Disclosures on Risk Based Capital under Basel-II

For the Year Ended December 31, 2016

Bay Leasing & Investment Limited

SECURE YOUR FUTURE

Disclosures under Pillar III- Market Discipline

For the year ended 31st December 2016

Overview

The Basel-II disclosures presented in these documents are related to BLIL for the year ended December 31, 2016. These disclosures have been made in accordance with Prudential Guidelines on Capital Adequacy and Market Discipline for Financial Institutions introduced by Department of Financial Institutions and Markets. The Basel-II framework consists of the following three pillars:

Pillar-I: Minimum Capital Requirement

Banks must hold minimum regulatory capital against Credit, Market and Operational Risk inherent with Banking Business.

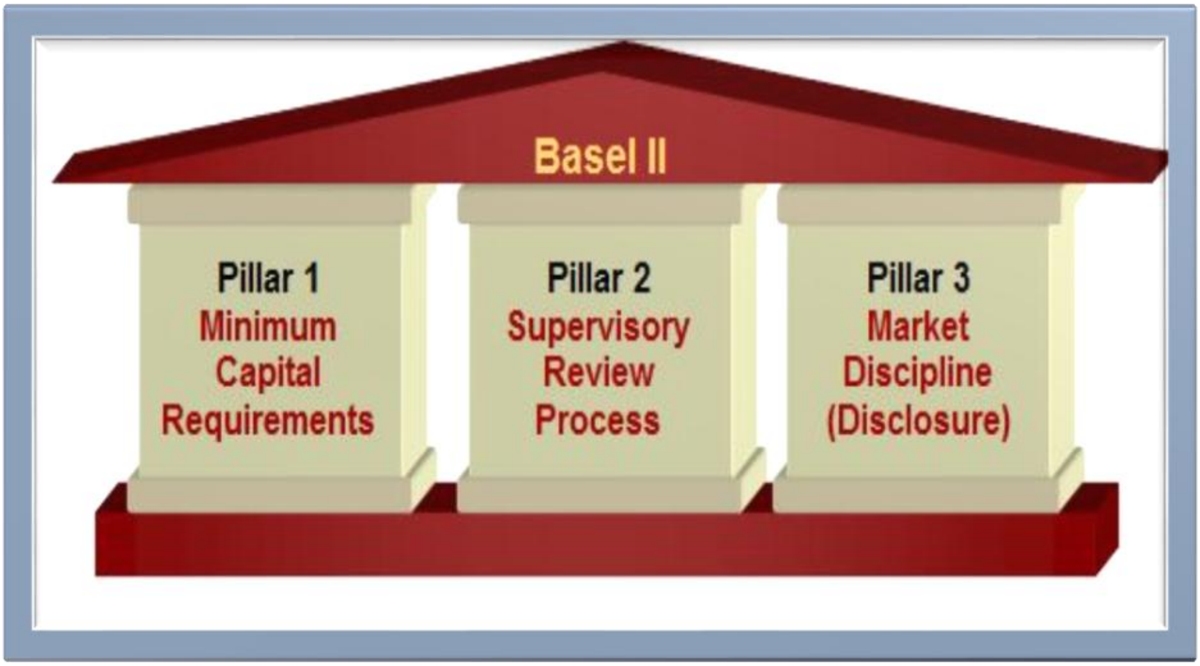
Pillar-II: Supervisory Review Process (SRP)

SRP basically deals with other risks faced by a bank but not covered in pillar-1. The key principle of SRP is that banks have a process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital at an adequate level. The assessment of adequate capital would be the outcome of the dialogue to be held between the bank's SRP and Bangladesh Bank's SREP team.

Pillar-III: Market Discipline

The purpose of Market Discipline in the Revised Capital Adequacy Framework is to complement the minimum capital requirement and the supervisory review process. The aim of introducing Market Discipline in the revised capital framework is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets.

BASEL-II Principle



1) *Scope of Application*

Qualitative Disclosures:

The name of the corporate entity in the group to which the guidelines applies.

- **Bay Leasing & Investment Limited**

The financial statements have been prepared in accordance with Bangladesh Accounting Standard (BAS).

