

THE GENERAL QUALITATIVE DISCLOSURE

Risk Management:

Risk is inherent in any segment of infrastructure and in financial sectors in particular. Regulated environment discourages banks to take risks. Risk management as such has become critical in global financial scenario. Risk Management is a discipline at the core of every bank and encompasses all the activities that affect its risk profile. Risks are generally defined by the adverse impact on profitability from several distinct sources of uncertainty.



The degree and types of risk that a bank face depends upon a number of factors such as its size, complexity, business activities, volume, technology, operations etc. Risks are normally classified within 3 categories:

- **Risks inherent to the external context:** The external context may include risks originated from the social and cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment.
- **Risks inherent to operative management:** Risk inherent to operative management includes the risk of loss resulting from inadequate or failed internal process, people or from technology.
- **Risks inherent to financial management:** Risk inherent to the financial management includes the risk arises from the inefficient management of banks assets, liabilities and investment.

Every single risk may lead to direct and/or indirect damage to the organization and business with financial implications that may also be considerable in the short, medium and long term.

Risk Management Framework:

In National Bank Ltd, risk management is a dynamic process interrelated with the philosophy, culture and functionalities of the bank. Risk is clearly identified, measured, mitigated or minimized to shield capital and to maximize value for share holders. NBL affixes utmost priority to establish, maintain and upgrade risk management infrastructure, systems and procedures. Required resources are allocated in this regard to improve capacity skills and expertise of relevant resources to enhance risk management. Different policies and procedures are approved by Board of Directors of NBL are regularly assessed time to time to update them. Recognizing the impacts of internal and potential risk domains, the bank has laid down different risk managements processes consisting of definition, identification, analysis, measurement, acceptance and proper management of risk profile.

Risk Management Process:

Following are the components of the Risk Management Process

- Risk Identification
- Risk Assessment
- Risk Control
- Risk Monitoring



Identification is the first and primary phase of risk management. Risks need to be identified properly to locate their impact and to measure and manage them. National Bank risk profile includes Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Reputation Risk, Strategic Risk, Capital Adequacy and Stress Testing etc.

Risk assessment is the next process. Accurate assessment of risks is an essential prerequisite for successful risk management. Until and unless risks are assessed and measured it will not be possible to control risks. Qualitative and quantitative judgments contribute tools for appropriate risk management.

Risk control is the next step to minimize the gap between existing risk and impending status. After the risk is identified and measured proper steps are taken to control the risk.

Monitoring of risks is used to check whether the risks actually incurred falls within the approved limits, thus ensuring NBL's capacity to bear the risks.

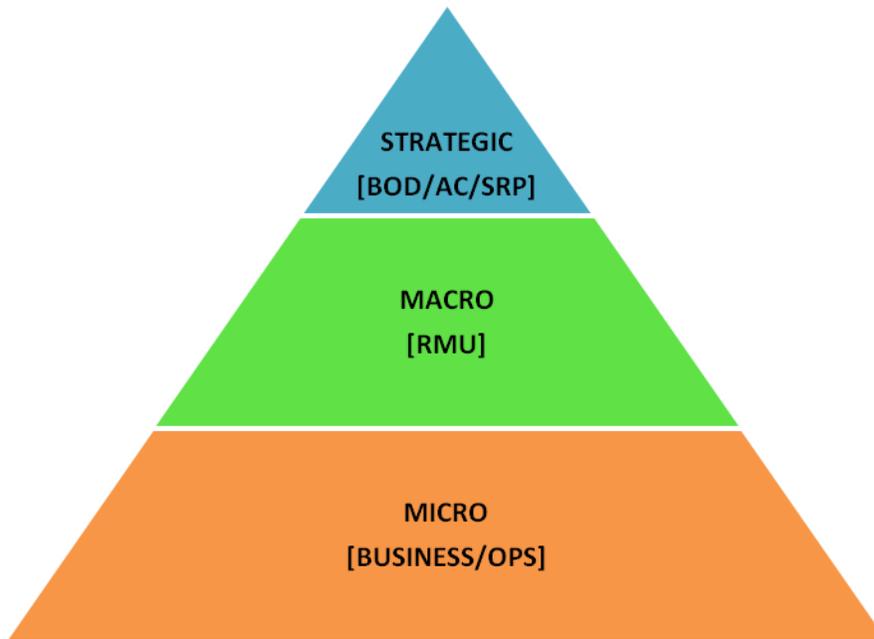
Risk Management Policy & Procedure:

NBL has approved policies and procedures related to all the risk areas ensuring risks are properly addressed and protected for sustainable growth of Bank. These are implemented taking into account Bangladesh Bank's Guidelines on managing Core Risks on Credit Risk Management, Foreign Exchange Risk Management, Internal Control and Compliance, Asset and Liability Management, Information Risk Management and Money Laundering Risk Management as well as challenges in the business environment in which NBL operates, specific needs for particular type of operations or transactions and global best practices. These policies are periodically reviewed and updated to keep pace with the changing operating and business environment, technology and regulatory implications. NBL is also complying with the Risk Management Guideline provided by Bangladesh Bank in February 2012 and prepared own Risk Management Guideline in line with the regulatory guideline.

