MEGHNA BANK LIMITED

HEAD OFFICE

Disclosure per Basel II guidelines

As on December 31, 2014

Table 16: a) Scope of application ***(In Crore)***

Qualitative Disclosures	(a)	The name of the top corporate entity in the group to which this guidelines applies.	Meghna Bank Limited (MGBL)
	(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 (a) that are fully consolidated; (b) that are given a deduction treatment ; and (c) that are neither consolidated nor deducted (e g. where the investment is risk weighted)	Not Applicable
	(c)	Any restrictions or other major impediments on transfer of funds or regulatory capital within the group.	Not Applicable
Quantitative Disclosures	(d)	The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name (s) of such subsidiaries.	Not Applicable -

Table 17 :b) 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 Tier 1 or in Tier 2.	As per the guidelines of Bangladesh Bank Tier I capital of MGBL includes i) Fully Paid up Capital ii) Statutory Reserve and iii) Retained Earnings Tier II capital includes i) General Provision on Loans and Off Balance Sheet ii) Revaluation reserve for securities
Quantitative Disclosures	(b)	The amount of Tier 1 capital	442.84
		Paid up capital	443.30
		Non-repayable share premium account	-
		Statutory reserve	2.30
		General reserve	-
		Retained earnings	2.09
		Minority interest in subsidiaries	
		Non-cumulative irredeemable preference shares	-
		Dividend equalization account	-
	(c)	The total amount of Tier 2 and Tier 3 capital	9.92
	(d)	Other deductions from capital.	
	(e)	Total eligible capital	452.76

Table 18 :c) 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.	MGBL has adopted Standardized Approach for computation of Capital Charge for Credit Risk and Market risk while Basic Indicator Approach for Operational Risk. Total Risk Weighted Assets (RWA) of the Bank is determined by multiplying the capital charge for market risk and operational risk by the reciprocal of the minimum capital adequacy ratio i. e. 10% as on 31st December 2014 and adding the resulting figures to the sum of risk weighted assets for credit risk. Total RWA is then used as denominator while total Eligible Regulatory Capital as on numerator to derive Capital Adequacy Ratio (CAR). Bank's CAR on the basis of solo are 45.56% against minimum requirement of 10% as on 31st December 2014. MGBL's policy is to manage and maintain its capital and RWA at an adequate level to raise its CAR higher than minimum requirement in line with BASEL II. Ultimate goal of the capital management process of MGBL is to ensure that the capital remains at the adequate level to absorb all material risks. The Bank also ensures that the capital levels comply with all regulatory requirements.
Quantitative Disclosures	(b)	Capital requirement for Credit Risk	91.12
	(c)	Capital requirement for Market Risk	1.12
	(d)	Capital requirement for Operational Risk	7.13
	(e)	Total CAR	45.56%
		Tier I CAR	44.56%
		Tier II CAR	1.00%

Table 19 : d) Credit Risk

Qualitative Disclosures	(a)	The general qualitative disclosure requirement with respect to credit risk, including:	
		* Definition of past due and impaired (for accounting purposes)	With a view to strengthening credit discipline and bringing classification and provisioning regulation in line with international standard, a phase wise program for classification and provisioning was undertaken by the Bank as per Bangladesh Bank circulars issued from time to time. In this regard, all the loans and advances are grouped into four categories for the purpose of classification, namely (i) Continuous Loan, (ii) Demand Loan, (iii) Fixed Term Loan and (iv) Short-term Agricultural and Micro Credit. They are classified as follow: Continuous & Demand Loan are classified as: • Sub-standard- if it is past due/overdue for 03(three) months or Beyond but less than 06 (six) months; • Doubtful- if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months; • Bad/Loss- if it is past due/overdue for 09 (nine) months or beyond. In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting up to Tk 1.00 million is not repaid within the due date, the amount of unpaid installment(s) are treated as “past due or overdue installment”. Such types of Fixed Term Loans are classified as under: >Sub-standard- if the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loans are classified as “Sub-standard”. >Doubtful- if the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loans are classified as “Doubtful. > Bad/Loss- if the amount of past due installment is equal to or more than the amount of installment(s) due within 12(twelve) months, the entire loans are classified as “Bad/Loss”. In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than Tk 1.00 million is not repaid within the due date, the amount of unpaid installment(s) are treated as “past due or overdue installment”. Such types of Fixed Term Loans are classified as under: > Sub -standard- if the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loans are classified as “Sub-standard”. >Doubtful- if the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loans are classified as “Doubtful”. > Bad/Loss- if the amount of past due installment is equal to or more than the amount of installment(s) due within 12(twelve) months, the entire loans are classified as “Bad/Loss”.

