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

Disclosures on Risk Based Capital (Basel II) as on December 31, 2011

a) Scope of Application

Qualitative Disclosures	(a)	The name of the corporate entity in the group to which this guidelines applies. **National Credit and Commerce Bank Limited**
	(b)	An outline of difference in the basis of consolidation for accounting and regulatory purpose, with a brief description of the entities with in the group (a) that are fully consolidated ; (b) that are given a deduction treatment ; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk weighted). ▪ The Consolidated Financial Statements of the Bank include the financial statements of (a) NCC Bank Limited & (b) NCCB Securities and Financial Services Limited. A brief description of these are given below: **National Credit and Commerce Bank Limited (NCCBL)** The National Credit and Commerce Bank limited is one of the Private Commercial Banks (PCBs) incorporated in Bangladesh as a Public Limited Banking Company under the Companies Act, 1913, subsequently replaced by the Companies Act, 1994 and governed by the Bank Companies Act-1991. It Commenced its banking business with 17 (Seventeen) Branches from May 17, 1993. Presently the Bank has 87 branches all over the Bangladesh, 01 (One) SME Service Center located at Noria Bazar, Noria, Shariatpur and Two Booths at Uttara Model Town, Uttara, Dhaka and Maniknagar, North Golapbagh, Dhaka and the Bank has no overseas branches as at December 31, 2011. The Bank has 03 (Three) Subsidiary Companies namely, NCCB Securities and Financial Services Limited (NCCBSFSL), NCCB Capital Limited (NCCBCL) incorporated in Bangladesh & NCCB Exchange (UK) Limited registered with the Registrar of Companies for England and Wales. **NCCB Securities and Financial Services Limited (NCCBSFSL)** NCCB Securities and Financial Services Limited is a Subsidiary Company of NCC Bank Limited incorporated as a Private Limited Company on April 04, 2010 with the Registrar of Joint Stock Companies and Firms vide certificate of incorporation no.C-83683/10 dated April 04, 2010 under the Companies, Act-1994. NCCBSFSL commenced its operation from March 07, 2011. The Main objective of the company is to act as a full fledged Stock Broker & Stock Dealer to execute buy and sell order and to maintain own portfolio as well as customers portfolio under the discretion of customers. The company also performs the other activities relates to Capital Market as and when regulators permits the company to carry out activities as per their guidelines.

		NCCB Capital Limited (NCCBCL) NCCB Capital Limited (NCCBCL) is a Subsidiary Company of NCC Bank Limited incorporated as a Private Limited Company on April 01, 2010 with the Registrar of Joint Stock Companies and Firms vide certificate of incorporation no.C-83649/10 dated April 01, 2010 under the Companies, Act-1994. NCCBCL has not gone into operation till December 31, 2011. The Main objective of the company is to act as a full fledged merchant banking activities like issue management, underwriting, advisory services & as and when regulators permits the company to carry out activities as per their guidelines. **NCCB Exchange (UK) Limited** NCCB Exchange (UK) Limited is fully owned Subsidiary Company, incorporated as a Private Limited company with the Registrar of Companies for England and Wales under registration no. 7669773 dated June 14, 2011. NCC Bank Limited got permission from Bangladesh Bank vide letter no. BRPD/(M)204/28/2011-123 dated June 13, 2011 for opening a fully owned subsidiary company with two branches at London and Birmingham in UK. NCCB Exchange (UK) Limited obtained Money Laundering registration on July 28, 2011 issued by HM Revenue & Customs. The Company got registration from Financial Services Authority (FSA) vide reference no PSD/557817 dated October 26, 2011 to carry on payment services activities under the Payment Services Regulations 2009 (PRSs). NCCB Exchange (UK) Limited has not gone in to operation till December 31, 2011.
	(c)	Any restriction, or other major impediments, on transfer of funds or regulatory capital within the group. **▪ Not applicable**
Quantitative Disclosures	(d)	The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the names(s) of such subsidiaries. **▪ Not applicable**

b) Capital Structure

Qualitative Disclosures	(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 Tier 2. ▪ The terms and conditions of the main features of all capital instruments have been segregated in terms of the eligibility criteria set forth vide BRPD Circular No.35 dated 29 December 2010 and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments are as follows: **Tire 1 capital instruments** **Paid-up share capital:** Issued, subscribed and fully paid up share capital of the Bank. It represents Paid-up Capital, Right Shares as well as Bonus Shares issued from time to time.

