

National Bank of Pakistan - Bangladesh Branches

Disclosures under Pillar III of Basel II for the year ended 31 December 2014

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 31.12.2014 stood Taka 4,838.38 Million. Though the Capital Adequacy Ratio (CAR) is 28.94% much more above than the minimum requirement of 10% of Risk Weighted assets and there is a surplus in the capital of Taka 838.38 Million as at 31.12.2014 .

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 2014 was Taka 4,838.38 million out of which 72.22 % i.e Taka 3,494.11 million was under Tier-I, highest quality of Capital elements. and remaining 27.78% i.e. Taka 1,344.27 million was under Tier-II. The main features of our Tier-I capital is Taka 11,600.68 million kept with Bangladesh Bank as per section 13 (4) of Banking Companies Act 1991 and the remaining (7,263.39) million is the retained loss due to specific provision against classified portfolio as at 31 December 2014. The Bank's Tier-II capital consists of general provision of Taka 1,311.46 million, 50% of revaluation gain on treasury bills/bonds Taka 14.38 million and remaining Taka 12.98 Million preliminary expenses approved as capital as at 31 December 2014. The proportion of Tier-I & Tier-II capital as per Basel II guideline has been duly maintained.

Quantitative Disclosure	Amounts in Million Taka
A) Amount of Tier-1 capital	
Fully paid-up capital/ capital deposited with BB	11,600.68
Non-repayable share premium account	-
Statutory reserve	-
General reserve	-
Retained earnings	(5,645.05)
Minority interest in subsidiaries	-
Non-cumulative irredeemable preferences shares	-
Dividend equalisation account	-
	5,955.63
B) Amount deducted from Tier-1 capital	
Goodwill	-
Shortfall	-
Others	(2,461.52)
C) Net total of Tier-I Capital (A+B)	3,494.11
D) Total amount of Tier 2 capital, net of deductions from Tier 2 capital	1,344.27
E) Total eligible capital (C+D)	4,838.38

Note: Taka 6,157.25 Million has been injected as a fresh Capital during the year 2014.

3.2 Capital Adequacy

Qualitative Disclosure of Capital Adequacy

The Bank was adequately capitalized throughout the year. Quarterly Capital reporting under Basel-II guidelines has been made accordingly. Bank is in the process of preparation 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 2014 is 28.94% as against the minimum requirement of 10% as of 31 December 2014 as per BRPD circular no. 10 dated 10 March 2012. Tier-I capital was 20.89 % 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 minimum capital required to meet credit risk	1,572.57
Amount of minimum capital required to meet market risk	23.37
Amount of minimum capital required to meet operational risk	75.92
	1,671.86
B) Actual capital maintained:	
Total tier I capital	3,494.11
Total tier II capital	1,344.27
Total tier III capital	-
	4,838.38
C) Some additional capital over MCR maintained by the Bank	3,166.52
% of capital adequacy required	
Tire I	5.00%
Total	10.00%
% of capital adequacy maintained	
Tire I	20.90%
Total	28.94%

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) assets

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.

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.

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 comprising 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 and follow well defined strategy for credit origination and relationship management
- ii. Follow Credit risk analysis and mitigation strategy both at pre and post approval level
- iii. Follow defined Loan documentation and credit administration procedures
- iv. Methodically approach Recovery and management of problem loans
- v. Establish best practise for Portfolio management
- vi. Convey 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 and other subsequent ammendments of the same.

Base for Provision

Provision is to be made at the prescribed rate on the net loan amount after deduction of the amount of interest in suspense and the allowable value of eligible securities from the outstanding balance of classified accounts in line with the 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 require the Bank to classify such loans on the basis of qualitative judgment.

Quantitative Disclosure	Amounts in Million Taka
b. Total gross credit risk exposure broken down by major types of credit exposure	
Cash Credit	24.35
Loan Import Merchandised	8.13
Loan against Trust Receipt	744.71
Over draft	4,839.37
Demand Loan	478.31
Term Loan	7,978.83
Packing Credit	9.98
Bills purchased and discounted	1,419.72
	15,503.38
Funded	
a) Domestic	15,725.74
b) Overseas (Nostro Balances)	42.67
	15,768.41
Non-Funded	
a) Domestic	-
b) Overseas	136.21
	136.21

c. Distribution of risk exposure by claims

a) Cash and cash equivalents	38.34
b) Claims on Bangladesh Government and Bangladesh	14,464.97
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	8.74
h) Claims on corporate (excluding equity exposure):	6,200.16
i) Claims under credit risk mitigation	-
j) Claims categorised as retail portfolio & small enterprise (excluding consumer finance)	2,210.87
k) Consumer finance	-
l) Claims fully secured by residential property	-
m) Claims fully secured by commercial real estate	-
n) Past due loans/NPL	7,092.35
o) Investments in premises, plant and equipment and all other fixed assets	20.42
p) Claims on fixed assets under operating lease	-
q) All other assets	-
i) Claims on GoB & BB (advance income tax)	13.62
ii) Staff loan/Investments	-
iii) Other assets	600.17
r) Off-balance sheet items:-	-
Claims on Banks:	-
Maturity over 3 months	-
Maturity less than 3 months	-
Claims on corporate	-
Retail portfolio and small enterprises	-
	30,649.64

