মার্কেন্টাইল ব্যাংক লিমিটেড
Mercantile Bank Limited

Disclosure on Risk Based Capital Requirement Under Pillar-3 of Basel II
for the year ended 31 December, 2010

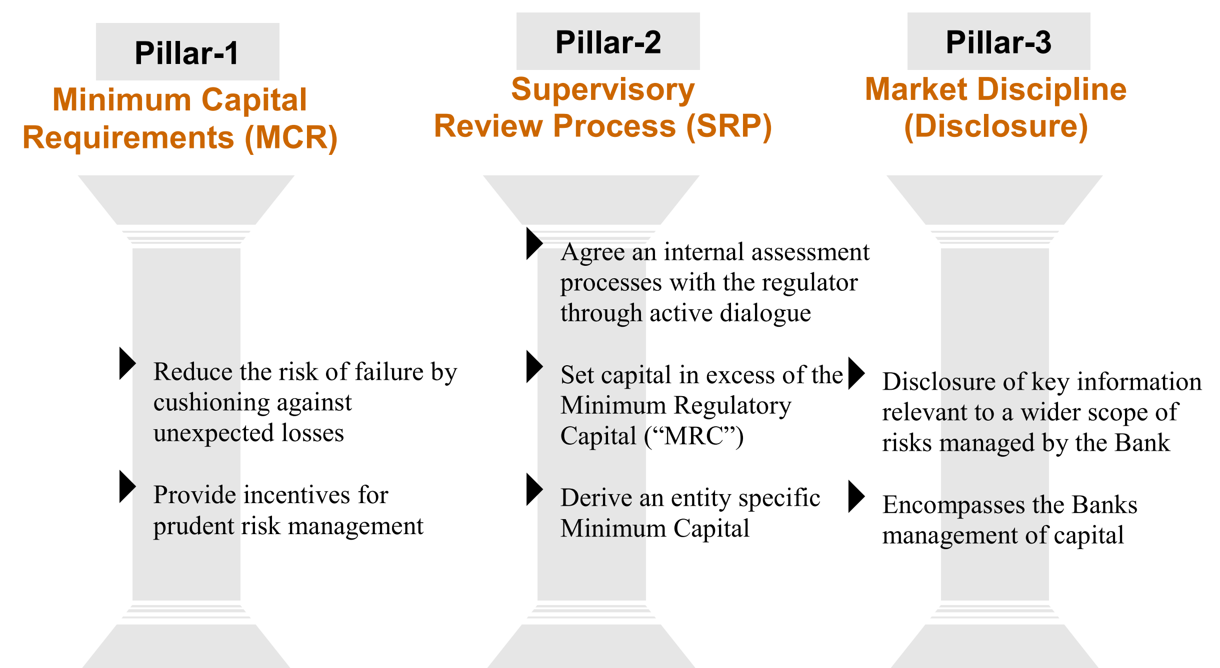
Overview

The Basel Committee on Banking Supervision published a framework for international convergence of capital measurement and capital standards commonly termed as Basel II which replaced the original 1988 Basel I accord. In Bangladesh, Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel II) came into force fully from January 2010 Following the BRPD circular # 20 on December 29, 2009 after parallel existence with Basel I during the year 2009. The Basel II principle stands on 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 (Supervisory Review Evaluation Process) team.

- **Pillar-III: Market Discipline**- Market Discipline is to complement the minimum capital requirements and the supervisory review process. It aims to establish more transparent and disciplined financial market.



Disclosure Framework

The following detailed qualitative and quantitative disclosures of the Bank is furnished to provide our stakeholders with consistent and understandable disclosure framework to evaluate the Bank's performance as on December 31, 2010 in accordance with BRPD circular # 35 on December 29, 2010.

a) Scope of application

Qualitative Disclosures	**(a)**	The name of the corporate entity in the group to which the guidelines applies. • Mercantile Bank Limited (MBL)
	(b)	An outline of difference in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities with in 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). • MBL did not have any subsidiaries during the reporting period. As such, it prepared the Basel-II quarterly reporting only on SOLO basis.
	(c)	Any restriction, 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.

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. • **Conditions for calculating the Tier 1 capital, Tier 2 capital and Tier 3 capital set by BB and compliance status of MBL is as under:** a) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 Capital. b) 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 Capital. c) 10% of revaluation reserves for equity instruments eligible for Tier 2 Capital. d) Subordinated debt shall be limited to a maximum of 30% of the amount of Tier 1 Capital. e) Limitation of Tier 3: A minimum of about 28.50% of Market risk needs to be supported by Tier 1 Capital. Supporting of Market Risk from Tier 3 Capital shall be limited up to maximum of 250% of a Bank's Tier 1 Capital that is available after meeting credit risk capital requirement.