			In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than Tk 1.00 million is not repaid within the due date, the amount of unpaid installment(s) are treated as "past due or overdue installment". Such types of Fixed Term Loans are classified as under: > Sub -standard- if the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loans are classified as "Sub-standard". >Doubtful- if the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loans are classified as "Doubtful". > Bad/Loss- if the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loans are classified as "Bad/Loss". Short-term Agricultural and Micro Credit will be considered irregular if it is not repaid within the due date as stipulated in the loans agreement are classified as under: • Sub-standard- if the irregular status continues after a period of 12 (twelve) months, the credits are classified as "Sub-standard". • Doubtful- if the irregular status continue after a period of 36 (thirty six) months, the credits are classified as "Doubtful". • Bad/Loss- if the irregular status continue after a period of 60 (sixty) months, the credits are classified as "Bad/Loss". A Continuous loan, Demand loan or a Term Loan which remained overdue for a period of 02 (two) months or more, are treated as "Special Mention Account (SMA)".
		* Description of approaches followed for specific and general allowances and statistical methods;	The Bank is required to maintain the following general and specific provision in respect of classified and unclassified loans and advances/ investments on the basis of Bangladesh Bank guidelines issued from time to time: Particulars and Rates are given bellow: General provision on unclassified Small and Medium Enterprise (SME) financing @0.25% General provision on unclassified loans and advances/investments Other than Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock Dealers etc., SMA as well as SME Financing)@ 1% General provision on interest receivable on loans /investments@ 1% General provision on off-balance sheet exposures (Provision has been made on the total exposure and amount of cash margin or value of eligible collateral were not deducted while computing off-balance sheet exposure). @1% General provision on unclassified loans and advances/investments for housing finance, loans for professionals to set-up business under consumer financing scheme. @ 2% General provision on the unclassified loans to Brokerage

			House, Merchant Banks, Stock Dealers, etc. @ 2% General provision on unclassified amount for Consumer Financing @ 5% General provision on outstanding amount for Special Mention Account (SMA) at applicable rate. Specific provision on Sub-Standard loans and advances / investments @ 20% Specific provision on Doubtful loans and advances / investments @ 50% Specific provision on bad / loss loans and advances / investments @ 100%
	(b)	Total gross credit risk exposures broken down by major types of credit exposure.	
		Cash Credit	63.99
		Secured overdraft	11.52
		General overdraft	128.69
		Import finance	74.32
		Other Demand Loans	130.77
		Consortium/Syndicate Finance	51.44
		House Building Loan	38.62
		General Term Loans	182.61
		Agricultural and Rural Credit Scheme	17.68
		Personal/Professionals Loan Scheme	14.68
		Inland bills purchased and discounted	4.89
		Total	**719.20**
	(c)	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.	
		Dhaka	634.18
		Chittagong	79.11
		Rajshahi	1.65
		Rangpur	4.26
		Total	**719.20**
	(d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	
		i) Commercial Lending	24.54
		ii) Export Financing	-
		iii) House Building Loan	36.07
		iv) Retail Loan	6.79
		v) Small and Medium Enterprises	63.49
		vi) Special Program Loan	-
		vii) Industrial Loans Details :	
		i) Agricultural industries	34.42
		ii) Textile industries	9.41
		iii) Food and allied industries	6.81
		iv) Pharmaceutical industries	-
		v) Leather, Chemical, Cosmetics etc	-
		vi) Tobacco industries	57.42
		vii) Cement and Ceramic industries	12.92
		viii) Service industries	115.76
		ix) Transport and Communication Industries	45.02
		x) Other industries including bills purchased and discounted	230.96

