

## Disclosure on Risk Based Capital (Basel III) For the year -2016

### Introduction:

Basel III is a set of international banking regulations developed by the Bank for International Settlements in order to promote stability in the Global financial system. Principally the aim is to ensure banks accept a level of responsibility for the financial economy they operate within and to act as a safeguard against probable risk. In compliance with the 'Revised Guidelines on Risk Based Capital Adequacy (RBCA)' issued by Bangladesh Bank in December 2014, Banks in Bangladesh have formally entered into Basel III regime from 1 January 2015.



NRB Commercial Bank Ltd. has also adopted Basel III framework as part of its capital management strategy in line with the revised guideline. These Market disclosures under Basel III are made following 'Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)' for banks issued by Bangladesh Bank in December 2014.

### Corroboration:

The quantitative disclosures are made on the basis of consolidated audited financial statements of NRBCB and its Subsidiaries as at and for the year ended December 31, 2016 prepared under relevant International Accounting and Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and related circulars/instructions issued by Bangladesh Bank from time to time. Assets of the subsidiaries were risk weighted and equities of subsidiaries were crossed out with the investment of NRBCB while consolidating. So, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements 2016 of NRBCB and its Subsidiaries along with separate audited financial statements of the Bank available on the website of the Bank .

## Disclosure Policy:

The following detail qualitative and quantitative disclosures are provided in accordance with Bangladesh Bank rules and regulations on risk based capital adequacy under Basel-III issued through Revised RBCA (Revised Regulatory Capital framework for banks in line with Basel-III) Guidelines. 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 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

## Disclosure framework:

1. Scope of application
2. Capital structure
3. Capital adequacy
4. Credit Risk
5. Equities: disclosures for banking book positions
6. Interest rate risk in the banking book (IRRBB)
7. Market Risk
8. Operational Risk
9. Leverage Ratio
10. Liquidity Ratio
11. Remuneration

### 1. Scope of application:

The Bank obtained the permission of subsidiary company as NRB Commercial Securities Limited (NRBCSL) from Bangladesh Bank in 2015. According to BRPD Circular-12, 24, 35 (dated March 29, 2010, August 03, 2010 & December 29, 2010 respectively) and BRPD circular letter no-08, dated July 23, 2012, investments in subsidiaries have been consolidated for the purpose of assessing capital adequacy. At present the Bank has one subsidiary NRB Commercial Securities Limited (NRBCSL).

**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.

## 2. a) Capital Structure:

### Qualitative Disclosures:

Capital serves as a buffer to absorb unexpected losses as well as to fund ongoing activities of the bank. The Capital structure of the Bank is categorized into two tiers.

1. Tier-1 Capital (Going-concern capital)
  - a) Common Equity Tier-1
  - b) Additional Tier – 1
2. Tier- 2 Capital (Gone- concern capital)

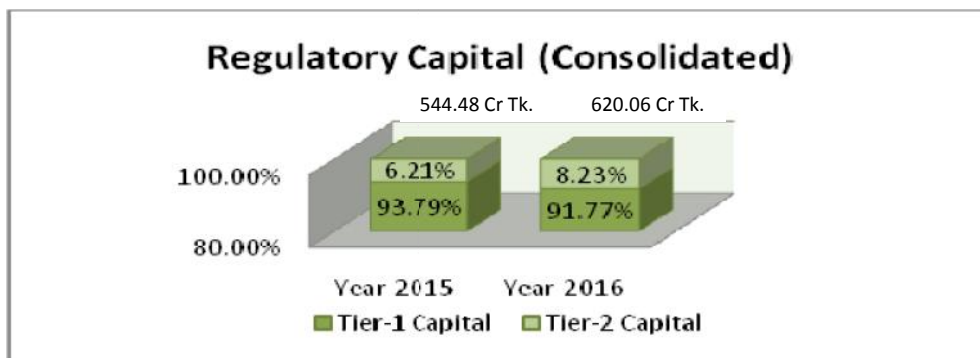
#### 1. Tier-1 Capital (Going-concern Capital):

Going concern Capital is the Capital which allows a bank to continue its activities and keep it solvent. Going-Concern Capital/Common Equity Tier 1 (CET1) capital shall consist of sum 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.