		• **In order to obtain the eligible regulatory capital for the purpose of calculating Capital Adequacy Ratio (CAR), the following deductions are required from bank's Tier 1 capital:** **a)** Value of Intangible Assets i.e. Goodwill shown as assets. **b)** Shortfall in provisions required against classified assets. **c)** Shortfall in provisions required against investment in shares. **d)** Remaining deficit on account of revaluation of investments in securities after netting off any other surplus on the securities. **e)** Reciprocal/Crossholding of bank's capital/subordinated debt. **f)** Unauthorized amount of share holding. **g)** Investments in subsidiaries which are not consolidated.

Quantitative Disclosures	**(b)**	The amount of Tier 1 capital, with separate disclosure of:	**(BDT in Cr.)**
		Paid Up Capital	407.22
		Non-repayable Share Premium account	-
		Statutory Reserve	204.26
		General Reserve	-
		Retained Earning	94.04
		Minority Interest in Subsidiaries	-
		Non-Cumulative Irredeemable Preferences Shares	-
		Dividend Equalization Account	4.57
		Others (If any item approved by Bangladesh Bank)	-
	(c)	The total amount of Tier 2 and Tier 3 capital	158.35
	(d)	Other deductions from capital	-
	(e)	Total Eligible Capital	868.43

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. **RWA & CAR** MBL 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. 9% as on December 2010 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 i.e. $$\text{CAR} = \frac{\text{Eligible Regulatory Capital} \times 100}{\text{RWA}}$$ **Strategy to achieve the required Capital Adequacy** The Bank's policy is to manage and maintain its capital with the objective of ensuring strong capital ratio in line with Basel-II. For the said purpose, MBL has already issued Right Share amounting to BDT 143 crore through Right issue and the process of further enhancement of capital fund by BDT 100 crore through issuing of Subordinated Debt (Bond) is likely to be accomplished very soon.

Quantitative Disclosures	**(b)**	Capital Requirement for Credit Risk	**(BDT in Cr.)** 730.11
	(c)	Capital Requirement for Market Risk	68.04
	(d)	Capital Requirement for Operational Risk	58.28
	(e)	Total and Tier 1 capital ratio • For the consolidated group ❖ Total ❖ Tier 1 • For stand alone ❖ Total ❖ Tier 1	 N/A N/A 9.13% 7.46%

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); • As per guideline of Bangladesh Bank, All Loans and Advances are grouped into 4 (four) categories namely Continuous Loan, Demand Loan, Fixed Term Loan and short term Agricultural Credit for the purpose of Loan Classification. As per relevant BB guideline, depending on the type, the entire loan/amount of unpaid installments will be treated as overdue from the following date/after six month of the expiry day. Any continuous credit, Demand loans or a Term Loan which remain overdue for a period of 3 months or more, will be treated as **Special Mentioned Account.** If the past due loans/defaulted installment/irregular loans remains for 6/12 months or more it will be termed as **Sub-standard**. Again, if the past due loans/defaulted installment/irregular loans remains for 9/12/18/36 months or more it will be treated as **Doubtful** and for 12/18/24/60 months will be treated as **Bad/Loss**. Description of approaches followed for specific and general allowances and statistical methods; • Specific and General provisions are maintained according to the relevant BB guideline. For Example, 1% or 2% or 5% provision is maintained against good loans, 5% against SMA loans, 20% against sub-standard, 50% against doubtful and 100% against bad/loss loans after deducting the amount of interest expenses and value of eligible securities from the outstanding balance of classified accounts.

