Disclosures on Risk Based Capital (Basel II)

The disclosure under pillar III of BASEL II are made following revised 'Guideline on risk based capital adequacy (RBCA)' issued by Bangladesh Bank circular no. 35 of 29 December 2010. These quantitative and qualitative disclosures are indented to complement the Minimum Capital Requirement (MCR) under pillar I and Supervisory Review Process (SRP) under Pillar II of BASEL II.

The purpose of these disclosures is to present relevant information on adequacy of capital in relation to overall risk exposure of the Bank so that the market participant can assess the position and direction of the Bank in making economic decision.

1. Capital Adequacy for Banks' in line with Basel II.

In order to historically cope with the international best practices and to make the Bank's capital more risk sensitive as well as more shock resilient, 'Guidelines on Risk Based Capital Adequacy (RBCA) for Banks' (Revised regulatory capital framework in line with Basel II) have been introduced from 1 January 2009. Throughout the year 2009, Basel II reporting was parallel to Basel I which was the statutory requirement up to that year. However, at the beginning of year 2010, Basel II became mandatory. Bangladesh Bank further reviewed the RBCA Guidelines on several occasions prior to Basel II became fully in force. Instructions regarding Minimum Capital Requirement (MCR), Adequate Capital, and Disclosure requirements as stated in these guidelines have to be followed by all scheduled banks for the purpose of statutory compliance.

Basel II guidelines are structured on the following aspects:

a) Minimum capital requirements to be maintained by a Bank against credit, market, and operational risks.

b) Process for assessing the overall capital adequacy aligned with risk profile of a Bank as well as capital growth plan.

c) Framework of public disclosure on the position of a Bank's risk profiles, capital adequacy, and risk management system.

2 Scope of BASEL II

Basel II guidelines apply to all scheduled banks on 'Solo' basis as well as on 'Consolidated' basis where-

- Solo Basis' refers to all position of the bank and its local and overseas branches/offices; and
- Consolidated Basis' refers to all position of the bank (including its local and overseas branches/offices) and its subsidiary company(ies)

NRBCB followed the scope narrated above. Bank has Tier 1 and 2 capital structure at the moment on Solo Basis.

A. Scope of Application

Qualitative Disclosure		
a)	The name of the top corporate entity in the group to which this guideline applies.	**NRB Commercial Bank Limited**
b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group: that are fully consolidated; 1. that are given a deduction treatment; and 2. that are neither consolidated nor deducted (e.g. where the investment is risk weighted	**NRB Commercial Bank Limited (NRBCB)** NRB Commercial Bank Limited, first of its kind in the banking industry, sponsored by as many as 53 (Fifty three) qualified NRBs from business persons to community leaders to scientists to educationists, mostly living in the United States of America and other major countries across the globe, has been opened on 2 April, 2013 with the nascent vision to strengthen the business and investment opportunities in the country and to become a peerless bank in providing service to the NRBs and the citizens of the country.
c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	**Not Applicable**
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 Disclosure		
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.	**Bangladesh Bank instruct the following condition for maintaining of Tier 1 capital, Tier 2 capital, and Tier 3 capital :** 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 bond shall be limited to a maximum of 30% of the amount of Tier 1 capital. e) Limitation of Tier 3: A minimum of about 28.5% 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), banks are required to make following deductions from their Tier-1 capital;** a) Book value of Intangible asset that have been 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 from any other surplus on the securities. e) Reciprocal/crossholdings of bank's capital/subordinated debt f) Unauthorized amount of share holding g) Investment in subsidiaries which are not consolidated

Quantitative Disclosures	
The amount of Tier 1 capital, with separate disclosure as of 31 December 2013	
Particulars	BDT in Million
Paid up capital	4,373.85
Non-repayable share premium account	-
Statutory reserve	7.66
General reserve	-
Retained earnings	14.37
Minority interest in subsidiaries	-
Non-cumulative irredeemable preference shares	-
Dividend equalization account	-
Total Tier 1 Capital (A)	**4,395.88**
Total amount of Tire 2 and Tier 3 capital	
i. Amount of Tier 2 capital	57.54
ii. Amount of Tier 3 capital	0.00
Sub-total of Tier 2 and Tier 3 Capital [B]	**57.54**
Other deductions from capital [Deferred tax assets against the specific loan loss provision] * [C]	-
Total eligible capital [A+B-C]	**4,453.42**

* In compliance with the instruction contained in BRPD Circular No. 11 dated 12 December 2011.