Additional Tier 1 (AT1) capital shall consist of Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties (for consolidated reporting only).The Bank does not hold any Additional Tier 1 (AT1) capital.

#### 2. Tier-2 Capital (Gone-concern Capital):

Gone-Concern Capital is the Capital which will absorb losses only in a situation of liquidation of the bank. Gone-Concern Capital/ Tier 2 (CET1) capital shall consist of sum of General Provisions, Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital.



## Quantitative Disclosures:

Particulars	Solo	Consolidate
Common Equity Tier-1	Fig in Crore Tk.	
Paid up Capital	457.94	457.94
Statutory Reserve	46.28	46.28
Retained Earning	62.18	62.79
Minority interest in Subsidiaries	0.00	4.07
<b>Tier-1 Capital</b>	<b>566.40</b>	<b>571.07</b>
Regulatory Adjustments		
Deferred Tax Assets (DTA)	2.05	2.05
<b>Tier-1 Capital after adjustment</b>	<b>564.35</b>	<b>569.03</b>
<b>Tier-2 Capital</b>		
General Provisions	49.98	49.98
Revaluation Reserve	1.75	1.75
Regulatory Adjustments		
Revaluation Reserve 40% washout in 2016	0.70	0.70
<b>Tier-2 Capital after adjustment</b>	<b>51.03</b>	<b>51.03</b>
<b>Total Regulatory Capital</b>	<b>615.39</b>	<b>620.06</b>

**b) Conditions of Capital maintenance:** The Bank complied with all the required conditions for maintaining regulatory capital as stipulated in the revised RBCA guidelines by Bangladesh Bank as per following details:

<b>Complied</b>	<ul style="list-style-type: none"> <li>• Common Equity Tier 1 of at least 4.5% of the total RWA</li> <li>• Tier 1 capital will be at least 6.0% of the total RWA</li> </ul>
T-1 to RWA 12.39% against required 6 %	
<b>Complied</b>	<ul style="list-style-type: none"> <li>• Minimum CRAR of 10% of the total RWA</li> <li>• Additional Tier 1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher</li> </ul>
CRAR (Conso) = 13.50% against required 10 %	
<b>Complied</b>	<ul style="list-style-type: none"> <li>• Tier 2 capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher</li> <li>• In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.5% of the total RWA is being introduced which will be maintained in the form of CET1</li> </ul>
T-2 to RWA 1.11% within admitted 4.0%	

### 3. Capital Adequacy:

#### Qualitative Disclosures:

Assessing regulatory capital in relation to overall risk exposures of a bank is an integrated and comprehensive process. NRB Commercial Bank Limited with its focused strategy on risk management has always been consistent in maintaining capital adequacy ratio above the regulatory requirements.

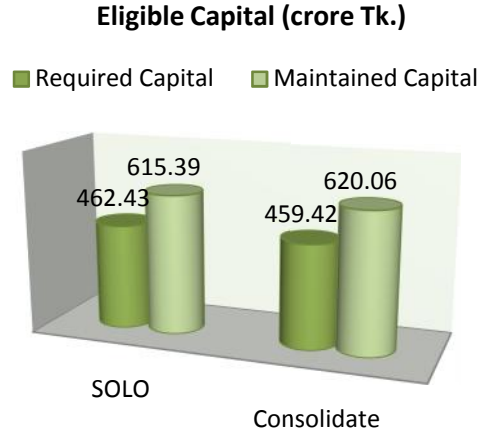
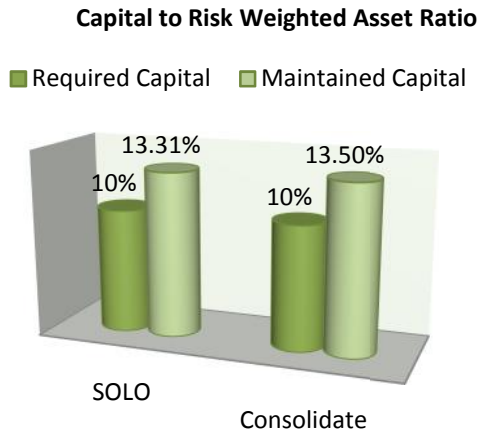
The Bank has a policy on Internal Capital Adequacy Assessment Process (ICAAP) as stipulated by Bangladesh Bank. The ICAAP also details the risk appetite of the Bank, assessment of material risks, the process for capital adequacy of risk control framework, capital raising plans and Bank-wide stress testing. The periodic assessment of bank's performance against the two pillars of Basel III and results of stress testing are reported to the Board of Directors for their review.

