

# Pillar III of Basel III

## Market discipline for the year ended December 31, 2018

### 1. Introduction

In response to the global financial crisis 2008, Basel Committee for Banking Supervision (BCBS) came up with a new set of capital and liquidity standards in the name of Basel III in 2010. To cope up with the international best practices and to make the bank's capital shock absorbent Bangladesh Bank (BB) issued Guidelines on Risk Based capital adequacy (*a revised regulatory capital framework for banks in line with Basel III*) in December 2014.

The objectives of the market discipline in the revised framework are to establish more transparent and more disciplined financial market, so that stakeholders can assess the position of the bank regarding holding of asset and capital adequacy to meet probable loss of assets. In compliance with BRPD circular no. 18 dated December 21, 2014 on 'Guidelines on Risk Based Capital Adequacy' following detailed quantitative and qualitative disclosures are provided covering scope of capital adequacy framework, risk exposure and assessment methodologies, risk management and mitigation strategies, and capital adequacy of the bank, etc.

### 2. Disclosure Policy

These disclosures are intended for market participants to assess key information about the bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market. The report is prepared once a year and is available in the banks website (<https://www.nrbcommercialbank.com>).

### 3. Components of Disclosure Framework

i) Scope of application ii) Capital structure iii) Capital adequacy iv) Credit risk v) Equities disclosures for banking book positions vi) Interest Rate Risk in the Banking Book (IRRBB) vii) Market risk viii) Operational risk ix) Leverage ratio x) Liquidity ratio xi) Remuneration

#### i) Scope of application

NRB Commercial Bank Ltd. (NRBCB) applies capital adequacy framework for both solo and consolidated basis. The Bank has one subsidiary company named NRB Commercial Securities Limited (NRBCSL), obtained permission from Bangladesh Bank in 2015.

'Solo Basis' refers to all position of the NRB Commercial Bank and its local and overseas branches/offices.

'Consolidated Basis' refers to all position of the NRB Commercial bank (including its local and overseas branches) and its subsidiary company NRBCSL engaged in financial activities.

## ii) Capital structure

### Qualitative disclosure

The composition of regulatory capital is different than accounting capital. The terms and conditions of the main features of capital instruments, especially, eligibility for inclusion in Common Equity Tier-1 (CET1), Additional Tier-1 and Tier-2 have been prepared based on the 'Guidelines on Risk Based Capital Adequacy' and other instruction given by Bangladesh Bank.

Tier-1 capital of NRBCB consists of Common Equity Tier-1 and Additional Tier-1 capital. Tier-1 capital is also known as Going concern capital as it allows a bank to continue its ongoing activities. Common Equity Tier 1 (CET1) capital of NRBCB consists of paid up Capital, Statutory reserve, General reserve, Retained earnings and Minority interest in subsidiaries after netting regulatory adjustments applicable on CET1 as mentioned in RBCA guideline.

Tier-2 capital is also known as Gone-Concern Capital, is the Capital which will absorb losses only in a situation of liquidation of the bank. Tier-2 capital of NRBCB comprised of General Provisions and revaluation reserve.

### Quantitative disclosure

	BDT Crore	
Particulars	Solo	Consolidated
Common Equity Tier-1 :		
Paid up Capital	514.50	514.50
Statutory Reserve	105.03	105.03
Retained Earning	84.13	84.73
Minority interest in Subsidiaries	0.00	4.07
Regulatory Adjustments :		
Deferred Tax Assets (DTA)	25.78	25.78
Total Common Equity Tier-1	677.88	682.55
Additional Tier-1 :		
<b>Total Tier-1 Capital</b>	<b>677.88</b>	<b>682.55</b>
<b>Tier-2 Capital :</b>		
General Provisions	57.53	57.53
Revaluation reserve	1.74	1.74
Regulatory Adjustments :		
Revaluation reserve	1.40	1.40
<b>Total Tier-2 Capital</b>	<b>57.88</b>	<b>57.88</b>
<b>Total Regulatory Capital</b>	<b>735.76</b>	<b>740.43</b>

### iii) Capital adequacy

#### Qualitative disclosure

NRBC Bank focuses on strengthening risk management and control environment rather than increasing capital to cover up weak risk management and control. In parallel to business growth, the bank effectively manages its capital to meet regulatory requirement considering the risk profile.