		Statutory Reserve: As per Section 24(1) of the Bank Companies Act, 1991, an amount equivalent to 20% of the profit before taxes for each year of the Bank has been transferred to the statutory Reserve Fund. **Minority interest in Subsidiaries:** The portion of the equity interest not owned by the Parent Company. **General Reserve:** Any reserve created from Profit and Loss Account for fulfiling future purposes. **Retained earnings:** Amount of profit retained with the banking company after meeting up all expenses, provisions and appropriations.
Qualitative Disclosures	(a)	**Tire 2 capital instruments:** **General provision maintained against unclassified loans and off-balance sheet exposures:** As per BB directive, amount of provision maintained against unclassified loans and off-balance sheet exposures as of the reporting date has been considered. **Assets revaluation reserves:** As per Bangladesh Bank's instruction, 50% of incremental value from the revaluation of Bank's assets has been considered. **Revaluation reserve of HTM securities:** As per Bangladesh Bank's instruction, up to 50% of revaluation reserve of HTM securities has been considered. **Revaluation reserve of HFT securities:** As per Bangladesh Bank's instruction, up to 50% of other reserve (revaluation reserves of HFT securities) has been considered.
Quantitative Disclosures	(b)	**The amount of Tier 1 capital, with separate disclosure of :**

Figure in crore Taka

		Bank Position	Consolidated Position
	Paid up capital	594.17	594.17
	Non-repayable share premium account	-	-
	Statutory reserve	326.95	326.95
	General reserve	1.02	1.02
	Retained earnings	185.8	189.6
	Minority interest in subsidiaries	-	-
	Non-cumulative irredeemable preference share	-	-
	Dividend equalization account	-	-
(c)	The total amount of Tier 2 and Tier 3 capital	124.87	124.87
(d)	Other deductions from capital*	50.29	50.29
(e)	**Total eligible capital**	**1182.52**	**1186.32**

** Other deductions from Capital Comprises Investment in subsidiary which was not consolidated and income raised from deferred tax assets on Bad & Loss Loans and advances Tk. 25.00 crore & 25.29 crore respectively.*

c) Capital Adequacy

Qualitative Disclosures	(a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities. As per Section 13 (2) of the Bank Companies Act, 1991 and instruction contained in BRPD Circular No. 35 dated 29 December ,2010 **[Guidelines on Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel II)]**

			Bank Position	Consolidated Position
			Figure in crore where applicable	
Qualitative Disclosures	(b)	Capital requirement for Credit Risk	934.29	935.74
	(c)	Capital requirement for Market Risk	33.44	33.44
	(d)	Capital requirement for Operational Risk	82.03	82.95
	(e)	Total and Tier 1 capital ratio :		
		Total	11.26%	11.28%
		Tier-I	10.19%	10.21%

