

Risk is an integral part of banking business in an ever dynamic environment, which is undergoing radical changes both on the technology front and product offerings. The main risks faced by the bank are credit risk, market risk and operational risk. The bank aims to achieve an optimum balance between risk and return to maximize shareholder value. The relevant information on the various categories of risks faced by the bank is given in the ensuing sections. As per pillar-III under Basel-III, this disclosure is intended to give market participants a better idea on the risk profile and risk management practices of NRB Bank Limited.

An Action Plan/Roadmap was issued by Bangladesh Bank for implementation of Basel-III in Bangladesh vide BRPD Circular No: 18 Dated: 21st December, 2014. Bangladesh Bank issued Basel III guidelines applicable with effect from January, 2015. The guidelines provide a transition schedule for Basel III implementation till December, 2019. Upon full implementation, Basel III guidelines target minimum capital to risk weighted assets ratio (CRAR) would be 12.50%.

Action Plan/Roadmap

Action	Deadline
Issuance of Guidelines on Risk Based Capital Adequacy	December, 2014
Commencement of Basel III Implementation process	January, 2015
Capacity Building of bank and Bangladesh Bank officials	January, 2015- December, 2019
Initiation of Full Implementation of Basel III	January, 2020

Phase-in Arrangements

The phase-in arrangements for Basel III implementation will be as follows:

	2015	2016	2017	2018	2019
Minimum Common Equity Tier-1 (CET-1) Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	--	0.625%	1.25%	1.875%	2.50%
Minimum CET-1 plus Capital Conservation Buffer	4.50%	5.125%	5.75%	6.375%	7.00%
Minimum T-1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00	10.625%	11.25%	11.875%	12.50%

The Basel III framework consists of three-mutually reinforcing pillars:

- **Pillar 1 (Minimum Capital Requirement)** covers the calculation of risk-weighted assets and minimum capital requirement for credit risk, market risk and operational risk.
- **Pillar 2 (Supervisory Review Process)** intends to ensure that the Banks have adequate capital to address all the risks in their business.
- **Pillar 3 speaks of ensuring market discipline** by disclosing adequate information to the stakeholders.

The Basel-III norms mainly seek to:

Raise the quality of capital to ensure that the banks are capable to absorb losses on both as going concern and as gone concern basis-

- Increase the risk coverage of the capital framework
- Introduce leverage ratio to serve as a backstop to the risk-based capital measure
- Raise the standards for the supervisory review process and public disclosures etc.

a) Scope of application:

Qualitative Disclosures	
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 (i) that are fully consolidated;(ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	NRB Bank Limited NRB Bank Limited was formally inaugurated on 4 th August, 2013 as a Public Limited Company (Banking Company) as under the Companies Act 1994 for carrying out all kinds of banking activities. Presently the Bank is operating its business through head office having 25 branches, 5 DESCO Bill Collection Booth, 4 BRTA Collection Booth and 25 ATM booths all over Bangladesh.
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable
Quantitative Disclosures	
d) The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	Not applicable

b) Capital Structure:

Qualitative Disclosures	
<p>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 CET 1, Additional Tier 1 or Tier 2.</p>	<p>Regulatory capital, as stipulated by the revised RBCA guidelines by BB, is categorized into two tiers. The total regulatory capital will consist of sum of the following categories: 1</p> <p>1) Tier 1 Capital (gone-concern capital):</p> <p style="padding-left: 40px;">a) Common Equity Tier 1 b) Additional Tier 1</p> <p>2) Tier 2 Capital (gone-concern capital)</p> <hr/> <p>Common Equity Tier 1 Capital: It is called ‘Core Capital’ comprises of highest quality of capital elements consists of -</p> <p>i) Fully Paid-up Capital ii) Statutory Reserve iii) Non-Repayable Share Premium Account iv) General Reserve v) Retained Earnings vi) Minority Interest in Subsidiaries vii) Dividend Equalization Account</p> <p>Less: Regulatory adjustments applicable on CET1</p> <hr/> <p>Additional Tier 1:</p> <p>i) Non-cumulative irredeemable preference share</p> <p>ii) Instruments issued by the banks that meet the qualifying criteria for AT1</p> <p>iii) Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties as specified in Annex-4 of Basel III Guidelines (For Consolidated Reporting)</p> <p>Less: Regulatory adjustments applicable on AT1</p> <hr/> <p>Tier-2 Capital : It is called ‘gone-concern capital’ represents other elements which fall short of some of the characteristics of the core capital consists of-</p> <p>i) General Provision ii) All other preference shares iii) Subordinated debt iv) Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties (For Consolidated reporting only) v) Revaluation Reserves as on 31st December, 2014 (50% of Fixed Assets and Securities and 10% of equities) vi) Other (if any item approved by Bangladesh Bank)</p> <p>Less: Regulatory adjustments applicable on Tier-2 capital</p>

