchange and the Chittagong Stock Exchange.

(iv) BRAC SAAJAN Exchange Limited (Subsidiary)

At its inception, BRAC Bank PLC. acquired 75% of the shares (250,000 shares out of the total 333,333 shares) of "SAAJAN Worldwide Money Transfer Limited" (SWMTL) in the UK. Bangladesh Bank provided necessary approvals of GBP 500,000 to acquire SWMTL and set up two new branches in Luton and Bradford, UK. As per permission of Bangladesh Bank, SWMTL has been renamed as "BRAC SAAJAN Exchange Ltd" (BSE). BRAC SAAJAN Exchange Limited was established to offer remittance and exchange services in the UK.

Currently, BRAC Bank PLC. holds 93.75% shares (1,250,000 no. of shares out of the total 1,333,333 shares) of BRAC SAAJAN Exchange Ltd (BSEL). BRAC Bank has been controlling and monitoring all its operations as a holding company.

(v) BRAC IT Services Limited (Associate)

BRAC IT Services Ltd. (biTS) was initially founded as Documenta™ Ltd, a digital archiving firm, in 1999. BRAC IT Services Ltd. was then formed in April 2013 through the merger of Documenta™ Ltd and the IT Division of BRAC Bank. BRAC Bank acquired 51% shares of BRAC IT Services Limited, a private company limited by shares under the Companies Act, 1994, incorporated on 9 April 2013. It currently operates as an IT services company. In the year 2017, BRAC Bank reduced its holding in BRAC IT Services Limited from 51% to 48.67% by selling 1,034 shares to BRAC. Due to this disinvestment, BRAC IT Services Limited was converted from an 'Associate' of the bank at the end of the year 2017 from a 'Subsidiary' status. However, due to the new investment by BRAC in 2020, the holding percentage of BRAC Bank was further reduced to 12.92% at the end of the year 2020.

In 2022, BRAC Bank disposed off 6,818 no. of shares (2.92% shareholding) to BRAC upon approval from Bangladesh Bank. At the end of the year 2023, BRAC Bank's shareholding in biTS stands at 10%.

Basis of Consolidation:

Consolidated financial statements include financial statements of BRAC Bank PLC. and its subsidiaries, BRAC EPL Investments Limited, BRAC EPL Stock Brokerage Limited, bKash Limited and BRAC SAAJAN Exchange Limited, as those of a single economic entity.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) 10: Consolidated Financial Statements. The consolidated financial statements are prepared for a common reporting year ended December 31, 2023.

(c) Any restrictions or other major impediments on the transfer of funds or regulatory capital within the group.

The rules and regulations of Bangladesh Bank's BRPD that govern the 'Single Borrower Exposure Limit'

for customers are equally applicable to the Bank in financing its own subsidiaries. The Bank is following the latest Bangladesh Bank circular to determine the maximum amount of finance for its subsidiaries.

Quantitative Disclosures (2023)

a) 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 to the Bank



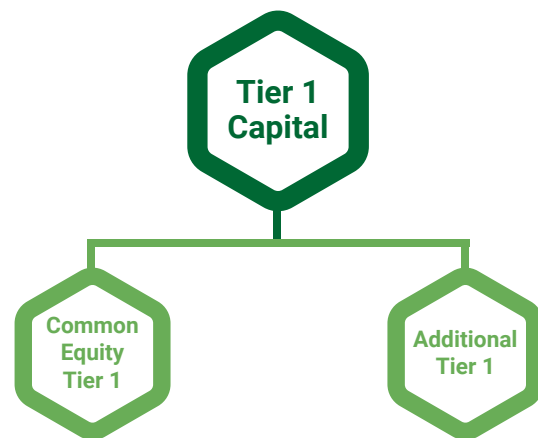
2. Capital Structure

Qualitative Disclosures

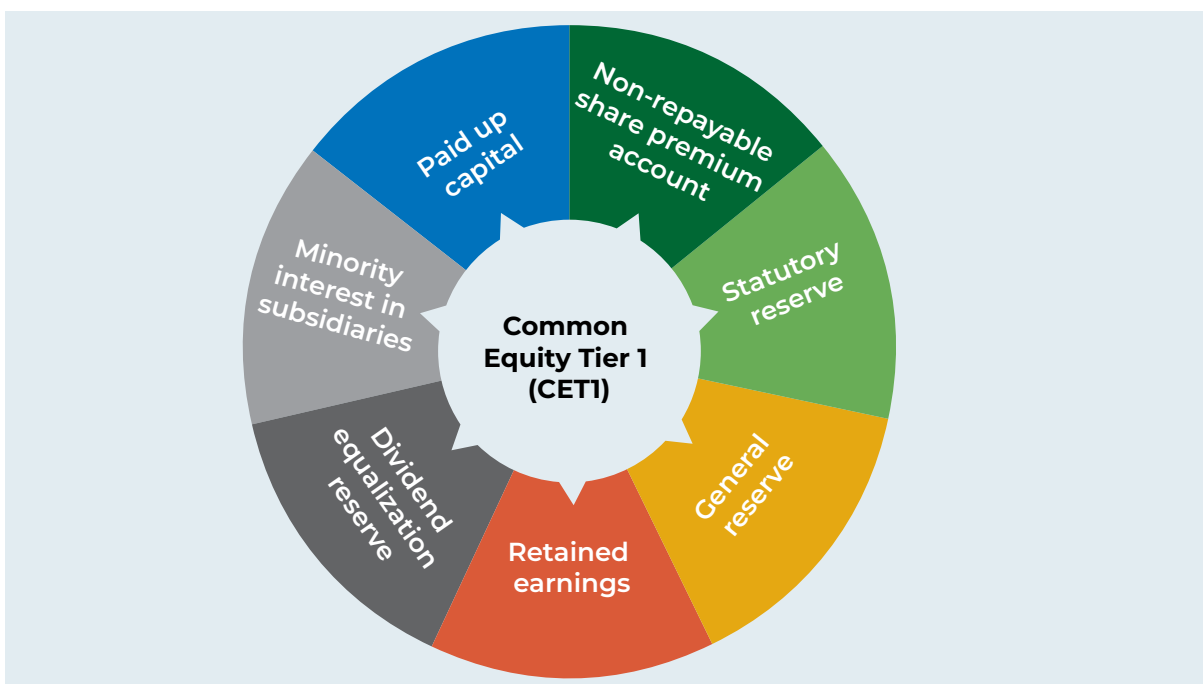
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 or Tier 2.

As per RBCA guidelines provided by Bangladesh Bank, regulatory capital is quite different from accounting capital. As per BB guidelines based on the Basel III accord, regulatory capital has two broad categories, namely, Tier 1 Capital (going-concern capital) and Tier II Capital (gone-concern capital).

Tier 1 Capital: This form of capital can absorb losses without triggering the bankruptcy of the Bank. Hence, it is the core measure of a bank's financial strength from the regulator's point of view. The components of Tier 1 Capital are given below:



Common Equity Tier 1 (CET1): The main components that comprise the CET-1 Capital are as below



Additional Tier 1 (AT1):

- Non-cumulative irredeemable preference share
- Instruments issued by banks that meet the qualifying criteria for AT1 (the instrument is perpetual, i.e. no maturity date)

- Minority interest (AT1 issued by consolidated subsidiaries to the third parties)

Tier 2 Capital: Gone concern capital represents other elements that fall short of some of the characteristics of core capital but contribute to the overall strength of the Bank. Tier 2 capital consists of the following items:

**Compliance Status:**

As per RBCA guidelines 2014, banks are required to maintain regulatory capital in accordance with the

following ratios on an ongoing basis. BRAC Bank has been maintaining the regulatory capital as stipulated by Bangladesh Bank.

