Market Discipline
Disclosures on Risk Based Capital (Basel-II)

Background: These disclosures under Pillar III of Basel II are made following revised 'Guidelines on Risk Based Capital Adequacy (RBCA)' for banks issued by Bangladesh Bank (Central Bank of Bangladesh) in December 2010. These quantitative and qualitative disclosures are intended 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 exposures of the Bank so that the market participants can assess the position and direction of the Bank in making economic decisions.

Consistency and Validation: The quantitative disclosures are made on the basis of audited financial statements of NRB Bank as at and for the year ended 31 December 2014 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. So, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the audited financial statements 2014 of NRB Bank along with separate audited financial statements 2014 of the Bank available on the website of the Bank (www.nrbbankbd.com).

1. Scope of Application:

Qualitative disclosure	a)	The name of the top corporate entity in the group to which this guidelines applies	**NRB 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 (a) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted)	The Bank has no subsidiaries
	c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not applicable
Quantitative disclosure	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

2. 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.	As per the guidelines of Bangladesh Bank, **Tier-1 Capital** of NRB consists of (i) Fully Paid-up Capital, (ii) Statutory Reserve and (iii) Retained Earnings. **Tier-2 Capital** consists of (i) General Provision against unclassified Loans/Investments and Off-balance sheet exposures and 50% of revaluation reserve on securities.
Quantitative disclosure	b)	The amount of Tier-1 capital with separate disclosure of:	
			Figure in BDT Crore
		i.Fully Paid-up Capital	400.00
		ii.Statutory Reserve	0.55
		iii.Retained Earnings	(6.08)
		Sub-Total (A)	**394.46**
	c)	The total amount of Tier-2 and Tier-3 capital **(B)**	**8.61**
	d)	Other deductions from capital	-
	e)	**Total eligible capital (A+B)**	**403.07**

3. 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 has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank. The Bank has maintained capital adequacy ratio of 41.7% respectively as against the minimum regulatory requirement of 10%. Tier-1 capital adequacy ratio was 40.8% against the minimum regulatory requirement of 5%. The Banks policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all the times.

Quantitative disclosure		Particulars	*Figures in BDT crore*
	b)	Capital requirement for credit risk	82.87
	c)	Capital requirement for market risk	8.91
	d)	Capital requirement for operational risk	4.82
	e)	**Total and Tier 1 capital ratio:**	
		-For the consolidated group (%)	**Not Applicable**
		-For Standalone Tier-1 capital out of maintained CAR (%)	40.8

4. 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)	All the loans and advances are grouped into four categories for the purpose of classification, namely (i) Continuous Loan, (ii) Demand Loan (iii) Fixed Term Loan and (iv) Short-term Agricultural and Micro Credit. They are classified as follows: **Continuous & Demand Loan are classified as:** ● Sub-standard- if it is past due/overdue for 03(three) months or beyond but less than 06 (six) months; ● Doubtful- if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine months; ●Bad/Loss- if it is past due/overdue for 09 (nine) months or beyond. In case of any installment(s) or part of installment(s) of a **Fixed Term Loan amounting up to Tk 1 million** is not repaid within the due date, the amount of unpaid installment(s) are treated as "past due or overdue installment". Such types of Fixed Term Loans are classified as under: ●Sub-standard- if the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loans are classified as "Sub-standard". ● Doubtful- if the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loans are classified as "Doubtful"

			●Bad/Loss- if the amount of past due installment is equal to or more than the amount of installment(s) due within 12(twelve) months, the entire loans are classified as “Bad/Loss”. In case of any installment(s) or part of installment(s) of a **Fixed Term Loan amounting more than Tk 1 million** is not repaid within the due date, the amount of unpaid installment(s) are treated as “past due or overdue installment”. Such types of Fixed Term Loans are classified as under: ●Sub Sub-standard- if the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loans are classified as “Sub-standard”. ●Doubtful- if the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loans are classified as “Doubtful”. ●Bad/Loss- if the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loans are classified as “Bad/Loss”. **Short-term Agricultural and Micro Credit** will be considered irregular if it is not repaid within the due date as stipulated in the loans agreement are classified as under: ●Sub-standard- if the irregular status continues after a period of 12 (twelve) months, the credits are classified as “Sub-standard”. ●Doubtful- if the irregular status continue after a period of 36 (thirty six) months, the credits are classified as “Doubtful”. ●Bad/Loss- if the irregular status continue after a period of 60 (sixty) months, the credits are classified as “Bad/Loss”. *A Continuous loan, Demand loan or a Term Loan which*