The Bank follows following approaches for calculating Risk Weighted Asset (RWA) as per Basel-III guidelines stated in BRPD Circular No.18 dated December 21, 2014 of Bangladesh Bank:

- ⊙ Standardized approach for credit risk
- ⊙ Standardized approach for Market risk
- ⊙ Basic indicator approach for operational risk

#### Quantitative disclosure

Particulars	BDT Crore	
	Solo	Consolidate
Capital Requirement for Credit Risk	460.27	459.83
Capital Requirement for Market Risk	19.02	20.47
Capital Requirement for Operational Risk	45.07	45.35
Total Capital Requirement	524.36	525.65
Total Eligible Capital	735.76	740.43
Capital to Risk Weighted Asset Ratio(CRAR)	14.03	14.09
Common Equity Tier-1 Capital Ratio (%)	12.93	12.98
Total Tier-1 Capital ratio (%)	12.93	12.98
Total Tier-2 Capital ratio (%)	1.10	1.10
Capital Conservation Buffer (1.875% of RWA)	98.32	98.55
Available Capital for Pillar II requirement	113.08	116.23

The Bank complied with all the required conditions for maintaining regulatory capital as stipulated in the revised RBCA guidelines by Bangladesh Bank

### iv) Credit risk

Credit risk is defined as the probability of failure of counterparty to meet its obligation as per agreed terms and conditions. Banks are very much prone to credit risk due to its core activities i.e. lending to corporate, commercial, SME, retail, another bank/FI or to another country. The main objective of credit risk management is to minimize the negative impact through adopting proper mitigates and also limiting credit risk exposures within acceptable limit.

The Board approves the credit policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in credit risk management and maintain quality of assets. Authorities are properly delegated in ensuring check and balance in credit operation at every stage i.e. screening, assessing risk,

identification, management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early warning system. There is a separate Credit Risk Management Division for ensuring proper risk management of Loans and Credit Administration Division for monitoring and recovery of irregular loans. Adequate provision is maintained against classified loans as per Bangladesh Bank guidelines. Statuses of loans are regularly reported to the Board through Risk Management Paper.

The Capital requirement for credit risk is based on the risk assessment made by External Credit Assessment Institutions (ECAIs) recognized by Bangladesh Bank for capital adequacy purposes. The Bank assigned risk weights to all their on-balance sheet and off-balance sheet exposures. Risk weights are based on external credit rating which mapped with the Bangladesh Bank rating grade or a fixed weight that is specified by Bangladesh Bank.

Credit Risk Management Processes in NRBC Bank encompasses with the following steps:

#### **Credit Risk Identification**

- ✓ Critical analysis and review of delinquent accounts to identify weakness in credit.
- ✓ Credit risk for the counterparty arises from an aggregation of the following: Financial Risk, Business/Industry Risk, Security Risk, Management Risk

#### **Credit Risk Assessment and Measurement**

- ✓ Use of credit risk rating system to grade the quality of borrowers. Collection the Credit Information Bureau (CIB) report of the potential borrower from the Central Bank.
- ✓ Stress Testing of loan portfolios under various scenarios. Ensuring Credit Rating of the Customer from External Credit Rating Agencies.

#### **Credit Risk Control**

- ✓ Credit Policy which documents the credit risk rating collateral policy and policies on rehabilitation and restructuring of problematic and delinquent loans.
- ✓ Efficient credit personnel to deal with the credit approval, processing and review.

#### **Credit Risk Monitoring**

- ✓ Past due principal or interest payment, past due trade bills, account excesses and breach of loan covenants.
- ✓ All loan facilities are reviewed and approved through the submission of a Credit Application annually.

#### **Policies and processes for collateral Valuation and Management**

The NRBC bank has set a policy on Collateral Valuation and Management. The bank appoints approved surveyors for valuation of collateral/securities objectively. The valuation methodology that Bank usually applies are forced sale/fire sale value, fair/market value etc. The Bank creates Legal claims on collateral/securities through mortgage; charge creation, legal documentation etc.