Conditions for Maintaining Regulatory Capital	Compliance Status
Common Equity Tier 1 of at least 4.5% of the total RWA	Complied
Tier 1 capital will be at least 6.0% of the total RWA	Complied
Minimum CRAR of 10% of the total RWA	Complied
Additional Tier 1 capital can be admitted a maximum of up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher	Complied
Tier 2 capital can be admitted a maximum of up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher	Complied
Capital Conservation Buffer (CCB) of 2.5% of the total RWA in the form of CET1	Complied

Quantitative Disclosures (2023)**b) The amount of Regulatory capital, with separate disclosure of CET1 Capital, Additional Tier 1 Capital, Total Tier 1 Capital, Tier 2 Capital**

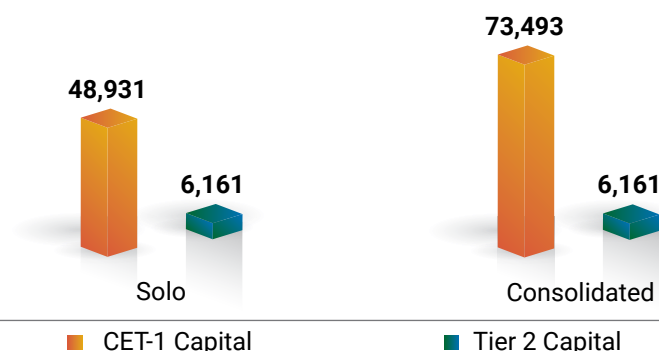
Figures in BDT Million

Sl. No.	Particulars	Solo	Consolidated
(a)	Common Equity Tier-1 Capital (CET-1)		
a.1	Paid up capital	16,088	16,088
a.2	Non-Repayable Share Premium account	3,854	3,854
a.3	Statutory Reserve	12,235	12,313
a.4	Retained Earning	22,663	33,198
a.5	Dividend Equalization Reserve	355	355
a.6	Minority Interests in Subsidiaries	-	20,479
a.7	Sub-total (a.1 to a.6)	55,195	86,287
(b)	Less: Regulatory Adjustments	-	-
b.1	Goodwill and all other intangible Assets	872	4,845
b.2	Deferred Tax Assets (DTA)	5,391	7,949
(c)	Total common equity Tier-1 capital (CET-1)	48,931	73,493
(d)	Additional Tier-1 Capital	-	-

Figures in BDT Million

Sl. No.	Particulars	Solo	Consolidated
(e)	Total Tier-1 Capital (Core Capital)	48,931	73,493
(f)	Tier-2 Capital (Supplementary Capital)	-	-
f.1	General Provision	6,161	6,161
(g)	Less: Regulatory Adjustments	-	-
(h)	Total Admissible Tier-2 capital	6,161	6,161
(i)	Total Eligible Regulatory Capital	55,093	79,655

Capital Composition



3. Capital Adequacy

Qualitative Disclosures

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

Capital Adequacy Management Strategy:

BRAC Bank PLC with its focused strategy on risk management, has always been consistent in maintaining a capital adequacy ratio above the regulatory requirements. The Bank focuses on strengthening the risk management and control environment rather than increasing capital to cover up weak risk management and control practices. BRAC Bank has been successfully managing the incremental growth of risk-weighted assets (RWA) by diversifying its portfolio in the SME, retail, and corporate segments. However, RWA is also managed by taking collateral against loans. We strive to ensure that the borrowers duly do external credit ratings.

The Bank's policy is to manage and maintain its capital with the objective of maintaining a strong Capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks. The Bank also ensures that the Capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders, including depositors.

Calculation Approach:

Assessment of capital adequacy is carried out in conjunction with reporting to the Bangladesh Bank on capital adequacy. The Bank has adopted the following approach for calculating risk-weighted assets (RWA) and capital adequacy.

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

Compliance with Regulatory Requirements:

As per Bangladesh Bank's Risk-Based Capital Adequacy (RBCA) guideline 2014, the Minimum Capital Requirement (MCR) for Bangladeshi banks is currently 10% of their total RWA, with the addition of the Capital Conservation Buffer, which is 2.5% of the total RWA. As of December 2023, BRAC Bank was well ahead of this minimum target both on a solo and a consolidated basis.

Excess Capital to Support Current and Future Activities:

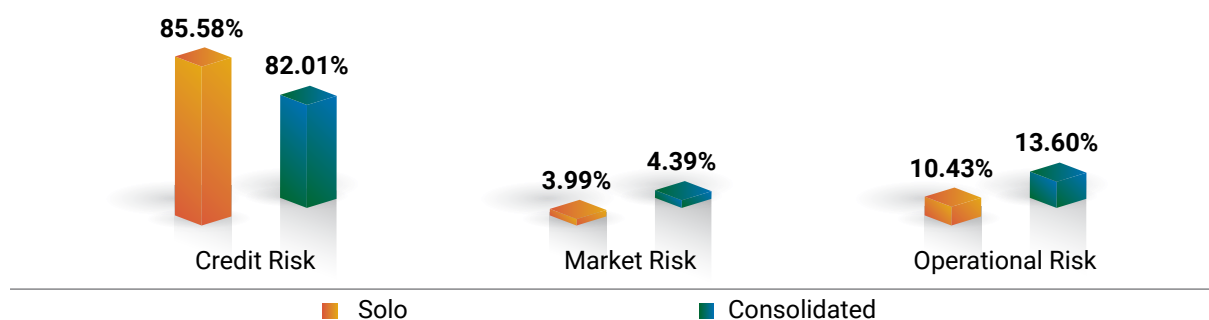
BRAC Bank managed to maintain surplus capital of 1.50% on a solo basis and 6.11s% on a consolidated basis in addition to regulatory requirements. The surplus capital maintained by BRAC Bank will act as a cushion to absorb the risks that arise from other risks under Pillar II and to support the future business growth of the Bank.

Quantitative Disclosures (2023)

Figures in BDT Million

Sl. No.	Particulars	Solo	Consolidated
(b)	Capital Requirement for Credit Risk	33,674	35,101
(c)	Capital Requirement for Market Risk	1,568	1,880
(d)	Capital Requirement for Operational Risk	4,105	5,822
	Minimum Capital Requirement (MCR)	39,346	42,804
(e)	Capital Ratio:		
	CET 1 Capital	48,931	73,493
	Total Tier 1 Capital	48,931	73,493
	Total Tier 2 Capital	6,161	6,161
	Total Capital	55,093	79,655
	Total Risk-Weighted Assets (RWA):	393,464	428,039
	Capital to Risk-Weighted Assets Ratio (CRAR)	14.00%	18.61%
	CET 1 Capital Ratio	12.44%	17.17%
	Tier-1 Capital Ratio	12.44%	17.17%
	Tier-2 Capital Ratio	1.57%	1.44%
(f)	Capital Conservation Buffer (CCB) (Maintained)	4.00%	8.61%
(g)	Available Capital under Pillar 2 Requirement	15,746	36,851

Capital Requirement Composition



4. Credit Risk

Qualitative Disclosures

I. The general qualitative disclosure requirement with respect to credit risk:

- Definitions of past due and impaired (for accounting purposes)
- Description of approaches followed for specific and general allowances and statistical methods
- Discussion of the Bank's credit risk management policy

Credit Risk Management at BRAC Bank:

Credit risk management is a crucial aspect of the financial industry, focusing on minimizing potential losses due to borrowers' inability to repay loans. Credit risk, which affects lending decisions, setting interest

rates, and managing financial assets, generally arises when a bank's borrower or counterparty fails to meet their commitments/ obligations in line with the agreed-upon terms and conditions. Credit risk also arises with the deterioration of the borrower's credit rating leading to higher risk-weighted assets of the bank. Effective credit risk management is one of the vital components of a comprehensive risk management strategy and is critical to any bank's long-term sustainability. The likelihood of the borrower defaulting or deterioration and its financial impact on the bank is considered while assessing credit risk.

Since 2005, BRAC Bank has been following its Credit Risk Management Policy, which was approved by the Board of Directors for managing credit risk in the Bank. According to the central bank guidelines, as well as to

accommodate ongoing changes and updates both from regulatory and industry perspectives, the mentioned policy is reviewed annually by the Board. Mentionable that, complying with the business module of BRAC Bank, the loan processing system here is centralized. Under this system, the Relationship Manager (RM) hunts for business, keeping in mind BRAC Bank's risk acceptance criteria, including 5Cs for a prospective client. In the onboarding process, RM prepares a credit proposal and sends it to the Credit Risk Management (CRM) Division/ Underwriting Division for appraisal. CRM appraises submitted proposals in light of existing regulatory guidelines as well as the CRM Policy of the Bank and places it with due recommendations to the appropriate approving authority for making decisions (Approve/ Decline). In the final stage of loan processing, documentation & disbursement are completed by the Asset Operations division/ Credit Administration. In each of the aforementioned steps, a very stringent and rigorous risk assessment process is followed whereby the Bank strives to eliminate/ manage every possibility of credit risk. In addition to full compliance with the regulatory guidelines, borrowers' credit relationships, including liability position, status, security arrangement with other lenders, prescribed credit risk rating models (both external and internal), environmental risk rating models, external credit rating (for corporate and SME clients), detailed KYC, analysis of proposed security arrangement and other internal policy guidelines and relevant covenants are considered before extending any credit facility. All of these are followed with the sole intention of combating credit risk.

