Market Discipline: Pillar-III Disclosure under Basel-II

To cope with the international best practices and to make the banks' capital more risk sensitive, Bangladesh Bank issued Basel II guidelines for all scheduled banks on "Revised (RBCA) Risk Based Capital Adequacy" dated December 29, 2010. We are now required to make a more in-depth and expanded public disclosure regarding our risk profile (capital structure, capital adequacy, risk measurement and risk management).

The disclosure is 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.

- **Disclosure Policy**

  The Bank calculates Risk Weighted Assets (RWA) as per Revised (RBCA) Risk Based Capital Adequacy guideline, dated December 29, 2010.

  a) Standardized approach for credit risk
  b) Standardized approach for market risk and
  c) Basic indicator approach for operational risk.

- **Scope of Application:**

  The Risk Based Capital Adequacy framework applies to all banks on Solo and Consolidated basis, where 'Solo' basis refers to all positions of the Bank, and its local and overseas branches/offices, and 'Consolidated' basis includes subsidiary companies. NRB Commercial Bank Limited applies for "Solo" only as the Bank has no sub-sidiaries.

- **Disclosure framework:**

  The following components are the disclosure requirements:

  i. Regulatory capital
  ii. Capital adequacy
  iii. Credit risk in banking book
  iv. Specific provisions
  v. Equities: disclosures for banking book positions
  vi. Interest rate risk in the banking book
  vii. Market risk in trading book
  viii. Operational risk

i. Regulatory Capital

a. Qualitative Disclosures

The terms and conditions of the main features of all capital instruments have been segregated in terms of eligibility criteria (BRPD circular no. 35 dated 29th December 2010, and other instructions given by Bangladesh Bank).

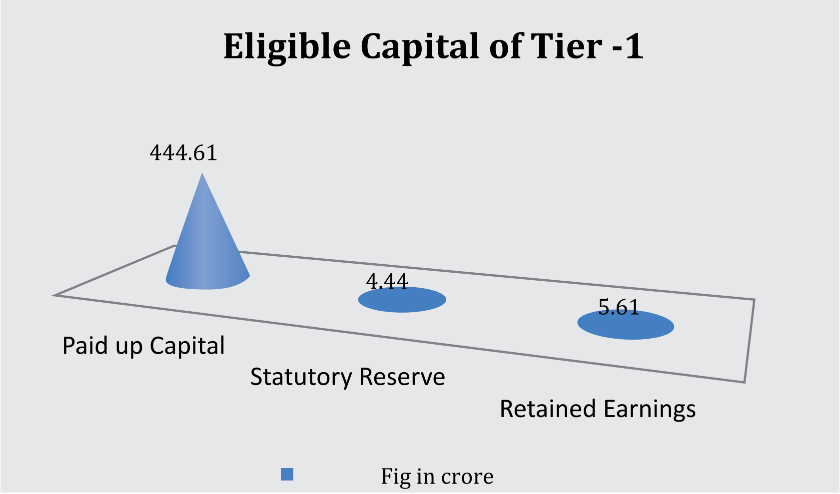
Core Capital (Tier-1) of NRBC Bank is comprised of paid up capital, statutory reserve, general reserve and retained earnings.

Supplementary Capital (Tier-2) comprises of general provisions (unclassified loans and off-balance sheet exposure), revaluation reserves for securities up to 50% as approved by Bangladesh Bank.

The Bank does not have any Tier-3 Capital.

b. Quantitative Disclosures

Particulars	Solo Basis
	Fig in crore
Paid up Capital	444.61
Statutory Reserve	4.44
General Reserve	-
Retained Earnings	5.61
Total Tier-1 Capital *(after deduction)	454.66
General Provision	19.65
Revaluation Reserves for Securities up to 50%	1.75
Subordinated Debt	-
Total Tier-2 Capital	21.38
Tier 3 Capital	-
Total Eligible Capital	476.06



ii. Capital Adequacy

a. Capital Calculation Approach

Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank, and the three standardized and basic indicator approaches for risk (credit, market and operational risk).

