

1. Disclosure Policy:

Following disclosures have been made by National Bank of Pakistan ("the Bank") as per its approved policy to observe the disclosure requirements set out by the Bangladesh Bank (BB) in Bangladesh Bank revised guidelines on risk based capital adequacy under Basel II to complement the capital adequacy requirements under Pillar III.

2. Scope of Applications Qualitative Disclosure

The risk based capital adequacy framework applies to National Bank of Pakistan, Bangladesh Operations, on "Solo Basis" as the Bank has no subsidiaries or significant equity investments in any other separate entity rather operating in Bangladesh as a Branch of foreign bank, National Bank of Pakistan is a state owned bank, incorporated in Pakistan.

Quantitative Disclosure

The Bank's Capital as at 31.12.2012 stood Taka 3,090.80 Million. Though the Capital Adequacy Ratio (CAR) is 19.67% much more above than the minimum requirement of 10% of Risk Weighted assets but there is a shortfall in the capital of Taka 909.20 Million as at 31.12.2012 which has subsequently been replenished by injecting a fresh Capital of USD11.50Million from Head Office on 04th February 2013.

3. Disclosures Framework

Disclosures framework and requirement are in line with the Basel-II guidelines and subsequent amendment there on issued by the Bangladesh Bank.

3.1 Capital Structure

Qualitative Disclosure

The Bank's total capital as of 31 December 2012 was Taka 3,090.80 million out of which 95% i.e Taka 2,936.10 million was under Tier-I, highest quality of Capital elements. and remaining 5% i.e. Taka 1,547 million was under Tier-II. The main features of our Tier-I capital is Taka 4,290.30 million kept with Bangladesh Bank as per section 13 (4) of Banking Companies Act 1991 and the remaining (1,354.20) million is the retained loss due to specific provision against classified portfolio as at 31 December 2012. The Bank's Tier-II capital is consists of general provision of Taka 121.90 million, 50% of revaluation gain on treasury bills/bonds Taka 19.80 millionas and remaining 13.00 Million prilliminary expenses approved as capital as at 31 December 2012. The proportion of Tier-I & Tier-II capital as per basel II guideline has been duly maintained.

Quantitative Disclosure

A) Amount of Tier-I capital

Fully paid-up capital/ capital deposited with BB
Non-repayable share premium account
Statutory reserve
General reserve
Retained earnings
Minority interest in subsidiaries
Non-cumulative irredeemable preferences shares
Dividend equalisation account

Amounts in
Million Taka

4,290.30

-

-

-

(1,354.20)

-

-

-

2,936.10

B) Amount deducted from Tier-I capital

- Goodwill
- Shortfall
- Others

-

-

-

C) Net total of Tier-I Capital (A+B)

2,936.10

D) Total amount of Tier 2 capital, net of deductions from Tier 2 capital

154.70

E) Total eligible capital (C+D)

3,090.80

Note: Shortfall in the capital of Taka 909.20 Million as at 31.12.2012 has subsequently been replenished by injecting a fresh Capital of USD11.50Million from Head Office on 04th February 2013.

3.2 Capital Adequacy

Qualitative Disclosure of Capital Adequacy

The Bank was adequately capitalized throughout the year. Shortfall at the year end 2012 has subsequently been replenished. Quarterly Capital reporting under Basel-II guidelines has been made accordingly. Bank is in the process of preparing its own Internal Capital Adequacy Assessment Process (ICAAP) documents. The Bank's management is well involved in Capital adequacy issues.

The Bank's Capital Adequacy Ratio (CAR) as at 31 December 2012 is 19.67% as against the minimum requirement of 10% as of 31 December 2012 as per BRPD circular no. 10 dated 10 March 2012. Tier-I capital was 18.69% of risk weighted assets (RWA) against minimum requirement of 5% of RWA.