Before approving any facility to a borrower, BRAC Bank follows a robust and rigid credit assessment process. Any deal or project is embarked on after scrutinizing that person or organization properly, starting from accumulating and analyzing that person's or organization's business information, business prospect, present scenario, market position, market reputation, industry growth and peer group comparison and ends with making up the decision whether to onboard or not to onboard that person or organization. At the same time, relevant experience & skill of sponsor directors and key management in primary business, succession plan, corporate governance status, financial statement analysis including projected cash flow and opportunity, checking CIB report and search report,

requirement assessment and justification, proposed facility structuring and related such avenues are closely scrutinized. If the status of the client is deemed to be satisfactory, all documents are prepared, and negotiations are undertaken. The Relationship Manager visits the factory (for manufacturing concerns) or retail outlets (for trading concerns) to see if the conditions are satisfactory and justifiable to support facilities. To maintain a thorough knowledge of the factory/ warehouse, a visit as well as a stock verification report are prepared, and the record is kept in the respective client's file. The environmental and social aspects are also considered when opting for any lending decision. In such a process, BRAC Bank meticulously adheres to the exclusion list as per ESRM Guidelines.

i) Definitions of past due and impaired (for accounting purposes);

Classification and provisioning for loans and advances are created based on the period of arrears following the latest Bangladesh Bank guidelines and circulars and other relevant circulars on classification and provisioning. The definition of Past due/overdue as per BB circular is as follows:

- Any Continuous and Demand Loans, if not repaid/ renewed within the fixed expiry date for repayment or after the demand by the Bank, will be treated as past due/overdue from the following day of the expiry date
- Any 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 from the following day of the expiry date
- In case any instalment (s) or part of instalment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid instalment(s) will be treated as past due/overdue after six months of the expiry date;
- The 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.

In this regard, all loans and advances are grouped into four categories for the purpose of classification as per BB circulars, namely i) Continuous Loan, ii) Demand Loan, iii) Fixed Term Loan, and iv) Short-term Agricultural and Micro Credit. They are classified as follows:

Type of Facility	Borrower Type	Loan Classification		
		Sub Standard (Overdue Period)	Doubtful (Overdue Period)	Bad & Loss (Overdue Period)
Continuous Loan, Demand Loan & Fixed Term Loan	CMS*	6 months or more but less than 18 months.	18 months or more but less than 30 months.	30 months or more.
	Other than CMS	3 months or more but less than 9 months.	9 months or more but less than 12 months.	12 months or more.
Short Term Agricultural & Micro Credit		12 months or more but less than 36 months	36 months or more but less than 60 months	60 months or more

*CMS means Cottage, Micro & Small credits defined in SMESPD Circular No. 02 dated September 05, 2019

ii) Description of approaches followed for specific and general allowances and statistical methods;

Provision for loans and advances is maintained to cover the Bank from possible loan losses in future. A general provision is made on the outstanding amount of loans and advances without considering the classification status following the prescribed rate of Bangladesh Bank. Classified loans and advances of the banks are categorized as Sub-Standard, Doubtful, and Bad/Loss according to Bangladesh Bank guidelines. For loans classified as Sub-Standard, Doubtful, or Bad/Loss, a specific provision is maintained, netting off eligible security value and interest suspense from the amount outstanding. Provision for off-balance sheet items is also maintained as per Bangladesh Bank guidance. For maintenance of required provisions, the latest BB circulars are followed diligently. Interest accrued on Sub-Standard and Doubtful accounts is transferred to an interest suspense account, thus not considered as interest income unless actually realized in cash by the Bank.

However, Loans and advances are sometimes written off from the bank's statement of financial position considering the following as per BRPD circular no. 01, dated February 06, 2019, and subsequent amendments:

- (i) When there is no realistic prospect of recovery and

- (ii) Against which legal cases are filed and classified as bad and loss (in applicable cases)

These write-offs, however, will not undermine/ affect the claim amount against the borrower. Detailed memorandum records for all such write-off accounts are meticulously maintained and followed up.

At each balance sheet date, BRAC Bank assesses whether there is objective evidence that a financial asset or a group of financial assets, i.e., loans and advances, off-balance sheet items, and investments, are impaired. A financial asset or groups of financial assets are impaired, and impairment losses are incurred if there are objectives and evidence of impairment as a result of a loss event that occurs after the initial recognition of the asset up to the balance sheet date; the loss event had an impact on the estimated future cash flows of the financial assets or the group of financial assets and a reliable estimate of the loss amount can be made. In the event of impairment loss, the Bank reviews whether a further allowance for impairment should be provided in the profit and loss statement in addition to the provision made based on Bangladesh Bank guidelines or other regulatory requirements.

The Bank is required to maintain the following general and specific provisions in respect of classified and unclassified loans and advances/investments based on Bangladesh Bank guidelines issued from time to time:

Business Unit		Rates of Provision				
		Un-classified (UC)		Classified		
		Standard	Special Mention Account (SMA)	Substandard (SS)	Doubtful (DF)	Bad loan (BL)
Consumer	House building	1%	1%	20%	50%	100%
	Loans for professionals	2%	2%	20%	50%	100%
	Other than house building and professionals	2%	2%	20%	50%	100%
Loans to BHs/ MBs/ SDs against share, etc.		1%	1%	20%	50%	100%
Cottage, Micro & Small Credit under CMSME		0.25%	0.25%	5%	20%	100%
Medium enterprise		0.25%	0.25%	20%	50%	100%
Short-term Agri/ Microcredit		1%		5%	5%	100%
Credit Card		2%	2%	20%	50%	100%
All others		1%	1%	20%	50%	100%
Off-Balance Sheet		1%	-	-	-	-

iii) Discussion of the Bank's credit risk management policy;

Credit Policy:

BRAC Bank is managing its Credit Risk through a board-approved Credit Policy in line with the Bangladesh

Bank Core Risk Management Guidelines, which outline robust processes and procedures to ensure the quality of its assets portfolio. Credit policy also contains the general principles that govern the implementation of detailed lending procedures and risk grading systems for borrowers. As such, it specifically addresses the areas of:



Credit Risk Mitigation:

Potential credit risks are mitigated by taking primary and collateral securities. There are other risk mitigation approaches like netting agreements and other guarantees. Professionals in the respective fields verify the legal certainty and enforceability of the mitigation approach. Collateral types eligible for risk mitigation include cash, residential, commercial, industrial property, plant and machinery, marketable securities, etc. The bank officials physically verify collaterals simultaneously; an independent third-party surveyor also values these in accordance with the credit policy and procedures as well as Bangladesh Bank guidelines.

Credit Assessment and Grading:

Know Your Client (KYC) is the first step to analyzing any credit proposal. The banker-customer relationship is established through the customers' opening of accounts. Proper introduction, photographs of the account holders/ signatories, passports, etc., and all other required papers as per the Bank's policy are obtained during account opening. Physical verification of customer address is done prior to credit appraisal. The entire process involves relationship teams of respective Asset Portfolio (Retail, SME and Corporate) booking customers; the Credit Division conducts a thorough assessment before placing for approval of the facility. Risk assessment includes borrower risk analysis, Industry risk analysis, financial risk analysis, security risk analysis, account performance risk analysis & environmental and social risk analysis of the customer. Post-approval, the Credit Administration Department ensures compliance with all legal formalities, completion of documentation, including the security of the proposed facility, and finally disburses the amount. The above arrangement has not only ensured segregation of duties and accountability but also helps in minimizing the risk of compromise with the quality of the credit portfolio.

Credit Risk Management:

Conventionally, the core function of a Credit Risk Management (CRM) Team is to optimize the risk-adjusted return from Bank Loans and Advances by maintaining an appropriate standard in the underwriting process. However, the scope of BRAC Bank's CRM is not just limited to this. At BRAC Bank, a more holistic approach towards risk management is taken, where the socio-economic and environmental impacts of the decisions made are emphasized. This practice is the hallmark of BRAC Bank's credit risk management objective. BRAC Bank believes in development rather than growth and sustainability, rather than mere financial return from a transaction. It strives to create value rather than be the consumer of the value. To achieve this goal, BRAC Bank manages the credit risk inherent in the entire portfolio of the Bank as well as the risks associated with individual credit proposals or transactions. BRAC Bank believes that effective management of credit risk is a critical component of a comprehensive approach to risk management. In the last several years, BRAC Bank has been focusing on adopting environmental risk management programs through the assistance, guidance, and/or requirements provided by various international DFIs, as well as clearly articulated regulatory guidelines. Bringing social and environmental risk assessment into the credit approval process contributes to the well-being of society. Moreover, as the lion's share of the total revenue of BRAC Bank comes particularly through SME lending, the future prospect of the Bank depends on the quality of its asset portfolio. Thus, efficient management of the Loans and Advances is of paramount importance for the Bank.

There is a distributed collection model that consistently follows up with the borrowers for timely repayments. A wing named 'Special Asset Management (SAM)' deals with non-performing assets through amicable settlement, decree execution, and auction arrangements to sell the mortgaged properties. Early Alert Accounts are also monitored from respective divisions.