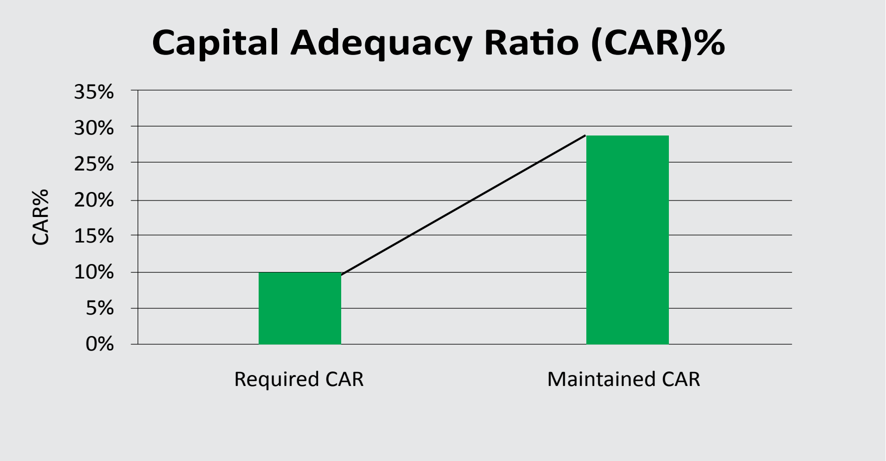
b. Capital of the Bank

Figures in Crore other wise specified

Capital Adequacy Ratio (CAR)	Solo Basis
Total	
NRBC BANK (%)	29.00%
Requirement as per BB (%)	10.00%
The surplus will act as buffer to support future activities	19.00%
Tier-I:	
NRBC BANK	27.70%
Requirement as per BB	5.00%
Our policy is to maintain a strong capital ratio with high rating	
Risk Weighted Assets	1,641.53
We maintain capital levels sufficient to absorb all material risks.	
Capital:	
NRBC BANK	476.06
Requirement as per BB	400.00
Surplus	76.06

The surplus is to meet Stress Tests and ICAAP requirements. Our strategy is to maintain capital buffer.

NRBC Bank ensures compliance with the regulatory requirements and satisfaction of external rating agencies and other stakeholders including depositors.



c. Capital Management

Initiatives to ensure adequate capital includes the following:

- Consistently encouraging corporate clients to complete external credit rating in to assess counter party Credit Risk status and reduce capital requirements.
- Improving and enhancing eligible collateral, by way of collateral optimization.
- Assessment of risk profile and credit rating of new clients.

NRBC Bank's CAR is periodically reviewed and assessed by the Risk Management Division (RMD), and reported to Senior Management. Moreover, we have planned to initiate:

- Revaluation of fixed assets to enhance supplementary capital,
- Revaluation of collateral securities for ensuring sound asset quality,
- Revaluation of securities to strengthen Tier-II Capital.

Figures in Crore other wise specified

Capital Adequacy	Solo Basis
Capital requirement for Credit Risk	149.08
Capital requirement for Market Risk	4.99
Capital requirement for Operational Risk	10.08
Total and Tier-I capital ratio:	
For standalone Tier-I capital out of maintained CAR (%)	27.70%

iii. Credit Risk in Banking Book

a. Qualitative Disclosure

NRBC Bank manages credit risk through a robust process that enables the Bank to proactively manage its loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders.

b. Credit Risk Management

NRBC Bank's Credit Policy Manual (CPM), approved by the Board of Directors, defines organizational structure, roles and responsibilities and processes whereby credit risks can be identified, quantified, and managed. Credit instruction manuals address regulatory issues and establish control points. Product Policy Guidelines (PPG) establish a system of identifying and monitoring problem account at the early stages delinquency, so that timely corrective measures can be taken (for retail and SME clients as well).