Quantitative Disclosure of Capital Adequacy

	Amounts in Million Taka
A) Amount of regulatory capital to meet unforeseen losses	
Amount of Min capital required to meet credit risk	1,400.76
Amount of Min capital required to meet market risk	119.95
Amount of Min capital required to meet operational risk	50.36
	1,571.07
B) Actual capital maintained:	
Total tier I capital	2,936.10
Total tier II capital	154.70
Total tier III capital	-
	3,090.80
C) Some additional capital over MCR maintained by the Bank	
% of capital adequacy required	
Tier I	5.00%
Total	10.00%
% of capital adequacy maintained	
Tier I	18.69%
Total	19.67%

3.3 Credit Risk

Qualitative Disclosures:

The general qualitative disclosure requirement with respect to credit risk includes the following:

Definition of past due and impaired (for accounting purposes)

According to the Bangladesh Bank's Guidelines on Risk Based Capital Adequacy, claims that are past due for 90 days or more are clubbed under this past due category. Apart from Basel II requirement bank is maintaining its past due loan in accordance with the BRPD 14 dated September 23, 2012 on loan classification and provisioning.

Description of approaches followed for specific allowances and statistical methods.

The Bank is following the standardised approach in line with Bangladesh Bank guidelines and no other statistical model is used apart from the supervisory procedures prescribed by the Bangladesh Bank in this regard.

Discussion of Bank's credit risk management policy

Credit risk is one of the major risks faced by the bank. This can be described as potential loss arising from the failure of counterparty to perform as per contractual agreement with the bank. The failure may result from unwillingness of the counterparty or decline in his/her financial condition. Therefore bank's credit risk management activities have been designed to address all these issues.

The bank has segregated duties of the officers/executives involved in credit related activities. Credit approval, administration, monitoring and recovery function have been segregated.

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Credit risk has been considered as one of the most significant risks in terms of sustainability, regulatory and capital requirements, which National Bank of Pakistan, Bangladesh Operations is exposed to. Bank's policy is to develop a high quality and diversified credit portfolio comprises of corporate, SME and retail / personal customers in Bangladesh towards better credit risk management. Credit risk management focuses on the quality of customer's individual loans as well as the overall loans and advances portfolio, examining and reporting the underlying trends, concentrations and ensuring a sustainable credit risk culture throughout its Bangladesh Operations. Credit risk management system of the Bank also closely monitors the changes in economic and market conditions and guides business and functional management at all levels on their credit portfolio.

Thus the scope of credit risk management and identification practices need to follow the procedures below:

To identify and manage credit risk, the Bank engages in procedures such as-

- i. Set up strategy for credit origination and relationship management
- ii. Credit risk management
- iii. Loan documentation and credit administration
- iv. Recovery and management of problem loans
- v. Portfolio management
- vi. Conveying credit status through reporting

The Bank uses internal lending guidelines and procedures to ensure that all lending officers understand the Bank's appetite for risk in servicing counter party requirements, and thus facilitates evaluation and approval of individual credit transactions. The Bank has standard methods of analyzing various risk aspects involved in extending credit, considering risk areas such as business risk, financial risk, management risk, security risk, etc besides continuously reviewing the exposures and concentrations of the customer, group, industry, geography and lending types. Outcome of these risk analyses is used to establish internal credit risk grading for each borrower.

Maintenance of Specific Provision

National Bank of Pakistan, Bangladesh Operations strictly complies with its internal credit procedure prepared in line with prevailing Bangladesh Bank's guidelines including BRPD circular no. 05 dated 05 June 2006 and also made necessary ammendmend as per BRDP Circular No 14 Dated September 23, 2012 concerning management of non-performing loans, loan classification and provisioning.

In line with above guidelines, the Bank reviews the loans and advances throughout the year so as to assess them in order to maintain the provision required thereagainst at the end of the each quarter during the year.

Provisioning Rates

The specific provisioning rates on loans and advances is being maintained as guided by BRPD circular no. 14 dated 23 Septemebr 2012.

Base for Provision

Provision is to be made at the above rate on the net loan amount after deduction of the amount of interest suspense account and the deductible value of eligible securities from the outstanding balance of classified accounts in line with above guidelines.

Moreover, BRPD circular no. 14 dated 23 September 2012 also warrants further provisioning based on our qualitative judgments in case where any uncertainty or doubts arises in respect of recovery of any continuous loan, demand loan or fixed term loan, which will also compel the Bank to classify such loans on the basis of qualitative judgment. If the specific provisions assessed under the qualitative methodology are higher than the specific provisions assessed under the formulaic approach above, the higher of two is recognised in liabilities under "provisions for loans and advances" with any movement in the provision charged/ released having reflected in the profit and loss statement.