d) Credit Risk

Qualitative Disclosures	(a)	The general qualitative disclosure requirement with respect to credit risk, including: Definition of past due and impaired (for accounting purposes) ▪ As per relevant Bangladesh Bank guidelines, depending on type of the loans, it is considered past due from the following date of the expiry date or after six months expiry date. If the loan is past due for three months or beyond then it is considered Special Mention Account (SMA). Again depending on type of the loans, if the loans is overdue for 6 months or if defaulted installment is equal to or more than the installment(s) due within six months /12 months then it is considered substandard .Then if the loan is overdue for 9 months or beyond or if defaulted installment is equal to or more than the installment(s) due within 12 months / 18 months then it is considered doubtful .The if the loan is overdue for 12 months or beyond or if defaulted installment is equal to or more than the installment (s) due within 18/24 months then it is considered bad /loss. Description of approaches followed for specific and general allowances and statistical methods ▪ As per relevant Bangladesh bank guidelines, 1% to 5% provision is maintained against good loans, 5% provision is maintained against SMA loans, 20% provision is maintained against sub - standard loans, 50% provision is maintained against doubtful loans and 100% provision is maintained against bad / loss loans after deducting value of eligible security, if any, as per Bangladesh Bank guidelines. All interest is suspended /discontinued if the loan is identified as SMA or classified as sub -standard, doubtful or bad /loss. Discussion of the Bank's credit risk management policy ▪ The Board approves the credit policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in credit risk management and maintain quality of assets, Authorities are properly delegated ensuring check and balance in credit operation at every stage i,e screening , assessing risk, identification, management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early warning system. There is a separate credit risk management division for dedicated credit risk management, separate credit administration division for ensuring perfection of securities and credit monitoring and recovery division for monitoring and recovery of irregular loans. Internal control & compliance division independently assess quality of loans and compliance status of loans at least once in a year . Adequate provision is maintained against classified loans as per Bangladesh Bank guidelines . Status of loans are regularly reported to the Board /Executive Committee of the Board.

Quantitative Disclosures	(b)	Total gross credit risk exposures broken down by major types of credit exposure	Figure in crore Taka	
			Bank Position	Consolidated Position
		▪ Major types of Credit exposure as per disclosure in the audited financial statements as on 31 December, 2011	**7273.35**	**7,310.74**
		Overdraft	1409.48	1,112.21
		Cash Credit	1160.36	1,160.36
		Loan-general	656.59	656.59
		Transport loan	49.06	49.06
		House building loan	152.11	152.11
		Loan against trust receipt	1474.56	1,474.56
		Loan against Imported Merchandise	12.96	12.96
		Loan against packing Credit	16.88	16.88
		Project loan	16.40	16.40
		Demand loan	0.10	0.10
		Lease Finance	124.97	124.97
		Payment against document	150.25	150.25
		Housing loan under B.Bank Refinance Scheme	3.78	3.78
		Staff loan	58.50	58.50
		Small Business loan	82.46	82.46
		House Renovation loan	6.76	6.76
		Personal loan Scheme	1.22	1.22
		Term loan (Small,Medium & Large)	1227.03	1,227.03
		Agri Credit	25.47	25.47
		Festival loan	6.65	6.65
		Special Housing loan	103.50	103.50
		Credit Card	25.23	25.23
		Forced loan	63.91	63.91
		Short Term loan	102.76	102.76
		Bill purchased & discounted	319.36	319.36
		Capital Market Exposure	0.00	334.66
		Other loans	23.00	23.00
	(c)	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure		
		▪ Geographical distribution of credit exposures as per the disclosure in the audited financial statements as of 31 December, 2011 are as follows:	**7,273.35**	**7,310.74**
		Urban	**6,944.52**	**6,981.91**
		Dhaka Division	4,609.71	4,647.10
		Chittagong Division	1,948.12	1,948.12
		Rajshahi Division	80.45	80.45
		Sylhet Division	62.25	62.25
		Khulna Division	190.12	190.12
		Rangpur Division	41.81	41.81
		Barisal Division	12.06	12.06
		Rural	**328.83**	**328.83**
		Dhaka Division	94.34	94.34
		Chittagong Division	140.38	140.38
		Rajshahi Division	8.45	8.45
		Sylhet Division	28.47	28.47
		Khulna Division	-	-
		Rangpur Division	57.19	57.19
		Barisal Division	-	-