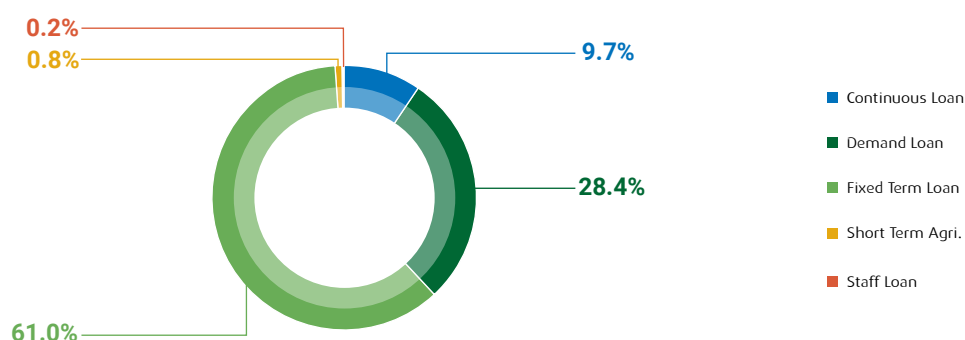
However, final authority and responsibility for all activities that expose the Bank to credit risk rest with the Board of Directors. The Board, however, delegated authority to the Managing Director and CEO or other officers of the Credit Risk Management Division. The credit policy contains the core principles for identifying, measuring, approving, and managing credit risk in the bank. It is designed to meet the organizational requirements that exist today and provide flexibility for the future. The policy covers corporate, retail, small and medium enterprise exposures. Policies and procedures have structured and standardized credit risk management processes both at the obligor and portfolio level and follow the Central Bank guidelines. The credit risk management function is independent of business origination functions to establish better internal control and to reduce conflict of interest.

Quantitative Disclosures (2023)

II. Total gross credit risk exposures broken down by major types of credit exposure:

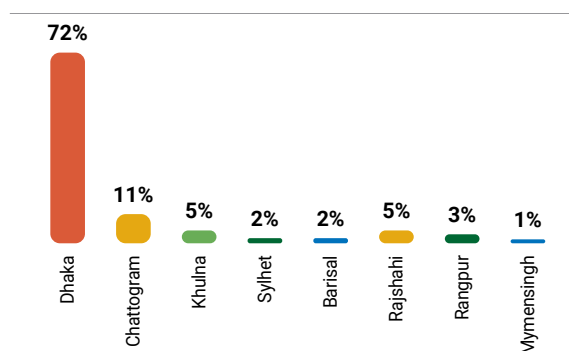
(BDT million)

Categories of loans	Outstanding
Continuous Loans (CL-2)	50,172
i. Small & Medium Enterprises Financing (SMEF)	
a. Small, Cottage & Micro Enterprises	10,456
b. Medium Enterprises	2,561
ii. Consumer Financing (CF)	13,532
iii. Loans to BHs/MBs/SDs against share, etc.	998
iv. Other than SMEF,CF,BHs/MBs/SDs	22,625
Demand Loans (CL-3)	147,267
i. Small & Medium Enterprises Financing (SMEF)	
a. Small, Cottage & Micro Enterprises	17,030
b. Medium Enterprises	1,516
ii. Consumer Financing (CF)	
iii. Loans to BHs/MBs/SDs against share etc.	
iv. Other than SMEF,CF,BHs/MBs/SDs	128,720
Fixed Term Loan (CL-4)	316,774
i. Small & Medium Enterprises Financing (SMEF)	
a. Small, Cottage & Micro Enterprises	193,289
b. Medium Enterprises	4,638
ii. Consumer Financing (Other than HF & LP)	51,930
iii. Housing Finance (HF)	12,270
iv. Loans for professionals to Set up business (LP)	5,469
v. Loans to BHs/MBs/SDs	
vi. Other than SMEF,CF,HF, LP, BHs/MBs/SDs	49,179
Short Term Agri. credit and Micro Credit (CL-5)	4,038
Staff loan	1,202
Grand Total	519,452



III. Geographical distribution of exposures, broken down in significant areas by major types of credit exposure:

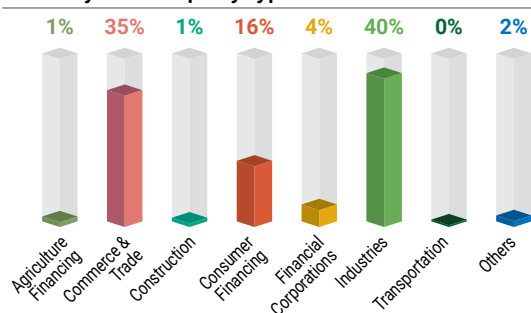
Division	Outstanding (BDT million)
Dhaka Division	376,275
Chattogram Division	56,205
Khulna Division	24,623
Sylhet Division	9,198
Barisal Division	8,176
Rajshahi Division	23,768
Rangpur Division	15,457
Mymensingh Division	5,750
Grand Total	519,452



IV. Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

Industry/Counterparty	Outstanding (BDT million)
Agriculture Financing	6,543
Commerce & Trade	183,279
Construction	4,730
Consumer Financing	84,403
Financial Corporations	23,290
Industries	207,087
Transportation	2,188
Others	7,933
Total	519,452

Industry/counterparty type Distribution



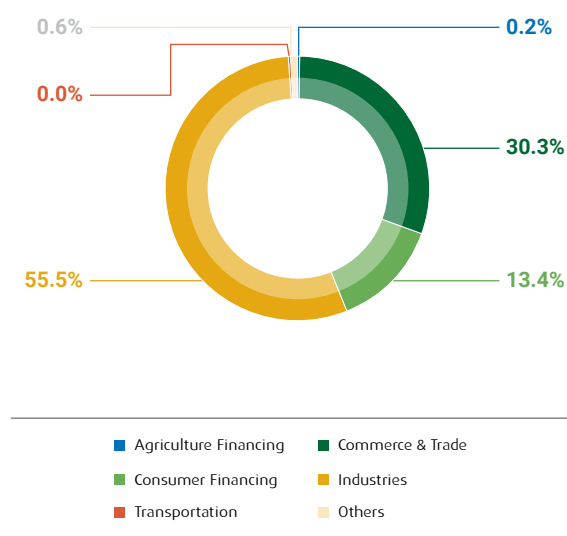
V. Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

Residual Contractual Maturity	Outstanding (BDT million)
Repayable on demand	2,954
Up to 1 month	45,441
Not more than 3 months	89,208
More than 3 months but not more than 1 Year	213,708
More than 1 year but not more than 5 years	144,565
More than 5 years	23,576
Grand Total	519,452

VI. By major industry or counterparty type: Amount of impaired loans and if available, past-due loans, provided separately; Specific and general provisions; and Charges for specific allowances and charge-offs during the period:

Sector-wise NPL	Outstanding (BDT million)
Agriculture Financing	39
Commerce & Trade	5,311
Consumer Financing	2,353
Industries	9,723
Transportation	2
Others	106
Grand Total	17,534

NPL Composition



Status	Outstanding loans and advances 2023	Base for provision	% of required provision	Required provision 2023
Unclassified				
All unclassified loans (Other than Small and Medium Enterprise Financing, Consumer Financing, BHs/MBs/SDs, Housing and loans for professional*)	192,926	190,318	1%**	1,903
Small and Medium enterprise financing	221,906	221,862	0.25%	555
Loans to BHs/MBs/SDs against share etc.*	998	998	2.00%	10
Housing Finance	11,742	11,742	1.00%	117
Loans for professionals to Set up business (LP)	5,389	5,389	2.00%	108
Consumer finance	51,624	51,624	2.00%	1,032
Consumer finance (Credit Card)	12,092	12,092	2.00%	242

Status	Outstanding loans and advances 2023	Base for provision	% of required provision	Required provision 2023
Short Term Agricultural and Micro Credit	4,038	4,038	1.00%	40
Staff Loan	1,202	0	1.00%	0
Additional General Provision (as advised by BB)				18
Subtotal	501,918	30,686		4,026
Classified - Specific provision				
Sub-standard	2,475	4,094	20%***	1,392
Doubtful	2,205	1,772	50%***	462
Bad/Loss	12,854	9,702	100%	9,813
Subtotal	17,534	15,568		11,667
Grand Total	519,452	46,254		15,693

Special General Provision Covid-19				
Special general provision Covid-19 for 2020			1%	279
Special general provision Covid-19 for 2021			1.5%, 2%	155
Special general provision Covid-19 for 2022 (CMSME)			1% & 2%	14
				448
Total required provision for loans and advances				16,141
Total provision maintained				16,749
Excess provision over minimum required provision prescribed by Bangladesh Bank				608

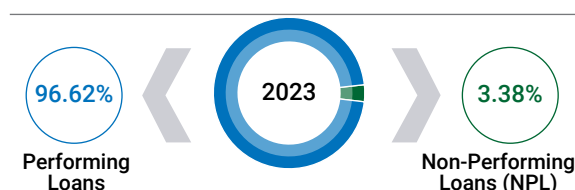
* BHs = Brokerage Houses, MBs = Merchant Banks, SsDs = Stock Dealers against Shares