Risk Management Organization

Risk management is performed at various levels within NBL. At the highest level, the Board of Directors determines the risk strategy, policy principles and limits, as per recommendation of the EC suggestion by the Assets and Liabilities Committee (ALCO) as well as the Credit Committee. The Mancom, ALCO regularly reviews the risk exposure of NBL's activities and portfolio. The MD, who is also a member of the Executive Board, is responsible for the implementation of NBL's risk policy. NBL Risk Management is responsible for the policy regarding interest rate, market, liquidity, currency and operational risk, as well as for the credit risk policy at portfolio level.

In addition, implementation policy for risk management is embedded within the Bank entities, with independent risk control departments monitoring the risks that are relevant for the entity in question. In NBL, risk is managed in three stages namely: Strategic level; Macro level and Micro level. Strategic Level consists of Audit committee and Board of Directors and Supervisory Review Process Team (SRP) and Macro level consists of Risk Management Unit and Micro Level consists of business and operations functions.



Risk Management Unit Collects information from branch and head office level; collect different secondary data from Bangladesh Bank, BIBM, BIDS, BBS , WB, IFC, ADB etc and prepare different risk reports. RMU submits these reports regularly to CEO and periodically to SRP team. Also Risk report is periodically submitted to Audit Committee of the Board of Directors of NBL.

Risk Management Unit

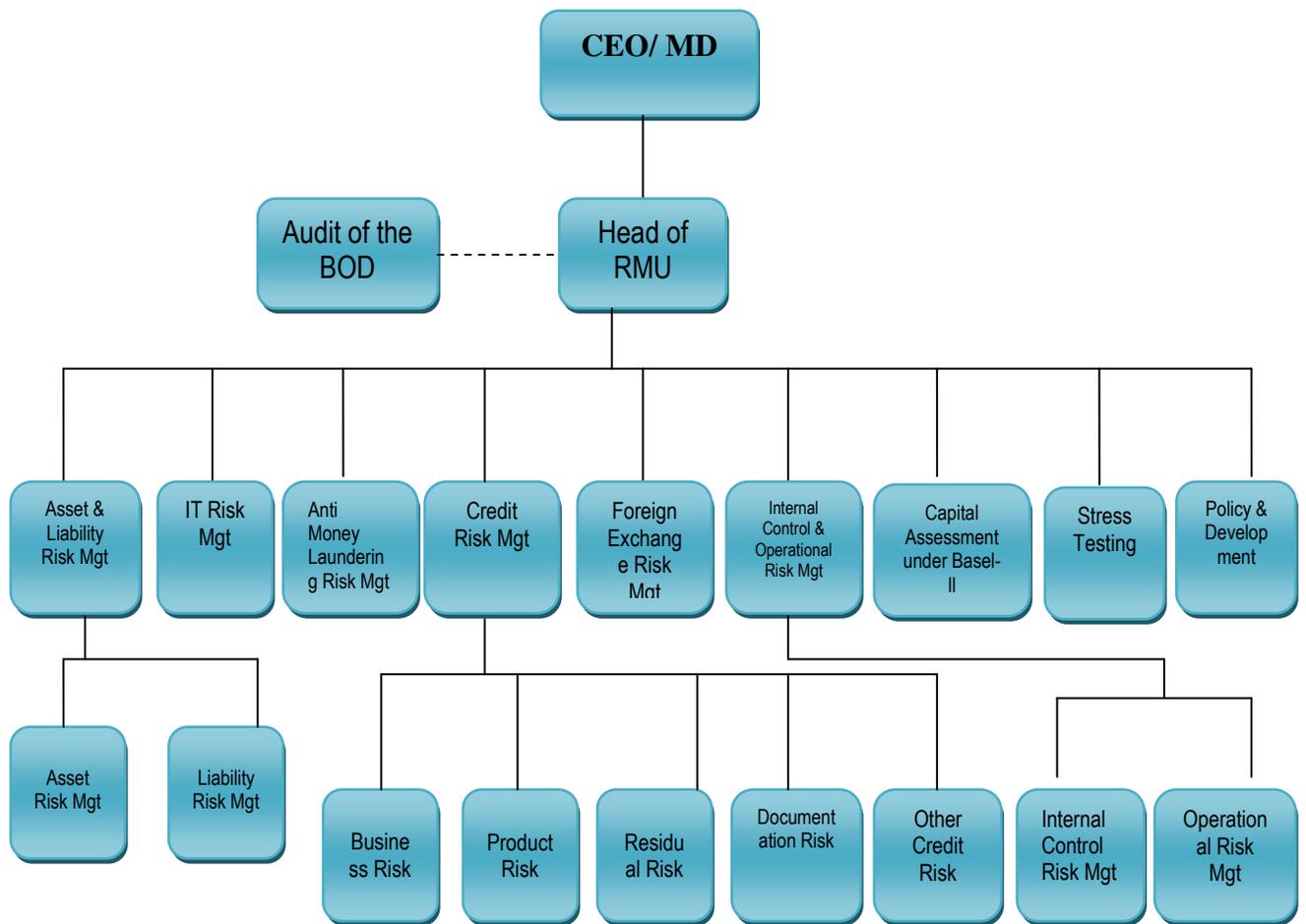
NBL’s organogram has been re-structured with inclusion of a separate Risk Management Unit in line with the regulatory requirement to address and supervise the existing and potential business and capital risks. This specialized unit cautions the bank against any financial and operational risk impacting the micro functionalities. It oversees the management of various core risk management guidelines prescribed by Bangladesh Bank and approved by the bank in different functional areas: credit, foreign exchange, asset and liability management, internal control and compliance, money-laundering and information communication technology risks etc. apart from capital adequacy risk.