<table>
<tr><td></td><td></td><td></td><td colspan="2">remained overdue for a period of 02 (two) months or more, are treated as "Special Mention Account (SMA)".</td></tr>
<tr><td rowspan="13"></td><td rowspan="13"></td><td rowspan="13">ii) Description of approaches followed for specific and general allowances and statistical methods</td><td colspan="2">The Bank is required to maintain the following general and specific provision in respect of classified and unclassified loans and advances / investments on the basis of Bangladesh
Bank guidelines issued from time to time:</td></tr>
<tr><td>Particulars</td><td>Rate</td></tr>
<tr><td>General provision on unclassified Small and Medium Enterprise (SME) financing.</td><td>0.25%</td></tr>
<tr><td>General provision on unclassified loans and advances/investments.</td><td>1%</td></tr>
<tr><td>General provision on interest receivable on loans/ invest</td><td>1%</td></tr>
<tr><td>General provision on off-balance sheet exposures (Provision has been made on the total exposure and amount of cash margin or value of eligible collateral were not deducted while computing off-balance sheet exposure).</td><td>1%</td></tr>
<tr><td>General provision on unclassified loans and advances for housing finance, loans for professionals to set-up business under consumer financing scheme</td><td>2%</td></tr>
<tr><td>General provision on the unclassified loans to Brokerage House, Merchant Banks, Stock Dealers, etc</td><td>2%</td></tr>
<tr><td>General provision on unclassified amount for Consumer Financing</td><td>5%</td></tr>
<tr><td>General provision on outstanding amount for Special Mention Account (SMA)</td><td>0.25%-5%</td></tr>
<tr><td>Specific provision on Sub-Standard loans and advances</td><td>20%</td></tr>
<tr><td>Specific provision on Doubtful loans and advances</td><td>50%%</td></tr>
<tr><td>Specific provision on Bad /Loss loans and advances</td><td>100%</td></tr>
<tr><td rowspan="6">Quantitative Disclosure</td><td rowspan="6">b)</td><td rowspan="6">Total gross credit risk exposures
broken down by major types of
credit exposure</td><td colspan="2">Total Gross Credit Risk Exposures broken down by major types of credit exposure of the Bank:</td></tr>
<tr><td>Particulars</td><td>Figures in BDT crore</td></tr>
<tr><td>Loan (General)</td><td>586.44</td></tr>
<tr><td>Cash Credit</td><td>0.00</td></tr>
<tr><td>Overdraft</td><td>31.85</td></tr>
<tr><td>Staff Loan</td><td>10.90</td></tr>
</table>

		TOTAL	**629.19**
c)	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure	**Geographical distribution of exposures, broken down in significant areas by major types of credit exposure of the Bank:**	
		Particulars	***Figures in BDT crore***
		Dhaka Division	455.68
		Chittagong Division	168.56
		Sylhet Division	4.87
		Rajshahi Division	0.08
		TOTAL	**629.19**
d)	Industry or counterparty type distribution of exposures, broken down by major types of Credit exposure.	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure of the Bank:	
		Particulars	***Figures in BDT crore***
		Commercial and Trading	93.02
		Importer of Commodity	6.60
		Construction	-
		Edible Oil Refinery Industry	-
		Electronics Goods	3.97
		Individuals	37.45
		Pharmaceuticals Industries	13.88
		Readymade Garments Industry	0.27
		Ship Breaking Industry	-
		Industries for Steel Products	9.98
		Telecommunication Sector	-
		Textile Mills	55.43
		Power Sector	-
		Others	408.59
		TOTAL	**629.19**
e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Residual contractual maturity break down of the whole portfolios, broken down by major types of credit exposure of the Bank:	
		Particulars	***Figures in BDT crore***
		Repayable on demand	80.72
		In more than one month but not more than three months	23.56
		In more than three months but not more than one year	324.15
		In more than one year but not more than five years	161.13