**Eligible Collateral:**

As per Bangladesh bank guidelines following items will be included as eligible collateral in determining base for provision:

- ✓ 100% of deposit under lien against the loan
- ✓ 100% of the value of government bond/savings certificate under lien
- ✓ 100% of the value of guarantee given by Government or Bangladesh Bank
- ✓ 100% of the market value of gold or gold ornaments pledged with the bank.
- ✓ 50% of the market value of easily marketable commodities kept under control of the bank
- ✓ Maximum 50% of the market value of land and building mortgaged with the bank
- ✓ 50% of the average market value for last 06 months or 50% of the face value, whichever is less, of the shares traded in stock exchange.

**Impaired Credit:**

To define past due and impairment for classification and provisioning, the bank follows Bangladesh Bank Circulars and Guidelines. The summary of some objective criteria for loan classification and provisioning requirement as stipulated by the central bank, BRPD circular no. 14 dated 23 September 2012 and BRPD circular no.16 dated 18 November 2014 are as below:

<b>Loan Classification and Provision</b>						
<b>Loan Category</b>	<b>Sub Standard</b>		<b>Doubtful</b>		<b>Bad &amp; Loss</b>	
	Overdue Period	Provision	Overdue Period	Provision	Overdue Period	Provision
<b>Continuous Loan</b>	3 months or more but less than 6 months	20%	6 months or more but less than 9 months	50%	9 months or more	100%
<b>Demand Loan</b>	3 months or more but less than 6 months	20%	6 months or more but less than 9 months	50%	9 months or more	100%
<b>Fixed Term</b> (Amounting up to 10 lacs. )	6 months or more but less than 9 months	20%	9 months or more but less than 12 months	50%	12 months or more	100%
<b>Fixed Term</b> (For more than 10 lacs. )	3 months or more but less than 6 months	20%	6 months or more but less than 9 months	50%	9 months or more	100%
<b>Short Term Agricultural &amp; Micro Credit</b>	12 months or more but less than 36 months	5%	36 months or more but less than 60 months	5%	60 months or more	100%

**Rate of General and Specific provision:**

<b>General provision on:</b>	
Unclassified general loans and advances	1%
Unclassified small and medium enterprise	0.25%
Loans to BHs/MBs/SDs against shares etc.	2%
Unclassified loans for housing finance and on loans for professionals	2%
Unclassified consumer financing other than housing finance and loans for professionals	5%
Short term agri. credit and micro credit	1%
Off balance sheet exposures	1%
<b>Specific provision on:</b>	
Substandard loans and advances other than short term agri. credit and micro credit	20%
Doubtful loans and advances other than short term agri. credit and micro credit	50%
Bad/loss loans and advances	100%
Substandard short term agri. credit and micro credit	5%
Doubtful short term agri. credit and micro credit	5%

**Quantitative Disclosures of NRBC Bank's Credit Risk:**

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

<b>Urban</b>	<b>BDT Crore</b>
Dhaka	2967.32
Chattogram	686.90
Rajshahi	261.93
Sylhet	104.25
Barishal	44.36
Rangpur	26.86
Khulna	15.30
Mymensingh	9.15
<b>Rural</b>	
Dhaka	513.66
Chattogram	116.99
Rajshahi	0.00
Sylhet	10.65
Barishal	20.68
Rangpur	21.99
Khulna	11.74
Mymensingh	0.00
<b>Total</b>	<b>4811.78</b>

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

<b>Particulars</b>	<b>BDT Crore</b>
Overdraft	809.23
Cash Credit	945.78
Time loan	537.54
Term loan	647.64
Payment Against Document	13.76
Loans against Trust Receipt	241.74
Packing Credit	52.56
EDF Loan	27.97
SME Credit	394.20
Lease Finance	52.19
Hire Purchase	154.15
Consumer Loan	72.95
Staff Loan	48.57
Other Loans and Advances	813.49
<b>Total</b>	<b>4811.78</b>