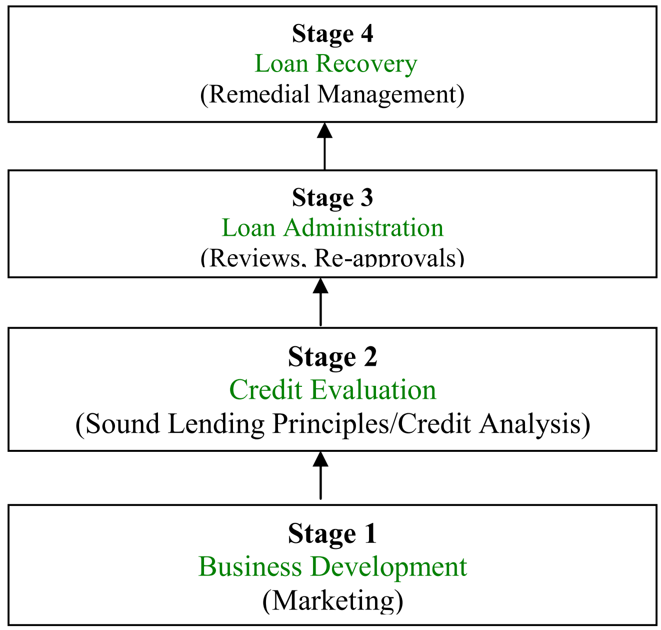
		Discussion of the Bank's credit risk management policy; **The Bank manages its credit risk in the following manner:** **Creating Credit Risk Awareness Culture** Strong emphasis is given to create credit risk awareness among all lending employees within the Bank. Awareness programs have been conducting regularly to create a risk-conscious culture and empower them with the capability to identify, control and manage Credit Risks more effectively. **Approved Credit Policy by the Board of Directors** The Board of Directors has approved the Credit Policy for the Bank where major policy guidelines, growth strategy, exposure limits (for particular sector, product, individual company and group) and risk management strategies have been described/stated in detail. Credit Policy is regularly updated to cope up with the changing global, environmental and domestic economic scenarios. **Separated Credit Risk Management Division (CRMD)** CRMD has been segregated from Credit Administration Division in line with Central Bank's Guidelines. CRMD 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. **Formation of Law and Recovery Team** A strong Law and Recovery Team has been formed to monitor the performance of the loans & advances, identify early signs of delinquencies in portfolio, and take corrective measures to mitigate risks, improve loan quality and to ensure recovery of loans in a timely manner including legal actions. **Independent Internal Audit and Direct Access to Board /Audit Committee** Internal Control and Compliance Division (ICCD) independently verifies and ensures, at least once in a year, compliance with approved lending guidelines, Bangladesh Bank guidelines, operational procedures, adequacy of internal control and documentation procedures. ICCD directly reports to the Board/Audit Committee the overall quality, performance, recovery status, risks status, adequacy of provision of loan portfolio for information, overall observation and guidance. **Large Loan limit and Credit Facility on business Consideration** Central Bank's instructions are strictly followed in determining Single Borrower/Large Loan limit. The Bank watchfully avoids name lending. Credit facility is allowed absolutely on business consideration after observing due diligence. In all cases, viability of business, credit requirements, and security offered, cash flow and risks level are meticulously and professionally analyzed. **Credit Quality and Portfolio Diversification** 5Cs principles of Credit i.e. Character, Capacity, Capital, Conditions and Collateral are followed professionally in the credit evaluation stage. Evaluation of repayment ability, characteristics of financial discipline, financial health of the borrowers and other qualitative and quantitative information are gathered and credit facilities are allowed in a manner so that Bank's optimum asset quality is ensured. Significant concentration of credit is carefully avoided to minimize risk. Credit Lines are segregated focusing on regulatory guidelines. **Early Warning System** Performance of loans is regularly monitored to trigger early warning system to address the loans and advances whose performance show any deteriorating trend. It enables the Bank to grow its credit portfolio with ultimate objective to protect the interest of depositors and shareholders.

Provision & Suspension of Interest

If any loan is classified as 'Sub-standard' and 'Doubtful', interests accrued on such loan are credited to Interest Suspense Account, instead of crediting the same to Income Account. In case of rescheduled loans the unrealized interest, if any, are credited to Interest Suspense Account, instead of crediting the same to Income Account. As soon as any loan or advance is classified as 'Bad/Loss' neither any interest is calculated nor any interest is credited against those accounts.

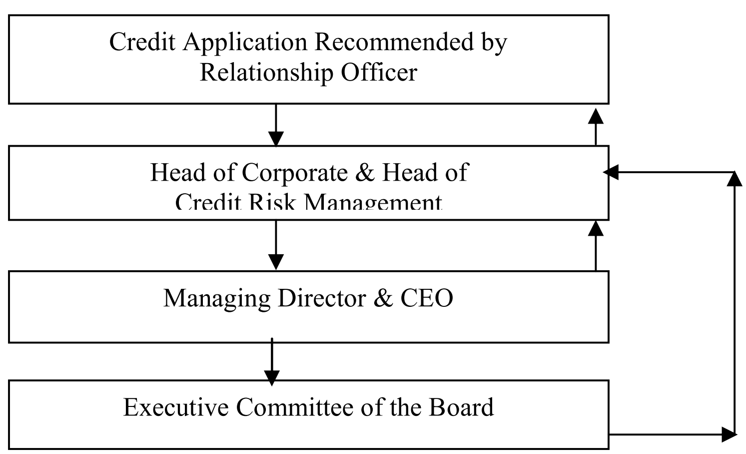
Lending Process in MBL

Lending Process of the Bank followed by the credit officials starting from stage-1 to stage-4 as mentioned in the Bank's approved lending guidelines are given below:



Credit Approval Process

Credit approval process encompasses pre-approval evaluation, approval and post approval evaluation. All significant loans are approved at Head Office level by the Credit Committee while experienced Senior Officers at Branches are given authority to approve loans with lower risk exposure. Flow Chart of Credit Approval Process of the Bank has been demonstrated below:



		Risk Assets Portfolio To mitigate the Credit Risk, the Bank diversifies its loan exposure to different sectors confirming the Central Bank's requirements. Retail, SME, Consumer, Trading and Agricultural Loan get the priority for lending diversifications. **Counterparty Credit Rating** Proper initiatives have been taken to rate the borrowers' of the Bank. As per Central Bank's guidelines, Corporate Clients have been requested to be rated immediately by the External Credit Assessment Institutions (ECAIs)/Rating Agencies duly recognized by the Central Bank. Some corporate clients have already conducted their credit rating by ECAIs following the persuasion of the Bank and we are sanguine of getting a significant number of counter party ratings by 2011. **NPL Management** The Bank measures its loan portfolio in terms of payment arrears. The impairment levels on the loans and advances are monitored regularly. Loans and Advances are written off to the extent that (i) Five years have been passed since termed as Bad/Loss and 100% provision has also been kept against this loan (ii) there is no realistic prospect of recovery and (iii) against which legal cases are pending as per Central Bank's guidelines. Detail records for all such write off accounts are meticulously maintained and followed up. **Methods used to measure Credit Risk** As per the directives of Bangladesh Bank, 'The Standardized approach' is applied by the Bank to measure its Credit Risk.
Quantitative Disclosures	**(b)**	Total gross credit risk exposures broken down by major types of credit exposure. • **Total Gross Credit Risk exposures broken down by major types of credit exposure as on December, 2010 is as under:**
	(c)	Geographical distribution of exposure, broken down in significant areas by major types of credit exposure.

Particulars	**(BDT in Cr.)**	**(% of Total)**
Claim on Corporate	3,971.87	59.84
Claim on SME	631.73	9.52
Past Due Claim	138.69	2.09
Claim on CRM	552.24	8.36
Staff Loan	73.36	1.11
Claim on Retail	77.13	1.16
Claim on HBLRES	85.46	1.29
Claim on HBLCOM	141.66	2.13
Claim on Consumer	98.22	1.48
Claim on Bank & NBFI	561.46	8.46
Margin Loan	302.94	4.56
Total	**6,637.76**	**100.00**

- **Geographical Distribution of total exposure as on December, 2010 is as under:**

Division	**(BDT in Cr.)**	**(% of Total)**
Dhaka	4,948.55	74.55
Chittagong	1,147.92	17.29
Rajshahi	330.89	4.99
Sylhet	81 .99	1.24
Khulna	31.42	0.47
Barisal	22.93	0 35
Rangpur	74.06	1.12
Total	**6,637.76**	**100.00**

(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.

- **Industry type Distribution of total exposure as on December, 2010 is as under:**

Industry	**(BDT in Cr.)**	**(% of Total)**
Textile	139.47	2.10
Agriculture	203.89	3.07
SME	338.61	5.10
Pharmaceuticals	238.42	3.59
Information Technology	33.83	0.51
Telecommunication	21.48	0.32
Garments	1,121.15	16.89
Trading and Others	4,540.91	68.41
Total	**6,637.76**	**100.00**

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

- **Residual contractual maturity breakdown of total exposure as on December, 2010 is as under:**

Particulars	**(BDT in Cr.)**	**(% of Total)**
UP to 1 Month	1,407.31	21.20
Over 1 Month Up to 3 Month	1,172.19	17.66
Over 3 Month Up to 12 Month	1,671.08	25.18
Over 1 year Up to 5 Years	1,701.89	25.64
Over 5 Years	685.30	10.32
Total	**6,637.76**	**100.00**

(f) By major industry and counter party type: **(BDT in Cr.)**

- Amount of impaired loans and if available, past due loans, provided separately. -
- Specific and general provisions; 173.54
- Charges for specific allowances and charge-offs during the periods -