** For rescheduled loans, 50% and 100% provisions have been made as per the NOC circular

*** For Small, Micro & Cottage enterprises under CMSME, the financing provision requirement is 5% for sub-standard and 20% for doubtful classification as per BRPD circular

VII. Gross Non-Performing Assets; Non-Performing Assets to Outstanding Loans & advances; Movement of Non-Performing Assets NPAs); Movement of Specific provisions for NPAs

Particulars	(BDT million)
Outstanding Loans & Advances	519,452
Non-Performing Loans	17,534
NPL %	3.38%



Non-Performing Loans	Outstanding (BDT million)
Opening balance	15,269
Additions during the year	5,621
Reductions during the year	(3,356)
Closing Balance	17,534

Movement of Specific Provisions for NPLs:

Particulars	Amount (BDT million)
Provisions held at the beginning of the year (i)	9,401
Add: Transfer from general provision (ii)	465
Less: Write off during the year (iii)	(1,123)
Add: Provision charged for the year including special provision Covid-19 (iv)	2,849
Add: Recovery of written off bad debts (v)	844
Add: Exchange difference (vi)	74
Net charge to Profit and Loss A/C (vii) = (iv)-(v)	2,005
Provisions held at the end of the year (i+ii+iii+iv+vi)	11,667



5. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

a) The general qualitative disclosure requirement with respect to equity risk, including:

- differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons;

Investments in equity securities are broadly categorized into two parts:

- **Quoted Securities:** These securities are bought and held primarily to sell them in the future or held for dividend income, which is reported at cost. Unrealized gains are not recognized in the profit and loss statement. However, the required provisions are kept for the diminution of the value of the investment.
- **Unquoted Securities:** Investment in unlisted securities is reported at a cost under the cost method. Adjustment is given for any shortage of book value over cost to determine the carrying amount of investment in unlisted securities.

ii) 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 primary aim is to invest in these equity securities for the purpose of capital gain by selling them in the future or holding them for dividend income. As per BRPD Circular no. 14, dated June 25, 2003, investments in quoted shares and unquoted shares are revalued at the year-end at market price and as per the book value

of the last audited balance sheet of that company, respectively. Provision should be made for any loss arising from diminution in the value of investments (portfolio basis), otherwise, investments are recognized at cost.

Recognition and Measurement: Investments in shares and securities generally fall either under "at fair value through Profit or Loss Account" or under "available for sale," where any change in fair value at the year-end is taken to the Profit or Loss Account or Revaluation Reserve Account, respectively.

The valuation methods of Marking to Market for investment used are:

- Held to Maturity (HTM):** By definition, the Investments that have fixed or determinable payments and fixed maturity that the group has the positive intent and ability to hold to maturity, other than those that meet the definition of 'Held at amortized cost others' are classified as held to maturity. These investments are subsequently measured at amortized cost, with less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium in acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired.
- Held for Trading (HFT):** Investments classified in this category are acquired principally for the purpose of selling or repurchasing - in short trading or if designated as such by the management. After initial recognition, investments are measured at present value, and any change in the fair value is recognized in the statement of income for the period in which it arises. Transaction costs, if any, are not added to the value of investments at initial recognition.

Valuation & Accounting of Investment

Investment Class	Initial Recognition	Measurement after Recognition	Recording of Changes
Govt. T-Bills/ Bonds - HFT	Cost	Marking to market/ fair value	Loss to profit and loss a/c, gain to revaluation reserve
Govt. T-Bills/ Bonds - HTM	Cost	Amortized cost	An increase in the value of securities is booked to equity but decreases to the profit and loss account.
Bond/Debenture	Cost	Cost	Profit & loss account

Investment Class	Initial Recognition	Measurement after Recognition	Recording of Changes
Quoted Shares	Cost	Lower of cost or market price at balance sheet date	Provision for revaluation loss (net off gain) is charged to the profit and loss account, but there is no unrealized gain booking.
Un-Quoted Shares	Cost	Lower of cost or net asset value (nav) of last audited account	Provision for unrealized loss to profit and loss account but no unrealized gain booking.
Mutual Fund (Closed-End)	Cost	Lower of cost and (higher of market value and 85% of nav)	Provision for unrealized loss to profit and loss account but no unrealized gain booking.
Mutual Fund (Open-End)	Cost	Lower of cost and 95% of nav	Provision for unrealized loss to profit and loss account but no unrealized gain booking.
Prize Bond	Cost	Cost	N/a

Quantitative Disclosures (2023)

- b) 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.

Particulars	Solo		Consolidated	
	Cost Price	Market Value	Cost Price	Market Value
Value of Quoted Share	5,589	5,692	7,147	7,251
Value of Unquoted Share	528		640	

- c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.
- d) Total unrealized gains (losses); Total latent revaluation gains (losses); Any amounts of the above included in Tier 2 capital

Figures in BDT million

Sl.	Particulars	Solo	Consolidated
c)	The cumulative realized gains (losses) arising from sales and	0.23	0.23
	Total unrealized gains (losses)	152.91	152.91
d)	Total latent revaluation gains (losses)	-	-
	Any amounts of the above included in Tier 2 capital.	-	-

- e) 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.

Capital Charge for Equities	Solo	Consolidated
Specific Risk	569	725
General Market Risk	569	725
Total Capital Charge	1,138	1,450

6. Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures

a) 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:

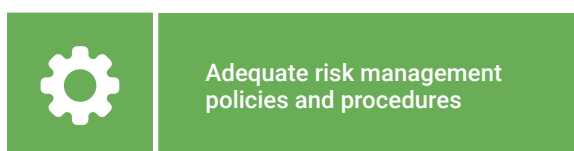
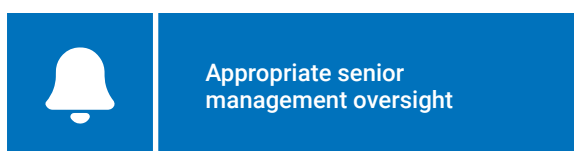
Interest rate risk affects the Bank's financial condition due to adverse movements in interest rates of interest-sensitive assets. Changes in interest rates have two types of impact:

- i. Earnings perspective: It affects a Bank's earnings by changing its net interest income and the level

of other interest-sensitive income and operating expenses.

- ii. Economic value perspective: The economic value of future cash flows changes when the interest rate changes.

In BRAC Bank PLC., the Asset & Liability Management (ALM) unit, under the supervision of the Asset and Liability Committee (ALCO), is responsible for managing market risk arising from BRAC Bank's banking book activities. Our interest rate risk management involves the application of four basic elements in the management of assets, liabilities, and OBS instruments.



Techniques of Addressing IRRBB: The following techniques for managing the IRRBB in BRAC Bank PLC. are applied.



Re-pricing Schedules: It is the simplest technique for measuring a bank's interest rate risk exposure, and that is generating a maturity/re-pricing schedule that distributes interest-sensitive assets, liabilities, and OBS positions into a certain number of pre-defined time bands according to their maturity (if fixed-rate) or time remaining to their next re-pricing (if floating-

rate). Those assets and liabilities lacking definitive re-pricing intervals (e.g. sight deposits or savings accounts) or actual maturities that could vary from contractual maturities are assigned to re-pricing time bands according to the analytical judgment and past experience of the Bank.

Gap Analysis helps assess the interest rate risk of current earnings. To evaluate earnings exposure, interest rate-sensitive liabilities in each time band are subtracted from the corresponding interest-rate-sensitive assets to produce a re-pricing "gap" for that time band. This gap is then multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement.

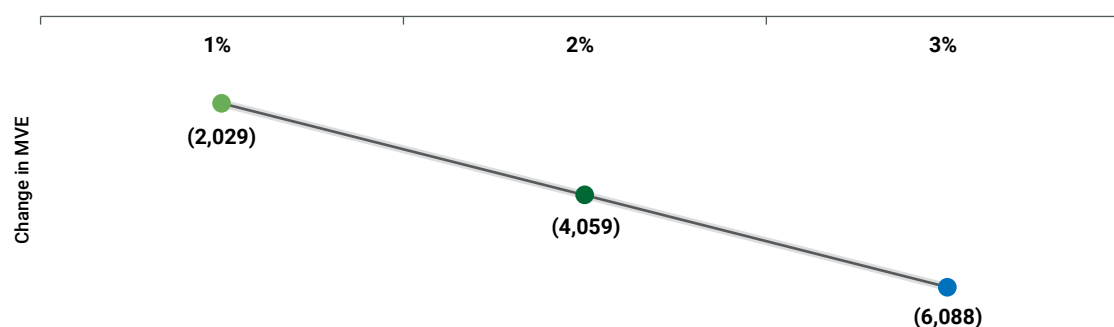
i. Duration: A maturity/re-pricing schedule is also used to evaluate the effects of changing interest rates on a bank's economic value by applying sensitivity weights to each time band. Typically, such weights are based on estimates of the duration of assets and liabilities that fall into each time band.