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

<b>Industries</b>	<b>BDT Crore</b>
Agricultural Industry	96.37
Textile	247.14
RMG	537.04
NBFI	59.88
Food	18.38
Bevarage	15.50
Pharmaceutical	24.23
Chemical	11.25
Electrical	9.11
Construction	307.96
House Building Residential	87.12
Leather	6.63
Service Industry	118.95
Transport	24.08
Basic Metal	0.71
Capital Market	1.22

Car loan	0.55
Furniture	0.43
Insurance	0.38
Consumer Finance	178.90
Printing	65.76
Ship Breaking	59.02
SME	929.13
Staff Loan	48.57
Steel	239.27
Trade Industry	926.52
Card	32.57
Other Manufacturing Industry	709.00
Others	56.12
<b>Total</b>	<b>4811.78</b>

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

<b>Maturity</b>	<b>BDT Crore</b>
Payable on demand	705.36
Not more than 3 months	1365.21
More than 3 months but not more than 1 year	1536.90
More than 1 year but not more than 5 years	754.74
More than 5 years	449.57
<b>Total</b>	<b>4811.78</b>

Gross Non-performing Asset:

<b>Unclassified</b>	<b>BDT Crore</b>
Standard Including Staff Loan	4460.28
Special Mention Account	209.12
Sub-Total (a)	4669.40
<b>Classified</b>	
Substandard Loan	11.33
Doubtful	23.52
Bad/loss	107.53
Sub-Total (b)	142.38
<b>Total (a+b)</b>	<b>4811.78</b>



### Movement of Nonperforming Asset (NPAs) and specific provisions of NRBC Bank:

<b>Movement of Nonperforming Asset (NPAs)</b>		<b>BDT Crore</b>
Gross Non Performing Assets(NPAs)		142.38
Movement of NPAs		
Opening balance		103.26
Addition		435.01
Reduction		-395.89
Closing balance		142.38
<b>Movement of specific provisions for NPAs</b>		
Opening balance		46.13
Provisions made during the period		26.26
Write-off		
Write-back of excess provisions		
Closing balance		72.39

### v. Equities: Disclosures for banking book positions:

Investment in equity securities by NRBC Bank is broadly categorized into two parts: Quoted securities (Ordinary shares, Mutual Fund) and Un-quoted securities (including preference share and subscription for private placement). Unquoted securities are categorized as banking book exposures which are further subdivided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future (i.e. held to maturity) and securities that are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Usually these securities are held for trading or investment for making capital gains.

<b>Particulars (Solo basis)</b>	<b>Cost Price</b>	<b>Market Price</b>	<b>Unrealized Gain/Loss</b>
Quoted share	74.84	71.60	(3.24)
Un-Quoted Share	4.29		

All investment securities are initially recognized at cost. Premiums are amortized and discount accredited, using the effective yield method and are taken to discount income. The valuation methods of Marking to Market for investment used are

- a) Held to Maturity (HTM) and by definition the investments which 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, less any 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 as per IAS-39 "Financial Instruments: Recognition and Measurement"

- b) Held for Trading (HFT) is a method where investments are acquired principally for the purpose of selling or repurchasing or 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.
- c) Revaluation: According to DOS Circular no.-05, dated 26th May 2008, the HFT securities are revalued once each week using Marking to Market concept and the HTM securities are amortized once a year according to Bangladesh Bank guidelines. The HTM securities are also revalued if they are reclassified to HFT category with the Board's approval.

#### Capital Charge on Equities:

Particulars	Amount	Capital Charge
Specific Risk	74.84	7.48
General Market Risk	74.84	7.48
Total	<b>149.68</b>	<b>14.96</b>

#### vi. Interest Rate Risk in the Banking Book (IRRBB):

It is the risk related to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. Changes in interest rates affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows (and in some cases, the cash flows themselves) changes when interest rates change.

**Organizational Structure:** The Asset Liability Management Committee of the Bank monitors and manages the IRRBB. The ALCO is responsible for management of the balance sheet of the Bank with a view to manage the market risk exposure by the Bank within the risk parameters laid down by the Board of Directors/Risk Committee.