The Bank has maintained regular reporting with Bangladesh Bank regarding the Capital adequacy. The Bank also ensures the capital levels that are sufficient to cover all material risk of the Bank. The entire objective of the Bank's capital planning is to ensure that the Bank is adequately capitalized at all level throughout the year.

#### Quantitative Disclosures:

Particulars	Solo	Consolidate
	Fig in crore Tk.	
Capital requirement for Credit Risk (10% of RWA)	421.49	417.71
Capital requirement for Market Risk	10.82	11.59
Capital requirement for Operational Risk	30.12	30.12
Total Capital Requirement	462.44	459.42
<b>Capital to Risk Weighted Asset Ratio</b>		
On core Capital (Against a standard of minimum 5%)	12.20%	12.39%
On actual Capital (Against a standard of minimum 10%)	13.31%	13.50%

The Bank maintains a capital of Taka 620.06 crore as against total risk weighted assets of taka 459.42 crore on consolidate basis. The Bank's Capital to Risk weighted Asset Ratio (CRAR) as at 31<sup>st</sup> December 2016 is 13.31% (Solo) and 13.50 % (Consolidate) as against the minimum requirement of 10%. Tier-I capital was 12.39% (Consolidate) and 12.20% (Solo) against minimum requirement of 5%. As a result the Bank has a buffer Capital of Taka 152.95 crore to mitigate the additional uncertain risk under Pillar-II of Basel-III.



**4. Credit Risk:** Credit risk is defined as the probability of failure of counterparty to meet its obligation as per agreed terms. 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 System in NRB Commercial Bank Limited.

### 1. Credit Risk Identification

- Critical analysis and review of delinquent accounts to identify weakness in credit.
- Benchmark of asset quality against industry peers

Apart from this, Credit risk for the counterparty arises from an aggregation of the following:

- Financial Risk
- Business/Industry Risk
- Management Risk
- Security Risk
- Relationship Risk
- Natural calamities and Political unrest.

### 2. 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.
- Segregation among business-CRM-CAD-SAMD (Recovery)

Credit Risk  
Management

### 3. 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.
- Segregation of duties between credit approvals functions and credit origination.
- Independent credit control and monitoring.

### 4. Credit Risk Monitoring

- Past due principal or interest payment, past due trade bills, account excesses and breach of loan covenants.
- Loan term and conditions are monitored, financial statements are received on a regular basis and any covenant breaches or exception are to be referred to the proper authority for timely follow-up.
- Timely corrective action is to be taken to address findings of any internal, external or regulatory inspection/audit.
- All loan facilities are reviewed and approved through the submission of a Credit Application annually.

**Policies and processes for collateral Valuation and Management:** The NRB Commercial bank has set a policy on Collateral Valuation and Management. The bank appoints approved surveyors for valuation of collateral/securities objectively. The methodology of valuation that the 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 the following collateral will be include 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 through 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:

	Loan Classification					
	Sub Standard		Doubtful		Bad & Loss	
	Overdue Period	Provision %	Overdue Period	Provision %	Overdue Period	Provision %
Continuous Loan	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%
Demand Loan	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%
Fixed Term	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%
Short Term Agricultural & Micro Credit	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:**

**General provision on: (For both Standard and Special mention account) Rate**

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 financing and loans for professionals	5%
Short term agri credit and micro credit	2.5%
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:

<u>Urban Area</u>	Fig in crore Tk.
Dhaka	2198.82
Chittagong	506.78
Rajshahi	327.74
Sylhet	75.72
Barisal	59.26
Rangpur	10.74
Khulna	7.54
<u>Rural Area</u>	
Dhaka	407.75
Chittagong	131.61
Rajshahi	0.00
Sylhet	0.74
Barisal	10.30
Rangpur	3.62
Khulna	0.19
Total	3740.79