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

- Not applicable

2) *Capital Structure*

Qualitative Disclosure

The assets, liabilities, revenue and expenses of all profit centre divisions are related in BLIL's audited financial statement as of year ended December 31, 2016.

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.

Tier 2 capital includes:

- General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) for Credit Risk;
- Revaluation reserves;
- 50% Revaluation reserve for fixed assets;
- All other preference shares;

Conditions for maintaining regulatory capital:

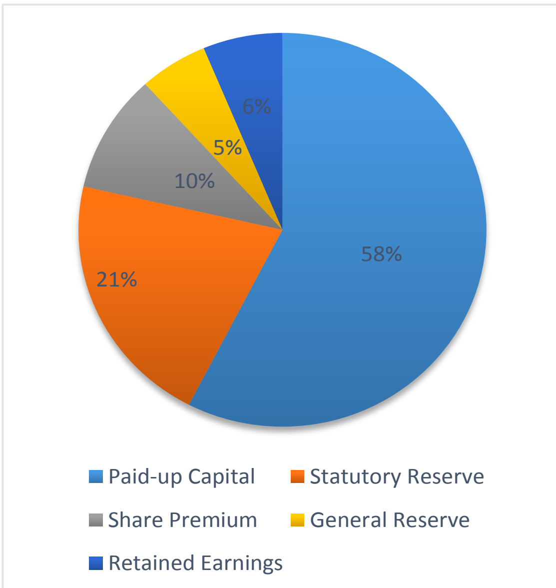
The calculation of Tier 1 capital, and Tier 2 capital shall be subject to the following conditions**:**

- The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
- 50% of revaluation reserves for fixed assets and 45% of revaluation reserves for securities are eligible for Tier 2 capital.

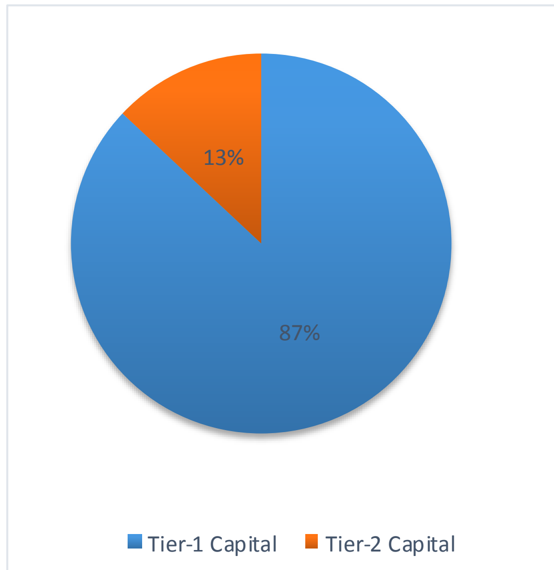
Quantitative Disclosure

Particulars	Amount in Crore
Paid up capital	130.91
Statutory reserve	47.63
Non-repayable share premium account	22.09
General reserve	12.36
Retained earnings	14.34
Minority interest in subsidiaries	-
Non-cumulative irredeemable preference shares	-
Dividend equalization account	-
Total Tier-1 (Core Capital)	**227.33**
Deductions from Tier-1 Capital	-
Tier-2 (Supplementary Capital)	
General Provision (Unclassified loans up to specified limit+SMA+off Balance Sheet exposure)	14.50
Asset Revaluation Reserves up to 50%	18.47
Tier-2 Capital	**32.97**
Total eligible Capital (1+2)	**260.30**

Tier -1 (Core Capital)



Consolidated Total Capital



3) *Capital Adequacy*

Qualitative Disclosure

Bay Leasing & Investment Limited with its focused strategy on risk management has always been consistent in maintaining capital adequacy ratio above the regulatory requirements. BLIL has been successfully managing the incremental growth of the Risk Weighted Assets by ensuring diversification of the portfolio in SME, Retail and Corporate segments. However, RWA is also managed by taking collaterals against its loans. BLIL strives to extend our relationship with corporate clients having good credit ratings. While computing the capital adequacy, BLIL has applied Standardized Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk.