NRBC Bank manages credit risk through continuous measuring and monitoring of risks at obligor (borrower) levels and portfolio level. We follow the Bangladesh Bank prescribed Credit Risk Grading Model (CRGM), and have developed a credit appraisal/approval process. The CRGM captures quantitative and qualitative issues related to management risk, business risk, industry risk, financial risk, and project risk, and transaction-specific credit features, while assessing the overall grading of a borrower. External credit ratings of our clients, when available, are also taken into consideration. NRBC Bank's total rated corporate clients are 51.62% of its total clients (funded and non-funded). Delegations of credit approval authority are defined for ensuring good governance and better control in credit approval.

c. Loan Classification Criteria

All the loans and advances are grouped into four categories for the purpose of classification:

(i) Continuous Loan (ii) Demand Loan

(iii) Fixed Term Loan and (iv) Short-term Agricultural and Micro Credit.

Continuous & Demand Loans are classified:

- Sub-standard - if past due for 3 months or more, but less than 6 months
- Doubtful - if past due for 6 months or more, but less than 9 months
- Bad/Loss - if past due for 9 months or more.

Fixed Term Loans are classified:

- Sub-standard - if the defaulted installment is equal to or more than the amount of installment (s) due within 3 (Three) months
- Doubtful - if the defaulted installment is equal to or more than the amount of installment(s) due within 6 (Six) months
- Bad/Loss - if the defaulted installment is equal to or more than the amount of installment(s) due within 9 (Nine) months.

Short-term Agricultural and Micro Credit are classified:

- Sub-standard - if the irregular status continues after a period of 12 (twelve) months
- Doubtful - if the irregular status continues after a period of 36 (thirty six) months
- Bad/Loss - if the irregular status continues after a period of 60 (sixty) months.

A Continuous Credit, Demand Loan or Term Loan which remains overdue for a period of 60 days or more is classified as a "Special Mention Account (SMA)".

Credit Risk	(Figures in Crore)
a) Total gross credit risk exposures broken down by major types of credit exposure	
Term loan	268.56
Lease Finance	47.75
Hire Purchase	46.41
Time Loan	214.67
LTR	49.21
Packing Credit	1.72
EDF	48.15
Personal Loan	3.96
SME	34.14
Retail Financing	16.55
House Building Loan	92.39
Payment Against Documents (PAD)	5.65
Staff/ Employee Loan	18.82
Loans and Advances -Offshore Banking Unit	-
Loan to Subsidiaries	-
Cash Credit	178.06
Secured Overdraft	350.75
Credit Card	3.01
Loans & Advances (Not specified above)	38.37
Bills Purchased and Discounted	
Payable in Bangladesh	23.05
Payable outside Bangladesh	-

b) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.	
Dhaka Division	1218.61
Chittagong Division	182.54
Rajshahi Division	15.32
Sylhet Division	18.54
Khulna Division	-
Rangpur Division	-
Barishal Division	6.21

Credit Risk	(Figures in Crore)
c) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	
Agriculture	41.45
RMG	181.66
Textile	112.98
Ship Building	-
Ship Breaking	20.38
Other Manufacturing Industry	373.83
SME loans	34.14
Construction	72.02
Power, Gas	-
Transport, Storage and Communication	76.22
Trade Service	143.05
Commercial Real Estate financing	65.31
Residual Real Estate financing	36.62
Consumer Credit	19.51
Capital Market	14.55
NBFIs	103.99
Others	145.51
d) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure	
On Demand	124.62
Not more than three months	239.56
More than three months but less than one year	508.63
More than one year but less than five years	346.13
More than five years	222.28

iv. Specific Provisions - Guidelines for Loan Loss Provisions

The Bank follows Bangladesh Bank guidelines regarding loan classifications, provisioning and all other issues related to Non-performing Loan (NPL). Internal Credit Guidelines direct loan provisioning review procedure, debt write-off, facility grading, reporting requirement and interest recognition.