(d) Geographical Distribution of Exposures, broken down in significant areas by major types of credit exposure

Dhaka Division	14,263.23
Chittagong Division	634.56
Sylhet Division	88.77
Khulna Division	179.47
Rajshahi Division	337.25
Rangpur Division	0.10
Outside Bangladesh	-
	15,503.38

(e) Industry or counterparty type distribution of Exposures, broken down by major types of credit exposure

1. Textile Industries	4,840.67
2. Food & Allied Industries	169.20
3. Pharmaceuticals Industries	207.35
4. Leather, Chemical, Cosmetics Industries etc	171.53
5. Cement & Ceramic Industries	38.90
7. Plastic Industries	104.80
8. Telecommunication, Mobile	85.62
9. Others	9,885.32
	15,503.38

(f) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure

With a residual maturity of:

Repayable within 1 (one) month	2,458.92
Over 1 month but less than 3 months	11,693.41
Over 3 months but less than one year	801.33
Over one year but less than five year	549.72
More than five year	-
	15,503.38

(g) amount of impaired loans/Past due (classified) loans by meJOR Industry type are as under:

1. Textile Industries	1,707.52
2. Food & Allied Industries	20.45
3. Pharmaceuticals Industries	152.09
4. Leather, Chemical, Cosmetics Industries etc	241.34
5. Cement & Ceramic Industries	-
7. Plastic Industries	118.76
8. Telecommunication, Mobile	-
9. Others	6,038.39
	8,278.55

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

ÉClaims secured by financial collateral	-
ÉNet exposure after the application of haircuts	-
ÉClaims secured by eligible guarantee	-

i. Gross Non-Performing Assets (NPAs)

Total loans and advances	15,503.38
Non-performing loans and advances including SMA	
Special mentioned account (SMA)	
Sub-standard (SS)	-
Doubtful (DF)	
Bad/loss (BL)	7,092.35
Total non-performing loans and advances	7,092.35

Non-performing assets (NPAs) to outstanding loans and advances (Excluding SMA) 45.75%

j. Movement of Non-Performing Assets (NPAs)

Opening balance	3,450.00
Addition during the year	3,642.35
Reduction during the year	-
Closing balance	7,092.35

k. Movement of specific provisions for NPAs

Opening balance	2,410.64
<u>Add</u> : Provisions made during the period	3,381.16
<u>Less</u> :Write-off	-
<u>Less</u> : Write-back of excess provisions	-
Closing balance	5,791.80

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 2014 expanded by 31 % compared to 31 December 2013. 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 2014 stood at 15,503.38 million registering 3.98 % growth compared with 31 December 2013. Overall investments as at 31 December 2014 stood at Taka 6,445.45 million registering 42.82% growth compared with 31 December 2013.

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 2014 was Taka 7,092.35 million which is 45.75 % of total loan portfolio. Classified loans and advances have increased by Taka 3,642.35 million compared to the year 2013. Adequate specific provision has been kept against such classified loans and advances as per Bangladesh Bank guidelines.

Quantative Disclosures	Amounts in Million Taka
i) Banking Book Assets	
A. Cash in hand and balance with Bangladesh Bank excluding foreign currency (FC)	23.38
B. Balance with other banks excluding FC	851.90
	875.28
C. Money at call and on short notice	-
D. Investment (HTM)	
a. Government	6,445.45
b. Qualifying (banks, etc)	-
c. Equities	-
d. Others	-
	6,445.45
E. Loans and advances	
a. Past Due	
SMA	-
SS	-
DF	-
BL	7,092.35
b. Unclassified	8,411.03
	15,503.38
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	2,975.39
	2,975.39
i) Total Banking Book Assets	25,799.50

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 unhedged 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	Amounts in Million Taka
The capital requirements for:	
A. Interest Rate Risk	-
B. Equity Position Risk	-
C. Foreign Exchange Risk	23.37
D. Commodity Risk	-
	23.37

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	Amounts in Million Taka
The capital requirements for operational risk	58.50