Risk Management Unit is established for the following purposes:

- Ensure quality assets as well as sustainable profit
- Improve compliance culture
- Reduce cost of inefficiency
- Strong risk management due-diligence reduce risk weighted assets under Basel-II framework
- Strong risk focused risk management means comfortable reputation level
- Highlight deficiency to the top management in time
- Potential problem areas are quickly identified and
- Risks mitigants are indicated

The Risk Management Unit does have direct reporting line to the Managing Director and CEO of the Bank with dotted line reporting to the Audit Committee of the Board of Directors of the Bank. The Risk

Management Unit is headed by a senior executive who is the Chief Risk Officer (CRO) of the Bank. The Organogram of the RMU is given below which emphasise on management of different risk profiles of the Bank:



The RMU periodically reviews the risk status of the bank and based on qualitative and quantitative Key Risk Indicators (KRI) on different risk areas, prepare a monthly Risk Management Paper (RMP).

“Risk analysis and reporting capabilities support the identification of opportunities as well as risks and it provides an aggregate view of the overall risk portfolio. Risk mitigation strategies clearly aligned with responsibilities and timescales are monitored at top and functional level.”

Principles of Risk Management

The main objective of risk management is the protection of NBL’s financial strength. Risk management is based on the following principles:

- Protecting the Bank’s financial strength: NBL controls risks in order to limit the impact of potential adverse events, both on its capital and on its financial results. The risk appetite to be proportional to the available capital.
- Protecting NBL’s reputation: reputation is essential for the proper performance of a banker’s profession and needs to be diligently preserved.

- Risk transparency: for a good insight into NBL's positions, it is vital to identify all risks. Risks must always be considered as accurately as possible and documented in order to be able to make sound business decisions.
- Management responsibility: NBL's business entities are individually responsible for their results as well as for their risks associated with their operations. A balance is made between risk and return, while, of course, duly observing the relevant risk limits.
- Independent risk control: this is the structured process of identifying, measuring, controlling, monitoring and reporting risks. In order to ensure integrity, the risk control divisions operate independently of the business activities.

To manage different risks, an extensive system, limits, process and controls based on the above principle is in operation at NBL.

a) SCOPE OF APPLICATION

QUALITATIVE DISCLOSURES

The Bank uses a capital model to assess the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed; relevant mitigates considered and appropriate levels of capital determined. The capital model is a key part of the Bank's management disciplines.

Basel II, The Basel Committee on Banking Supervision published a framework for the International Convergence of Capital Measurement and Capital Standards (commonly referred to as 'Basel II'), which replaced the original 1988 Basel I Accord. Basel II is structured around three 'pillars': Bangladesh Bank has given a road map for implementation of Basel-II and has formulated a guideline on "Risk based Capital Adequacy for Banks" under Basel-II framework.

In order to comply with the Bangladesh Bank's requirement, NBL's Board of Directors approved a policy on Risk Based Capital Adequacy for National Bank Limited in December, 2009, which become effective from January, 2010. The Bank adopted the following approaches to calculate CAR as per requirement of MCR (Pillar-I)

01. *Standardized Approach for Credit Risk*
02. *Standardized Approach for Market Risk*
03. *Basic Indicator Approach for Operational Risk*

NBL has taken necessary steps to put in Internal Capital Adequacy Assessment Process (ICAAP) to identify, measure, monitor and control risks not captured under Pillar 1 of the Basel-II regime.

The Bank meanwhile underscored the need for corporate and financial transparency and accordingly approved a Discloser Policy for NBL approved by the Board of Directors in May, 2010 which enabled the bank to comply with the Pillar-III requirement of Basel-II implementation.

For a business driven risk management and capital adequacy maintenance, NBL's Board of Directors in June, 2010 also approved an 8 year capital plan effective from year 2010.

Stressing on the sound capital structure, the bank's Board of Directors also took initiative to raise Tier-II capital by issue of 5 years non-convertible Subordinate Debt Bond for TK.250.00 Crore duly approved in May, 2010. The issue was completed in December, 2010, strengthening the capital for future expansion of business and maintenance of capital adequacy.

QUANTITATIVE DISCLOSURES: Not applicable.

b) CAPITAL STRUCTURE

CAPITAL MANAGEMENT

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings. Strategic business and capital plans are drawn up to cover an eight years horizon and approved by the board. The plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank to support the strategy. The capital plan takes the following into account:

- regulatory capital requirements;
- forecast demand for capital to support the credit ratings;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Bank's risk and performance.

Regulatory capital will be categorized into three tiers:

- Tier 1,
- Tier 2, and
- Tier 3.

TIER 1 CAPITAL

Tier 1 capital called 'Core Capital' comprises of highest quality of capital elements that consists of:

- a) Paid up capital
- b) Non-repayable share premium account
- c) Statutory reserve
- d) General reserve
- e) Retained earnings
- f) Minority interest in subsidiaries
- g) Non-cumulative irredeemable preference shares
- h) Dividend equalization account

TIER 2 CAPITAL

Tier 2 capital called 'Supplementary Capital' represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank and consists of:

- a) General provision
- b) Revaluation reserves
 - Revaluation reserve for fixed assets
 - Revaluation reserve for securities
 - Revaluation reserve for equity instrument
- c) All other preference shares
- d) Subordinated debt

TIER 3 CAPITAL

Tier 3 capital called 'Additional Supplementary Capital', consists of short-term subordinated debt (original maturity less than or equal to five years but greater than or equal to two years) would be solely for the purpose of meeting a proportion of the capital requirements for market risk.