Figure in crore Taka

		Bank Position	Consolidated Position
(d)	Industry or counterparty types distribution of exposures broken down by major types of credit exposure		
	• Industry or counterparty types distribution of exposures as per the disclosure furnished in the audited financial statements as on 31 December,2011	**7,273.35**	**7,310.74**
	i) Advances to allied concerns of Directors of the Bank	14.92	14.92
	ii) Advances to customers' group-wise clients		
	Import financing	720.58	720.58
	Export financing	630.52	630.52
	House Building loan	266.16	266.16
	Consumers credit scheme	29.12	29.12
	Small & Medium Enterprise	1,010.18	1,010.18
	Special program loan	13.02	13.02
	Staff loans	58.50	58.50
	Others	240.59	277.98
	iii) Industrial loans		
	Agriculture	44.03	44.03
	Industry	2,533.28	2,533.28
	Construction	115.43	115.43
	Transport & Communication	41.33	41.33
	Storage	29.46	29.46
	Business	1,481.53	1,481.53
	Others	44.70	44.70
(e)	Residual contractual maturity breakdown of the whole portfolio broken down by major types of credit exposure		
	• Residual contractual maturity of exposures as per the disclosures furnished in the audited financial statements as of December 31,2011 are as follows :	**7,273.35**	**7,310.74**
	Payable		
	On demand	64.01	64.01
	Up to one month	1,627.77	1,627.77
	Over one month but not more than three months	1,443.25	1,480.64
	Over three months but less than one year	2,596.10	2,596.10
	Over one year but less than five years	925.04	925.04
	Above five years	617.18	617.18
(f)	By major industry or counterparty type :		
	• Amount of impaired loans and if available, past due loans, provided separately	193.83	193.83
	• Specific and general provisions; and	157.52	157.52
	• Charges for specific allowances and charge-offs during the period	18.55	18.55
(g)	Gross Non performing Assets (NPAs)	193.83	193.83
	• Non performing Assets (NPAs) to Outstanding Loans & advances	2.68%	2.68%
	Movement of Non Performing Assets (NPAs)		
	Opening balance	142.53	142.53
	Additions	361.58	361.58
	Reductions	(310.28)	(310.28)
	Closing balance	193.83	193.83

		Movement of specific provisions for NPAs		
		Opening balance	74.28	74.28
		Provisions made during the period	18.55	18.55
		Write-off	(17.82)	(17.82)
		Write-back of excess provisions	2.99	2.99
		Closing balance	78.00	78.00

e) Equities : Disclosures for Banking Book Positions

Qualitative Disclosures	(a)	The general qualitative disclosure requirement with respect to the 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 ▪ Not applicable Discussion of important policies covering the valuation and accounting of equity holding 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. ▪ Quoted shares are valued at cost or market price whichever is lower . Unquoted shares are valued at cost price.		
Quantitative Disclosures	(b)		Figure 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 .	Bank Position	Consolidated Position
		▪ Quoted shares	58.55	32.01
		▪ Unquoted shares	30.07	58.55
	(c)	The cumulative realized gain (losses) arising from sales and liquidations in the reporting period .		
		▪ Realized gain (losses) from equity investments	3.93	3.93
	(d)	▪ Total unrealized gains (losses)		-
		▪ Total latent revaluation gains (losses)		-
		▪ Any amounts of the above included in Tier 2 Capital		-
	(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.		
		▪ a) Specific Risk- Market value of investment in equities Tk 41.65 Crore Capital Charge at10% result amount Tk 4.17 Crore of Capital Charge.	4.17	4.17

		▪ b) General Market Risk- Market value of investment in equities Tk 41.65 Crore Capital Charge at 10% result amount Tk.4.17 Crore of Capital Charge.	4.17	4.17

f) Interest Rate Risk in the Banking Book (IRRBB)

Qualitative Disclosures	(a)	The general quantitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan repayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement. ▪ Interest rate risk in the banking book arises from mismatches between the future yield of an assets and their funding cost. The Bank assess interest rate risk in earning perspective which is traditional approach to interest rate risk assessment and obtained by measuring the changes in the Net Interest Income (NII) on Net Interest Margin (NIM) i.e. the difference between total interest income and the total interest expenses. Assets Liability Committee (ALCO) monitors the interest rate movement on a regular basis. Duration Gap analysis is one of the technique by which NCCBL measures interest rate risk in the banking book on a half-yearly basis. Duration is the measure of a portfolio's price sensitivity to changes in interest rates.
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 for measuring IRRBB, Broken down by currency (as relevant).