		viii) Others Loan	52.70
		ix) Staff Loan	11.37
		x) Other Loans and Advances (SOD)	11.52
		Total	**719.20**
	(e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure of the Bank:
		Re-payable on Demand	59.30
		Not more than 3 months	130.43
		Over 3 months but not more than 1 year	280.74
		Over 1 year but not more than 5 years	146.06
		Over 5 years	102.67
		Total	719.20
	(f)	By major industry or counterparty type:	
		* Amount of impaired loans and if available, past due loans, provided separately;	NIL
		* Specific and general provisions; and	Specific provision was not made as MGBL do not have any classified loan portfolio during the year 2014. General provisions were made on the amount of unclassified loan and off Balance Sheet exposure according to Bangladesh Bank guidelines.
		General Provision for Unclassified Loans and Advances	7.70
		General Provision for Off-Balance Sheet Exposures	2.16
		* Charges for specific allowances and charge- off during the period.	NIL
	(g)	Gross Non Performing Assets (NPAs)	-
		Non-Performing Assets (NPAs) to Outstanding Loans and advances	0%
		Movement of Non-Performing Assets	-
		Opening balance	-
		Additions	-
		Reductions	-
		Closing balance	-
		Movement of specific provisions for NPAs	-
		Opening balance	-
		Provisions made during the period	-
		Write - off	-
		Write- back of excess provisions	-
		Closing balance	-

Table 20:e) 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	Meghna Bank has considerable investment in equity shares of various companies and Mutual funds and has active participation in the secondary market. There is an investment committee for the management of investment portfolio and associated risk to which bank may be exposed. In the investment process Meghna Bank strictly follow the internal policies and procedures put into place in this respect.
		* 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.	Shares and securities are valued as per the prescribed guideline of Bangladesh Bank and adequate provision is maintained accordingly for unrealized losses (if any).
Quantitative Disclosure	(b)	Valuation disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted shares values where the share price is materially different from fair value.	Cost Price : 2.06 Market Price : 1.98 Difference : (0.08)
	(c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	0.12
	(d)	* Total unrealized gains (losses)	(0.08)
		* 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 amount s and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.	The capital requirements for: Equity Position Risk : 0.40

Table 21:f) 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 is the risk where changes in market interest rates might adversely affect a bank's Financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as well as the net worth of the bank (economic value perspective). Re-pricing risk is often the most apparent source of interest rate risk for a bank and is often gauged by comparing the volume of a bank's assets that mature or re-price within a given time period with the volume of liabilities that do so. The short term impact of changes in interest rates is on the bank's Net Interest Income (NII). In a longer term, changes in interest rates impact the cash flows on the assets, liabilities and off-balance sheet items, giving rise to a risk to the net worth of the bank arising out of all re-pricing mismatches and other interest rate sensitive position.
Quantitative Disclosures	(b)	The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant)	
		Weighted Average Duration of Asset	1.91
		Weighted Average Duration of Liability	0.70
		Duration GAP	1.43
		CAR After different level of Shock	
		Minor Level	43.83%
		Moderate Level	42.05%
		Major Level	40.27%

Table 22 :g) Market Risk

Qualitative Disclosure	(a)	Views of BOD on trading /investment activities	Market risk is the possibility of losses of in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e., interest rate, exchange rate and price. Allocation of capital is required in respect of the exposure to risks deriving from changes in interest rates and equity prices in the bank's trading book, in respect of exposure to risks deriving from changes in foreign exchange rates and commodity price in the overall banking activity. The total capital requirement for banks against their market risk shall be the sum of capital charges against: i. Interest rate risk ii. Equity position risk iii. Foreign exchange position risk throughout the bank's balance sheet and iv. Commodity risk