CONDITIONS FOR MAINTAINING REGULATORY CAPITAL

The calculation of Tier 1 capital, Tier 2 capital, and Tier 3 capital shall be subject to the following conditions:

- a) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
- b) 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital.
- c) 10% of revaluation reserves for equity instruments eligible for Tier 2 capital.
- d) Subordinated debt (definition and qualification is stated in **Annex A of RBCA Guideline**) shall be limited to a maximum of 30% of the amount of Tier 1 capital.
- e) Limitation of Tier 3: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank's Tier 1 capital that is available after meeting credit risk capital requirement.

QUANTITATIVE DISCLOSURES

| | Figure in crore taka |
|--|-----------------------------|
| Paid up capital | 1,419.60 |
| Non-repayable share premium account | - |
| Statutory reserve | 671.37 |
| General reserve | 5.01 |
| Retained earnings | 77.06 |
| Minority interest in subsidiaries | 0.01 |
| Non-cumulative irredeemable preference shares | - |
| Dividend equalization account | - |
| The total amount of Tier 2 and Tier 3 capital. | 469.65 |
| Other deductions from capital. | - |
| Total eligible capital. | 2,642.70 |

c) CAPITAL ADEQUACY

QUALITATIVE DISCLOSURES:

National Bank Limited has an exclusive body called RMU team/risk management unit for assessing their overall risk profile, and a strategy for maintaining adequate capital. Adequate capital means enough capital to compensate all the risks in their business, and to develop and practice better risk management techniques in monitoring and managing their risks. As per capital adequacy guideline, the bank is required to maintain a minimum CAR of 10% with regards to credit risk, market risk and operational risk. The capital requirement of National Bank Limited as on 31 December 2011 is as follows:

| Period | CAR | |
|-------------------|----------|--------|
| | Required | Actual |
| As on 31 Dec 2012 | 10% | 12.79% |

QUANTITATIVE DISCLOSURES:

| | Figure in crore taka |
|--|-----------------------------|
| Capital requirement for Credit Risk | 1681.58 |
| Capital requirement for Market Risk | 192.01 |
| Capital requirement for Operational Risk | 191.89 |
| Total and Tier 1 capital ratio: | 10.52% |
| • For the consolidated group; and | 12.79% |
| • For stand alone | - |

d) CREDIT RISK

THE GENERAL QUALITATIVE DISCLOSURE REQUIREMENT WITH RESPECT TO CREDIT RISK:

The favorable risk profile of NBL's loan portfolio is partly due to the bank's prudent policy for accepting new clients. Approval for larger credit applications is decided by committees.

The Board itself decides on the largest financing applications. For corporate loans, a key concept in NBL's policy for accepting new clients is the 'know your customer' (KYC) principle, meaning that loans are granted only to corporate clients known to NBL.

Credit risk is one of the major risks faced by the Bank. This can be described as potential loss arising from the failure of a counter party to perform according to contractual arrangement with the Bank. The failure may arise due to unwillingness of the counter party or decline in economic condition etc. Bank's risk management has been designed to address all these issues.

A thorough credit risk assessment is done before extending loan. The Credit Risk assessment includes borrower risk analysis, industry risk analysis, historical financial analysis, projected financial performance, the conduct of the account, and security of proposed loan. The assessment originates from relationship manager/account officer and approved by Credit Review Committee at Head Office. The Credit Committee under elevated authority approves the credit proposals. Executive Committee of the Board approves the proposals beyond the authority limit of the Management. The Board of Directors reviews the proposals approved by the Executive Committee.

In determining Single borrower/Large Loan limit, the instructions of Bangladesh Bank are strictly followed. Segregation of duties has been established for Credit Approval, Relationship Management and Credit Administration. Internal audit is conducted on periodical interval to ensure compliance of Bank's and Regulatory polices. Loans are classified as per Bangladesh Bank's guidelines.

Mortgage documents are properly vetted by the Bank's Legal Counsel. He/she will also certify that proper documentation, borrower's legal standing and enforcement of securities are in place. Finally, Lawyer's Satisfaction Certificate shall have to be obtained regarding documentation where there are securities/collaterals other than Personal Guarantee and Financial Obligation.

The Bank has segregated duties of the officers/executives involved in credit related activities. Credit approval, administration and monitoring and recovery functions are segregated. Credit Risk Monitoring Unit is entrusted with the duties of maintaining asset quality, assessing risk in lending to a particular customer, sanctioning credit, formulating policy/strategy for lending operations.

Risk grading of the accounts have been done as per Bangladesh Bank's guidelines. Any credit approval Sanction shall be subject to the banking regulations in force or to be imposed by the regulatory body from time to time and to the changes in the Bank's policy. This is to be specifically mentioned in the sanction letter issued to the customer. Data collection check list and limit utilization format have been prepared for regular assessment. Internal Audit division independently reviews the risk grading at the time of auditing the branches.

