

Bengal Commercial Bank Limited

Head Office, 94, Gulshan Avenue
Gulshan-1, Dhaka

Disclosures on Risk Based Capital (Basel III)

As on 31 December 2022

The purpose of Market Discipline in Basel III is to complement the minimum capital requirements and the supervisory review process. The aim of introducing Market Discipline is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a Bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. For the said purpose, Bengal Commercial Bank Limited (BGCBL) has developed a set of disclosures called "Disclosures on Risk Based Capital (Basel III)" which contains key piece of information on the assets, risk exposures, risk assessment process, and hence the capital adequacy to meet the risks in accordance with Bangladesh Bank guidelines.

1.0 Scope of Application:

Qualitative Disclosure	
a) The name of the top corporate entity in the group to which this guidelines applies;	Bengal Commercial Bank Limited (BGCBL)
b) An outline of differences in the basis of consolidation for accounting & regulatory purposes, with a brief description of the entities within 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);	<p>Bengal Commercial Bank Ltd. obtained LOI (Letter of Intent) and license for operating business in Bangladesh on 5th March 2019 and 23rd February 2020 respectively. The bank got permission of Head Office and Corporate Branch located at Khandker Tower, Level-5, 6 and Level-1, on 13th July 2020 and 18th February 2021 respectively. Finally Bengal Commercial Bank Limited has started its commercial operation on 11th March 2021 as the 60th schedule Bank of Bangladesh.</p> <p>The disclosure made in the following sections has addressed BGCBL as a single entity (Solo Basis) as there was no subsidiary as on the reporting date (31st December 2022).</p> <p>The principle activities of the bank are to provide all kinds of conventional banking services to its customers. Bank's aims to contribute to the economic growth of the country by providing financial products & services to the communities across geographies. BGCBL provides its service with its 13 Branches, 3 Sub Branches and 5 ATM Booths in Bangladesh. Branches are located in different areas of Dhaka, Cumilla, Chottogram, Tangail, Noakhali & Rangpur district. Currently the bank does not have any off-shore Banking Unit (OBU) and subsidiary company.</p>
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group;	Not applicable.

Quantitative Disclosure	
d)	The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group;
	Not applicable.

2.00 Capital Structure:

Qualitative Disclosure	
<p>Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 or Tier 2;</p>	<p>In accordance with the Risk Based Capital Adequacy Guidelines issued by Bangladesh Bank in December 2014, the Capital Structure of the Bank is categorized into two Tiers – 1) Tier I and 2) Tier II. The components of the total regulatory capital are enumerated as under:</p> <ol style="list-style-type: none"> 1. Tier 1 Capital (going-concern capital) <ol style="list-style-type: none"> a. Common Equity Tier 1 b. Additional Tier 1 2. Tier 2 Capital (gone-concern capital) <p>Tier 1 Capital: (Going-concern capital)</p> <p>Going-concern capital is the capital which can absorb losses without triggering bankruptcy of the Bank. As such, from regulatory capital perspective, Tier 1 capital is the core measure of a Bank's financial strength.</p> <p>As per the guidelines of Bangladesh Bank, CET-1 Capital is comprised the following:</p> <ol style="list-style-type: none"> a) Paid up capital b) Non-repayable share premium account c) Statutory reserve d) General reserve e) Retained earnings f) Dividend equalization reserve g) Minority interest in subsidiaries, i.e. common shares issued by consolidated subsidiaries of the Bank and hold by third parties. <p>Additional Tier 1 (AT 1) Capital consists of the following items:</p> <ol style="list-style-type: none"> a) Non-cumulative irredeemable preference shares b) Instruments issued by the Bank that meet the qualifying criteria for AT 1 (The instrument is perpetual i.e. there is no maturity date) c) Minority Interest, i.e., AT 1 issued by consolidated subsidiaries to third parties. <p>Tier 2 Capital: (Gone-concern capital)</p> <p>Gone-concern capital is the capital which will absorb losses only in a situation of liquidation of the Bank. Gone-concern capital also called Tier 2 capital. Gone-concern 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.</p>

		<p>Tier 2 Capital consists of following items:</p> <ul style="list-style-type: none"> a) General provisions; b) All other preference shares c) Subordinated debt/instruments issued by the Bank that meet the qualifying criteria for Tier 2 capital; (Minimum original maturity of at least five years) d) Minority interest i.e. Tier 2 issued by consolidated subsidiaries to third parties; <p>As per the guidelines of Bangladesh Bank, Tier-1 capital of BGCBL consists of (i) Fully paid-up capital, (ii) Statutory reserve, (iii) General reserve and (iv) Retained earnings</p>
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Quantitative Disclosure

The amount of regulatory capital of the Bank as on 31 December 2022 is stated below:

Sl.	Particulars	Solo
1.0	Tier 1 (Going-concern capital)	
1.1	Common Equity Tier 1 (CET 1)	
1.1.1	Paid-up capital	440.67
1.1.2	Non-repayable share premium account	0.00
1.1.3	Statutory reserve	0
1.1.4	General reserve	0
1.1.5	Retained earnings	(36.71)
1.1.6	Dividend equalization reserve	0.00
1.1.7	Minority interest in subsidiaries	0.00
1.1.8	Sub-total (1.1.1 to 1.1.7):	403.96
1.2		
1.2.1	Goodwill and all other intangible assets	1.57
1.2.2	Reciprocal Crossholdings in the CET-1 Capital of Banking, Financial and Insurance Entities	0
1.2.3	Sub-total (1.2.1 to 1.2.2):	1.57
	Total Common Equity Tier (CET) -1 Capital (1.1.8-1.2.3)	402.39
1.3	Additional Tier 1 (AT 1)	
1.3.1	Non-cumulative irredeemable preference shares	0.00
1.3.2	Instruments (perpetual in nature)	0.00
1.3.3	Minority interest; i.e. AT1 issued by consolidated subsidiaries	0.00
	Sub-total (1.3.1 to 1.3.3):	0.00
	Total Tier 1 Capital (CET 1 + AT 1)	402.39
2.0	Tier 2 (Gone-concern capital)	
2.1.1	General provision	6.99
2.1.2	Subordinated debt	0
2.1.3	Revaluation reserve	0
2.1.4	Sub-total (2.1.1 to 2.1.3)	6.99
2.2	Less: Regulatory Adjustment	
2.2.1	Subordinated Bond – cross holding	0
2.2.2	Revaluation Reserve	0
2.2.3	Sub-total (2.2.1 to 2.2.2)	0
	Total Tier 2 Capital (2.1.4-2.2.2)	6.99
	Total Eligible Capital (Tier 1 + Tier 2)	409.38

3.00 Capital Adequacy:

Qualitative Disclosure	
a)	<p>A summary discussion of the Bank's approach for assessing the adequacy of its capital to support current and future activities;</p>
	<p>Methodology of Capital Adequacy Determination:</p> <p>The Bank has computed the Capital to Risk Weighted Ratio (CRAR) adopting the following approaches:</p> <ol style="list-style-type: none"> a. Standardized Approach for Credit Risk to Compute Capital to Risk Weighted Ratio under Basel III, using national discretion for: <ul style="list-style-type: none"> • Accepting the credit rating agencies as External Credit Assessment Institutions (ECAI) for claims on corporate and eligible SME customers. • Accepting Credit Risk Mitigation (CRM) against the financial securities. b. Standardized (rule based) Approach for Market Risk and c. Basic Indicator Approach for Operational Risk. <p>Assessment of the Adequacy of Capital:</p> <p>For assessing Capital Adequacy, the Bank has adopt Standardized Approach for Credit Risk measurement, Standardized (Rule Based) Approach for Market Risk measurement and Basic Indicator Approach for Operational Risk measurement.</p> <p>The Bank focuses on strengthening risk management and control environment rather than increasing capital to cover up weak risk management and control practices. BGCBL will generate most of its incremental capital from retained profit (stock dividend and statutory reserve transfer etc.) to support incremental growth of Risk Weighted Assets (RWA). Besides meeting regulatory capital requirement, the Bank maintains adequate capital to absorb material risk foreseen. Therefore, the Bank's Capital to Risk Weighted Assets Ratio (CRAR) remains consistently within the comfort zone. During the year 2022 the CRAR ranges from 59.58% to 85.59% on solo basis against minimum requirement of 10% (12.50% including Capital conservation buffer) of Risk Weighted Assets (RWA). Basel unit is taking active measures to identify, quantify, manage and monitor all risks to which the Bank's is exposed to.</p>
Quantitative Disclosure	
<p>The Capital Requirement and Capital to Risk Weighted Asset Ratio (CRAR) of the Bank as on 31 December 2022 are as under:</p>	
	BDT in Crore (where applicable)
Particulars	Solo
Capital requirement for credit risk	500.27
Capital requirement for market risk	137.36
Capital requirement for operational risk	49.49
Total capital requirement under Pillar-I (Risk Weighted Assets)	687.12
Minimum Capital Required (10% of RWA)	
Capital Required for Credit Risk	50.03
Capital Required for Market Risk	13.74
Capital Required for Operational Risk	4.95
Total Capital Required	68.72
Minimum Capital Requirement (MCR) BDT 400.00 Crore or 10% of RWA, whichever is higher	400.00
Total Regulatory Capital and Capital to Risk-weighted Assets Ratio (CRAR):	

(1) Total Tier-1 Capital	
Common Equity Tier-1 Capital	402.39
Additional Tier 1 Capital	0.00
(2) Total Tier-2 Capital	6.99
Total Regulatory Capital (1+2)	409.38
Capital Ratio	
1. Common Equity Tier 1 (CET 1) Ratio	58.56%
2. Tier 1 Capital Adequacy Ratio	58.56%
3. Tier-2 Capital Adequacy Ratio	1.02%
Capital to Risk-weighted Asset Ratio (CRAR)	59.58%
Capital Conservation Buffer	49.58%
Available capital under Pillar 2 requirement	9.38

4.00 Credit Risk:

Qualitative Disclosure	
The general qualitative disclosure requirement with respect to credit risk, including:	
a)	<p>Definitions of past due and impaired (for accounting purposes);</p> <p>As per relevant guidelines of Bangladesh Bank, the impaired loans and advances are defined on the basis of (i) Objective / Quantitative criteria and (ii) Qualitative judgment. For this purposes, all loans and advances are grouped into four (4) categories namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural & Micro Credit.</p> <p>Definition of past due/overdue:</p> <p>i. Any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date;</p> <p>ii. Any Demand Loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/ overdue from the following day of the expiry date;</p> <p>iii. In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue after 6 (six) months of the expiry date;</p> <p>iv. The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/ overdue after six months of the expiry date.</p> <p>However, a continuous loan, demand loan or a term loan which will remain overdue for a period of 2 (two) months or more, will be put into the "Special Mention Account (SMA)", the prior status of becoming the Loan into impaired/ classified/ non-performing.</p> <p>Definition of impaired / classified / non-performing loans and advances are as follows:</p> <p>Classified loans are categorized in to:</p> <ol style="list-style-type: none"> 1. Sub-standard 2. Doubtful 3. Bad & Loss