		Method used to measure market risk	As banks in Bangladesh are now in a stage of developing risk measurement models, Bangladesh Bank suggested the banks for using Standardized Approach for credit risk capital requirement for banking book and Standardized (rule based) Approach for market risk capital charge in their trading book. Maturity Method has been prescribed by Bangladesh Bank in determining capital against market risk. In the maturity method, long or short positions in debt securities and other sources of interest rate exposures, including derivative instruments, are slotted into a maturity ladder comprising 13 time-bands (or 15 time-bands in case of low coupon instruments). Fixed-rate instruments are allocated according to the residual term to maturity and floating-rate instruments according to the residual term to the next reprising date.
			In Standardized (rule based) Approach the capital requirement for various market risks (interest rate risk, price, and foreign exchange risk) are determined separately.
			The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. e.g.:
			a) Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk+ Capital Charge for General Market Risk;
			b) Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;
			c) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk;
			d) Capital Charge for Commodity Position Risk = Capital charge for General Market risk.

		Market Risk Management System	Treasury Division has been assigned with the job of Market risk management as per regulatory and internal framework. For market risk management purpose, Bank has implemented Foreign Exchange Risk Management

			guidelines and Asset Liability management guidelines duly approved by the Board. Different market risk related issues are discussed in the Asset Liability Management Committee (ALCO) meeting and decisions are taken accordingly.
		Policies and processes for mitigating market risk.	ALCO is primarily responsible for establishing the market risk management and asset liability management of the Bank, procedures thereof, implementing core risk management framework issued by the regulator, best risk management practices followed by globally and ensuring that internal parameters, procedures, practices/ polices and risk management prudential limits are adhere to. For Market risk management purpose, Bank has established internal limit duly approved by the Board besides the regulatory limit. For Foreign Exchange Risk management, Bank has regulatory net open position (NOP) limit as well as internal limit like Intra day limit, individual dealer's limit, stop loss limit, individual currency limit etc. For interest and other market risk management, Bank has established wholesale borrowing guideline, LD ratio, Medium Term Funding ratio, maximum cumulative outflow, SWAP Fund Guideline, VAR and MAT level. Bank also maintains Gap limit for maturity profile mismatch. Moreover, Bank has policy for interest rate sensitivity analysis on monthly basis.
Quantitative Disclosure	(b)	The capital requirements for;	
		interest rate risk;	0.33
		equity position risk;	0.40
		foreign exchange risk;	0.40
		Commodity risk.	0.00

Table 23:h) Operational risk

Qualitative Disclosures	(a)	Views on BOD on system to reduce Operational risk.	Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. MGBL has established an effective, integrated operational risk management framework to mitigate the operational risk. The focus of operational risk is on low probability/high loss vs. high probability/low loss events. Operational risk includes: i) Transaction processing, ii) Operation control iii) Technology and systems iv) Risks of physical and logical security v) Unique risk arises due to outsourcing 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 Risk Management Committee headed by a senior management performed as Chief Risk Officer 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.
		Performance gap of executives and staffs	The bank offers a competitive compensation package to the employees based on performance and merit. The bank has developed one of the finest teams of efficient and responsible officers with high ethical standards who are working in a congenial atmosphere. The BOD of the Bank is always keen to provide a competitive, attractive and handsome remuneration package for its employees. Besides, the recruitment policy of the Bank always emphasize on sorting out fresh graduate from the reputed universities and nurture them until transformation to a Human Capital of highest quality. An accommodating, welcoming, cooperative and congenial work atmosphere motivates its employees to act as a family towards achievement of goal. As such, there exists no performance gap in the Bank.

		Potential external events	No potential external events occurred during the reporting period ended 31st December 2014
		Policies and processes for mitigating Operation Risk	Bank has established an effective, integrated operational risk management framework to mitigate the operational risk; Internal Control and Compliance Division of the bank with other departments have been performing the supervisory and monitoring works to manage this risk.
		Approach for calculating capital charge for operational risk.	The Bank has adopted Basic Indicator Approach (BIA) to compute capital charge against operational risk under Basel-II as per the Bangladesh Bank Guidelines.
Quantitative Disclosures	(b)	The capital requirements for operational risk	7.13