Figure in Crore Taka where applicable

Interest Rate Risk-Increase in Interest Rate	**Minor Level of Shock**	**Moderate Level of Shock**	**Major Level of Shock**
Magnitude of Shock	1.00%	2.00%	3.00%
Weighted Average Yield on Assets	12.69%	12.69%	12.69%
Total Assets (Market value)	10390.82	10390.82	83445.97
Duration GAP (year)	1.29	1.29	1.29
Fall in MVE (on-balance sheet)	118.91	237.82	356.72
Revised Capital	1063.62	944.71	825.81
Revised RWA	10384.52	10384.52	10384.52
Revised CAR (%)	10.24%	9.10%	7.95%

g) Market Risk

Qualitative Disclosures	(a)	Views of BOD on trading/investment activities ▪ The Board approve all policies related to market risk, sets limits and reviews compliance on a regular basis. The object is to provide cost effective funding to finance asset growth and trade related transactions. Method used to measure Market Risk ▪ 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. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for "Specific Risk" and "General Market Risk".

Qualitative Disclosures		Market Risk Management System • The Treasury Division manage market risk covering Liquidity, interest rate and foreign exchange risk 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. Policies and Processes for mitigating market risk • There are approved limits for credit deposit Ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items and borrowing from money market and forex position. The limits are monitored and enforced on a regular basis to protect against market risk. The exchange rate committee of the Bank meets on a daily basis to review the prevailing market condition, exchange rate, forex position and transactions to mitigate foreign exchange risks.
Quantitative Disclosures	(b)	The capital requirement for:

Figure in crore Taka

	Bank Position	Consolidated Position
Interest rate risk	17.34	17.34
Equity position risk	8.33	8.33
Foreign exchange risk	7.77	7.77
Commodity risk	-	-

h) Operational Risk

Qualitative Disclosures	(a)	Views of BOD on system to reduce Operational Risk • The policy for operational risks including internal control & compliance risk is approved by Board taking into account revenant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversee the activities of internal control & Compliance Division (IC & CD) to protect against all operational risks. Performance gap of executives and staffs • NCCBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. NCCBL's strong brand image plays an important role in employee motivation . As a result there is no significant performance gap. Potential external events • No potential external events is expected to expose the Bank to significant operational risk. Policies and Processes for mitigating operational risk • The policy for operational risks including internal control & compliance risk is approved by Board taking into account relevant guidelines of Bangladesh Bank. The Bank developed a Risk Management Unit and supervisory review Committee for review and managing operation risk as well as evaluating of the adequacy of the capital . Operational risk may arise from error and fraud due to lack of internal control and compliance. Management through internal control and compliance division controls operational procedure of the Bank. Internal Control and compliance division undertakes

		periodical and special audit of the branches and departments at the Head Office for review of the operation and compliance of statutory requirements. The Audit Committee of the Board subsequently reviews the reports of the internal control and compliance division. Approach for calculating capital charge for operational risk • The Bank followed Basic Indicator Approach (BIA) for measuring capital charges for operational risk. Under the Basic Indicator Approach (BIA), the capital charge for operational risk is a fixed percentage (denoted by alpha) of average positive annual gross income of the Bank over the past three years.

Figure in crore Taka

			Bank Position	Consolidated Position
Quantitative Disclosures	(b)	The Capital Requirement for Operational Risk	82.03	82.95