ii. Quarterly Stress Testing: It is conducted on a quarterly basis as per the directives of Bangladesh Bank to gain better insight into the vulnerable issue of IRRBB

Quantitative Disclosures (2023)

Particulars	Amount (BDT million)		
Market Value of Assets	724,968		
Market Value of Liabilities	662,903		
Weighted Average of Duration of Assets (DA) in years	1.10		
Weighted Average of Duration of Liabilities (DL) in years	1.05		
Duration GAP (DA-DL)	0.13		
Yield to Maturity (YTM -Assets)	7.70%		
Yield to Maturity (YTM -Liability)	3.78%		
The magnitude of Interest Rate Change	1%	2%	3%
Change in market value of equity due to an increase in interest rate	(2,029)	(4,059)	(6,088)
Stress Testing	Minor	Moderate	Major
Regulatory capital (aftershock)	54,659	53,759	52,860
RWA (aftershock)	394,628	393,728	392,829
CRAR (aftershock)	13.85%	13.65%	13.46%

Change in market value of equity due to an increase in interest rate



7. Market risk

Qualitative Disclosures

- a) (i) Views of BOD on trading/investment activities (ii) Methods used to measure Market risk; (iii) Market Risk Management system; (iv) Policies and processes for mitigating market risk

Views of BOD

Market risk arises due to changes in market variables such as interest rates, foreign currency exchange rates, equity prices, and commodity prices. The financial instruments that are held with trading intent or to hedge against various risks are purchased to make a profit from spreads between the bid and ask price and are subject to market risk.

BRAC BANK has a Foreign Exchange Risk Management Guideline that has been entirely customized as per our bank's needs since 2004. The guidelines have been prepared as per Bangladesh Bank guidelines

and appraised by our Board of Directors. All financial activities are susceptible to different degrees of risk. Measuring, monitoring, and managing these risks would be crucial for the survival and good health of the organization. Within the Bank, the treasury is vested with the responsibility to measure and minimize the risks associated with the Bank's assets and liabilities. Managing foreign exchange risk is one of the prime responsibilities of the treasury.

Treasury is responsible for managing the balance sheet according to ALCO's recommendation to minimize risk and maximize returns. The committee holds a meeting at least once every month to set and review strategies for ALM. The ALCO process or ALCO meeting reviews the ALCO paper along with the prescribed agendas. Based on the analysis and views, the committee makes decisions to reduce balance sheet risk while maximizing profits.

At BRAC Bank, the Board approves all market risk policies, sets limits, and reviews compliance on a regular basis. The objective is to obtain the best balance of risk and return while meeting customers' requirements.

Market Risk Measurement

There are several methods used to measure market risk, and the Bank uses those methods which are deemed fit for a particular scenario. For measuring interest risk from an earnings perspective, the Bank uses maturity gap analysis, Duration Gap analysis, and Sensitivity Analysis. The standardized (Rule-Based) method is used to calculate capital charges against market risks for the minimum capital requirement of the Bank under Basel-III. For each risk category, the minimum capital requirement is measured in terms of two separately calculated capital charges for 'specific risk' and 'general market risk'.

Market Risk Management

The Treasury Division manages market risk covering liquidity, interest rate, and foreign exchange risks with oversight from the Asset-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director.

Policies and Processes

• Asset Liability Management:

BRAC Bank PLC. puts adequate emphasis on ensuring that balance sheet risks are effectively managed. Appropriate policies and procedures have been established as per the guidelines of the Bank's Board of Directors (BOD), including relevant circular guidelines of Bangladesh Bank to control and limit these risks, and proper resources are available for the evaluation and control of these risks. The Asset Liability Committee (ALCO) of the Bank monitors the Balance Sheet and liquidity risk of the Bank.

• Foreign Exchange Risk Management:

Foreign exchange risk (also known as FX risk, exchange rate risk, or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency. The risk is that adverse fluctuations in exchange rates may result in a loss in earnings. We have our own board-approved policy for the management of FX risk.

There are approved limits for market risk-related instruments, including both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against market risks.

Quantitative Disclosures (2023)

b) The capital requirements for interest rate risk, equity position risk, foreign exchange risk, and Commodity risk.

Capital Charge for Market Risk	Solo	Consolidated
Interest Rate risk	388	388
Equity position risk	1,138	1,450
FX Risk	42	42
Commodity risk	-	-
Total	1,568	1,880



8. Operational risk

Qualitative Disclosures

a) Views of BOD on system to reduce Operational Risk; Performance gap of executives and staffs; Potential external events; Policies and processes for mitigating operational risk; Approach for calculating capital charge for operational risk

Views of BOD on the system to reduce Operational Risk

The Board of Directors (BOD) at BRAC Bank PLC holds a multifaceted perspective on the implementation

of systems to mitigate operational risk. Recognizing the paramount importance of ensuring a robust risk management framework, the BOD advocates for comprehensive measures to identify, assess, and mitigate operational risks across all facets of the bank's operations. Emphasizing the need for a proactive approach, they prioritize the adoption of advanced technological solutions, stringent control mechanisms, and continuous monitoring processes. Furthermore, the BOD and Senior Management underscores the significance of fostering a risk-aware culture

throughout the organization, promoting accountability, transparency, and adherence to best practices. With a commitment to safeguarding the bank's reputation, integrity, and financial stability, the BOD at BRAC Bank PLC remains steadfast in its dedication to implementing effective systems to mitigate operational risk and uphold the trust of stakeholders.

Performance gap of executives and staff

Addressing performance gaps among executives and staff is crucial for the overall success and efficiency of any organization. At BRAC Bank PLC, recognizing and bridging these gaps is a priority for fostering a culture of excellence and achievement. The Board of Directors and senior management closely monitor and analyze performance metrics to identify areas where executives and staff may fall short of expectations. Whether it's in meeting sales targets, achieving key performance indicators, or delivering exceptional customer service, the bank emphasizes the importance of providing the necessary training, mentorship, and resources to empower employees at all levels to excel in their roles. Additionally, regular performance evaluations and feedback mechanisms are implemented to facilitate continuous improvement and development. By addressing performance gaps proactively, BRAC Bank PLC strives to cultivate a highly skilled and motivated workforce that is aligned with the bank's mission and objectives, ultimately driving sustained growth and success.

Potential external events

Potential external events encompass a diverse range of occurrences beyond the bank's control that could significantly influence its operations, reputation, and financial standing. These events include but are not limited to natural disasters, geopolitical instability, economic fluctuations, regulatory changes, cybersecurity threats, and disruptions in the global supply chain. Recognizing the inherent unpredictability of these events, BRAC Bank PLC has established robust risk management protocols and contingency plans. These measures involve continuous monitoring

of external factors, scenario planning, and proactive engagement with stakeholders. By anticipating potential external events and implementing strategic measures to mitigate their impact, BRAC Bank PLC aims to enhance its resilience and ensure business continuity. Additionally, the bank remains committed to upholding the trust of its customers, preserving its reputation, and sustaining long-term value for its stakeholders, even in the face of unforeseen challenges posed by external events.

Policies and processes for mitigating operational risk

BRAC Bank PLC places a paramount emphasis on implementing robust policies and processes to mitigate operational risk across its operations. Through a meticulous approach, the bank continually assesses potential vulnerabilities and proactively implements measures to minimize their impact. This includes comprehensive risk identification, evaluation, and management frameworks that are regularly reviewed and updated to stay abreast of evolving threats and regulatory requirements. Additionally, BRAC Bank emphasizes the importance of fostering a culture of risk awareness and accountability among its employees through training programs and communication channels. By integrating advanced technology solutions and internal controls, the bank aims to enhance operational resilience and ensure uninterrupted service delivery to its customers. Through these policies and processes, BRAC Bank PLC remains steadfast in its commitment to safeguarding its reputation, maintaining financial stability, and delivering sustainable value to all stakeholders.

A dedicated unit within the Risk Management Division (RMD) consistently works on identifying, assessing, and implementing appropriate risk mitigation strategies across the Bank. The Board-approved Risk Management Policy and Operational Risk Management Policy serve as the guiding documents for this unit. This unit coordinates various risk forums at different management levels to escalate various identified risks.



Moreover, the Internal Control and Compliance Division has a key role in identifying and mitigating operational risk. This division works relentlessly under the guidance of the Board Audit Committee to manage the bank's operational risk issues. The audit committee delivers policies and directions from time to time to keep the bank's operational efficiency up to par.

Approach for calculating the capital charge for operational risk

Basic Indicator Approach (BIA) is followed to calculate the capital charges for Operational Risk as per the guidelines of Bangladesh Bank.