DESCRIPTION OF APPROACHES FOLLOWED FOR SPECIFIC AND GENERAL ALLOWANCES AND STATISTICAL METHOD:

Provision against classified loans and advances is made on the basis of periodical review by the management and instruction contained in BCD Circular No. 12 dated September 4, 1995; BRPD circular No. 16 dated December 6, 1998; BRPD circular No. 9 dated May 14, 2001; BRPD circular No. 02 dated February 15, 2005; BRPD circular No. 05 dated April 27, 2005 and BRPD circular No. 32 dated October 27, 2010; BRPD circular No. 14 Dated September 23, 2012.

The provisioning rate as per Bangladesh Bank circulars are as follows:

| | Business Unit | Rates of Provisions | | | | |
|----------|--|---------------------|-------|--------|--------|---------|
| | | UC | SMA | SS | DF | BL |
| Consumer | House Building & Professional | 2.00% | 5.00% | 20.00% | 50.00% | 100.00% |
| | Other than House Building & Professional | 5.00% | 5.00% | 20.00% | 50.00% | 100.00% |
| | Small & Medium Enterprise | 0.25% | 5.00% | 20.00% | 50.00% | 100.00% |
| | BHs/MBs/ SDs against shares | 2.00% | 5.00% | 20.00% | 50.00% | 100.00% |
| | All Others | 1.00% | 5.00% | 20.00% | 50.00% | 100.00% |

QUANTITATIVE DISCLOSURES:

b) TOTAL GROSS CREDIT RISK EXPOSURES BROKEN DOWN BY MAJOR TYPES OF CREDIT EXPOSURE:

Figures in Crore Taka

Loans and advances

a) Loans, cash credits, overdrafts etc.

Inside Bangladesh

| | |
|------------------------------|------------------|
| Secured overdraft | 2,223.33 |
| Cash credit | 2,976.71 |
| Loans (General) | 4,312.82 |
| House building loans | 553.88 |
| Lease finance | 28.72 |
| Loans against trust receipts | 953.65 |
| Payment against documents | 28.21 |
| Consumer credit scheme | 0.27 |
| Credit card | 87.18 |
| Margin Loan | 541.92 |
| Other loans and advances | 532.62 |
| | 12,239.31 |

Outside Bangladesh

12,239.31

b) Bills purchased and discounted

Inside Bangladesh

| | |
|---|---------------|
| Local bills purchased and discounted | 431.11 |
| Foreign bills /documents purchased and discounted | 22.48 |
| | 453.59 |

Outside Bangladesh

453.59

12,692.90

c) **GEOGRAPHICAL DISTRIBUTION OF EXPOSURES, BROKEN DOWN IN SIGNIFICANT AREAS BY MAJOR TYPES OF CREDIT EXPOSURE.**

Inside Bangladesh

| | |
|---------------------|------------------|
| Dhaka Division | 7,943.10 |
| Chittagong Division | 3,269.66 |
| Khulna Division | 348.04 |
| Sylhet Division | 124.26 |
| Rangpur Division | 200.13 |
| Barisal Division | 123.58 |
| Rajshahi Division | 684.14 |
| | 12,692.90 |

d) **INDUSTRY OR COUNTERPARTY TYPE DISTRIBUTION OF EXPOSURES, BROKEN DOWN BY MAJOR TYPES OF CREDIT EXPOSURE.**

Figures in Crore Taka

| | |
|--|------------------|
| Agriculture | 122.56 |
| Term loan to small cottage industries | 80.07 |
| Term loan to large & medium industries | 2,279.85 |
| Working capital to industry | 2,064.95 |
| Export credit | 686.46 |
| Trade finance | 3,811.22 |
| Consumer credit | 0.27 |
| Credit card | 87.18 |
| Others | 3,560.35 |
| | 12,692.90 |

e) **RESIDUAL CONTRACTUAL MATURITY BREAKDOWN OF THE WHOLE PORTFOLIO, BROKEN DOWN BY MAJOR TYPES OF CREDIT EXPOSURE.**

| | |
|--|------------------|
| On demand | 251.11 |
| Within 1 month | 1,174.67 |
| More than 1 month but not more than 3 months | 2,511.08 |
| More than 3 months but not more than 1 year | 3,138.85 |
| More than 1 year but not more than 5 years | 3,766.62 |
| More than 5 years | 1,850.57 |
| | 12,692.90 |

f) **BY MAJOR INDUSTRY OR COUNTERPARTY TYPE:**

a) **Specific provision against loans & advances**

| | |
|--|---------------|
| Opening balance | 116.68 |
| Fully provided debt written off during the year | (12.59) |
| Release of Provision | 11.24 |
| Adjustment/Recovery in kinds on account of properties | (0.06) |
| Transfer to provision made against other classified asset | - |
| Transfer to general provision made against unclassified loan | - |
| Transfer to general provision made against off-B/S items | - |
| Provision made during the year | 27.00 |
| | 142.26 |

b) General provision against unclassified loans & advances

| | |
|--|---------------|
| Opening balance | 127.07 |
| Transferred from other provision | - |
| Transferred from specific provision | - |
| Provision made during the year (including provision for OBU) | 18.00 |
| | 145.08 |

c) General provision against Off Balance Sheet Items

| | |
|--|--------------|
| Opening balance | 44.05 |
| Transferred from specific provision | - |
| Provision made during the year (including provision for OBU) | - |
| | 44.05 |