		<p>Any Continuous, Demand, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan which will remain past due/ overdue:</p> <ul style="list-style-type: none"> ➤ a period of 3 months or beyond but less than 9 months, the entire loan will be put into the "Sub-Standard (SS)". ➤ a period of 9 months or beyond but less than 12 months, the entire loan will be put into the "Doubtful (DF)". ➤ a period of 12 months or beyond, the entire loan will be put into the "Bad/ Loss (B/L)". <p>In case of Short-term Agricultural and Micro-Credit, the loans will be considered:</p> <ul style="list-style-type: none"> • 'Sub-standard' if the irregular status continuous for a period of 12 months from the stipulated due date as per loan agreement; • 'Doubtful' if the irregular status continuous for a period of 36 months from the stipulated due date as per loan agreement; • 'Bad & loss' if the irregular status continuous for a period of 60 months from the stipulated due date as per loan agreement. <p>N.B: Loans except Short-term Agricultural & Micro-Credit in the "Special Mention Account" and "Sub-Standard" will not be treated as defaulted loan for the purpose of section 27KaKa(3) [read with section 5(GaGa)] of the Banking Companies Act, 1991</p>																																																																	
b)	Approaches followed for specific and general allowances and statistical methods;	<p>As per the guideline of Bangladesh Bank regarding the provisioning of loans & advances, the Bank has followed the following approaches in calculating the specific & general provisions:</p> <table border="1" data-bbox="598 1093 1461 1803"> <thead> <tr> <th rowspan="2">Types of Loans & Advances</th> <th colspan="5">Rate of provision requirements</th> </tr> <tr> <th>UC</th> <th>SMA</th> <th>SS</th> <th>DF</th> <th>BL</th> </tr> </thead> <tbody> <tr> <td>Credit Card and Loans to Professionals</td> <td>2%</td> <td>2%</td> <td>20%</td> <td>50%</td> <td>100%</td> </tr> <tr> <td>Housing Finance</td> <td>1%</td> <td>1%</td> <td>20%</td> <td>50%</td> <td>100%</td> </tr> <tr> <td>Consumer Other than Credit Card, Housing Finance & Loans to Professionals</td> <td>2%</td> <td>2%</td> <td>20%</td> <td>50%</td> <td>100%</td> </tr> <tr> <td>Brokerage House, Merchant Banks, Stock Dealers, etc.</td> <td>2%</td> <td>2%</td> <td>20%</td> <td>50%</td> <td>100%</td> </tr> <tr> <td>Short Term Agri. Credit and Micro Credit</td> <td>1%</td> <td>--</td> <td>5%</td> <td>5%</td> <td>100%</td> </tr> <tr> <td>Medium Enterprise Finance</td> <td>0.25%</td> <td>0.25%</td> <td>20%</td> <td>50%</td> <td>100%</td> </tr> <tr> <td>Cottage, Micro and Small credits under CMSME</td> <td>0.25%</td> <td>0.25%</td> <td>5%</td> <td>20%</td> <td>100%</td> </tr> <tr> <td>Financing</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Others</td> <td>1%</td> <td>1%</td> <td>20%</td> <td>50%</td> <td>100%</td> </tr> </tbody> </table> <p>Methods used to measure Credit Risk: As per Bangladesh Bank Guidelines, the Bank follows Standardized Approach for measurement of Credit Risk adopting the credit rating agencies as External Credit Assessment Institutions (ECAIs) for claims on Bank & Non-banking Financial Institutions (BNBFIs), Corporate & eligible SME Customers and Credit Risk Mitigation (CRM) against the financial securities & guarantees of loan exposure.</p>	Types of Loans & Advances	Rate of provision requirements					UC	SMA	SS	DF	BL	Credit Card and Loans to Professionals	2%	2%	20%	50%	100%	Housing Finance	1%	1%	20%	50%	100%	Consumer Other than Credit Card, Housing Finance & Loans to Professionals	2%	2%	20%	50%	100%	Brokerage House, Merchant Banks, Stock Dealers, etc.	2%	2%	20%	50%	100%	Short Term Agri. Credit and Micro Credit	1%	--	5%	5%	100%	Medium Enterprise Finance	0.25%	0.25%	20%	50%	100%	Cottage, Micro and Small credits under CMSME	0.25%	0.25%	5%	20%	100%	Financing						Others	1%	1%	20%	50%	100%
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c)	Discussion of the bank's credit risk management policy;	<p>Credit risk arises while the borrowers or counterparty to a financial transaction fails to discharge an obligation as per agreed covenants, resulting in financial loss to the Bank. Credit exposures may arise from both the banking and trading books as well as Off-Balance sheet exposures. Credit risk is managed in the BGCBL through a framework that spell out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the risk function. All credit exposure limits are approved within a defined credit approval authority framework. Credit policies and standards are considered and approved by the Board of Directors.</p> <p>4.1 Credit Risk Identification</p> <p>Risk measurement plays a central role, along with judgment and experience, in informing risk taking and portfolio management decisions. The Guidelines issued by Bangladesh Bank on Internal Credit Risk Rating (ICRR) System has been following meticulously. The ICRR is used to assess the client along with a range of quantitative and qualitative factors. Our credit grades against Corporate & Medium clients are supported by external credit grades, and ratings assigned by external Rating Agencies.</p> <p>4.2 Credit Approval</p> <p>Major credit exposures to individual borrowers, groups of connected counterparties and portfolios of retail exposures are reviewed by and recommended for approval to the competent authority by the risk review units. All credit approval authorities are delegated by the Board of Directors to executives based on their capability, experience & business acumen. Credit origination and approval roles are segregated in all cases. The ICRR is an integral part of credit approval process.</p> <p>4.3 Credit Monitoring</p> <p>We regularly monitor credit exposures, portfolio performance, and external trends through relationship and credit administration team at Branch and Head Office. Internal risk management reports containing information on key environmental, political and economic trends across major portfolios, portfolio delinquency & loan impairment performance; as well as credit grade migration are presented to Credit Risk Management (CRM) Monitoring Cell. The CRM Monitoring Cell meets regularly to assess the impact of external events and trends on the credit risk portfolio and to define and implement our response in terms of appropriate changes to portfolio shape, underwriting standards, risk policy and procedures. Accounts or Portfolios are placed on Early Alert (EA) when they display signs of weakness or financial deterioration. Account plans are re-evaluated and remedial actions are agreed and monitored. In Retail Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behavior is also tracked and informed in lending decisions. Accounts which are past due are subject to a collections process, monitored in collaboration with the relationship manager by the risk function. Charged-off accounts of the Bank are managed by specialist recovery teams of Recovery Division.</p> <p>4.4 Concentration Risk</p> <p>Credit concentration risk is managed within concentration caps set for counterparty or groups of connected counterparty, for industry sector; and for product. Additional targets are set and monitored for concentrations by credit committee. Credit concentrations are monitored by the responsible risk committees in each of the businesses and concentration limits that are material to the Bank are reviewed and approved at least annually by the Board of Directors.</p>
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4.5 Credit Risk Mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, insurance, and other guarantees. The reliance that can be placed on these mitigates is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. Risk mitigation policies determine the eligibility of collateral types. Collateral types which are eligible for risk mitigation include; cash, residential, commercial and industrial property; fixed assets such as motor vehicles, plant and machinery, marketable securities, commodities, bank guarantees, and letters of credit. Collateral is valued in accordance with our Methodology for Valuation of Security/Collateral Assets, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral. Collateral held against impaired loans is maintained at fair value.