#### IRRBB Management procedure:

IRRBB architecture is the framework to measure, monitor and control the adverse impact of interest rates on the Bank's financial condition within tolerable limits. This impact is calculated from following perspectives:

- i) Earning perspective: Indicates the impact on Bank's net interest income (NII) in the short term.
- ii) Economic perspective: Indicates the impact on the net-worth of bank due to re-pricing of assets, liabilities and off-balance sheet items.

The ALM& Market Risk Policies define the framework for managing IRRBB through measures such as:

- a) **Interest Rate Sensitivity Report:** Measures mismatches between rate sensitive liabilities and rate sensitive assets in various tenor buckets based on re-pricing or maturity, as applicable.
- b) **Duration Gap Analysis:** Measures the mismatch in duration of assets & liabilities and the resultant impact on market value of equity.
- c) **Stress Testing:** It is conducted on quarterly basis as per the directives of Bangladesh Bank to gain better insight into the vulnerable issue of IRRBB. Evaluates the impact on duration of capital of banking book under various stress scenarios.

#### Quantitative Disclosure:

Particulars	In Years
Duration in Asset	1.370
Duration in Liabilities	1.374
Duration Gap (in Years)	0.08

Interest rate risk in banking book as of Dec 31<sup>st</sup>, 2017 is calculated as change in Market Value (MV) of equity as below:

	1%	2%	3%
<b>Interest rate change</b>			
<b>Change in market value of equity</b>	(4.45)	(8.89)	(13.35)

The below result implies that bank has more interest rate sensitive assets than interest rate sensitive liabilities and increase in interest rate may cause a increase in the economic value of bank's capital.

#### Sensitivity Analysis:

	BDT Crore		
<b>Total Risk Sensitive Asset</b>	5687.44		
<b>Total Risk Sensitive Liabilities</b>	5167.21		
<b>Cumulative Gap</b>			
< 3 months	593.79		
3-6 months	388.92		
6-12 months	450.00		
CRAR before shock (Solo)			
<b>Assumed Change in Interest Rate</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>
<b>Capital after shock</b>	731.32	726.87	722.42
<b>CRAR after shock</b>	13.96%	13.89%	13.81%

#### **vii. Market Risk:**

Market risk is the risk of adverse revaluation or movement of any financial instrument as a consequence of changes in market prices or rates. Market risk exists in all trading, banking and investment portfolios. But for the purpose of this report, it is considered as a risk specific to trading book of the Bank. The major types of market risk as specified in the Risk Based Capital Adequacy (RBCA) are as follows:

- ✓ Interest rate risk
- ✓ Foreign exchange risk
- ✓ Equity position and
- ✓ Commodity risk.

Among the above list the main type of market risk faced by the Bank are interest rate risk and foreign exchange risk. The management of Bank has given significant attention to market risk in trading book, to assess the potential impact on the Bank's business due to the unprecedented volatility in financial markets.

#### **Views of Board of Directors (BoD) on trading/investment activities:**

The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to obtain maximum returns without taking undue risks.

#### **Methods used to measure Market Risk:**

Bank applies maturity method in measuring interest rate risk in respect of securities in trading book. The capital charge for entire market risk exposure is computed under the standardized approach using the maturity method and in accordance with the guideline issued by Bangladesh Bank.

#### **Market Risk Management System:**

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

Policies and procedure for mitigating market risk are mentioned below:

- ✓ Risk Management and reporting is based on parameters such as Maturity Gap Analysis, Duration Gap Analysis.
- ✓ Risk Profiles are analyzed and mitigating strategies/processes are suggested by the Asset Liability Committee (ALCO).
- ✓ Foreign Exchange Net Open Position (NOP) limits (Day limit/Overnight limit), deal-wise trigger limits, Stop-loss limit, Profit/Loss in respect of cross currency trading are properly monitored and exception reporting is regularly carried out.

- ✓ Holding of equities is monitored regularly so that the investment remains within the limit as set by Bangladesh Bank.
- ✓ Asset Liability Management Committee (ALCO) analyzes market and determines strategies to attain business goals.
- ✓ Reconciliation of foreign currency transactions.

### Qualitative Disclosure

The capital requirements for :	BDT Crore	
	Solo	Consolidated
Interest Rate Risk	1.85	1.85
Equity Position Risk	14.97	16.42
Foreign Exchange Risk	2.21	2.21
Commodity Risk	0.00	0.00

### viii. Operational Risk:

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. We seek to minimize exposure to operational risk, subject to cost benefit trade-offs.