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

Particulars	Figures in Crore Tk.
Overdraft	792.51
Cash Credit	674.94
Time loan	712.09
Term loan	449.74
Payment Against Document	10.33
Loans against Trust Receipt	175.69
Packing Credit	20.93
EDF Loan	66.47
Lease Fiance & Hire Purchase	240.26
Consumer Loan	46.69
Staff Loan	36.16
Other Loans and Advances	514.99
Total	3740.79

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

<u>SL</u>	<u>Industries</u>	Fig in crore Tk.
1	Agri cultural Industry	77.32
2	Textile	206.61
3	RMG	356.55
4	NBFI	82.03
5	Food	9.99
6	Beverage	16.61
7	Pharmaceutical	23.12
8	Chemical	3.81
9	Electrical	11.47
10	Construction	279.92
11	House Building Residential	96.14
12	Leather	9.21
13	Service Industry	38.48
14	Transport	48.54
15	Basic Metal	7.38
16	Capital Market	-
17	Car loan	1.17
18	Furniture	0.14
19	Insurance	1.19
20	Consumer Finance	113.74
21	Printing	55.29
22	Ship Breaking	49.51
23	SME	579.69
24	Staff Loan	36.16
25	Steel	110.36
26	Trade Industry	717.13
27	Card	15.75
28	Other Manufacturing Industry	542.21
29	Others	251.30
<b>Total</b>		<b>3740.79</b>

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

<b>Remaining Maturity</b>	Fig in crore Tk.
Payable on demand	481.22
Not more than 3 months	791.12
More than 3 months but not more than 1 year	1,345.47
More than 1 year but not more than 5 years	687.52
More than 5 years	435.46
<b>Total</b>	<b>3,740.79</b>

Gross Non-performing Asset:

<b>Unclassified</b>	Fig in crore Tk.
Standard Including Staff Loan	3623.03
Special Mention account	98.46
<b>Sub-Total (a)</b>	<b>3,721.49</b>
<b>Classified</b>	
Substandard Loan	5.93
Doubtful	2.51
Bad/loss	10.86
<b>Sub-Total (b)</b>	<b>19.30</b>
<b>Total (a + b):</b>	<b>3740.79</b>

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

<b>Movement of Nonperforming Asset (NPAs)</b>	Fig in crore Tk.
Opening balance	6.28
Addition	125.55
Reduction	112.53
Closing balance	19.30
<b>Movement of specific provisions for NPAs</b>	
Opening balance	0.48
Provisions made during the period	5.39
Write-off	0.00
Write-back of excess provisions	0.00
Closing balance	5.86

**5. Equities: Disclosures for banking book positions:**

Investment in equity securities by NRBCB 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.

Quoted Share	Fig in crore Tk.	
Cost Price	Market Price	Unrealized Gain/Loss
4.74	4.83	0.09
<b>Un-Quoted Share</b>		
8.00 (Solo)		

All investment securities are initially recognized at cost. Premiums are amortized and discount accreted, 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 revaluated if they are reclassified to HFT category with the Board's approval.

#### Capital Charge on Equities:

Particulars	Amount	Capital Charge
Specific Risk	4.83	0.48
General Market Risk	4.83	0.48
Total	9.65	0.97

#### 6. 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) change 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 IRRB. Evaluates the impact on duration of capital of banking book under various stress scenarios.

### Quantitative Disclosure:

Particulars

Duration in Asset	1.41
Duration in Liabilities	1.11
Duration Gap (in Years)	0.37

Interest rate risk in banking book as of Dec 31<sup>st</sup>, 2016 is calculated as change in Market Value (MV) of equity as below:

Interest rate change	1%	2%	3%
Change in market value of equity	16.99	33.98	50.97

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

### Sensitivity Analysis:

	Fig in crore Tk.		
Total Risk Sensitive Asset	3196.75		
Total Risk Sensitive Liabilities	3058.76		
<b>Cumulative Gap</b>			
< 3 months	555.35		
3-6 months	328.04		
6-12 months	137.99		
CRAR before shock (Solo)			
Assumed Change in Interest Rate (%)	1%	2%	3%
Capital after shock	615.37	616.75	618.13
CRAR after shock	13.34	13.37	13.40