Quantitative Disclosures

Distribution of Credit Exposure by Major Types:

Types of Credit Exposure	BDT in Crore	%
Industrial loan	570.73	78.43%
Commercial lending	38.61	5.31%
Export Finance	0.98	0.14%
Import Finance	19.44	2.67%
Retail loan	15.18	2.09%
Agricultural loan	9.10	1.25%
House building	4.38	0.60%
Transport loan	2.86	0.39%
Staff loan	4.19	0.58%
Others	62.18	8.54%
Total	727.65	100.00%

Geographical Distribution of Credit Exposure:

Division	BDT in Crore	%
Dhaka	714.80	98.23%
Chattogram	12.86	1.77%
Khulna	-	-
Rajshahi	-	-
Sylhet	-	-
Rangpur	-	-
Barisal	-	-
Mymensingh	-	-
Total	727.65	100.00%

Industry Type Distribution of Exposure:

Types of Credit Exposure	BDT in Crore	%
Food Manufacturing	91.49	12.57%
RMG	34.36	4.72%
Paper and Paper Products	3.40	0.47%
Leather and Leather Products	34.66	4.76%
Rubber Products	-	0.00%
Chemical and Chemical Products	39.85	5.48%
Basic Metal Products	65.79	9.04%

Electrical Machinery and Apparatus	24.93	3.43%
Other Manufacturing Industries	227.12	31.21%
Constructions	8.45	1.16%
Transport, storage and communication	-	0.00%
Trade service	38.93	5.35%
Commercial real estate financing	1.53	0.21%
Residential real estate financing	4.38	0.60%
Consumer credit	9.68	1.33%
Capital market	30.51	4.19%
NBFIs	-	0.00%
Others	112.57	15.47%
Total	727.65	100.00%

Residual Contractual Maturity wise Distribution of Exposure:

Particulars	BDT in Crore
On demand	67.86
Not more than three months	178.93
Over three months but not more than one year	286.94
Over one year but not more than five years	111.64
Above five years	82.28
Total	727.65

Loans & Advances and Provision:

Particulars	BDT in Crore	
	Loans & Advances	Provision Against Loans & Advances
Total loans and advances	727.65	6.23
Un-classified loans & advances	727.65	6.23
Classified loans and advances	-	-
Sub-standard (SS)	-	-
Doubtful (DF)	-	-
Bad & loss (BL)	-	-
Off-balance sheet Items	93.18	0.77

Gross Non-Performing Assets (NPAs):

Particulars	BDT in Crore
Gross non-performing assets (NPAs)	-
Total loans and advances	-
NPAs to outstanding loans & advances (%)	0.00%

Movement of Non-Performing Assets (NPAs):

Particulars	BDT in Crore
Opening balance	-
Additions	-
Reductions	-
Closing balance	-

Movement of Specific Provisions for NPLs:

Particulars	BDT in Crore
Opening balance	-
Less: Adjustment due to write-off	-
Less: Waiver during the year	-
Add: Recoveries of amount previously written off	-
Provisions made during the period	-
Closing Balance	-

5.00 Equities: Disclosures for Banking Book Positions:**Qualitative Disclosures**

The general qualitative disclosure with respect to equity risk, including:

a)	Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and	The main purpose of holding of equity exposure is for capital gain. The Bank holds equity exposure within set rules of Bangladesh Bank. The quoted shares are valued at market price and the unquoted shares are valued at their cost price.
b)	Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.	