Quantitative Disclosure

Total Exposures of Credit Risk

A. Funded

- a) Domestic
- b) Overseas (Nostro Balances)

16,408.73

171.22

16,579.95

B. Non-Funded

- a) Domestic
- b) Overseas

-

438.80

438.80

**Amounts in
Million Taka**

C. Distribution of risk exposure by claims

a) Cash and cash equivalents	52.45
b) Claims on Bangladesh Government and Bangladesh	4,290.30
c) Claims on other sovereigns and central banks*	-
d) Claims on Bank for international settlements, International Monetary Fund and European Central Bank	-
e) Claims on multilateral development banks (MDBs)	-
f) Claims on public sector entities (other than Govt. of Bangladesh) in Bangladesh	-
g) Claims on banks & NBFIs:	-
Maturity over 3 months	-
Maturity less than 3 months	461.10
h) Claims on corporate (excluding equity exposure):	8,622.90
i) Claims under credit risk mitigation	-
j) Claims categorised as retail portfolio & small enterprise (excluding consumer finance)	1,895.60
k) Consumer finance	-
l) Claims fully secured by residential property	-
m) Claims fully secured by commercial real estate	-
n) Past due loans/NPL	946.70
o) Investments in premises, plant and equipment and all other fixed assets	16.30
p) Claims on fixed assets under operating lease	-
q) All other assets	-
i) Claims on GoB & BB (advance income tax)	-
ii) Staff loan/Investments	-
iii) Other assets	294.60
r) Off-balance sheet items:-	-
Claims on Banks:	-
Maturity over 3 months	-
Maturity less than 3 months	-
Claims on corporate	438.80
Retail portfolio and small enterprises	-
	17,018.75

D. Details of exposure under credit risk mitigation (CRM)

• Claims secured by financial collateral	-
• Net exposure after the application of haircuts	-
• Claims secured by eligible guarantee	-

E. Industry Distribution of Exposures

Category	Amounts in Million Taka				Total
	Bank and NBFIs	Manufacturin g industries	Retail and Consumer finance	Others	
Balance Sheet Items					
Claims on sovereigns and central banks	4,290.30	-	-	-	4,290.30
Claims on banks and NBFIs	461.10	-	-	-	461.10
Claims on corporate	-	9,569.60	-	-	9,569.60
Claims on retail portfolio and consumer finance	-	-	1,895.60	-	1,895.60
Fixed assets	-	-	-	16.30	16.30
Staff loan	-	-	-	-	-
All other assets	-	-	-	347.05	347.05
Total on balance sheet items	4,751.40	9,569.60	1,895.60	363.35	16,579.95
Off Balance Sheet Items					
Claims on banks	-	-	-	-	-
Claims on corporate	-	438.80	-	-	438.80
Claims on retail portfolio and consumer finance	-	-	-	-	-
Total off balance sheet items	-	438.80	-	-	438.80
Total	4,751.40	10,008.40	1,895.60	363.35	17,018.75

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	<u>Amounts in Million Taka</u>
F. Gross Non-Performing Assets (NPAs)	2,303.89
Total loans and advances	12,805.58
Non-performing loans and advances including SMA	
Special mentioned account (SMA)	16.80
Sub-standard (SS)	-
Doubtful (DF)	92.31
Bad/loss (BL)	2,194.78
Total non-performing loans and advances	2,303.89
Non-performing assets (NPAs) to outstanding loans and advances (Excluding SMA)	17.86%
G. Movement of Non-Performing Assets (NPAs)	
Opening balance	1,364.66
Addition during the year	922.43
Reduction during the year	-
Closing balance	2,287.09
H. Movement of specific provisions for NPAs	
Opening balance	328.58
<u>Add</u> : Provisions made during the period	1,011.75
<u>Less</u> : Write-off	-
<u>Less</u> : Write-back of excess provisions	-
Closing balance	1,340.33