Total (a) + (b) +(c)**331.39****d) CHARGES FOR SPECIFIC ALLOWANCES AND CHARGE-OFFS DURING THE PERIOD.****Classified, unclassified, doubtful and bad loans & advances***Unclassified*

| | |
|--------------------------|------------------|
| Standard | 11,908.11 |
| Special Mention Accounts | 239.94 |
| | 12,148.05 |

Classified

| | |
|--------------|------------------|
| Sub-standard | 128.57 |
| Doubtful | 38.00 |
| Bad/Loss | 378.28 |
| | 544.85 |
| | 12,692.90 |

g) GROSS NON PERFORMING ASSETS (NPAs)**Figure in Crore Taka**

| | |
|---|--------|
| Gross Non Performing Assets (NPAs) | 784.78 |
| Non Performing Assets (NPAs) to Outstanding Loans & advances | 6.22% |

| | |
|--|--------|
| Movement of Non Performing Assets (NPAs) | |
| Opening balance | 386.80 |
| Additions | 158.05 |
| Reductions | - |
| Closing balance | 544.85 |

| | |
|---|---------|
| Movement of specific provisions for NPAs | |
| Opening balance | 116.68 |
| Provisions made during the period | 27.00 |
| Recovery of Write off | 11.24 |
| Adjustment | (12.65) |
| Write-back of excess provisions | - |
| Closing balance | 142.26 |

e) EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

QUALITATIVE DISCLOSURES

Investments are classified broadly in three categories and accounted for as under.

HELD TO MATURITY

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the NBL's management has the intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held -to-maturity assets, the entire category would be reclassified as available for sale.

HELD FOR TRADING

Investments classified in this category are acquired principally for the purpose of selling or repurchasing in short trading or if designed as such by the management. After initial recognition, investments are measured at fair value and changes are recognized in the income statement as income for the period as per provision of IAS-39"Financial Instruments: Recognition and measurement".

SALE AND REPURCHASE AGREEMENT

Securities sold subject to repurchase agreement (REPO) are reclassified in the Financial Statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counter-party liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (REVERSE REPO) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

VALUE OF INVESTMENT HAS BEEN DETERMINED AS FOLLOWS

| <u>Items</u> | <u>Applicable accounting value</u> |
|-------------------------------------|--|
| Government treasury bills (HTM) | At Present Value |
| Government treasury bills (HFT) | At Market Value |
| Bangladesh Govt. treasury bonds | At Present Value |
| Prize bond | At cost |
| BHBFC-debenture | Face value |
| Investments in shares | At Mark to Market |
| Foreign Investment in Share and FDR | At rolling exchange rate on Balance Sheet date |

QUANTITATIVE DISCLOSURES

| | Figures in Crore Taka |
|--|-----------------------|
| 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. | (Annexure A) |
| The cumulative realized gains (losses) arising from sales and liquidations in the reporting period. | 3.70 |
| • Total unrealized gains (losses) | 81.91 |
| • Total latent revaluation gains (losses) | - |
| • Any amounts of the above included in Tier 2 capital. | - |
| 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. | |
| a) Specific Risk (Market value of investment in equities amounting Tk. 659.40 crore and capital charge @ 10% results) | 65.94 |
| b) General Market Risk (Market value of investment in equities amounting Tk. 659.40 crore and capital charge @ 10% results) | 65.94 |

f) INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

QUALITATIVE DISCLOSURES

Interest rate risk is taken to be the current or prospective risk to banking book assets of bank arising from adverse movements in interest rates. A significant portion of NBL's balance sheet comprised of banking book assets which is subjected to changes in interest rates, differences in maturities within products or markets. Appropriate duration analysis, asset liability management and relevant MIS enable the Bank for reducing capital allocation for this risk.

QUANTITATIVE DISCLOSURES

A. BANKING BOOK ASSETS

| | Crore Taka |
|---|-------------------|
| 1. Cash in hand and balance with BB (excluding FC) | 1103.13 |
| Balance with other banks (excluding FC) | 102.82 |
| 2. Money at call | 84.91 |
| 3. Investment (HTM) | |
| a. Government | 2425.66 |
| b. Qualifying (banks, etc.) | 138.54 |
| c. Others | - |
| | 2,564.20 |
| 4. Loans and advances | |
| a. Classified (SMA, SS, DF & BL to be shown separately) | |
| SMA | 239.94 |
| SS | 128.57 |
| DF | 38.00 |
| BL | 378.28 |
| b. Unclassified | 11,832.19 |
| | 12,239.31 |
| 5. Risk weighted assets | |
| a. Below 100% RW | 2,503.64 |
| b. 100% RW | 1,725.35 |
| c. Above 100% RW | 12,586.82 |
| 6. Rated status | |
| a. Rated assets | 249.49 |
| b. Unrated assets | 16,624.47 |
| 7. Other assets including Fixed Assets | 540.46 |
| A. Total Banking Book Assets (1+2+3+4+7) | 16,634.84 |

g) MARKET RISK

QUALITATIVE DISCLOSURES

MARKET RISK

Market Risk may be defined as the possibility of loss to a bank caused by changes in the market variables. Treasury Division manages the market risk and ALCO monitors the activities of Treasury division in managing the risk.