Quantitative Disclosures

Particulars	<i>BDT in Crore</i>	
	Cost Price	Market Price
Investment In quoted share	35.58	30.21

Particulars	BDT in Crore
Realized gains	1.46
Unrealized gains	0.00
Unrealized losses	(5.36)
Net unrealized gains/(loss)	(3.90)
Capital requirement for equity risk (specific & general)	7.12

Capital Requirement as per Grouping of Equity:					<i>BDT in Crore</i>
Sector	Cost Price	Market Price	Capital Charge		Total
			Specific Risk	General Market Risk	
Fuel & Power	1.35	1.32	0.13	0.13	0.26
Mutual Fund	30.20	25.52	2.55	2.55	5.10
Bank & NBFIs	0.14	0.13	0.01	0.01	0.03
Miscellaneous	3.89	3.24	0.32	0.32	0.65
Total	35.58	30.21	3.02	3.02	6.04

6.00 Interest Rate Risk in the Banking Book (IRRBB):

Qualitative Disclosures																																
a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan repayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	<p>Interest Rate in the Banking Book reflects the shocks to the financial position of the bank including potential loss that the Bank may face in the event of adverse change in market interest rate. This has an impact on earnings of the bank through Net Interest Earnings as well as on Market Value of Equity or net worth. Thus this risk would have an impact on both earning potential and economic value of the Bank.</p> <p>The Bank uses Duration Gap Analysis (DGA) for deriving value of capital requirement for interest rate risk.</p> <p>The Bank ensures that interest rate risk is not included within the market risk. The Bank has calculated the rate sensitive assets and liabilities with maturity up to 12 months bucket and applied the sensitivity analysis to measure the level of interest rate shock on its capital adequacy.</p>																															
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7.00 Market Risk:

Qualitative Disclosures													
<p>Market risk is a trading book concept. It may be defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The market risk positions subject to the risks pertaining to interest rate related instruments & equities in the trading book and foreign exchange risk & commodities risk throughout the Bank. This signifies the risk of loss due to decrease in market portfolio arising out of market risk factors. It may be mentioned that the Bank considers Interest Rate Risk on Banking Book separately.</p>													
a)	<p>Views of Board of Directors on trading/ investment activities;</p> <p>The Board approves all policies related to market risk, sets limit and reviews compliance on a regular basis. The objective is to provide cost effective funding last year to finance asset growth and trade related transaction.</p>												
b)	<p>Methods used to measure Market Risk;</p> <p>Standardized (rule based) approach is used to measure the market risk of the Bank whereas for interest rate risk and equity risk both General and specific risk factors are applied for calculating capital charge and for foreign exchange and commodities only general risk factor is applied.</p>												
c)	<p>Market Risk Management system;</p> <p>The duties of managing the market risk including liquidity, interest rate and foreign exchange risk lies with the Treasury Division under the supervision of ALCO. The ALCO is comprised of senior executives of the Bank, who meets at least once in a month. The committee evaluates the current position of the bank and gives direction to mitigate the market risk exposure to a minimum level.</p>												
d)	<p>Policies and processes for mitigating market risk;</p> <p>There are approved limits for Market risk related instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against market 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.</p>												
Quantitative Disclosures													
<table border="1"> <thead> <tr> <th style="text-decoration: underline;">Capital Charges for Market Risk</th> <th style="text-decoration: underline;">BDT in Crore</th> </tr> </thead> <tbody> <tr> <td>Interest Rate Related instruments</td> <td style="text-align: right;">5.92</td> </tr> <tr> <td>Equities</td> <td style="text-align: right;">7.12</td> </tr> <tr> <td>Foreign Exchange Position</td> <td style="text-align: right;">0.70</td> </tr> <tr> <td>Commodities</td> <td style="text-align: right;">0.00</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">13.74</td> </tr> </tbody> </table>		Capital Charges for Market Risk	BDT in Crore	Interest Rate Related instruments	5.92	Equities	7.12	Foreign Exchange Position	0.70	Commodities	0.00	Total	13.74
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8.00 Operational Risk:

Qualitative Disclosures		
Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Recognizing the importance of information technology in banking business, the Bank has considered information technology risk as an independent risk.		
a)	Views of Board of Directors on system to reduce Operational Risk;	<p>The policy for operational risks including internal control and compliance risk is approved by the Board in line with the relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance Division to protect against all operational risks.</p> <p>As a part of continuous surveillance, the Senior Management Team (SMT), Risk Management Division regularly reviews different aspects of operational risk. The analytical assessment was reported to the Board/ Risk Management Committee/Audit Committee of the Bank for review and formulating appropriate policies, tools & techniques for mitigating operational risk.</p>
b)	Performance gap of executives and staffs;	The Bank identifies the loop holes among the effectiveness of the employees and executives, these loop holes are removed by arranging appropriate training programs, offering competitive packages and providing best working environment. In this process, the Bank kept the performance gap of executives and staffs to a minimum level.
c)	Potential external event;	No potential external event is expected to expose the Bank to significant operational risk. The Bank has a separate Operational Risk Policy addressing specific issues involving Operational Risk.
d)	Policies and processes for mitigating operational risk;	Operational Risk is inherent in every business organization and covers a wide spectrum of issues. In order to mitigate this, internal control and internal audit systems are used as the primary means. The Bengal Commercial Bank Limited manages this risk through a control based environment in which processes are documented, authorization is independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the bank stays in line with industry best practice and takes account of lessons learned from publicized operational failures within the financial services industry. Bengal Commercial Bank Limited has operational risk management process which explains how the bank manages its operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with Bangladesh Bank's requirements. Operational risk management responsibility is assigned to different level of management within the business operation. Information systems are used to record the identification and assessment of operational risks and to generate appropriate regular management reporting. Risk assessment incorporates a regular review of identified risks to monitor significant changes.
e)	Approach for calculating capital charge for operational risk;	Basic Indicator Approach is used to measure Operational Risk where capital charge is 15% on last three years average positive gross income of the Bank.