3.4 Assets

Qualitative Disclosure

Assets of the Bank includes both banking book assets and trading book assets. Trading book assets consist of foreign currency in hand, balances of nostro accounts and investment in treasury bills/bonds under Held for Trading (HFT) while all other assets of balance sheet such as loans and advances, investment in treasury bills/bonds under Held to Maturity (HTM), money at call and short notice and all fixed assets are the part of banking book assets. Assets are also divided in earning assets and non earning assets. The Balance Sheet size of the National Bank of Pakistan, Bangladesh Operations as on 31 December 2012 expanded by 19.65% compared to 31 December 2011. All the fixed assets of the Bank are properly insured. Apart from the credit portfolio of traditional banking activities and fixed assets, the Bank has significant amount of investment in treasury bonds.

Earning Assets:

Following assets are included as earning assets as these are generating revenue for the Bank:

- Loans and advances/credit portfolio;
- Investments;
- Foreign currency held with Bangladesh Bank and overseas correspondent banks from which we earned interest.

Non-earning Assets:

Non-earning assets are those assets from which do not generate revenue. Following are the components of non-earning assets:

- Cash in hand and balance with Bangladesh Bank and it's agent bank in local currency
- Fixed assets
- Other assets
- Foreign currency held with overseas correspondent banks'Current account from which we do not earned any interest.

Overall loans and advances as at 31 December 2012 stood at 12,805.58 million registering 22.00% growth compared with 31 December 2011. Overall investments as at 31 December 2012 stood at Taka 3,165.55 million registering 670% growth compared with 31 December 2011.

Assets are monitored on a regular basis to cope with unexpected risk. Assets Liability Committee (ALCO) monitors and reviews the behaviour patterns of the assets. Assets are classified as per the directives of Bangladesh Bank.

Assets are classified as per directives and guidelines time to time issued by Bangladesh Bank. Classified loans and advances of the Bank as at 31 December 2012 was Taka 2,287.09 million which is 17.86% of total loan portfolio. Classified loans and advances have increased by Taka 922.43 million compared to the year 2011. Adequate specific provision has been kept against such classified loans and advances as per Bangladesh Bank guidelines.

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Quantative Disclosures

i) Banking Book Assets

A. Cash in hand and balance with Bangladesh Bank excluding foreign currency (FC)

48.62

B. Balance with other banks excluding FC

1,201.06

1,249.68

C. Money at call and on short notice

-

D. Investment (HTM)

a. Government

3,074.39

b. Qualifying (banks, etc)

-

c. Equities

-

d. Others

-

3,074.39

E. Loans and advances

a. Past Due

SMA

16.80

SS

-

DF

92.31

BL

2,194.78

b. Unclassified

10,501.69

12,805.58

F. Risk weighted assets (RWA)

a. Below 100% RWA

-

b. 100% RWA

-

c. Above 100% RWA

-

G. Rating Status

a. Rated assets

-

b. Unrated assets

-

H. Other assets including fixed assets

312.15

312.15

i) Total Banking Book Assets

17,441.80

**Amounts in
Million Taka**

ii) Trading Book Assets

1. Foreign currencies held in hand

3.83

2. Foreign currencies held in Bangladesh Bank and nostro account

1,596.01

3. Investment (trading)

a. Govt. (part of govt. HTM if held above the required SLR amount)

93.16

ii) Total Trading Book Assets (1+2+3)

1,693.00

Total Assets (i+ii)

19,134.80

3.5 Equities: Disclosures for Banking Book position

Qualitative Disclosure

The Bank has no investment in quoted shares.

3.6 Interest rate risk in the banking book (IRRBB)

Qualitative Disclosure

Interest rate risk refers to fluctuations in Bank's net interest income and the value of its assets and liabilities arising from internal and external factors. External factors cover general economic conditions.

Internal factors include the composition of the Bank's assets and liabilities, quality, maturity, interest rate and re-pricing period of deposits, borrowings, loans and investments. Rising or falling interest rates impact the Bank depending on Balance Sheet positioning. Interest rate risk is prevalent on both the assets as well as the liability sides of the Bank's Balance Sheet.