As per BIA, the capital charge for Operations Risk is a fixed percentage denoted by α (alpha) of the bank's

average positive gross annual income over the past three years.

$$K = [(GI_1 + GI_2 + GI_3) \times \alpha] / n$$

Where:-

K = the capital charge under the Basic Indicator Approach

GI = only positive annual gross income over the previous three years (i.e. negative or zero gross income, if any, shall be excluded)

α = 15%

n = number of the previous three years for which gross income is positive

Quantitative Disclosures (2023)

b) The capital requirements for operational risk:

Figures in BDT million

Particulars	Solo	Consolidated
Gross Income (Last 3 Years)	82,091	116,449
Average GI	27,364	38,816
15% of Average GI	4,105	5,822
Capital Charge for Operational Risk	4,105	5,822



9. Liquidity Ratio

Qualitative Disclosures

a) Views of BOD on the system to reduce liquidity Risk; Methods used to measure Liquidity risk; Liquidity risk management system; Policies and processes for mitigating liquidity risk

Liquidity Risk

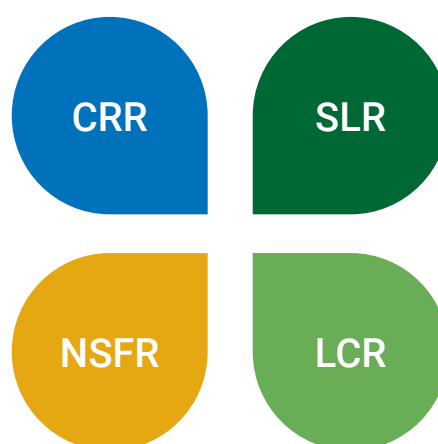
Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss or when a bank is unable to fulfill its commitments in time when payment falls due. Liquidity risk can be of two types:

- 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.
- Market liquidity risk: the risk that a firm cannot easily offset or sell a position without incurring a loss because of inadequate market depth.

Views of BOD on system to reduce liquidity Risk

The Board of Directors of BRAC BANK has always given utmost importance to minimizing the liquidity

risk of the Bank. In order to reduce liquidity risk, strict maintenance of the Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) is also being emphasized on a regular basis. Apart from these, as a part of Basel-III requirements, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are also maintained under the guidance and sharp insight of our honourable Board of Directors.

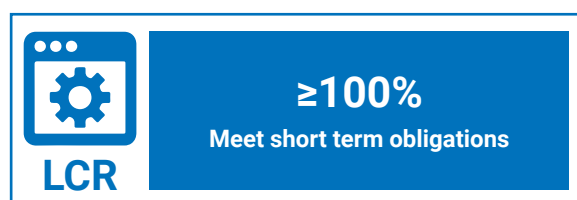


Liquidity Risk Parameters

BRAC BANK follows Bangladesh Bank's Risk-Based Capital Adequacy guideline in accordance with Basel III. The bank also follows DOS circular no. 1, dated January 01, 2015, on implementing the Basel III liquidity ratio.

Methods used to measure Liquidity risk

Liquidity Coverage Ratio: The liquidity coverage ratio (LCR) refers to highly liquid assets held by financial institutions in order to meet short-term obligations. The Liquidity coverage ratio is designed to ensure that financial institutions have the necessary assets



Liquidity risk management system

Liquidity is the ability of a bank to generate funds for increasing assets and meet obligations as they come due without incurring an unacceptable cost. The fundamental role of Banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behaviour. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system-wide repercussions.

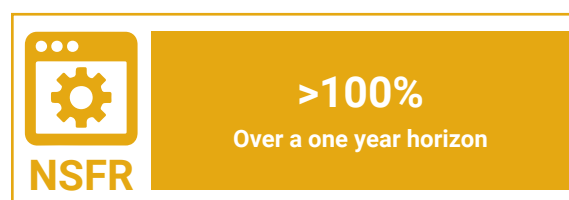
The Asset Liability Management Committee (ALCO), which meets regularly, is responsible for managing and controlling BRAC BANK's liquidity. The Asset and Liability Management (ALM) desk closely monitors and controls liquidity requirements on a daily basis by appropriate coordination of funding activities, and it is primarily responsible for managing liquidity in the Bank.

Policies and processes for mitigating liquidity risk

Asset Liability Management (ALM) is the core job and integral part of Bank Management. Changes in market

on hand to ride out short-term liquidity disruptions. Banks are required to hold an amount of high quality liquid assets, such as cash or Treasury bonds, equal to or greater than their net cash outflows over a 30-day period (having at least 100% coverage).

Net stable funding ratio (NSFR): The NSFR presents the proportion of long-term assets funded by stable funding and is calculated as the amount of Available Stable Funding (ASF) divided by the amount of Required Stable Funding (RSF) over a one-year horizon. This ratio must exceed 100%.



liquidity and interest rates expose the Bank's business to the risk of loss, which may, in extreme cases, threaten the survival of the institution. As such, it is important that the level of balance sheet risks is effectively managed, appropriate policies and procedures are established to control and limit these risks, and proper resources are available for evaluating and controlling these risks. Asset Liability Management policy is implemented to monitor, measure, and manage the risks associated with the balance sheet and guard the Bank against any unforeseen loss/threat of survival. The Asset Liability Management policy was last updated and approved by the Board in February 2021. The policy was revised to accommodate regulatory changes and ensure better risk management.

The Board of Directors approves the ALM Policy. The Asset Liability Committee (ALCO) reviews the policy at least annually or as and when required, considering any changes in market dynamics and appropriateness and recommending changes to the Board for approval. The ALM Policy is guided by international best banking practices, the local banking and regulatory environment, and the prudent guidelines of the Central Bank.

Quantitative Disclosures (2023)

b) Liquidity Coverage Ratio; Net Stable Funding Ratio (NSFR); Stock of High quality liquid assets; Total net cash outflows over the next 30 calendar days; Available amount of stable funding; Required amount of stable funding

Particular	Amount (BDT million)
Liquidity Coverage Ratio	170.38%
Net Stable Funding Ratio (NSFR)	120.72%
Stock of High-quality liquid assets	143,369
Total net cash outflows over the next 30 calendar days	84,145
Available amount of stable funding	543,186
Required amount of stable funding	443,708



10. Leverage Ratio

Qualitative Disclosures

a) Views of BOD on the system to reduce excessive leverage; Policies and processes for managing excessive on and off-balance sheet leverage; Approach for calculating exposure

Views of BOD on the 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. The leverage ratio is calibrated to act as a credible supplementary measure to the risk-based capital requirements.

Banks have a range of financial incentives to operate with high leverage. But it creates risk when it crosses a certain point. Therefore, the Board views that sound prudential controls are needed to ensure that the organization maintains a balance between its debt and equity. The Board also believes that the Bank should maintain its leverage ratio on and above the regulatory requirements, which will eventually increase public confidence in the organization.

Policies and processes for managing excessive on and off-balance sheet leverage

To manage excessive leverage, the Bank follows all regulatory requirements for capital, liquidity, commitment, Advance Deposit Ratio (ADR), Maximum Cumulative Outflow (MCO), and other standards set

by Bangladesh Bank. The aim is to ensure that the high leverage inherent in banking business models is carefully and prudently managed.

Approach for calculating exposure

BRAC Bank calculates the leverage ratio on a quarterly basis as per the RBCA guideline of the Bangladesh Bank and submits it to the Department of Off-site Supervision (DOS), Bangladesh Bank, along with the CRAR report.

The leverage ratio reflects the Bank's tier 1 capital (the numerator) over total exposure (the denominator), which includes its balance sheet exposures and certain off-balance sheet exposures. The capital measure for the leverage ratio is based on the Tier 1 capital.

The exposure measure for the leverage ratio follows the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following are applied by the Bank:

- On-balance sheet, non-derivative exposures are net of specific provisions and valuation adjustments.
- Physical or financial collateral, guarantee, or credit risk mitigation purchased is not considered to reduce on-balance sheet exposure.
- Netting of loans and deposits is not considered.

Leverage Ratio = Tier 1 Capital (after related deductions) / Total Exposure (after related deductions)

Quantitative Disclosures (2023)

b) Leverage Ratio; On balance sheet exposure; Off balance sheet exposure; Total exposure

Figures in BDT million

Particular	Solo	Consolidated
Tier-1 Capital (considering all regulatory adjustments)	48,931	73,493
On- Balance Sheet Exposure	715,056	824,248
Off-Balance Sheet Exposure	60,058	60,058
Total Exposure	768,851	871,513
Leverage Ratio (Actual)	6.36%	8.43%
Leverage Ratio (Required)	3.25%	3.25%



11. Remuneration

Qualitative Disclosures

a) Information relating to the bodies that oversee remuneration. Disclosures must include:

(i) Name, composition and mandate of the main body overseeing remuneration:

MANCOM oversees the remuneration issues at BRAC Bank. It comprises the Managing Director and CEO, the Deputy Managing Directors, and the Divisional Heads.