Quantitative Disclosures

Capital Charges for Operational Risk BDT in crore

Basis	Operational Risk	2020	2021	2022	Capital Charge
Solo	Gross Income	21.97	28.62	48.38	4.95

9.00 Leverage Ratio:

Qualitative Disclosures

a)	Views of Board of Directors on system to reduce Liquidity Risk;	<p>The Leverage Ratio is a non-risk based measure introduced to monitor and build-up of leverage on credit institutions balance sheets aiming at containing the cyclical of lending. It is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is calculated by dividing Tier 1 capital by assets (both on and off-balance sheet items).</p> <p>The policy for Leverage Ratio including off and on balance sheet exposure and capital related policy. The Bank has a well-structured delegation and sub-delegation of credit approval authority for ensuring good governance and better control in credit approval system. The Board of Directors and its Executive Committee hold the supreme authority for any credit approval in line with the credit committee consisting of the senior management of the bank.</p>
b)	Policies and processes for managing excessive on and off-balance sheet leverage;	Bengal Commercial Bank Limited has policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. BGCBL maintains the leverage ratio above the regulatory limit as a part of the Bank's risk appetite framework.
c)	Approach for calculating exposure;	<p>In order to measure the exposure consistently with financial accounts, the following approaches are applied by the bank:</p> <ol style="list-style-type: none"> On-balance sheet, non-derivative exposures are net of specific provisions and valuation adjustments (e.g. surplus/deficit on Available for Sale (AFS)/ Held-for-trading (HFT) positions). Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure. Netting of loans and deposits is not allowed <p>A minimum Tier-1 leverage ratio of 3% is being prescribed by Bangladesh Bank both at solo and consolidated basis. The Bank maintains leverage ratio on quarterly basis. The status of leverage ratio at the end of each calendar quarter is submitted to Bangladesh Bank showing the average of the month based on capital and total exposure. The formula of Leverage Ratio is as under:</p> $\text{Leverage Ratio} = \frac{\text{Tier - 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$

Quantitative Disclosures

Particulars	Solo
Tier 1 Capital*	402.39
On Balance Sheet Exposure	1,595.19
Off-Balance Sheet Exposure	80.67
Total Deductions from On and Off-Balance Sheet Exposure/ Regulatory adjustments made to Tier 1 capital	1.57
Total Exposure	1,674.29
Leverage Ratio	24.03%

10.00 Liquidity Ratio:

Qualitative Disclosures	
a)	<p>Views of BOD on system to reduce liquidity Risk;</p> <p>As per the BRPD Circular no. 18 dated 21 December 2014, Bangladesh Bank has strengthened the liquidity framework by developing two minimum standards for funding liquidity. These standards have been developed to achieve two separate but complementary objectives.</p> <p>The first objective is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for one month. Liquidity Coverage Ratio (LCR) addresses this Objective.</p> <p>The second objective is to promote resilience over a longer time horizon by creating additional incentives for a bank to fund its activities with more stable sources of funding on an ongoing structural basis. The Net Stable Funding Ratio (NSFR) has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities.</p>
b)	<p>Methods used to measure Liquidity Risk;</p> <p>Liquidity measurement involves assessing all of a bank's cash inflows against its outflows to identify the potential for any net shortfalls including funding requirements for off-balance sheet commitments.</p> <p>An important aspect of measuring liquidity is making assumptions about future funding needs, both in the very short-term and for long time periods. Another important factor is the ability to access funds readily and at reasonable terms. Several key liquidity risk indicators monitored on a regular basis to ensure healthy liquidity position are as follows:</p> <ul style="list-style-type: none"> ❖ Cash Reserve Ratio (CRR) ❖ Statutory Liquidity Requirement (SLR) ❖ Credit Deposit Ratio (CDR) ❖ Liquidity Coverage Ratio (LCR) ❖ Net Stable Funding Ratio (NSFR) ❖ Structural Liquidity Profile (SLP) ❖ Maximum Cumulative Outflow (MCO) ❖ Medium Term Funding Ratio (MTFR) ❖ Liquid Asset to Total Deposit Ratio (LATDR) ❖ Liquid Asset to Short Term Liabilities (LASTL) etc.

c)	Liquidity Risk management system;	<p>BGCBL maintains diversified and stable funding base comprising of core retail, corporate and institutional deposits to manage liquidity risk. The prime responsibility of the liquidity risk management of the Bank lies with Treasury Division under the supervision of ALCO, which maintains liquidity based on current liquidity position, anticipated future funding requirement, sources of fund, options for reducing funding needs, present and anticipated asset quality, present and future earning capacity, present and planned capital position etc.</p> <p>The intensity and sophistication of liquidity risk management process depend on the nature, size and complexity of a bank's activities. Sound liquidity risk management employed in measuring, monitoring and controlling liquidity risk is critical to the viability of the bank.</p> <p>The ALCO, which meets at least once in a month, is responsible for managing and controlling liquidity of the Bank. Treasury front office closely monitors and controls liquidity requirements on daily basis by appropriate coordination of funding activities and they are primarily responsible for management of liquidity in the Bank. A monthly projection of fund flows is reviewed in ALCO meeting regularly.</p>
d)	Policies and processes for mitigating Liquidity Risk;	<p>In order to develop a comprehensive liquidity risk management framework, the Bank has a Board approved Contingency Funding Plan (CFP). A set of policies and procedures that serves as a blueprint for the Bank to meet its funding needs in a timely manner and at a reasonable cost. In this sense, a Contingency Funding Plan (CFP) is an extension of ongoing liquidity management and formalizes the objectives of liquidity management by ensuring:</p> <ul style="list-style-type: none"> A. Maintenance of a reasonable amount of liquid assets; B. Measurement and projection of funding requirements and C. Management of access to funding sources. <p>CFP also provides directions for plausible actions in distress and emergency situations. In case of a sudden liquidity stress, it is important for the Bank to be seemed organized and efficient to meet its obligations to the stakeholders.</p> <p>Maturity ladder of cash inflows and outflows are effective tool to determine a bank's cash position. A maturity ladder estimates a banks cash inflows and outflows and thus net deficit or surplus (GAP) on a day to day basis and different buckets (e.g. 2-7 days, 1 month, 1-3 months, 3-12 months, 1-5 years and over 5 years).</p>
Quantitative Disclosures		
a)	Liquidity Coverage Ratio (LCR) liquid	<p>Liquidity Coverage Ratio (LCR) is a new liquidity standard built on the methodologies of traditional liquidity coverage ratio used by banks to assess exposure to contingent liquidity events. LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days.</p> $LCR = \frac{\text{Stock of high quality liquid assets}}{\text{Total net cash outflows over the next 30 calender days}}$