	Compliance with Regulatory Requirements by NRB Bank:	
	Conditions for maintaining regulatory capital: The Bank complied with all the required conditions for maintaining regulatory capital as stipulated in the Basel III guidelines as per following details:	
	Particulars	Status of compliance
	The bank has to maintain at least 4.50% of total Risk Weighted Assets (RWA) as Common Equity Tier 1 capital.	Complied
	Tier 1 capital will be at least 5.50% of the total RWA.	Complied
	Minimum capital to Risk Weighted Asset Ratio (CRAR) will be 10.625% of the total RWA	Complied
Maximum limit of tier-2 capital: Tier 2 capital can be maximum up to 4% of the total RWA or 88.89% of CET-1, whichever is higher.	Complied	

Quantitative Disclosures

b) The amount of Regulatory capital of NRB Bank Limited under Basel-III for 2016 as below:

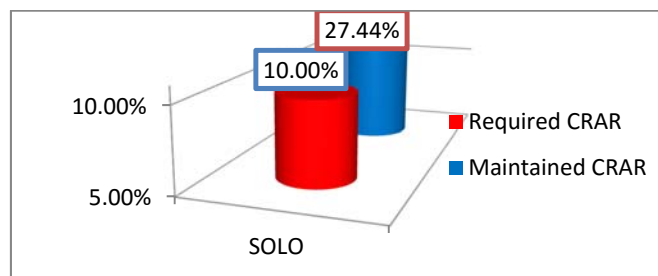
1. Common Equity Tier-1 (Going Concern Capital)	Solo
	Amount in Million
Fully Paid-up Capital/Capital Deposited with BB	4000.00
Statutory Reserve	218.11
Retained Earnings	488.15
Total Common Equity Tier-1 Capital	4706.27
2. Tier-2 Capital (Gone-Concern Capital)	
General Provision	120.49
Revaluation Reserves for Securities up to 50%	12.33
Less: Revaluation Reserves for Fixed Assets, Securities & Equity Securities (follow Phase-in deductions as per Basel III) Guideline	(4.93)
Total Admissible Tier-2 Capital	127.89
Total Regulatory Capital	4834.16

c) Capital Adequacy:

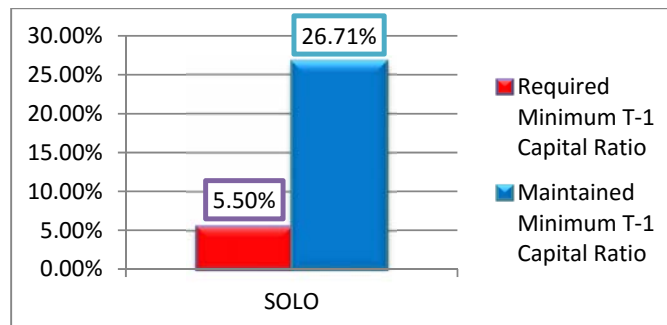
Qualitative Disclosures	
<p>a) A summary discussion of the bank’s approach to assessing the adequacy of its capital to support current and future activities.</p>	<p>The Bank has computed the Capital to Risk Weighted Ratio (CRAR) adopting the following approaches:</p> <p>a. Standardized Approach for Credit Risk to Compute Capital to Risk Weighted Ratio under Basel III, using national discretion for:</p> <ul style="list-style-type: none"> ▪ Accepting the credit rating agencies as External Credit Assessment Institutions (ECAI) for claims on corporate and eligible SME customers. ▪ Accepting Credit Risk Mitigation (CRM) against the financial securities. <p>b. Standardized (rule based) Approach for Market Risk and</p> <p>c. Basic Indicator Approach for Operational Risk.</p> <p>Besides computing CRAR under the Pillar I requirement, the Bank also undertakes stress testing periodically in various risk areas to assess the impact of stressed scenario or plausible events on asset quality, liquidity, profitability and capital adequacy. The Bank has a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP) as stipulated by Bangladesh Bank. The bank conducts Internal Capital Adequacy Assessment Process (ICAAP) on annual basis to assess the sufficiency of its capital funds to cover the risks specified under Pillar- II of Basel guidelines. The adequacy of Bank’s capital funds to meet the future business growth is being assessed in the ICAAP document.</p>
Quantitative Disclosures	
Capital requirement under following Risk:	Amount in Million
b) Capital requirement for Credit Risk	1283.67
c) Capital requirement for Market Risk	312.99
d) Capital requirement for Operational Risk	165.05
Total Capital Requirement (b+c+d)	1761.71
Minimum Capital Requirement (MCR) Capital Adequacy Ratio (CRAR):	
1. Common Equity Tier 1 (CET 1) Ratio	26.71%

2. Tier 1 Capital Adequacy Ratio	26.71%
3. Tier-2 Capital Adequacy Ratio	0.73%
Capital to Risk-weighted Asset Ratio (CRAR)	27.44%
Capital Conservation Buffer	109.40
Available Capital under Pillar 2 Requirement	834.16
Minimum Capital Requirement (MCR)	4000.00

Capital to Risk-weighted Asset Ratio (CRAR):



Minimum T-1 Capital Ratio:



Eligible Capital:



d) Credit Risk:

Qualitative Disclosures	a) The general qualitative disclosure requirement with respect to credit risk:																																																															
i) Definitions of past due and impaired	<table border="1" data-bbox="508 342 1419 1010"> <thead> <tr> <th>Categories</th> <th>Definition of past due</th> <th>When started</th> </tr> </thead> <tbody> <tr> <td>Continuous Loan</td> <td>If not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue.</td> <td>From the following day of the expiry date.</td> </tr> <tr> <td>Demand Loan</td> <td>If not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue.</td> <td>As above</td> </tr> <tr> <td>Fixed Term Loan</td> <td>In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue.</td> <td>As above</td> </tr> <tr> <td>Short-term Agricultural and Micro-Credit</td> <td>If not repaid within the fixed expiry date for repayment will be considered past due/overdue.</td> <td>After 6 months of the expiry date.</td> </tr> </tbody> </table> <p data-bbox="508 1031 1432 1098">Impaired loan:All classified loan are treated as impaired loans, impaired can be defined as above:</p> <table border="1" data-bbox="508 1100 1398 1409"> <thead> <tr> <th>Type of loan</th> <th>Sub Standard</th> <th>Doubtful</th> <th>Bad / Loss</th> </tr> </thead> <tbody> <tr> <td>Continuous Loan</td> <td>3≤O<6</td> <td>6≤O<9</td> <td>O≥9</td> </tr> <tr> <td>Demand Loan</td> <td>3≤O<6</td> <td>6≤O<9</td> <td>O≥9</td> </tr> <tr> <td>Fixed Term Loan (Upto 10.00 Lac)</td> <td>6≤O<9</td> <td>9≤O<12</td> <td>O≥12</td> </tr> <tr> <td>Fixed Term Loan (More than 10.00 Lac)</td> <td>3≤O<6</td> <td>6≤O<9</td> <td>O≥9</td> </tr> <tr> <td>SAC/MC</td> <td>12<O≤36</td> <td>36<O≤60</td> <td>O>60</td> </tr> </tbody> </table> <p data-bbox="508 1415 1432 1444">▪ Note : O = Overdue, SAC= Short term Agricultural Credit, MC= Micro Credit</p>						Categories	Definition of past due	When started	Continuous Loan	If not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue.	From the following day of the expiry date.	Demand Loan	If not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue.	As above	Fixed Term Loan	In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue.	As above	Short-term Agricultural and Micro-Credit	If not repaid within the fixed expiry date for repayment will be considered past due/overdue.	After 6 months of the expiry date.	Type of loan	Sub Standard	Doubtful	Bad / Loss	Continuous Loan	3≤O<6	6≤O<9	O≥9	Demand Loan	3≤O<6	6≤O<9	O≥9	Fixed Term Loan (Upto 10.00 Lac)	6≤O<9	9≤O<12	O≥12	Fixed Term Loan (More than 10.00 Lac)	3≤O<6	6≤O<9	O≥9	SAC/MC	12<O≤36	36<O≤60	O>60																			
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<p>iii) Discussion of the Bank's Credit risk management policy.</p>	<p>The Bank has put in place a well-structured Credit Risk Management Policy duly approved by the Bank's Board. The Policy document defines organization structure, role & responsibilities and, the processes whereby the Credit Risks carried out by the Bank can be identified, quantified & managed within the framework that the Bank considers consistent with its mandate and risk tolerance.</p> <p>Credit Risk is monitored on a bank-wide basis and compliance with the risk limits approved by Board/Risk Management Committee of Board.</p> <p>The Bank has taken earnest steps to put in place best credit risk management practices in the bank. Besides, the bank has framed a policy on Valuation Methodology with the approval by the Board. According to methodology, such securities normally accepted by the Bank to protect the interest. These securities act as mitigation against the credit risk to which the bank is exposed.</p>
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Quantitative Disclosures:

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

(Amount in Million)

Major Types	Continuous Loan	Demand Loan	Fixed Term Loan	Short Term Agri. Credit & Micro Credit	Staff Loan	Total
Small & Medium Enterprise Financing	1,498.65	2,672.19	2,083.58	-	-	6,254.42
Consumer Financing	187.23	-	311.16	-	-	498.39
Loans to BHs/MBs/Sds against Share	-	-	-	-	-	-
Housing Finance	-	-	30.09	-	-	30.09
Loan for Professionals to setup business (LP)	-	-	-	-	-	-
Short Term Agri. Credit	-	-	-	468.29	-	468.29
Others	637.62	2,896.99	1,608.66	-	-	5,143.27
Staff Loan	-	-	-	-	194.91	194.91
Total exposure	2,323.49	5,569.18	4,033.50	468.29	194.91	12,589.37

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

(Amount in Million)

Geographical Distribution	Amount	Grand Exposure
Urban		12,183.39
Dhaka	9,324.83	
Chittagong	2,659.23	
Sylhet	137.37	
Rajshahi	54.17	
Barishal	-	
Khulna	7.80	
Rangpur	-	
Mymensingh	-	
Rural		405.97
Dhaka	372.47	
Chittagong	3.84	
Sylhet	29.66	
Rajshahi	-	
Barishal	-	
Khulna	-	
Rangpur	-	
Mymensingh	-	
Total		12,589.37

d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure of NRBBL:

(Amount in Million)

Industry Type	Amount
Agriculture	468.29
RMG	118.23
Textile	2399.11
Ship Building	0.00
Ship Breaking	0.00
Other Manufacturing Industry	2361.95
SME loan	3145.80
Construction	0.00
Power, Gas	0.00
Transport, Storage and Communication	0.00
Trade Service	2732.07
Commercial real estate financing	0.00
Residential real estate financing	164.01
Consumer Credit	890.75
Capital Market	0.00
Non-bank financial Institutions	5.18
Others	304.02
Total Exposure	12,589.41

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

(Amount in Million)

Time band	Continuous Loan	Demand Loan	Term Loan	Agricultural Credit	Staff Loan	Total
Up to 1 month	559.21	1,627.19	44.69	205.13	-	2,436.22
1 to 3 months	350.09	1,700.81	2.96	-	-	2,053.87
3 to 6 months	605.60	2,240.30	0.62	61.52	-	2,908.04
6 to 12 months	621.37	0.87	133.32	201.64	-	957.20
1 to 2 years	-	-	138.55	-	0.17	138.72
2 to 3 years	8.45	-	801.74	-	-	810.19
3 to 4 years	117.91	-	724.66	-	-	842.57
4 to 5 years	60.86	-	915.47	-	7.53	983.87
5 to 7 years	-	-	1,250.90	-	21.89	1,272.79
7 to 10 years	-	-	10.18	-	68.84	79.02
Over 10 years	-	-	10.40	-	96.48	106.88
Total	2,323.49	5,569.18	4,033.50	468.29	194.91	12,589.37

f) By major industry or counterparty type of NRBBL:

• **AMOUNT OF IMPAIRED LOANS AND IF AVAILABLE, PAST DUE LOANS, PROVIDED SEPARATELY:**

(Amount in Million)

Industry	Impaired	Past due
Small & Medium Enterprise Financing	179.98	616.36
Consumer Financing	64.97	8.74
Housing Finance	-	0.13
Loans for Professionals to setup business	-	-
Loans to BHs/MBs/SDs against Shares etc.	-	-
Other Corporate Credit	0.13	512.41
Short Term Agri Credit & Micro Credit	-	-
Staff Loan	-	-
Total	245.08	1137.64

• **SPECIFIC AND GENERAL PROVISION (REQUIRED)**

(Amount in Million)

Sector	General Provision	Specific Provision
Small & Medium Enterprise Financing	15.19	47.87
Consumer Financing	23.17	36.90
Housing Finance	0.60	-
Loans for Professionals to setup business	-	-
Loans to BHs/MBs/SDs against Shares etc.	-	-
Other Corporate Credit	51.43	0.03
Short Term Agri Credit & Micro Credit	11.71	-
Against Off-Balance Sheet	18.39	-
Grand Total	102.49	84.80

• CHARGES FOR SPECIFIC ALLOWANCES AND CHARGE-OFFS DURING THE PERIOD.

Against Classified Loans & Advances	Amount in Million
Provision held on 1 January , 2016	3.80
(-) Fully provided debts written off	0
(-)Recoveries from previously written off debts	0
(+)Provisions made during the year	81.00
Net Charge to the Profit & Loss Account	81.00
Provision held at end of year	84.80

Against Unclassified Loans & Advances	Amount in Million
Provision held on 1 January, 2016	97.71
Provisions made during the year	(1.41)
Provision held at end of year	96.30
Against Special Mention Accounts	
Provision held on 1 January, 2016	2.41
Provisions made during the year	3.38
Provision held at end of year	5.79

General Provision for Off Balance Sheet Exposures	Amount in Million
Provision held on 1 January , 2016	10.25
Provisions made during the year	8.14
Provision held at end of year	18.39

g) Gross Non-Performing Assets (NPAs) of NRBBL:

(Amount in Million)

Gross Non-Performing Assets (NPAs)	245.08
Non-Performing Assets (NPAs) to outstanding loans & advances	
Movement of Non-Performing Assets for NPAs	
Opening balance	22.14
Additions	234.57
Reductions	(11.63)
Closing Balance	245.08
Movements of specific provisions for NPAs	
Opening balance	3.80
Provision made during the period	81.00
Write-off	-
Write back of excess provisions	-
Closing Balance	84.80

e) Equities: Disclosures for Banking Book Position

Qualitative Disclosures:	<ul style="list-style-type: none"> 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 of NRB Bank in equities is divided into two categories: quoted equities (which are traded in the secondary market) and unquoted equities (which are not traded in the secondary market). Since the intent of holding unquoted equities is not trading, the same are considered as banking book equity exposure.
Discussion of important policies covering 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	Important policies covering equities valuation and accounting of equity holdings in the Banking Book are based on the use of the cost price method for valuation of equities. The primary aim is to invest in these equity securities for the purpose of capital gain by selling them in the 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 to 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 the Board of Directors. Preference is given to purchase of shares of strong companies at face value through placement/ IPO.