Quantitative Disclosure

Description	Amount in Crore
Capital requirement for Credit Risk (10% of RWA)	116.27
Capital requirement for Market Risk	32.81
Capital requirement for Operational Risk	3.97
Total Capital Requirements	**153.05**
Total and Tier-1 Capital Ratio	
Total CAR	17.01%
Tier-1 CAR	14.85%
Tier-2 CAR	2.15%

CAR as on December 31, 2016

4) *Credit Risk*

Qualitative Disclosure

Credit Risk: Credit risk is the risk of financial losses resulting from the failure by a client or counterparty to meet its contractual obligations to the Company. Credit risk arises from the Company's dealings with or lending to corporate, individuals, and other banks or financial institutions.

Corporate Credit Policy: BLIL is managing its Credit Risk through a Board directed and approved Corporate Credit Policy in line with the Bangladesh Bank Core Risk Management Guidelines, which outlined robust processes and procedures to ensure the quality of its assets portfolio. The Credit Policy also contains the general principles to govern the implementation of detailed lending procedures and risk grading systems of the borrowers. And, as such, it specifically addresses the areas of (a) Loan Originating; (b) Credit Approval; (c) Credit Administration; (d) Risk Management; and (e) Monitoring, Collection and Recovery activities.

Credit Risk Management: An independent Credit Risk Management (CRM) Department is in place, at BLIL, to scrutinize projects from a risk-weighted point of view and assist the management in creating a high quality credit portfolio and maximize returns from risk assets. Research team of CRM regularly reviews market situation and exposure of BLIL in various industrial sub-sectors. CRM has been segregated from Credit Administration Department in line with Central Bank’s Guidelines. CRM assess credit risks and suggest mitigations before recommendation of every credit proposal while Credit Administration confirms that adequate security documents are in place before disbursement.

Credit Approval Process: To ensure both speedy service and mitigation of credit risk, the approval process is maintained through a multilayer system. Depending on the size of the loan, a multilayer approval system is designed. As smaller loans are very frequent and comparatively less risky, lower sanctioning authority is set to improve the turnaround time and associated risk. Bigger loans require more scrutiny as the associated risk is higher. So sanctioning authority is higher as well.

Quantitative Disclosure

Industry- wise distribution of exposures, broken down by types of credit exposure

Sector	Amount in Crore
Agricultural Sector	10.05
Textile	41.97
Garments	65.33
Food production/processing industry	20.07
Plastic industry	13.62
Ship Manufacturing Industry	4.10
Chemical & Pharmaceutical	20.86
Cement/Concrete and allied industry	51.87

Paper, printing and packaging industry	36.29
Glass and ceramic industry	1.64
Electronics and electrical industry	3.56
Trade and commerce	179.88
Power, Gas, water and sanitary service	1.80
Transport & Communication	31.86
Real Estate & Housing	143.45
Others	150.43
Total	**776.79**

Geographical distribution of exposures, broken down by major types of credit exposure

Area	Amount in crore
Dhaka Division	763.99
Chittagong Division	7.21
Khulna Division	-
Rajshahi Division	1.17
Rangpur Division	-
Barishal Division	-
Sylhet division	-
Mymanshing	4.42
Total	**776.79**

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

Particulars	Amount in crore
On demand	-
Up to 1 month	24.94
Over 1 month but not more than 3 months	81.02
Over 3 months but not more than 1 year	227.50
Over 1 year but not more than 5 years	309.61
Over 5 years	133.72
Total	**776.79**

5) *Equities: Banking Book Positions*

Qualitative Disclosure

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; and
Total equity shares holdings are for capital gain purpose.

Discussion of important policies covering the valuation and accounting of equity holdings in the banking book positions. 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 are valued at cost prices and if the total cost of a particular share is lower than the market value of that particular share, then provision are maintained as per terms and condition of regulatory authority.

Quantitative Disclosure

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.

Particular	Cost of holding	Market Value	Unrealized Gain
Ordinary Shares	164.60	164.03	(0.57)

Capital requirements broken down by appropriate equity groupings, consistent with the FI's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.

Specific Risk- Market value of investment in equities is BDT 164.03 crore. Capital Requirement is 10%of the said value which stand to BDT 16.40 crore

General Risk- Market value of investment in equities is BDT 164.03 crore. Capital Requirement is 10% of the said value which stand to BDT 16.40 crore.