C. Capital Adequacy

Qualitative Disclosure		
a)	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities	The Bank assesses the adequacy of its capital in terms of Section 13 (2) of the Bank company Act, 1991 and instruction contained in BRPD Circular No. 35 dated 29 December 2010 **[Guidelines on 'Risk Based Capital Adequacy for Banks'(Revised regulatory capital framework in line with Basel II)]**. However, in terms of the regulatory guidelines, the Bank computes the capital charge /requirement as under: 1. Credit risk : On the basis of Standardized Approach; 2. Market risk : On the basis of Standardized Approach; and 3. Operational risk: On the basis of Basic Indicator Approach.

Quantitative Disclosures	
Particulars	BDT in Million
1. Capital requirement for Credit Risk	4,966.10
2. Capital requirement for Market Risk	38.33
3. Capital requirement for Operational Risk	530.52
Total and Tier 1 capital ratio :	
Total CAR	80.46%
Tier I CAR	79.42%
Tier II CAR	1.04%

D) Credit Risk

Qualitative Disclosure:		
a)	The general qualitative disclosure requirement with respect to credit risk, including: i. Definitions 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 & Micro Credit for the purpose of classification. ▪ **Any continuous Loans are classified as:** a) Sub-standard- if it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months. b) Doubtful- if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months c) Bad/Loss- if it is past due/overdue for 09 (nine) months or beyond. ▪ **Any Demand Loans are classified as:** a) Sub-standard- if it remains past due/overdue for 03 (three) months or beyond but not over 06 (six) months from the date of expiry or claim by the bank or from the date of creation of forced loan. b) Doubtful- if it remains past due/overdue for 06 (six) months or beyond but not over 09 (nine) months from the date of expiry or claim by the bank or from the date of creation of forced loan. c) Bad/Loss- if it remains past due/overdue for 09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan. ▪ **Fixed Term Loans are classified as:** A. **If Fixed Term Loans amounting up to BDT 1 Million**: a) Sub-standard- If the amount of past due instalment is equal to or more than the amount of instalment(s) due within 06 (six) months, the entire loan will be classified as Sub- standard b) Doubtful-If the amount of past due instalment is equal to or more than the amount of instalment(s) due within 09 (nine) months, the entire loan will be classified as Doubtful c) Bad/Loss- If the amount of 'past due instalment is equal to or more than the amount of instalment(s) due within 12 (twelve) months, the entire loan will be classified as Bad/Loss. B. **If Fixed Term Loans amounting more than BDT 1 million** a) Sub-standard- If the amount of past due instalment is equal to or more than the amount of instalment(s) due within 03 (three) months, the entire loan will be classified as Sub-standard. b) Doubtful-If the amount of past due instalment is equal to or more than the amount of instalment(s) due within 06 (six) months, the entire loan will be classified as Doubtful. c) Bad/Loss- If the amount of 'past due installment is equal to or more than the amount of instalment(s) due within 09 (nine) months, the entire loan will be classified as Bad/Loss. ▪ **Agricultural Credit & Micro Credit:** a) Sub-standard- If the irregular status continues, after a period of 12 (twelve) months the credits are classified as Sub-standard. b) Doubtful- If the irregular status continues, after a period of 36 (thirty Six) months the credits are classified as Doubtful. c) Bad/Loss- If the irregular status continues, after a period of 60 (sixty) months the credits are classified as Bad/loss. **A Continuous Loan, Demand Loan or a Term Loan which will remain overdue for a period of 02 (two) months or more, will be put into the Special Mention Account (SMA)**

b)	ii. Description of approaches followed for specific and general allowances and statistical methods;	**As per Bangladesh Bank's guideline, NRBCB maintains General and Specific provision in the following way:**