#### Views of BoD on system to reduce operational risk:

Banks Internal Control & Compliance (ICCD) is the main tool in managing operational risk. Management through three units of ICCD i.e. monitoring, compliance and Audit & Inspection controls overall operation of the bank. Board audit committee directly oversees the functions of ICCD to prevent operational risk.

#### Performance gap of executives and staffs:

NRBC Bank is an equal opportunity employer. At NRBC Bank we recognize the importance of having the right people at right positions to achieve organizational goals. Our recruitment and selection is governed by the philosophies of fairness, transparency and diversity. Understanding what is working well and what requires further support is essential to our performance management system. The performance management process aims to clarify what is expected from employees as well as how it is to be achieved.

#### Potential external Event:

No potential external event is expected to expose the Bank to significant operational risk.

#### Policies and processes for mitigating operational risk:

As there is no upside of this risk, the objective of the management of operational risk is to minimize the risk in cost effective manner. Currently bank is not using any model or tool to capture operational loss data for historical analysis rather it is a self assessment process. Bank's ICC Division is responsible for risk identification, measurement, monitoring, control, and reporting of operational risk. Bank strongly follows KYC norms for its customer dealings and other banking operations. The Internal Control and

Compliance Division of the Bank, The inspection teams of Bangladesh Bank and External Auditors conduct inspection of different branches and divisions at Head Office of the Bank and submit reports presenting the findings of the inspections. Necessary control measures and corrective actions have been taken on the suggestions or observations made in these reports.

**Approach for calculating capital charge for operational risk:**

Bank applies ‘Basic Indicator Approach’ for calculating capital charge for operational risk as prescribed by BB in revised RBCA guidelines. Under this approach, banks have to calculate average annual gross income (GI) of consecutive last three years and multiply the result by 15% ( $\alpha$  factor) to determine required capital charge. Gross Income is the sum of ‘Net Interest Income’, ‘Net non-interest income’ and ‘Interest Suspense’ of a year or it is ‘Total Operating Income’ of the bank.

**Quantitative Disclosure:** The capital requirement for operational risk is as follows:

Particulars	BDT Crore	
	Solo	Consolidated
The capital requirement for operational risk	45.08	45.35

**ix. Liquidity Ratio and Risk:**

Liquidity ratios are a class of financial metrics used to determine a bank’s ability to pay off its short-term debts obligations. Liquidity risk is the risk that a bank may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

**Views of BOD on system to reduce Liquidity risk:**

The Board Risk Management Committee regularly observe the key liquidity risk indicator i.e. Volatile liability dependency ratio, Liquidity Coverage Ratio (LCR), medium term funding ratio, and Net stable funding ratio and provide their valuable opinion.

**Methods used to measure Liquidity risk:**

The stress test for liquidity risk evaluates the resilience of the banks towards the fall in liquid liabilities. The ratio “liquid assets to liquid liabilities” is calculated before and after the application of shocks by dividing the liquid assets with liquid liabilities. Liquid assets are the assets that are easily turned into cash without the threat of loss. They include cash, balances with Bangladesh Bank and balances with banks, call money lending, lending under repo and investment in government securities. Liquid liabilities include the deposits and the borrowings. Appropriate shocks will have to be absorbed to the liquid liabilities if the current liquidity position falls at the rate of 10%, 20% and 30% respectively.

**Liquidity risk Management System:**

The ALCO of the NRBC Bank regularly monitors the driving factors of liquidity risk called Regulatory liquidity indicators (RLIs). These factors are measures form the following aspects.

- ⊙ Cash Reserve Requirement (CRR)
- ⊙ Statutory Liquidity Ratio (SLR)
- ⊙ Maximum Cumulative Outflow (MCO)
- ⊙ Advance Deposit Ratio (ADR)
- ⊙ Liquidity Coverage Ratio (LCR)
- ⊙ Net Stable Funding Raito (NSFR)

#### **Policies and process for mitigating liquidity risk:**

NRBCB manages liquidity risk in accordance with its ALM Policy. This policy is framed as per the regulatory guidelines, and is approved by the Board of Directors. The ALM Policy is reviewed periodically to incorporate changes as required by regulatory stipulation or to realign with changes in the economic landscape. NRBCB's ALCO formulates and reviews strategies, and provides guidance to manage liquidity risk within the framework laid out in the ALM Policy. The committee proactively manages liquidity risk as a part of its ALM activities.