6) *Market Risk*

Qualitative Disclosure

Market Risk: Market risk is defined as the risk of losses arising from movements in market prices reported in and Off- Balance Sheet positions. BLIL is exposed to Market Risk mostly stemming from the risks pertaining to interest rate related instruments and equities in the trading book.

Methods Used to Measure Market Risk: We use Standardized (Rule Based) Approach to measure the market risk as per the guidelines of Bangladesh Bank where, for Interest Rate Risk and Equity Risk both General and Specific risk factors are applied for calculating required capital charges against Market Risk.

Market Risk Management System:

Asset Liability Management: Changes in market liquidity and or interest rate exposes company's business to the risk of loss, which may in extreme cases, threaten the survival of the institution. 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 company monitors Balance Sheet and liquidity risk of the company. This Committee also reviews country's overall economic position, company's liquidity position, ALM ratios, Interest Rate Risk, Capital Adequacy, Deposit Advance Growth, Cost of Deposit, Market Interest Rate, Loan Loss Provision adequacy, deposit and lending pricing strategy.

Market Analysis: Market analysis over interest rate movements are reviewed by the Treasury of the company. The type and level of mismatch interest rate risk of the company is managed and monitored from two perspectives, being an economic value perspective and an earning perspective.

GAP Analysis: ALCO has established guidelines in line with central Bank's policy for the management of assets and liabilities, monitoring and minimizing interest rate risks at an acceptable level. ALCO in its regular monthly meeting analyzes Interest Rate Sensitivity by computing GAP i.e. the difference between Rate Sensitive Assets and Rate Sensitive Liability and take decision of enhancing or reducing the GAP according to prevailing market situation aiming to mitigate interest rate risk.

Continuous Monitoring: Company's treasury manages and controls day-to-day trading activities under the supervision of ALCO that ensures continuous monitoring of the level of assumed risks.

Quantitative Disclosure

Particulars	Amount in crore
Equity positions risk	32.81

7) *Interest rate in the banking book*

Qualitative Disclosure

The general qualitative disclosure requirement including the nature of interest risk and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits.

Interest rate risk in the banking book arises from mismatches between the future yield of an assets and their funding cost. Assets Liability Committee (ALCO) monitors the interest rate movement on a regular basis. BLIL measure the Interest Rate Risk by calculation Duration Gap i.e. a positive Duration Gap affect company's profitability adversely with the increment of interest rate and a negative Duration Gap increase the company's profitability with the reduction of interest rate.

8) *Operational Risk*

Qualitative Disclosure

Operational Risk: Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and system or from external events. This definition includes legal risk, but excludes strategic or reputation risk. The Board of Directors (BOD) of BLIL and its Management firmly believe that efficient management of operational risks always contribute to personnel, we have developed user friendly Operations Manual enclosed with functional processes for all employees who are the end users of these processes. This is a critical initiative for the company because having a mapped out process enables users to operate more efficiently, enhances knowledge amongst staff and fills in the holes in operations. We ensure that all the policies and processes address clear responsibilities and accountabilities of the cross functional departments including the employees.

Performance gap of executives and staffs: BLIL's recruitment strategy is based on retaining and attracting the most suitable people at all levels of the business and this is reflected in our objective approach to recruitment and selection. The approach is based on the requirements of the job (both now and in the near future), matching the ability and potential of the individual. Qualification, skills and competency form our basis for nurturing talent. We are proud to state that favorable job responsibilities are increasingly attracting greater participation from different level of employees in the BLIL family. We aim to foster a sense of pride in working for BLIL and to be the employer of choice.

Mitigation of Operational Risk: Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. BLIL uses basic indicator approach for calculation capital charge against operational risk i.e. 15% of average positive annual gross income of the company over last three years.

Potential external events: No potential external event exists to raise operational risk of BLIL at the time of reporting.

Policies and procedures for mitigating operational risk: BLIL has also established Internal Control and Compliances Department (ICC) to address operational risk and to frame and implement policies to encounter such risks. ICC assesses operational risk across the company as a whole and ensures that an appropriate framework exists to identify, assess and mange operational risk.

Approach for Calculating Capital Charges for Operational Risk: We follow the Basic Indicator Approach (BIA) for calculating 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 average positive gross annual income of the bank over the past three years.

Quantitative Disclosure

Particulars	Amount in crore
Operational Risk	39.70