		<p>The minimum standard for LCR is greater than or equal to 100. However, the bank's status as on 31 December 2022 in this ratio is as follows:</p> <table border="1"> <thead> <tr> <th colspan="3"><i>BDT in crore</i></th> </tr> <tr> <th>Particulars</th> <th>Regulatory Standard</th> <th>31 December 2022</th> </tr> </thead> <tbody> <tr> <td>Total stock of high quality liquid assets</td> <td></td> <td>220.77</td> </tr> <tr> <td>Total net cash outflows over the next 30 calendar days</td> <td>Greater than or equal to 100%</td> <td>1.07</td> </tr> <tr> <td>Liquidity Coverage Ratio (LCR)</td> <td></td> <td>206.93%</td> </tr> </tbody> </table>	<i>BDT in crore</i>			Particulars	Regulatory Standard	31 December 2022	Total stock of high quality liquid assets		220.77	Total net cash outflows over the next 30 calendar days	Greater than or equal to 100%	1.07	Liquidity Coverage Ratio (LCR)		206.93%
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b)	Net Stable Funding Ratio (NSFR)	<p>Net Stable Funding Ratio (NSFR) is another new liquidity standard introduced by the Basel Committee. The NSFR aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on and off-balance sheet items.</p> <p>The minimum acceptable value of this ratio is 100 percent, indicating that Available Stable Funding (ASF) should be at least equal to Required Stable Funding (RSF). ASF consists of various kinds of liabilities and capital with percentage weights attached given their perceived stability. RSF consists of assets and off-balance sheet items, also with percentage weights attached given the degree to which they are illiquid or long-term and therefore require stable funding. The time horizon of the NSFR is one year, like the LCA, the NSFR calculations assume a stressed environment. The status of Net Stable Funding Ratio (NSFR) as on 31 December 2022 is as under:</p> <table border="1"> <thead> <tr> <th colspan="3"><i>BDT in crore</i></th> </tr> <tr> <th>Particulars</th> <th>Regulatory Standard</th> <th>31 December 2022</th> </tr> </thead> <tbody> <tr> <td>Available amount of stable funding (ASF)</td> <td></td> <td>1,457.44</td> </tr> <tr> <td>Required amount of stable funding (RSF)</td> <td>Greater than 100%</td> <td>895.64</td> </tr> <tr> <td>Net Stable Funding Ratio (NSFR)</td> <td></td> <td>162.73%</td> </tr> </tbody> </table>	<i>BDT in crore</i>			Particulars	Regulatory Standard	31 December 2022	Available amount of stable funding (ASF)		1,457.44	Required amount of stable funding (RSF)	Greater than 100%	895.64	Net Stable Funding Ratio (NSFR)		162.73%
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Net Stable Funding Ratio (NSFR)		162.73%															

11.00 Remuneration:

Qualitative Disclosures	
a)	<p>Information relating to the bodies that oversee remuneration;</p> <p>Managing Director, Senior Management Team (SMT) & Head of Human Resources Division govern the remuneration related policies and practices in alignment of the Bank's short & long term objectives. They play an independent role, operating as an overseer; and if required, makes recommendation to the Board of Directors of the Bank for its consideration and final approval for any remuneration related policy. The main work includes presenting recommendations to the Board regarding remuneration, compensation packages of senior management, incentive schemes and retirement benefits. They also assist the Board of Directors to ensure that all employees are remunerated fairly and get performance based compensation by ensuring effective remuneration policy, procedures and practices aligned with the Banks' strategy and applied consistency for all employee levels.</p>