Quantitative Disclosure	Value of Investments in Balance Sheet	Amount in Million
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.	Shares in Listed Companies (Valuation at average cost price)	571.70
	Fair Market Value of shares in Listed Securities	580.80
<ul style="list-style-type: none"> The cumulative realized gains (losses) arising from sales and liquidations in the reporting period. 		53.10
* Total unrealized gains (losses)		9.10
* Total latent revaluation gains (losses)		Nil

* Any amounts of the above included in Tier – 2 capital.		Nil		
<ul style="list-style-type: none"> 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. 	The capital requirements for equity investments as of 31 December 2016 was as under:			
	(Amount in Million)			
	Particulars	Amount (MV)	Weight	Capital Charge
	Specific Risk	610.80	10%	61.08
	General Market Risk	610.80	10%	61.08
Total	1221.60		122.16	

f) Interest rate risk in the banking book (IRRBB):

Qualitative Disclosures:	
<p>(a) 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.</p>	<p>Interest rate risk is the risk where changes in the market interest rates might affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as also the net-worth of the Bank (economic value perspective). The risk from earnings perspective can be measured as impact in the Net Interest Income (NII) or Net Interest Margin (NIM). Similarly, the risk from economic value perspective can be measured as drop in the Economic value of Equity (EVE).</p> <p>The re-pricing risk arises due to differences in the timing of re-pricing of assets and liabilities as well as the cash flows. The re-pricing gaps affect bank earnings as well as economic value.</p> <p><u>Risk management framework:</u> The Asset Liability Management Committee (ALCO) consisting of Bank's senior management is responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of the Bank (for the assets and liabilities) in line with the Bank's budget and decided risk management objectives. ALCO decides strategies and specifies prudential limits for management of interest rate risk in the banking book within the broad parameters laid down by Board of Directors. These limits are monitored periodically and the breaches, if any, are reported to ALCO.</p>

	<p>The Bank follows following viewpoints to manage the IRR:</p> <p>a) Earnings perspective: Indicates the impact on Bank’s Net Interest Income (NII) in the short term.</p> <p>b) Economic perspective: Indicates the impact on the net-worth of bank due to re-pricing of assets, liabilities and off-balance sheet items.</p> <p>Risk measurement and reporting framework:</p> <p>i. 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.</p> <p>ii. Duration Gap Analysis: A weighted maturity/repricing schedule is used to evaluate the effects of changing interest rates on bank’s economic value by applying sensitivity weights to each time band. Such weights are based on estimates of the duration of the assets and liabilities that fall into each time band.</p> <p>iii. Stress Testing: This analysis is used for measuring the Interest rate risk on its Balance Sheet exposure for estimating the impact on the Capital to Risk Weighted Assets Ratio (CRAR).</p>
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Quantitative Disclosures:

- (b) 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 of measuring IRRBB, broken down by currency.

(Amount in Million)

Interest Rate Risk in the banking book	Residual maturity bucket			
	3 months	6 months	1 year	Above 1 year
Interest Sensitive Assets (A)	6417.11	3397.09	957.20	10006.69
Interest Sensitive Liabilities (B)	7480.44	3058.72	2766.47	1427.48
GAP (A-B)	-1063.33	338.37	-1809.27	8579.21
Cumulative GAP	-1063.33	-724.96	-2534.23	6044.98

CRAR after Shock:

(Amount in Million)

Magnitude of Shock	Situation-1 1%	Situation-2 2%	Situation-3 3%
Regulatory Capital (After shock)	4482.40	4127.70	3772.90
RWA (After shock)	17,521.80	17,521.80	17,521.80
CRAR (After shock)	25.58%	23.56%	21.53%
Total Assets	24,738.20	24,738.20	24,738.20
Duration Gap in years	1.57	1.57	1.57
Changes in Market value of Equity due to an increase in interest Rate, Δ MVE	(354.76)	(709.53)	(1064.29)

g) Market Risk:

Qualitative Disclosures:	
Views of BOD on trading/ investment activities	There is an approved policy to monitor risks related to changes in market dynamics. The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to obtain the best balance of risk and return whilst meeting customers' requirements.
Methods used to measure Market risk	<p>Standardized approach has been used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. The methodology to calculate capital requirement under Standardized Approach for each of these market risk categories is as follows:</p> <p>a) Capital charges for interest rate risk= Capital Charge for General Market Risk</p> <p>b) Capital charges for Equity Position Risk= Capital Charge for Specific Risk+ Capital Charge for General Market Risk</p> <p>c) Capital charges for Foreign Exchange Risk= Capital Charge for General Market Risk</p> <p>d) Capital charges for Commodity Position Risk= Capital Charge for General Market Risk.</p>
Market Risk Management System	<p>The Treasury Division of the Bank manages market risk covering liquidity, interest rate and foreign exchange risks with oversight from Assets- Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meets at least once in a month.</p> <p>The Risk Management Division also reviews the market risk parameters on monthly basis and recommends on portfolio concentration for containing the RWA.</p>
Policies and processes for mitigating market risk:	<p>There are approved limits for Market risk related instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against market risks. The exchange rate committee of the Bank meets on regular basis to review the prevailing market condition, exchange rate, foreign exchange position and transactions to mitigate foreign exchange risks.</p> <p>Policies and processes for mitigating market risk are mentioned below-</p>