	(g)	**(BDT in Cr.)** Gross non-performing assets (NPAs): 118.77 Non-performing Assets (NPAs) to Outstanding Loans & Advances 1.78% **Movement of Non Performing Assets** Opening balance 177.34 Additions 15.00 Reductions 54.80 Closing balance 137.54 **Movement of specific provisions for NPAs** Opening balance 74.97 Provisions made during the period - Write-off 9.30 Write-back of excess provisions 2.92 Closing balance 62.75

e) Equities: Disclosure for Banking Book Positions

Qualitative Disclosure	**(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. • MBL's total equity share holding comprises of two purposes i.e. capital gain and other strategic reason like equity participation and investment diversification. MBL is the director of IDLC finances Ltd and sole purpose of such investment is not capital gain, rather maintain relationship as well as diversify its investment portfolio. 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 the practices. • Quoted 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 is maintained as per terms and condition of regulatory authority. On the other hand, unquoted share is valued at cost price or book value as per latest audited accounts.
Quantitative Disclosure	**(b)**	Value disclosed in the balance sheet of investment, 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. **(BDT in Cr.)** • Quoted shares 27.18 • Unquoted shares -

	(c)	The cumulative realized gain (losses) arising from sales and liquidations in the reporting periods. **(BDT in Cr.)** • Realized gain (losses) from equity investments --
	(d)	• Total unrealized gains (losses) 196.28 • Total latent revaluation gains (losses) - • Any amount of the above included in tier 2 Capital. 19.63
	(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 regulating capital requirements. • **Specific Risk**- Market value of investment in equities is BDT 223.46 cr. Capital Requirement is 9% of the said value which stand to BDT **20.11 cr**. • **General Risk**- Market value of investment in equities is BDT 223.46 cr. Capital Requirement is 9% of the said value which stand to BDT **20.11 cr**.

f) : Interest rate risk in the banking book (IRRBB)

Qualitative Disclosure	**(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 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. MBL measure the Interest Rate Risk by calculation Duration Gap i.e. a positive Duration Gap affect bank's profitability adversely with the increment of interest rate and a negative Duration Gap increase the bank's profitability with the reduction of interest rate.
Quantitative Disclosure	**(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) • **Interest Risk-Increase in Interest Rate: (BDT in million) Where applicable)**

	Minor Shock	**Moderate Shock**	**Major Shock**
Magnitude of Shock	**1.00%**	**2.00%**	**3.00%**
Weighted average yield on Assets (%)	10.41%	10.41%	10.41%
Total Assets	86,872.95	86,872.95	86,872.95
Duration Gap (Years)	0.43	0.43	0.43
Fall in MVE (on-balance sheet)	(339.50)	(679.00)	(1,018.50)
Tax Adjusted Loss	(244.02)	(488.03)	(732.04)
Revised Capital	8,440.21	8,196.20	7,952.19
Revised RWA	94,914.48	94,670.47	94,426.46
Revised CAR (%)	**8.89%**	**8.66%**	**8.42%**

g) : Market Risk

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<td>Qualitative Disclosure</td>
<td>(a)</td>
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Views of BOD on trading/investment activities
All the Market Risk related policies/guidelines are duly approved by BOD. The BOD sets limit and review and update the compliance on regular basis aiming to mitigate the Market risk.
Methods used to measure Market risk
Market Risk is the probability of losing assets in balance sheet and off-balance sheet position arising out of volatility in market variables i.e. interest rate, exchange rate and prices of securities. In order to calculate the market risk for trading book purposes the Bank uses Standardized (rule based) Approach where capital charge for interest rate risk, price and foreign exchange risk is determined separately.
Market Risk Management system

A Policy for managing Market Risk has been set out by the Board of Directors of the Bank where clear instructions has been given on Loan Deposit Ratio, Whole Sale Borrowing Guidelines, Medium Term Funding, Maximum Cumulative Outflow, Liquidity Contingency Plan, Local Regulatory Compliance, Recommendation / Action Plan etc. Treasury Division and International Division mainly manage the Market Risk with the help of Asset Liability Committee (ALCO) and Asset Liability Management (ALM) Desk in the following fashion:
Interest Rate Risk Management
Treasury Division reviews the risks of changes in income of the Bank as a result of movements in market interest rates. In the normal course of business, the Bank tries to minimize the mismatches between the duration of interest rate sensitive assets and liabilities. Effective Interest Rate Risk Management is done as under:

❖ Market Analysis
Market analysis over interest rate movements are reviewed by the Treasury Division of the Bank. The type and level of mismatch interest rate risk of the Bank 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.
Foreign Exchange Risk Management
Risk arising from potential change in earnings resulted from exchange rate fluctuations, adverse exchange positioning or change in the market prices are considered as Foreign Exchange Risk. Treasury and International Division manage this risk in the following fashion:
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		❖ **Continuous Monitoring** Bank's Treasury Division manages and controls day-to-day trading activities under the supervision of ALCO that ensures continuous monitoring of the level of assumed risks. Treasury Division monitors the foreign exchange price changes and Back Office of the Treasury Division verifies the deals and passes the entries in the books of account. ❖ **Treasury Back Office Separated from Treasury Front Office** Treasury Back Office is conducting its operation in separate locations apart from the Treasury Front Office. Treasury Back Office is responsible for currency transactions, deal verification, limit monitoring and settlement of transactions independently. Treasury Back Office gathers the market rates from an independent source other than dealers of the same organization, which helps to avoid any conflict of interest. ❖ **Mark-to-Market Method for Foreign Exchange Revaluation** All foreign exchange transactions are revalued at Mark-to-Market method according to Bangladesh Bank's guidelines. The position maintained by the Bank at the end of day was within the stipulated limit prescribed by the Central Bank. ❖ **Nostro Accounts** Nostro accounts are maintained by the Bank with various currencies and countries. These Accounts are operated by the International Division of the Bank. All Nostro accounts are reconciled on monthly basis. The management reviews outstanding entry beyond 30 days for settlement purpose. The Management sets limits for handling Nostro accounts transactions including time limits for settlements of transactions and time and amount limits for items which are investigated after receipt of the account statements. Nostro accounts are verified by the external auditors twice in a year (half yearly basis) and reports are to be submitted to Bangladesh Bank. • **Equity Risk Management** Equity Risk is the risk of loss due to adverse change in market price of equities held by the Bank. Equity Risk is managed by the following fashion: ❖ **Investment Portfolio Valuation** Mark-to-Market valuations of the share investment portfolio is followed in measuring and identifying risk. Mark-to-Market valuation is done against a predetermined cut loss limit. ❖ **Diversified Investment to minimize Equity Risk** MBL minimizes the Equity Risks by Portfolio diversification as per investment policy of the Bank. A high powered committee has been formed headed by Deputy Managing Director of the Bank to reduce the risk by taking prudent decision while involved in Equity Investment. ❖ **Margin Accounts are monitored very closely** Where Margin loan is allowed, security of investment, liquidity of securities, reliability of earnings and risk factors are considered professionally.

Quantitative Disclosure	**(b)**	**The capital requirements for;** **(BDT in Cr.)** Interest rate risk; 19.80 Equity position risk; 40.22 Foreign Exchange risk 8.02 Commodity risk. -

g) : Operational Risk

Qualitative Disclosure	**(a)**	Views of BOD on system to reduce Operational Risk • All the policies/guidelines including Internal Control and Compliances and Board audit have are duly approved by BOD. Audit Committee of the Board directly oversees the activities of internal control and compliances aiming to check all types of lapses and irregularities inherent with operational activities of the Bank and thereby may create a notable downfall risk for the Bank. Performance gap of executives and staffs • The BOD of the Bank is always keen to provide a competitive, attractive and handsome remuneration package for its employees. Apart from the aforesaid, the recruitment policy of the Bank is always bestow to sort out fresh graduate from the reputed universities and nurture them until transformation to a 'Human Capital' of highest quality. Besides, the Bank's name and fame as top tier Bank of the country acts as moral boosting factor for the employees. An accommodating, welcoming, co-operative 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 have been detected yet at the time of reporting of the capital accord. **Policies and processes for mitigating operational risk** Operational Risks results from inadequate or failed internal process, people and systems or from external events. Within the Bank, Operational Risk may arise from negligence and dishonesty of the employees, lack of management supervision, inadequate operational control, lack of physical security, poor technology, lack of automation, non- compliance of regulatory requirements, internal and external fraud etc. Operational Risk Management Framework has been designed to provide a sound and well-controlled operational environment and thereby mitigate the degree of operational risk. **Approach for calculating capital charge for 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. The Bank use Basic Indicator Approach for calculating capital charge against operational risk i.e. 15% of average positive annual gross income of the Bank over the last three years.
Quantitative Disclosure	**(b)**	**The capital requirements for** **(BDT in Cr.)** Operational risk 58.28