			In more than five years	39.42
			TOTAL	**629.19**
	f)	**By major industry or counterparty type:**		
		i) Amount of impaired loans and if available, past due loans, provided separately	**Nil**	
		ii) Specific and general provisions	**Nil**	
		iii) Charges for specific allowances and charge-offs during the period.	**Nil**	
	g)	**Gross Non-Performing Assets (NPAs).** **Non-Performing Assets (NPAs) to Outstanding loans and advances.**		
		Movement of Non-Performing Assets (NPAs).	**Nil**	
		Movement of Specific Provisions for(NPAs).	**Nil**	

5. Equities: Disclosures for Banking Book Positions

Qualitative disclosures	a)	The general qualitative disclosure requirement with respect to equity risk, including:	
		•Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and	Investment in equity securities are broadly categorized into two parts:
			i) Quoted Securities (Common or Preference Shares & Mutual Fund) that are 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: unquoted securities which are invested without any expectation that these will be quoted in near future i.e. held for maturity (HFM), and securities those are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Unquoted securities are valued at cost.
		•Discussion of important policies covering	The primary aim is to investment in these

		the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and Practices affecting valuation as well as significant changes in these practices.	equity securities for the purpose of capital gain by selling them in future or held for 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, the HFT equity securities are revalued once in each week using marking to market concept and HTM equity securities are amortized once a year according to Bangladesh Bank guideline. The HTM equity securities are also revalued if any, are reclassified to HFT category with the approval of Board of Directors.
Quantitative disclosures	b)	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.	**Quoted Shares** ***Figures in BDT crore*** -At Cost Price 14.83 -At Market Value 16.57
	c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	***Figures in BDT crore*** -Cumulative Realized Gain(Losses) 0.16
	d)	• Total unrealized gains (losses) • Total latent revaluation gains (losses) • Any amounts of the above included in Tier-2 capital.	***Figures in BDT crore*** -Unrealized gains (losses) 1.83
	e)	Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements	**Nil**

6. Interest Rate Risk in the Banking Book

<table>
<tr>
<td rowspan="1">Qualitative disclosures</td>
<td>a)</td>
<td>The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of Non-maturity deposits and frequency of IRRBB measurement.</td>
<td colspan="4">Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as well as the net worth of the bank (economic value perspective). Re-pricing risk is often the most apparent source of interest rate risk for a bank and is often gauged by comparing the volume of a bank’s assets that mature or re-price within a given time period with the volume of liabilities that do so.

The short term impact of changes in interest rates is on the bank’s Net Interest Income (NII). In a longer term, changes in interest rates impact the cash flows on the assets, liabilities and off-balance sheet items, giving rise to a risk to the net worth of the bank arising out of all re-pricing mismatches and other interest rate sensitive position.</td>
</tr>
<tr>
<td rowspan="4">Quantitative disclosures</td>
<td rowspan="4">b)</td>
<td rowspan="4">The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management’s method for measuring IRRBB, broken down by currency (as relevant).</td>
<td colspan="2">

Total Risk Sensitive Asset
Total Risk Sensitive Liabilities

Cumulative Gap
< 3 month
<6 month
<12 month

CAR before shock (%)</td>
<td colspan="2">Figures in BDT crore
1,202.00
882.13

(210.30)
(197.17)
(170.92)

41.7</td>
</tr>
<tr>
<td>Assumed Change in Interest Rate</td>
<td>1.00%</td>
<td>2.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Capital After Shock (in BDT Crore)</td>
<td>380.17</td>
<td>356.52</td>
<td>332.87</td>
</tr>
<tr>
<td>CAR After Shock (%)</td>
<td>39.35</td>
<td>36.91</td>
<td>34.46</td>
</tr>
</table>