Remuneration during Joining:

The head of Human Resources, the Head of Compensation and rewards, and the concerned Functional Head fix the remuneration based on the fitment analysis of the incoming employee.

Remuneration after Joining:

The head of Human Resources, along with concerned Functional Heads, reviews the bank's Remuneration from time to time and adjusts it based on performance, the importance of the role, and market benchmarks upon approval of the Managing Director & CEO.

Merit Increments are given to eligible employees on an annual basis as per the bank's policy.

(ii) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;

N/A

(iii) 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.

The bank's remuneration policy covers all persons engaged in the bank's service. The bank's Salary structure is based on Job Grades. Job grades are decided based on an analytic assessment of the position's size, responsibilities, decision-making authorities, nature, and scope.

(iv) A description of the types of employees considered as material risk takers and as senior managers including the number of persons in each group.

The bank has identified employees in key areas and functions whose impact on the risk profile of the bank will always be material, including the members of the management body in its supervisory function, whose professional activities

have a material impact on the institution's risk profile because of their responsibilities. In particular, all members of MANCOM and department heads have been identified as senior managers and material risk takers.

b) Information relating to the design and structure of remuneration processes:

(i) An overview of the key features and objectives of remuneration policy;

BRAC Bank is committed to maintaining fair, competitive, and performance-oriented remuneration policies and practices that align with long-term employee and shareholder interests. The bank believes in rewarding employees for performing in a way that creates sustainable values for the bank and its shareholders over time. We believe that well-established and clearly communicated core remuneration values drive fairness and consistency across our bank.

Upon recommendation from the Management, the Board of Directors has the authority to approve and amend the policy.

The remuneration policy of the Bank covers all persons engaged in permanent service of the Bank.

Banks have different Job Grades for various levels of employees. Job grades are decided based on an analytic assessment of the position's size, responsibilities, decision-making authorities, nature, and scope.

THE FOLLOWING ARE THE JOB GRADES OF BRAC BANK PLC.:

- Deputy Managing Director
- Senior Executive Vice President
- Executive Vice President
- Senior Vice President
- Vice President
- Senior Assistant Vice President
- First Assistant Vice President
- Assistant Vice President
- Senior Principal Officer
- Principal Officer
- Senior Officer, Young Leader
- Officer Grade-II
- Officer Grade I

The position of Managing Director and CEO is not permanent. It is a fixed-term contractual position, as per Bangladesh Bank's approval.

THE MONTHLY GROSS SALARY OF AN EMPLOYEE HAS THE FOLLOWING COMPONENTS WHICH MAY VARY DEPENDING ON THE EMPLOYEE'S GRADES:

- Basic salary
- House rent
- Medical allowance
- Conveyance
- Festival Bonus Monthly Part
- Leave Fair Allowance Monthly Part
- Others

Salaries are confidential between the employees concerned and the Management. The salary ranges for these job grades are reviewed from time to time by the management committee and approved by the Board of Directors.

In addition to this, an employee receives two guaranteed festival bonuses in two festivals, each equal to one basic salary. He/she also receives a Leave Fair Allowance equal to one Basic salary at the time of his/her Annual Mandatory Leave. He/she may also receive performance bonuses/awards/grants.

(ii) 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.

N/A

(iii) A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

Employees engaged in control functions (risk management, human resources, audit, compliance, etc.) are independent of the business units they oversee, have appropriate authority, and are compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

c) Description of the ways in which current and future risks are considered in the remuneration processes.

(i) An overview of the key risks that the Bank takes into account when implementing remuneration measures;

BRAC Bank takes into account all current and future risks, whether on or off-balance sheet,

differentiating amongst risks relevant to business units and individuals. However, for managing and determining remuneration arrangements, key risks like- Financial Risks, Operational Risks, Compliance Risks, Market Risks, Reputational Risks, and Employee Turnover Risks etc. are usually taken into account. All of our remuneration practices are carefully managed within the risk-taking capacity of the bank.

(ii) 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);

N/A

(iii) A discussion of the ways in which these measures affect remuneration;

We approach all of our remuneration arrangements, especially the periodic fixed remuneration enhancements and the variable compensation arrangements, through an integrated risk, finance, compensation, and performance management framework.

The way in which each individual contributes to or impacts the key criteria differs depending on the area of the business in which they operate and their level of seniority. 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 change in remuneration.

(iv) A discussion of how the nature and type of these measures have changed over the past year and the reasons for the change, as well as the impact of changes on remuneration.

All measures remain unchanged during the past year.

d) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration :

(i) An overview of the main performance metrics for the Bank, top-level business lines and individuals;

- Based on the Bank's profit, the Board of Directors, at their discretion, declare a certain percentage of the pre-tax profit as Performance Bonus.
- The method of distribution is based on Management discretion.
- No bonus will be applicable to the employees' rating with needs improvement/unacceptable performance.

- Bonus is declared based on individual employee performance. The management committee decides on the ratings and associated bonus amount.
- Performance is measured as per pre-defined criteria and set targets at the beginning of the year. Assessment is divided into two categories: A) Business Objective and B) Value-based objective.
- Eligibility criteria are as follows:
- Confirmed Employees joined within 30th June of the performing year and confirmed within 31st December of that year.
- However, the bonus will be calculated on a pro-rata basis based on the joining date for the rest of the calendar year.
- In the case of a retired employee, he/she will be eligible for a proportionate bonus subject to his/her stay for at least one quarter of the respective financial year.

(ii) A discussion of how amounts of individual remuneration are linked to institution-wide and individual performance;

Though amounts of individual remuneration do not contain any direct formulaic link between business income and individual reward in the case of variable remuneration, we always consider concerned division performance while assessing the employees attached to it. Differentiating performance and value ratings at all levels enables us to target spend towards those who have made the most effective contribution to the bank's performance and unique culture to recognize and motivate performers and retention of them.

(iii) A discussion of the measures in general implement to adjust remuneration in the event that performance metrics are weak.

N/A

e) Description of the ways in which the Bank seeks to adjust remuneration to take account of longer-term performance.

(i) A discussion of the Bank's policy on deferral and vesting of variable

remuneration and, if the fraction of variable remuneration that is deferred differs across persons or groups of persons, a description of the factors that determine the fraction and their relative importance;

Currently, we do not offer variable remuneration that may be deferred or vested in cash, shares, or share-linked instruments.

(ii) A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting through claw back arrangements.

N/A

f) Description of the different forms of variable remuneration that the Bank utilises and the rationale for using these different forms.

(i) an overview of the forms of variable remuneration offered (i.e., cash, shares and share-linked instruments and other forms)

Apart from fixed remuneration components, employees are also eligible for variable remuneration arrangements consisting of Performance Bonuses and Incentives; however, such bonuses are currently offered only in cash form.

(ii) a discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across persons or groups of persons), a description the factors that determine the mix and their relative importance.

Variable remuneration arrangements differ across groups of employees. Performance Bonus awards are discretionary and recognize the annual performance of the non-sales employees over the immediate past financial year. Performance is measured and reviewed against set goals, which include financial and value metrics; on the other hand, incentive bonuses are non-discretionary and normally paid to salespeople on a monthly basis who meet established business goals, generate new business, and retain current customers.

Quantitative Disclosures (2023)

g)	Number of meetings held by the main body overseeing remuneration during the financial year and the remuneration paid to its members.	The senior management met several times during the year that ended on December 31, 2023. No payment is made to Committee members for their membership of the committee.
h)	<p>The number of persons having received a variable remuneration award during the financial year.</p> <p>Number and total amount of guaranteed bonuses awarded during the financial year.</p> <p>Number and total amount of sign-on awards made during the financial year.</p> <p>Number and total amount of termination payments made during the financial year.</p>	<p>Employee No. 8,651 Total Amount: BDT 1,079,686,223</p> <p>Employee No. 8,384 Total Festival Bonus: BDT 638,175,809</p> <p>N/A</p> <p>Employee No. 39 Termination Payments: BDT 5,184,152</p>
i)	<p>Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.</p> <p>Total amount of deferred remuneration paid out in the financial year.</p>	<p>N/A</p> <p>N/A</p>
J)	<p>Breakdown of the amount of remuneration awards for the financial year to show:</p> <p>i. Fixed and variable;</p> <p>ii. Deferred and non-deferred; and</p> <p>iii. The different forms used (cash, shares and, share-linked instruments and other forms).</p>	<p>Fixed: BDT 7,884,650,209 Variable: BDT 1,079,686,223</p> <p>N/A</p> <p>N/A</p>
k)	<p>Quantitative information about persons' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:</p> <p>i. Total amount of outstanding deferred remuneration and retained remuneration exposed to ex-post explicit and/or implicit adjustments.</p> <p>ii. Total amount of reductions during the financial year due to ex post explicit adjustments.</p> <p>iii. Total amount of reductions during the financial year due to ex post implicit adjustments.</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p>