	<ul style="list-style-type: none"> ▪ Risk Management and reporting is based on parameters such as Maturity Gap Analysis, Duration Gap Analysis with the global best practices. ▪ 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.
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Quantitative Disclosures:

The Capital requirements for specified risk are as follows:

(Amount in Million)

SL	Market Risk	Capital Requirement
A	Interest Rate Related instruments	161.91
B	Equities	122.16
C	Foreign Exchange Position	28.93
D	Commodities	0
	Total	313.00

h) Operational Risk:

Qualitative Disclosures:	
i) Views of BoD on system to reduce Operational Risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all activities arising out of Bank's business and operations and could result in financial losses, litigation, regulatory fines or other damage to the Bank. The severity of impact on the bank, its employee and customers is dependent on the efficacy with which operational risk is managed by the Bank. The goal is to keep operational risk at appropriate levels, in light of the Bank's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment in which it operates.

	The Board of Directors of the Bank defines the risk appetite, sets the risk management strategies and approves the operational risk policies of the Bank. The Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring by Board Risk Management Committee (BRMC).	
ii) Performance gap of executives and staffs	The bank believes that training and knowledge sharing is the best way to reduce knowledge gap. Therefore, it arranges trainings on a regular basis for its employees to develop their expertise. The bank offers competitive pay package to its employees based on performance and merit. It always tries to develop a culture where all employees can apply his/her talent and knowledge to work for the organization with high ethical standards in order to add more value to the company and for the economy.	
iii) Potential external events	No potential external events are expected to expose the Bank to significant operational risk.	
iv) Policies and Processes for mitigating operational risk:	Internal control mechanism is in place to control and minimize the operational risks. If any controls are found to be ineffective during the course of Risk & Control Self-Assessment, corrective measures are adopted in due course. A monitoring system is also in place for tracking the corrective actions plan periodically. The various Board approved policies viz., Operational Risk Management Policy, Internal Control & Compliance Policy, Internet Banking Security Policy; Policy on KYC & AML; ICT Policy addresses issues pertaining to Operational Risk Management.	
	In 2016 IC&C Division conducted following No. of audit:	
	No. of Comprehensive Audit on branches	16
	No. of Comprehensive Audit at Head Office	2
	No. of Spot audits	2
v) Approach for calculating capital charge for operational risk	The Bank follows the Basic Indicator Approach (BIA) in terms of BRPD Circular No. 18 dated 21 December 2014 Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III). The BIA stipulates 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	

	<p>three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula:</p> $K = [(GI_1 + GI_2 + GI_3) \alpha] / n$	
Quantitative Disclosures:		
b) The capital requirements for operational risk		
(Amount in Million)		
Particulars	RWA	Capital Requirement
Minimum Capital Requirement: Operation Risk	1650.47	165.05

i) Liquidity Ratio:

Qualitative Disclosures:	
i) Views of BoD on system to reduce liquidity Risk	<p>The Board of Directors of the bank set policy, different liquidity ratio limits, and risk appetite for liquidity risk management as per regulatory guidelines. The ALM Policy, the most important policy for Liquidity Risk Management is reviewed periodically to incorporate changes as required by regulatory stipulation or to realign with changes in the economic landscape. The ALCO of the Bank formulates and reviews strategies and provides guidance for management of liquidity risk within the framework laid out in the ALM Policy.</p>
ii) Methods used to measure Liquidity risk	<p>In the perspective of Bangladesh, identifying and monitoring the driving factors of liquidity risk is viewed from the following aspects:</p> <p>Regulatory Liquidity Indicators (RLIs): Cash Reserve Requirement (CRR) Statutory Liquidity Ratio (SLR) Medium Term Funding Ratio (MTFR) Maximum Cumulative Outflow (MCO) Loan Deposit Ratio Liquidity Coverage Ratio (LCR) Net Stable Funding Ratio (NSFR)</p> <p>Bank's own liquidity monitoring tools: Wholesale Borrowing and Funding Guidelines</p>

	<p>Liquidity Contingency Plan Management Action Trigger (MAT)</p> <p>Computation of Capital Charge against Liquidity Risk: If annual average of any RLIs of any bank falls below Bangladesh Bank's requirement the bank will be required to maintain additional capital for that RLI (or those RLIs) in SRP.</p>	
iii) Liquidity Risk Management System	<p>The Asset Liability Management Committee (ALCO) of the Bank monitors & manages liquidity and interest rate risk in line with the business strategy. ALM activity including liquidity analysis & management is conducted through coordination between various ALCO support groups residing in the functional areas of Balance Sheet Management, Treasury Front Office, Budget and Planning etc.</p>	
iv) Policies and Processes for mitigating Liquidity risk	<p>An effective liquidity risk management process will include systems to identify measure, monitor and control its liquidity exposures.</p> <p>Bank has Asset Liability Management Committee (ALCO) to monitor the liquidity risk on a regular basis. Based on the detail recommendation from ALM desk, ALCO take appropriate action to manage the liquidity risk. Also Bank has internal risk control framework which outlines clear and consistent policies and principles for liquidity risk management.</p>	
Quantitative Disclosures:		Amount in Million
	Liquidity Coverage Ratio	283.43%
	Net Stable Funding Ratio (NSFR)	103.75%
	Stock of High quality liquid assets	6,921.85
	Total net cash outflows over the next 30 calendar days	2,442.17
	Available amount of stable funding	18,100.27
	Required amount of stable funding	17,446.01

j) Leverage Ratio:

Qualitative Disclosures:									
i) Views of BoD on system to reduce excessive leverage	In order to avoid building-up of an excessive on- and off-balance sheet leverage in the banking system, a simple , transparent and non-risk based leverage ratio has been introduced under the Base III framework. 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.								
ii) Policies and processes for managing excessive on and off-balance sheet leverage	<p>The leverage ratio is intended to achieve the following objectives: a) constrain the build-up of leverage in the banking sector which could damage the broader financial system and the economy b) reinforce the risk based requirements with any easy-to-understand and non-risk based measure.</p> <p>At the end December 2016, the minimum requirement for leverage ratio was 3% on both solo and consolidated bases. But Higher leverage ratio can decrease the profitability of banks because it means banks can do less profitable lending. However, increasing the leverage ratio means that banks have more capital reserves and can more easily survive a financial crisis.</p> <p>In view of the impact of leverage into the business, our bank management takes decision about future investment. Considering the financial strength, Bank also make Capital planning and business budget to go on a right way.</p>								
iii) Approach for calculating exposure	<p>The leverage ratio is a volume-based measure and is calculated as Basel III Tier I capital divided by total on and off-balance sheet exposures.</p> <p>A minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level.</p> $\text{Leverage Ratio} = \frac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$								
Quantitative Disclosures:									
	<table border="1"> <tbody> <tr> <td>Leverage Ratio</td> <td>18.44%</td> </tr> <tr> <td>On balance sheet exposure</td> <td>24,645.04</td> </tr> <tr> <td>Off balance sheet exposure</td> <td>878.03</td> </tr> <tr> <td>Total exposure</td> <td>25,523.07</td> </tr> </tbody> </table>	Leverage Ratio	18.44%	On balance sheet exposure	24,645.04	Off balance sheet exposure	878.03	Total exposure	25,523.07
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k) Remuneration:

NRB Bank is committed to ensuring that its remuneration practices enable the Bank to attract, develop and retain high caliber individuals to deliver the Bank’s objectives and drive business growth in a competitive environment. The performance based components of remuneration are designed to encourage behavior that supports the Bank’s long-term financial soundness and the risk management frameworks of the Bank.

The qualitative remuneration disclosures are broader in scope and cover all the individuals included whereas the quantitative information relates to senior managers and material risk takers of the NRB Bank Limited, for the financial year ended December 31, 2016.

Qualitative Disclosures	(a)	<p>Information relating to the bodies that oversee remuneration:</p> <p>The remuneration issues in NRB Bank are overseen by top Management comprising the Managing Director & CEO, Deputy Managing Directors & CRO and the Head of HR. The primary functions of the Remuneration Committee are to determine, review and propose principles and governance framework for all decisions relating to remunerations of the employees of NRB Bank. While the Human Resources Division is responsible for preparing and recommending reward plans and compensation, the committee’s duties are to assess and review these recommendations and submit them to the Board of Directors for approval.</p>
	(b)	<p>Information relating to the design and structure of remuneration process:</p> <p>The key features and objectives of remuneration policy:</p> <ul style="list-style-type: none"> ▪ Appropriately compensate Employees for the services they provide to the Bank; ▪ Attract and retain Employees with skills required to effectively manage the operations and growth of the business; ▪ Be consistent and appropriate having regard to the performance of the Bank and the relevant Employees; ▪ Motivate Employees to perform in the best interests of the Bank and its shareholders; ▪ Motivate Employees to pursue long term growth and success of the Bank within the Board approved control framework; ▪ Manage the risks associated with remuneration in a manner that supports the Bank’s risk management frameworks by applying an appropriate balance between fixed and variable remuneration, reflecting short and long term performance objectives to the Bank’s circumstances and goals;