Market Risk occurs due to changes:

- *in the market level of interest rates*
- *prices of securities,*
- *foreign exchange and equities,*
- *the volatilities of those changes.*

| Sl. | Market Risk | Total Capital Charge |
|-----|-----------------------------------|----------------------|
| A. | Interest Rate Related instruments | 32.85 |
| B. | Equities | 131.88 |
| C. | Foreign Exchange Position | 27.28 |
| D. | Commodities | - |
| | Total (A+B+C+D) | 192.01 |

h) OPERATIONAL RISK

QUALITATIVE DISCLOSURES

Operational risk is NBL's exposure to potential losses that may be caused from inadequate internal processes or systems, inadequate employee performance, external events and may also cause from the breach of compliance, contracts or internal regulation.

Operational Risk includes:

- IT (back up), interface, information and other system failures and deficiencies, including viruses.
- confidentiality or security breaches
- human error
- fraud and theft
- weakness in internal controls/supervision
- physical disasters involving people, premises or equipment
- delivery failures
- regulatory/compliance requirements
- third party payments

QUANTITATIVE DISCLOSURES

| | Figures in crore Taka |
|---------------------------------------|-----------------------|
| Capital required for operational risk | 191.89 |

Annexure A

Value of shares (Quoted as on 31 December 2012)

Figures in Taka

| Particulars | Face Value per share | Number of Shares | Market value Per share | Market value | Total Cost |
|-------------------------------|----------------------|------------------|------------------------|------------------|------------------|
| 1 st Prime Finance | 10 | 50,000.00 | 28.60 | 1,430,000.00 | 1,703,400.00 |
| AB Bank | 10 | 1,485,720.00 | 33.70 | 50,068,764.00 | 59,858,159.83 |
| ACI | 10 | 53,160.00 | 141.20 | 7,506,192.00 | 23,082,918.72 |
| AL-Arafa Bank | 10 | 53,000.00 | 25.10 | 1,330,300.00 | 1,338,471.60 |
| Apex Tanry | 10 | 23,800.00 | 74.70 | 1,777,860.00 | 2,054,492.66 |
| Bank Asia | 10 | 4,312,040.00 | 21.50 | 92,708,860.00 | 153,141,707.86 |
| Bay Leasing | 10 | 1,148,400.00 | 35.30 | 40,538,520.00 | 107,533,512.82 |
| BD Thai | 10 | 700,300.00 | 35.20 | 24,650,560.00 | 27,460,561.50 |
| BEACONPHA | 10 | 150,000.00 | 16.50 | 2,475,000.00 | 3,132,552.60 |
| BEDL | 10 | 175,000.00 | 32.60 | 5,705,000.00 | 7,262,516.04 |
| BEX Pharma | 10 | 85,029.00 | 55.90 | 4,753,121.10 | 5,007,468.28 |
| BEXIMCO Ltd. | 10 | 70,000.00 | 64.40 | 4,508,000.00 | 4,881,993.50 |
| BRAC Bank | 10 | 5,867,960.00 | 34.80 | 204,205,008.00 | 237,343,443.42 |
| BSCCL | 10 | 6,800.00 | 132.90 | 903,720.00 | 893,885.50 |
| BSRMSTEEL | 10 | 1,404,500.00 | 67.90 | 95,365,550.00 | 201,654,927.91 |
| CITY Bank | 10 | 583,850.00 | 26.80 | 15,647,180.00 | 27,732,180.67 |
| CITYGENINS | 10 | 65,000.00 | 35.40 | 2,301,000.00 | 2,618,757.06 |
| CONTININS | 10 | 50,000.00 | 32.60 | 1,630,000.00 | 1,898,238.90 |
| DBH | 10 | 83,500.00 | 56.00 | 4,676,000.00 | 5,571,771.30 |
| DESCO | 10 | 160,218.00 | 72.10 | 11,551,717.80 | 13,030,088.59 |
| DESHBANDH | 10 | 205,500.00 | 25.90 | 5,322,450.00 | 6,244,163.40 |
| Dhaka Bank | 10 | 46,658,443.00 | 24.80 | 1,157,129,386.40 | 1,358,528,496.72 |
| DHAKAINS | 10 | 50,000.00 | 52.00 | 2,600,000.00 | 3,003,495.00 |
| EASTLAND | 10 | 25,000.00 | 56.60 | 1,415,000.00 | 1,877,547.60 |
| EBL | 10 | 28,860.00 | 31.70 | 914,862.00 | 1,203,679.68 |
| EXIMBANK | 10 | 2,975,600.00 | 20.80 | 61,892,480.00 | 62,151,691.62 |
| FAREASTLIF | 10 | 5,000.00 | 106.20 | 531,000.00 | 532,062.00 |
| FEDERALINS | 10 | 20,000.00 | 27.20 | 544,000.00 | 704,406.00 |
| FIRSTSBANK | 10 | 105.00 | 18.50 | 1,942.50 | 2,076.76 |
| FLEASEINT | 10 | 50,000.00 | 40.00 | 2,000,000.00 | 2,409,810.00 |
| GP | 10 | 20,000.00 | 175.00 | 3,500,000.00 | 3,547,240.32 |
| GPHISPAT | 10 | 88,000.00 | 50.10 | 4,408,800.00 | 6,334,694.10 |
| IFIC BANK | 10 | 730,025.00 | 36.20 | 26,426,905.00 | 26,644,602.55 |
| IFIC BANK 1ST MF | 10 | 150,000.00 | 8.00 | 1,200,000.00 | 1,326,547.80 |
| ISLAMI BANK | 10 | 500,225.00 | 42.80 | 21,409,630.00 | 21,709,120.60 |
| Jamuna Bank | 10 | 1,813,307.00 | 21.70 | 39,348,761.90 | 52,688,566.80 |
| Jamuna Oil | 10 | 52,000.00 | 178.50 | 9,282,000.00 | 12,326,403.60 |
| JANATAINS | 10 | 12,740.00 | 262.50 | 3,344,250.00 | 3,994,878.81 |
| KPCL | 10 | 190,000.00 | 49.80 | 9,462,000.00 | 10,190,019.36 |
| Lafarge Surma | 10 | 200,000.00 | 32.90 | 6,580,000.00 | 6,191,839.73 |
| MALEKSPIN | 10 | 410,450.00 | 25.10 | 10,302,295.00 | 12,841,982.70 |
| MEGHNALIFE | 10 | 8,000.00 | 112.80 | 902,400.00 | 917,230.80 |