## **7. 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:

**i) Interest rate risk ii) Equity position risk iii) Foreign exchange risk and iv) 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 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: Both Solo and Consolidated basis

The capital requirements for :	Fig in crore Tk.	
	Solo	Consolidated
i) Interest Rate Risk	9.00	9.00
ii) Equity Position Risk	0.97	1.73
iii) Foreign Exchange Risk	0.86	0.86
iv) Commodity Risk	0.00	0.00

### 8. 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 (IC&CD) 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. Operational risks are analyzed through review of Departmental Control Function Check List (DCFCL). This is a self assessment process for detecting High risk areas and finding mitigation of those risks. These DCFCLs are then discussed in monthly meeting of Bank's Risk Management Committee. The committee analyzes High and Moderate risk indicators and set responsibility for suitable personnel to resolve the issue. If anything remains unresolved or marked High, it is referred to MANCOM. 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:

The bank applies 'Basic Indicator Approach' of Basel III 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% ( 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	Fig in crore Tk.	
	Solo	Consolidated
<b>The capital requirement for operational risk</b>	<b>30.12</b>	<b>30.12</b>

### 9. 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 operational risk:

The Board Risk Management Committee regularly observe the key liquidity risk indicator i.e. Volatile liability dependency ratio, 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)	As per MPD circular No-1, Bank have to maintained CRR of minimum 6% on daily basis and 6.5% on bi-weekly basis of weekly average demand and time liabilities of the base month which is two month back of reporting month.
Statutory Liquidity Ratio (SLR)	As per DOS circular No-1, Bank have to maintained SLR of minimum 13% on weekly average demand and time liabilities of the base month which is two month back of reporting month.



Medium Term Funding Ratio (MTFR)	$MTF = \frac{\text{Total Liabilities one year and above}}{\text{Total Assets one year and above}}$
Maximum Cumulative Outflow (MCO)	$MCO = \frac{\text{Total outflows up to one month and Total OBS up to one month}}{\text{Total Inflows} + \text{Total Nostro a/c balance (Net)} + \text{Total available Fcy with BB}}$
Advance Deposit Ratio (ADR)	$ADR = \frac{\text{Total Loans \& Advances on a given date}}{\text{Total deposit on a given date}}$
Liquidity Coverage Ratio (LCR)	$LCR = \frac{\text{Stock of High quality liquid Assets}}{\text{Total net cash outflows over the next 30 calendar days}}$
Net Stable Funding Ratio (NSFR)	$NSFR = \frac{\text{Available Stable Fund (ASF)}}{\text{Required Stable Fund (RSF)}}$

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

In order to develop comprehensive liquidity risk management framework, the bank has a Liquidity Contingency Plan. 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, a Liquidity Contingency Plan (LCP) is an extension of ongoing liquidity management and formalizes the objectives of liquidity management by ensuring:

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

#### Quantitative Disclosure:

	Fig in crore Tk.	
Net Stable Funding Ratio (NSFR)	108.88%	
Liquidity Coverage Ratio (LCR)	120.39%	
Medium Term Funding Ratio (MTFR)	80.00%	
Maximum Cumulative Outflow (MCO)	18.58%	
Advance Deposit Ratio (ADR)	83.18%	
	<b>Required</b>	<b>Maintained</b>
Cash Reserve Requirement (CRR)	236.57	248.19
Statutory Liquidity Ratio (SLR)	473.13	595.08

#### 10. Leverage Ratio:

##### 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 maintaining leverage ratio on quarterly basis. The calculation at the end of each calendar quarter will be submitted to BB showing the average of the month end leverage ratios based on the following definition of capital and total exposure.

$$\text{Leverage Ratio} = \frac{\text{Tier-1 Capital (after related deduction)}}{\text{Total Exposure (after related deduction)}}$$

**Qualitative Disclosure:**

	Solo	consolidated
Leverage Ratio (Required 3%)	9.88%	9.96%

**11. 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.

**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

	Fig in crore Tk
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>3.48</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 Tk. 8.42)</b>