7. Market Risk:

Qualitative disclosures	a)	i) Views of Board of Directors (BOD) on trading/ investment activities.	Market risk is the possibility of losses of assets in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e. interest rate, exchange rate and price. Allocation of capital is required in respect of the exposure to risks deriving from changes in interest rate and equity prices in the bank's trading book, in respect of exposure to risks deriving from changes in foreign exchange rates and commodity price in the overall banking activity. The total capital requirement for banks against their market risk shall be the sum of capital charge against: *i. Interest rate risk* *ii. Equity position risk* *iii. Foreign exchange (including gold) position risk throughout the bank's balance sheet* *iv. Commodity risk.*
		ii) Methods used to measure Market risk	Measurement Methodology: As banks in Bangladesh are now in a stage of developing risk management models, Bangladesh Bank suggested the banks for using Standardized Approach for credit risk capital requirement for banking book and Standardized (rule based) Approach for market risk capital charge in their trading book. Maturity Method has been prescribed by Bangladesh Bank in determining capital against market risk. In the maturity method, long or short positions in debt securities and other sources of interest rate exposures, including derivative instruments, are slotted into a maturity ladder comprising 13 time-bands (or 15 time-bands in case of low coupon instruments). Fixed-rate instruments are allocated according to the residual term to maturity and floating-rate instruments according to the residual term to the next reprising date. In Standardized (rule based) Approach the capital requirement for various market risks (interest rate risk, price, and foreign exchange risk) are 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. e.g.:
			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 Charge 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.

		iii) Market Risk Management system	Treasury Division manages the market risk and ALCO monitors the activities of treasury Division in managing such risk.
		iv) Policies and processes for mitigating market risk.	To mitigate the several market risks the bank formed Asset Liability Management Committee (ALCO) who monitors the Treasury Division's activities to minimize the market risk. ALCO is primarily responsible for establishing the market risk management and asset liability management of the Bank, procedures thereof, implementing core risk management framework issued by the regulator, best risk management practices followed globally and ensuring that internal parameters, procedures, practices/polices and risk management prudential limits are adhered to. The Treasury Division are taking following measures to minimize the several market risks: i) Foreign exchange risk management: it is the risk that the bank may suffer losses as a result of adverse exchange rate movement during a period in which it has an open position in an individual foreign currency. This risk is measured and monitored by the Treasury Division. To evaluate the extent of foreign exchange risk, a liquidity Gap report is prepared for each currency. ii) Equity Risk: Equity risk is defined as losses due to changes in market price of the equity held. To measure and identify the risk, mark-to-market valuation to the share investment portfolios are done. Mark-to-market valuation is done against a predetermined limit. At the time of investment,

			following factors are taken into consideration: a) Security of Investment b) Fundamentals of securities c) Liquidity of securities d) Reliability of securities e) Capital appreciation f) Risk factors and g) Implication of taxes etc.
Quantitative disclosures	b)	**Capital requirement for:**	**Figures in BDT crore**
		Interest rate related instruments	6.70
		Equities	1.66
		Foreign Exchange position	0.55
		Commodity Risk	0.00
		TOTAL	**8.91**

8. Operational Risk:

Qualitative disclosures	a)	i) Views of BOD on system to reduce Operational Risk	Operational risk is defined as the risk of loss 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. It is inherent in every business organization and covers a wide spectrum of issues. The Board of Director (BOD) of the Bank and its Management firmly believe that this risk through a control based environment in which processes are documented, authorizations are independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the Bank stays in line with industry best practices and takes account or lessons learned from publicized operational failures within the financial services industry.
		ii) Potential external events	Risk factors/Potential external events: It is needless to say that there are certain risk factors which are external in nature and can affect the business of the Bank. The factors discussed below can significantly affect the business: • **General business and political condition** NRB Banks performance greatly depends on the general economic conditions of the country.

			Political stability is must for growth in business activities. • **Changes in credit quality of borrowers** Risk of deterioration of credit quality of borrowers is inherent in banking business. This could result due to global economic crisis and supply side distortion. The changes in the import prices affected the commodity sectors and ship breaking industry. Deterioration in credit quality requires provisioning.
		iii) Approach for calculating capital charge for operational risk	The 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 α (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. The capital charge may be expressed as follows: $K = [(GI\ 1 + GI2 + GI3)\ \alpha]/n$ Where- K = the capital charge under the Basic Indicator Approach GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded) α = 15 percent n = number of the previous three years for which gross income is positive. Gross income: Gross Income (GI) is defined as “Net Interest Income” plus “Net non-Interest Income”. It is intended that this measure should: i). be gross of any provisions; ii). be gross of operating expenses, including fees paid to outsourcing service providers; iii). exclude realized profits/losses from the sale of securities held to maturity in the banking book; iv). exclude extraordinary or irregular items; v.) exclude income derived from insurance.
Quantitative disclosures	b)	**The Capital Requirement for Operational Risk**	*Figure in BDT crore* **4.82**