| Particulars | Face Value per share | Number of Shares | Market value Per share | Market value | Total Cost |
|-----------------------|----------------------|------------------|------------------------|-------------------------|-------------------------|
| MICEMENT | 10 | 171,380.00 | 82.90 | 14,207,402.00 | 18,454,135.63 |
| MJLBD | 10 | 91,653.00 | 79.70 | 7,304,744.10 | 7,759,444.59 |
| MPETROLEU | 10 | 186,940.00 | 158.50 | 29,629,990.00 | 34,675,679.24 |
| MTBL | 10 | 104,500.00 | 21.80 | 2,278,100.00 | 5,297,110.86 |
| NATLIFEINS | 10 | 13,900.00 | 302.70 | 4,207,530.00 | 4,421,810.97 |
| NAVANACNG | 10 | 45,000.00 | 79.80 | 3,591,000.00 | 4,285,754.40 |
| NHFIL | 10 | 3,305,352.00 | 37.50 | 123,950,700.00 | 24,621,800.00 |
| NORTHERN INS. | 10 | 44,000.00 | 45.50 | 2,002,000.00 | 2,226,043.20 |
| ONE Bank | 10 | 1,405,850.00 | 22.80 | 32,053,380.00 | 58,065,787.37 |
| ORIONINFU | 10 | 154,600.00 | 46.00 | 7,111,600.00 | 8,442,711.72 |
| PADMAOIL | 10 | 27,945.00 | 187.50 | 5,239,687.50 | 6,268,021.02 |
| Power Grid BD | 10 | 1,012,572.00 | 55.60 | 56,299,003.20 | 73,152,401.96 |
| Pragati Ins. | 10 | 1,104,906.00 | 62.40 | 68,946,134.40 | 113,508,849.86 |
| Prime Bank | 10 | 69,219,000.00 | 37.00 | 2,561,103,000.00 | 2,463,649,710.05 |
| PRIMEINSUR | 10 | 17,250.00 | 38.30 | 660,675.00 | 817,206.15 |
| RAK Ceramics | 10 | 51,741.00 | 56.80 | 2,938,888.80 | 3,154,249.23 |
| REPUBLIC | 10 | 35,000.00 | 45.00 | 1,575,000.00 | 2,006,104.20 |
| RUPALIINS | 10 | 36,000.00 | 45.90 | 1,652,400.00 | 2,019,831.60 |
| SAIMCOTTON | 10 | 100,500.00 | 28.30 | 2,844,150.00 | 3,533,202.30 |
| SAIMTEXT | 10 | 200,000.00 | 28.40 | 5,680,000.00 | 7,300,171.20 |
| SANDHANINS | 10 | 5,000.00 | 95.20 | 476,000.00 | 451,401.00 |
| SHAHJALAL BANK | 10 | 82,700.00 | 28.50 | 2,356,950.00 | 2,382,221.32 |
| Shajalal Bank | 10 | 312.00 | 28.50 | 8,892.00 | 8,038.66 |
| Southeast Bank | 10 | 68,747,801.00 | 20.00 | 1,374,956,020.00 | 1,683,529,927.83 |
| Square Pharma | 10 | 50,000.00 | 168.60 | 8,430,000.00 | 8,935,137.38 |
| STANDAR INS. | 10 | 70,500.00 | 42.90 | 3,024,450.00 | 3,329,646.00 |
| Summit Power | 10 | 1,545,841.00 | 53.30 | 82,393,325.30 | 116,320,553.71 |
| Titas Gas | 10 | 952,920.00 | 65.30 | 62,225,676.00 | 76,878,399.52 |
| Trust Bank | 10 | 170,300.00 | 25.00 | 4,257,500.00 | 6,740,996.69 |
| UCBL | 10 | 93,000.00 | 23.60 | 2,194,800.00 | 2,442,921.24 |
| Unique Hotel & Resort | 10 | 160,000.00 | 126.20 | 20,192,000.00 | 19,915,621.60 |
| UNITEDAIR | 10 | 75,000.00 | 21.00 | 1,575,000.00 | 1,745,985.40 |
| Uttara Bank | 10 | 129,375.00 | 38.10 | 4,929,187.50 | 9,203,635.62 |
| ZAHINTEX | 10 | 294,700.00 | 30.90 | 9,106,230.00 | 12,598,947.17 |
| Total | | | | 6,451,651,931.50 | 7,270,715,063.39 |