Particulars	Rate
General Provision	
Against all unclassified loans of Small and Medium Enterprise (SME)	0.25%
Against all unclassified loans and off-balance sheet exposures (other than loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock dealers, etc., Special Mention Account as well as SME Financing.)	1%
On the unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up business under Consumer Financing Scheme, Brokerage House, Merchant Banks, Stock dealers, etc.	2%
On the unclassified amount for Consumer Financing other than Housing Finance, Loans for Professionals and Loans to share business	5%
On the outstanding amount of loans kept in the 'Special Mention Account'	5%
Specific Provision	
Specific provision on Substandard Loans and Advances	20%
Specific provision on Doubtful Loans and Advances	50%
Specific provision on Bad & Loss Loans and Advances	100%

Throughout the year, we reviewed loans and advances to assess whether objective evidence of impairment had arisen.

(Figures in Crore)

a) Gross Non Performing Assets (NPAs)	
Non Performing Assets (NPAs) to Outstanding Loans & advances (%)	0.00
Movement of Non Performing Assets (NPAs)	
Opening Balance	0.00
Additions	0.00
Reductions	0.00
Closing Balance	0.00
Movement of specific provisions for NPAs	
Opening Balance	0.00
Provisions made during the period	0.00
Write-off	0.00
Write-back of Excess Provisions	0.00
Closing Balance	0.00
Amount of Impaired Loans	0.00

The amount of classified loans and advances/investments are given below as per Regulatory body's instruction:	
Continuous Loans	0.00
Demand Loans	0.00
Term Loans	0.00
Short Term Agro Credit and Macro Credit	0.00
Total	0.00

Specific and General Provisions	
Specific and general provisions were made on the amount of classified and unclassified loans and advances/investments, off-balance sheet exposures of the Bank.	
Provision on classified Loans and Advances/Investments	0.00
Provision on unclassified Loans and Advances/Investments	15.80
Provision on Off-balance sheet exposure	3.85
Total	**19.65**

v. Equities: Disclosures For Banking Book Positions

For equity financing, only investment in unquoted securities are considered as Banking Book assets; investment in equity for relationship or strategic reason is considered under trading book. Investment in equity securities are broadly categorized into two parts:

i) Quoted securities (common or preference shares and mutual funds) traded in the secondary market (trading book assets).

ii) Unquoted securities are categorized as banking book equity exposures which are further sub-divided into two groups:

   a) unquoted securities which are invested without any expectation that these will be quoted in near future i.e. Held To Maturity (HTM)

   b) unquoted securities acquired under private placement or IPO which are going to be traded in the secondary market after completing required formalities.

The primary aim is capital gain or dividend income. Dividends received from these equity securities are accounted for as and when received. Both quoted and un-quoted equity securities are valued at cost, and necessary provisions are maintained if the prices fall below the cost price. As per Bangladesh Bank guidelines, (HFT) Held For Trading equity securities are marked-to-market (revaluated) once a week, and HTM equity securities are amortized annually. HTM securities are revaluated if reclassified to HFT (with approval of the Board of Directors). The quoted shares of the bank are valued at cost or market price, whichever is lower.

	Equities	Valuation Basis	(Figures in Crore)
a)	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Cost price	2.74
		Market price	2.21
	Difference		(0.53)
b)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.		0.00
c)	Total unrealized gains (losses)		(0.53)
d)	Total latent revaluation gains (losses)		0.00
e)	Any amounts of the above included in Tier 2 capital.		0.00
f)	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 regulatory capital requirements.		
	Specific Risk		
	General Market Risk		0.22

vi. Interest Rate Risk In The Banking Book

Interest rate risk occurs when changes in market interest rates might adversely affect a bank's financial condition, affecting both current earnings (earnings perspective) and net worth of the bank (economic value perspective).

The short term impact of changes in interest rates is on the bank's Net Interest Income (NII). Longer term, changes in interest rates impact asset cash flows, liabilities, and off-balance sheet items. This poses a risk to the net worth of the bank, arising out of all re-pricing mismatches and other interest rate sensitive positions. NRBC Bank assesses the economic value at risk due to interest rate shock on a quarterly basis.