Particulars	**Rate (%)**
General provision on all unclassified loans of Small and Medium Enterprise (SME)	0.25%
General provision against all unclassified loans (other than loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock dealers etc., Special Mention Account as well as SME Financing.)	1%
General provision on the unclassified amount for Consumer Financing (other than Housing Finance and Loans for professionals to set up business)	5%
General provision on the unclassified amount for Housing Finance and Loans for professionals to set up business under consumer financing scheme	2%
General provision on the unclassified amount for Loans to Brokerage House, Merchant Banks, Stock dealers, etc.	2%
General provision on the outstanding amount of loans kept in the Special Mention Account.	5%
General provision on the off-balance sheet exposures	1%
Specific Provision for classified Continuous, Demand and Fixed Term Loans:	
Substandard	20%
Doubtful	50%
Bad/Loss	100%
Specific provision for Short-term Agricultural and Micro-credits	0.25%
All credits except 'Bad/Loss'	5%
Bad/Loss	100%

	iii. Discussion of the Bank's credit risk management policy;	The Board approves the credit policy, credit exposure limits and credit risk management 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 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 dedicated credit risk management, separate credit administration division for ensuring perfection of securities and credit monitoring and recovery division for monitoring and recovery of irregular loans. Internal control & compliance division independently assess quality of loans and compliance status of loans at least once in a year. Above all, the risk management division is regularly guiding the credit risk management division(s) on increasing the collateral coverage, product/sector specific diversification of credit exposures, conducting credit rating of the borrowers to minimize the capital charge against credit risk of the Bank.

Quantitative Disclosures			
c)	Total gross credit risk exposures broken down by major types of credit exposures.	Major types of credit exposure as per disclosures as of 31 December 2013	
		Particulars	**BDT in Million**
		TERM LOAN	1,470.58
		LEASE FINANCE	283.15
		HIRE PURCHASE	252.97
		TIME LOAN	339.98
		L.T.R	60.98
		PACKING CREDIT	40.21
		PERSONAL LOAN	19.52
		SME CREDIT	8.13
		RETAIL CREDIT	73.23
		AGRICULTURE AND RURAL CREDIT	393.60
		HOUSE BUILDING LOAN	14.56
		STAFF LOAN	42.32
		CASH CREDIT	244.40
		SECURED OVER DRAFT	473.55
		Total	**3,717.15**
d)	Risk weighted Assets Exposure	Risk weighted Assets for credit risk Balance Sheet Exposure	4,724.20
		Risk weighted Assets for credit risk Off-Balance Sheet Exposure	241.90
		Total	**4,966.10**

E. Market Risk

Qualitative Disclosure:	
Market Risk definition	Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The market risk positions subject to this requirement are: a) The risks pertaining to interest rate related instruments and equities in the trading book; and b) Foreign exchange risk and commodities risk throughout the bank (both in the banking and in the trading book).

Methodology of Market Risk	In Standardized Approach, the capital requirement for various market risks (interest rate risk, equity price risk, commodity price risk, and foreign exchange risk) is determined separately. The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. The methodology to calculate capital requirement under Standardized approach for each of these market risk categories is as follows: a) Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk. b) Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital for General Market Risk. c) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk d) Capital Charge for Commodity Position Risk = Capital Charge for General Market Risk **NRBCB followed the suggested methodology, process as contained in the Guidelines.**

Quantitative Disclosures

The capital requirements for Market Risk:		**BDT in Million**
	Interest rate risk	17.37
	Equity position risk	-
	Foreign exchange risk	20.96
	Commodity risk	-
	Total	38.33

F. Operational Risk

Qualitative Disclosure:	
Operational Risk definition	Operational Risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk.
Methodology	Banks operating in Bangladesh shall compute the capital requirements for operational risk under the Basic Indicator. Approach (BIA). Under BIA, the capital charge for operational risk is a fixed percentage, denoted by (alpha), of average positive annual gross income of the bank over the past three years. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator when calculating the average. **NRBCB followed the suggested methodology, process as contained in the guidelines.**
Quantitative Disclosure:	
The capital requirements for **Operational Risk**	**BDT 530.52 million**