3.7 Market Risk

Market Risk in Trading Book

Views of Board of Directors on Market Risk

Market risk is the risk of adverse revaluation or movement of any financial instrument as a consequence of changes in market prices or rates. Market risk exists in all trading, banking and investment portfolios but for the purpose of this report, it is considered as a risk specific to trading book of the Bank. The major types of market risk as specified in the Risk Based Capital Adequacy (RBCA) are as follows:

- i. Interest rate risk
- ii. Equity position risk
- iii. Foreign exchange risk and
- iv. Commodity risk

Among the above list, the main types of market risk faced by the Bank are interest rate risk and foreign exchange risk. The management of Bangladesh operations has given significant attention to market risk in trading book to assess the potential impact on the Bank's business due to the unprecedented volatility in financial markets.

Methods used to measure market risk

According to Bangladesh Bank guideline, National Bank of Pakistan, Bangladesh Operation is presently following the standardised approach for market risk under Basel II.

Market risk management system and policies and processes for mitigating market risk

The Bank has an independent market risk framework to assess, manage and control the risk management function, which is responsible for measuring market risk exposures in accordance with prescribed policies, and monitoring and reporting these exposures against the approved limits on a daily basis according to Bank's appetite for market risk.

Interest rate risk

Interest Rate Risk (IRR) is a major source of market risk and is unavoidable in any financial institution where the re-pricing of assets and liabilities are not identically matched. The ALCO of Bangladesh Operations manages the potential impact, which might be caused by the volatility of changes in the market interest rates and yield curves.

The securities (Treasury bills/bonds) acquired with the intention to trade by taking advantage of short-term price and interest rate movement is classified under the trading book. The marked to market (MTM) of securities in the trading book is done at market value as per the Bangladesh Bank guidelines.

Foreign exchange risk

All foreign exchange exposures and related risks are reviewed by the ALCO monthly, which provides additional guidance to treasury dealing room in managing the risks. This is to ensure that any adverse exchange rate movements on the results of the Bank due to un-hedged foreign exchange positions are restrained within acceptable parameters.

In addition to daily revaluation of spot position and monthly revaluation of forward positions the treasury uses Value at Risk (VaR) to assess the market risk. VaR provides a single number to the management that reflects the maximum loss, which can occur within a confidence level over a certain period of time.

Quantitative Disclosure

The capital requirements for:

- A. Interest Rate Risk
- B. Equity Position Risk
- C. Foreign Exchange Risk
- D. Commodity Risk

Amounts in Million Taka	
	-
	-
	119.95
	-
	119.95

3.8 Operational risk

Qualitative disclosure

The Management of National Bank of Pakistan has strong corporate governance and bank operational risk is well monitored as a part of risk management process. A sound internal process to assess the operational risk through a robust Internal Control mechanism is in place.

Operational risk Management process applied are as follows:

Risk based Audit has been rolled out to keep operational lapses at a minimum level in our all Branches by reinforcing Internal Audit throughout the year by ICC- Internal audit team, Regional Office as well as Head Office Pakistan Inspection team as a continuous process via on line and on site auditing through periodic basis.

In addition following mitigating steps are taken:

- a) Clear management reporting lines for each business units and branches with empowerment and accountability
- b) Appropriate segregation of duties
- c) Due diligence process in establishing customer relationship
- d) Regular staff rotation/transfers
- e) Regular system generated reporting to identify exceptional transactions
- f) Blanket Insurance cover against potential losses from internal & external events.

Performance gap of executives and staffs are being reviewed at the Management Committee Meeting and Audit Committee meeting and also in operation meeting held on monthly basis. Mitigation steps are decided and implemented accordingly.

Potential external events: Counter-party Risk are well monitored with enhanced due diligence. External threats Like, Payment gateway Control, Access Control/ Firewall etc. has been put in place and effectively working.

Operational Manuals are in place and Operating Instructions are being circulated regarding operational process with a view to mitigation of operational risk. Business Continuity Plan/ Disaster recovery site have been already worked out and are in place. HO team in in the process to finalize the details of BCP.

Presently the bank is maintaining adequate capital to mitigate its operational risk as per RBCA guideline by following the "Basic Indicator Approach".

Quantitative Disclosure

The capital requirements for operational risk

<u>Amounts in Million Taka</u>
50.35