Interest Rate Risk in the Banking Book:			
	Figures in Crore other wise specified		
Total Risk Sensitive Assets	1576.03		
Total Risk Sensitive Liabilities	1183.01		
Cumulative Gap			
< 3months	374.76		
3-6 months	353.98		
6-12 months	393.02		
CAR before Shock (%)	29.00%		
Assumed Change in Interest Rate (%)	1.00%	2.00%	3.00%
Net Interest Income impact:			
Capital after Shock	480.06	483.99	487.92
CAR after shock (%)	29.24	29.48	29.72

vii. Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in different market variables, namely:

- i) Interest rate movements
- ii) Currency - foreign exchange rate movements
- iii) Equity - stock price movements
- iv) Commodity - commodity price movements

NRBC Bank's Market Risk Policy, approved by the Board, covers assessment, monitoring, and management of the above market risks. The Board sets limits and reviews compliance on a regular basis, in order to provide cost effective funding to finance asset growth and trade related transactions.

a. Methods used to Measure Market Risk

Our standardized approach to measure market risk calculates the minimum capital requirement for each risk sub-category in terms of two separately calculated capital charges for "specific risk" and "general market risk".

b. Market Risk Management System

The Treasury and ID Division manages market risk covering liquidity, interest rate, and foreign exchange risks, with oversight from Asset Liability Management Committee (ALCO), comprising of Senior Executives of the bank. ALCO is chaired by the Managing Director and CEO. ALCO meetings are held at least once a month.

c. Policies and Process for Managing Market Risk

There are approved limits for credit deposit ratio, liquid asset to total asset ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items, and borrowing from money market and foreign exchange position. The limits are monitored and enforced on a regular basis to protect against market risks. The Treasury Department of the Bank reviews the prevailing market conditions, Exchange rates, foreign exchange position, and transaction to mitigate foreign exchange risks on a daily basis. Foreign Exchange Risk is computed on the sum of net short positions, or net long positions whichever is higher of the foreign currency positions held by the Bank. The Bank adopts the maturity method in measuring interest rate risk in respect of securities in trading book.

Quantitative Disclosure of Market Risk	Figures in Crore
The Capital Requirement for:	
Interest Rate related instruments	4.34
Equities	0.22
Foreign Exchange Position	0.43
Commodity Risk	-
Total	4.99

viii. Operational Risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external causes, whether deliberate, accidental or natural - inherent in all of the Bank's activities. The policy for operational risks including internal control and compliance risk is approved by the Board, taking in to account relevant guidelines of Bangladesh Bank. The Audit Committee of the Board directly oversees the activities of the Internal Control and Compliance Division (ICCD) to protect against all operational Risk.

a. Performance Gap of Executives and Staff

NRBC Bank has made efforts to be the best pay master and ensures workplace safety for employees with consistent employment practices and non-discrimination regarding compensation, health and safety. Our strong brand image plays an important role in employee motivation. As a result there is no significant gap.

b. Systems

We have invested adequate money in IT infrastructure for better automation, online transaction platform and network links to avoid business disruption and system failure. The Bank's IT system does not allow any kind of external access safeguarding from external fraud (theft/ hacking of information assets, forgery, etc.).

c. Policies and Processes for Managing Operational Risk

It is the policy of the Bank to conduct audit on all the branches at least once a year. ICCD directly reports to the Managing Director and CEO and the Audit Committee of the Board. In addition, there is a team (RMD) which was established in 2013 to identify, assess, monitor, control and managing Operational Risk, rectify risk events, and implement any additional procedures required for compliance. The Human Resources Division of NRBC Bank has also introduced a vigorous Performance Management System (PMS) to evaluate human resources in terms of performance and instill a performance-based culture within the organization.

Quantitative Disclosure of Operational Risk:	
	Figures in Crore
The Capital requirement	
Operational Risk	10.08