	<ul style="list-style-type: none"> ▪ Apply key short term and long term key performance indicators, including financial and nonfinancial measures of performance, to eligible employees; ▪ Demonstrate a clear relationship between individual performance and rewards; ▪ Comply with all regulatory and legal requirements; and ▪ Provide an appropriate level of transparency. <p>In the year 2016, the salary structure of the bank was reviewed by the committee and finally approved by the Board, where the structure was adjusted with the then inflation rate.</p> <p>The structure of remuneration arrangements for all employees consists of following components:</p> <ul style="list-style-type: none"> • Fixed Remuneration; and • Performance-based remuneration <p>Fixed remuneration: This includes base salary, fixed benefits and superannuation. Base salaries are determined to attract and retain employees with skills required to effectively manage the operations and growth of the business to reflect best market practice for the specific circumstances of the Bank. Fixed remuneration is benchmarked against the financial services industry through the use of external remuneration market surveys, conducted by professional, independent benchmarking organizations.</p> <p>Performance-based remuneration: Employee remuneration packages may include a ‘variable’ component with short term and long term incentive plans.</p> <p>Moreover, the employees whose job nature shows risk factors are allowed risk allowances as prescribed in the policy. In addition, employees with compliance and supervisory responsibilities are also provided additional benefits besides their regular pay.</p>
(c)	<p>Description of the ways in which current and future risks are taken into account in the remuneration processes.</p> <p>The Bank’s remuneration practices are carefully managed takes into account the following key risks when implementing remuneration measures:</p> <ul style="list-style-type: none"> • Financial Risks • Compliance Risks <p>Risk and compliance requirements represent a gateway to whether an incentive bonus payment is made and the size of the payment. Despite, if the individual does not meet or only partially meets compliance requirements, no award or a reduced award may be made.</p>

	<p>(d) Description of the ways in which the bank seeks to link performance :</p> <ul style="list-style-type: none"> ❖ Overview of main performance metrics for the Bank, top level business lines and individuals- The main performance metrics include profits, loan growth, deposit growth, risk metrics (such as quality of assets), compliance with regulatory norms, refinement of risk management processes and customer service. The specific metrics and weightages for various metrics vary with the role and level of the individual. ❖ Discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance- The Performance Appraisal Form (PAF) takes into consideration all the above aspects while assessing individual performance and making compensation-related recommendations to the Remuneration Committee regarding the level of increment and performance bonus for employees. The performance assessment of individual employees is undertaken based on achievements vis-à-vis their goal sheets, which incorporate the various aspects/metrics.
	<p>(e) Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance.</p> <p>The Bank’s remuneration system is designed to reward long-term as well as short-term performance, encourage retention and recognize special performance in the organization. The Bank provides reasonable remuneration for short-term performance besides for long-term performance the bank has some deferred payment options (i.e. incentive bonus, gratuity, superannuation etc.)</p> <p>In case of following situation remuneration can be adjusted before vesting:</p> <ul style="list-style-type: none"> • Disciplinary Action (at the discretion of Enquiry committee) • Resignation of the employee prior to the payment date. <p>At the same time previously paid or already vested variable pay can also be recovered under the case of disciplinary action (at the discretion of the Enquiry Committee and approval of Executive Committee)</p>
	<p>(f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.</p> <p>The main forms of such variable remuneration include:</p> <ul style="list-style-type: none"> • Monthly Cash benefits • Incentive plan for the employees to be paid annually <p>The form of variable remuneration depends on the job level of individual, risk involved, the time horizon for review of quality of the assignments performed.</p>

Quantitative Disclosures	(g)	<p>Number of Meeting held by the Remuneration Committee during the financial year and remuneration paid to its member.</p> <p>Meeting regarding overseeing remuneration was held on need basis. No fees paid to the Committee Members as remuneration for attending such meetings.</p>													
	(h)	<p>Number of employees having received a variable remuneration award during the financial year.</p> <p>In 2016 total 216 number of employees received performance bonus.</p> <p>Number and total amount of guaranteed bonuses awarded during the financial year:</p> <p>2 numbers of guaranteed festival bonuses amounted BDT 4.65 Million for Senior Management.</p> <p>Number and total amount of sign-on award made during the financial year.</p> <p>Nil</p> <p>Number and total amount of severance payments made during the financial year.</p> <p>Nil</p>													
	(i)	<p>Total amount of outstanding deferred remuneration, split into cash, shares and share-lined instruments and other forms.</p> <p>Nil</p> <p>Total amount of deferred remuneration paid out in the financial year:</p> <p>Nil</p>													
	(j)	<p>Breakdown of amount of remuneration awards for the financial year to show.</p> <p>Fixed and Variable: Breakdown of Remuneration (Fixed and Variable) is as follows (Amount in Million)</p> <table border="1"> <tr> <td>Basic Salary</td> <td>136.54</td> </tr> <tr> <td>Allowances</td> <td>138.64</td> </tr> <tr> <td>Festival Bonus</td> <td>22.82</td> </tr> <tr> <td>Gratuity</td> <td>18.00</td> </tr> <tr> <td>Provident Fund Contribution</td> <td>11.96</td> </tr> <tr> <td>Performance Bonus</td> <td>20.80</td> </tr> <tr> <td>Total</td> <td>348.76</td> </tr> </table>	Basic Salary	136.54	Allowances	138.64	Festival Bonus	22.82	Gratuity	18.00	Provident Fund Contribution	11.96	Performance Bonus	20.80	Total
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Total	348.76														

	<p>(k) Quantitative Information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw backs or similar reversals or downward revaluation of awards) of deferred remuneration and retained remuneration:</p> <p>Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments. Nil</p> <p>Total amount of reductions during the financial year due to ex post explicit adjustments. Nil</p> <p>Total amount of reduction during the financial year due to ex post implicit adjustments. Nil</p>
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