In order to develop comprehensive liquidity risk management framework, the bank has a Liquidity Contingency Plan (LCP). A set of policies and procedures that serves as a blueprint for the bank to meet its funding needs in a timely manner and at a reasonable cost. In this sense, LCP is an extension of ongoing liquidity management and formalizes the objectives of liquidity management by ensuring:

- a) Maintenance of reasonable amount of liquid assets.
- b) Measurement and projection of funding requirements and
- c) Management of access to funding sources.

#### **Quantitative Disclosure:**

<b>Particulars</b>	<b>BDT Crore</b>
Liquidity Coverage Ratio (LCR)	148.83%
Net Stable Funding Raito (NSFR)	113.80%
Stock of High quality liquid assets	1021.04
Total net cash outflow over the next 30 days calendar	686.04
Available amount of stable funding	5579.74
Required amount of stable funding	4903.20

## 10. Leverage Ratio:

As an additional safeguard against model risk, and measurement error by supplementing the risk based measure, a non risk based regulatory leverage ratio has been introduced with a simple, transparent and independent measurement of risk.

### Views of BOD on system to reduce excessive leverage:

Excessive leverage by banks is widely believed to have contributed to the global financial crisis. Thus Basel III rules have introduced leverage ratio as a non risk based capital requirements. Board of Directors of our Bank continuously monitoring the exposure limit of lending, capital strength of our Bank in order to avoid building-up excessive on and off-balance sheet leverage.

### Approach for calculating exposure:

According to instruction of supervisory body, the bank is calculating leverage ratio and submitted the same to BB on quarterly basis.

### Qualitative Disclosure:

Particulars	BDT Crore	
	Solo	consolidated
Leverage Ratio ( <i>Required 3%</i> )	9.48%	9.53%
On Balance sheet Exposure	6633.81	6641.91
Off Balance Sheet Exposure	544.33	544.33
Total Exposure after Regulatory adjustment	7152.36	7160.46

## 11. Remuneration:

### The bodies that oversee remuneration

The bank has a Board approved payroll/remuneration policy which is incorporated in HR policy. The bank doesn't have any individual Committee/bodies that overseeing the remuneration. MANCOM with the concern of Board will monitor the issue on required basis. The bank has approved rewarding policy for the performing employees. Financial benefits may be granted to an employee by the Board or any other authority empowered by the Board for meritorious service. An award in cash or in kind may be granted to an employee by the Board or any other authority empowered by the Board for the outstanding academic and professional achievements.

### Design and Structure of Remuneration:

The Structure of remuneration arrangements for all employees consists of following components:

- ⊙ Fixed Remuneration; and
- ⊙ Variable pay



The fixed remuneration is made up of base remuneration and superannuation. Base remuneration includes salary and allowances paid in cash. Superannuation is paid to the employee at the time of retirement.

Variable pay consists of incentive bonuses award to most of the banks employee which are discretionary and recognize annual performance over the financial year.

In case of following situation remuneration can be adjusted before vesting:

- ⊙ Disciplinary Action (at the discretion of enquiry committee)
- ⊙ Resignation of the employee prior to the payment date.

Qualitative Disclosure	BDT Crore
Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	
Number of employees having received a variable remuneration award during the financial year.	
Number and total amount of guaranteed (festival) bonuses awarded during the financial year.	<b>6.08</b>
Number and total amount of sign-on awards made during the financial year.	
Number and total amount of severance payments made during the financial year	
Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	
Total amount of deferred remuneration paid out in the financial year.	
Breakdown of amount of remuneration awards for the financial year to show: fixed and variable, deferred and non-deferred, different forms used (cash, shares and share linked instruments, other forms).	<b>( Incentive bonus) yet to decided</b>