b)	Information relating to the design and structure of remuneration processes;	<p>BGCBL has a flexible compensation and benefits system that helps to ensure pay equity is linked with performance that is understood by employees, and keeps in touch with employee desires and what's converted in the market, while maintaining a balance with the business affordability. The compensation and benefits are regularly reviewed through market and peer group study. The well-crafted total rewards help the Bank to attract, motivate and retain talent that produces desired business results. The structure and level of remuneration are reviewed time to time based on Bank's business performance and affordability. Other than the regular monthly payments and a good number of allowances, BGCBL has variety of market-competitive benefits schemes. The various cash and non-cash benefits include; Bank provided chauffeured car facility for top level executives, car maintenance allowance, leave fare assistance, employee car loan facility, house building loan facility, festival bonus etc. BGCBL also provides long term as well as retirement benefits to employees, like leave encashment, provident fund, benefit under gratuity & superannuation fund etc.</p> <p>The overall objective of the Bank's remuneration policy is to establish a framework for attracting, retaining and motivating employees, and creating incentives for delivering long-term performance within established risk limits.</p>
c)	Description of the ways in which current and future risks are taken into account in the remuneration processes;	<p>The business risk including credit/default risk, compliance & reputational risk are mostly considered when implementing the remuneration measures for each employee/group of employee. Financial and liquidity risk are also considered.</p> <p>Different set of measures are in practice based on the nature & type of business lines/segments etc. These measures are primarily focused on the business target/goals set for each area of operation, branch vis-à-vis the actual results achieved as of the reporting date. The most vital tools & indicators used for measuring the risks are the asset quality (NPL ratio), Net Interest Margin (NIM), provision coverage ratio, credit deposit ratio, cost-income ratio, growth of net profit, as well the non-financial indicators, namely, the compliance status with the regulatory norms, instructions has been brought to all concerned of the Bank from time to time.</p> <p>While evaluating the performance of each employee annually, all the financial and non-financial indicators as per pre-determined set criteria are considered; and accordingly the result of the performance varies from one to another and thus affect the remuneration as well.</p> <p>No material change has been made during the year 2021 that could the affect the remuneration.</p>
d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration;	<p>The Board sets the Key Performance Indicators (KPIs) for the senior management while approving the business target/budget for each year for the Bank and business lines/segments. The management sets the appropriate tools, techniques and strategic planning (with due concurrence/approval of the Board) towards achieving those targets. The most common KPIs are the achievement of loan, deposit and profit target with the threshold of NPL ratio, cost-income ratio, cost of fund, yield on loans, provision coverage ratio, capital to risk weighted asset ratio (CRAR), ROE, ROA, liquidity position (maintenance of CRR and SLR) etc.</p>
e)	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance;	<p>The Bank pays variable remuneration i.e. annual increment based on the yearly performance rating on cash basis with the monthly pay. While the value of longer term variable part of remuneration i.e. the amount of Provident Fund & Gratuity Fund are made provision on aggregate /individual employee basis; actual payment is made upon retirement, resignation etc. as the case may be, as per rule.</p>

f)	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms;	<p>A summary of Short-term and Long-term compensation plan are as follows:</p> <p>Total Compensation = Fixed Pay (Salary) + Variable Pay (Bonus) + Variable Pay (Long term incentive).</p> <p>Form of variable remuneration offered by Bengal Commercial Bank Limited:</p> <p>Cash Form:</p> <p>Short-Term Incentive/Rewards</p> <ol style="list-style-type: none"> 1. Yearly fixed and incentive bonus; 2. Yearly increment; 3. Business accomplishment financial award; 4. Car fuel and car maintenance allowance for executives; 5. Cash risk allowance for cashier; 6. Charge allowance for branch manager. <p>Long-Term Incentive/Rewards</p> <ol style="list-style-type: none"> 1. Provident fund; 2. Gratuity; 3. Employee house building loan with minimum interest rate; 4. Provident fund loan with minimum interest rate; 5. Periodically salary review (enhancement) 6. Furniture allowance for executives; <p>Non-Cash Form:</p> <p>1) Short-Term Incentives/Rewards: Accelerate promotion for top talents;</p> <p>2) Long-Term Incentives/Rewards: Foreign training award;</p>
Quantitative Disclosures		
g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member;	Meeting regarding overseeing the remuneration was held on need basis. No additional remuneration was paid for such meeting.
h)	i) Number of employees having received a variable remuneration award during the financial year;	Number of employees having received a variable remuneration award during the year 2022 was 291.
	ii) Number and total amount of guaranteed bonuses awarded during the financial year;	Nil
	iii) Number and total amount of sign-on awards made during the financial year;	Nil

	iv) Number and total amount of severance payments made during the financial year;	<p>Details of severance payments during the year 2022 are appended below:</p> <table border="1" data-bbox="600 174 1289 275"> <thead> <tr> <th data-bbox="600 174 1002 241">Type of Severance Payment</th> <th data-bbox="1002 174 1161 241">Nos. of employee</th> <th data-bbox="1161 174 1289 241">BDT in crore</th> </tr> </thead> <tbody> <tr> <td data-bbox="600 241 1002 275">Leave encashment</td> <td data-bbox="1002 241 1161 275">16</td> <td data-bbox="1161 241 1289 275">0.07</td> </tr> </tbody> </table>	Type of Severance Payment	Nos. of employee	BDT in crore	Leave encashment	16	0.07						
Type of Severance Payment	Nos. of employee	BDT in crore												
Leave encashment	16	0.07												
i)	i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms;	Nil												
	ii) Total amount of deferred remuneration paid out in the financial year;	Amount of deferred remuneration paid during the year 2022: Tk. 0.48 crore.												
j)	Breakdown of amount of remuneration awards for the financial year to show:	<p>Fixed and variable remuneration paid in 2022 are as follows:</p> <table border="1" data-bbox="600 790 1161 1025"> <thead> <tr> <th data-bbox="600 790 983 857">Particulars</th> <th data-bbox="983 790 1161 857">BDT in crore</th> </tr> </thead> <tbody> <tr> <td data-bbox="600 857 983 891">Basic salary</td> <td data-bbox="983 857 1161 891">10.17</td> </tr> <tr> <td data-bbox="600 891 983 925">Allowances</td> <td data-bbox="983 891 1161 925">10.40</td> </tr> <tr> <td data-bbox="600 925 983 958">Festival bonus</td> <td data-bbox="983 925 1161 958">1.60</td> </tr> <tr> <td data-bbox="600 958 983 992">Provident fund contribution</td> <td data-bbox="983 958 1161 992">0.89</td> </tr> <tr> <td data-bbox="600 992 983 1025">Total</td> <td data-bbox="983 992 1161 1025">24.05</td> </tr> </tbody> </table> <p>Deferred and non-deferred:</p> <p>Deferred paid during the year 2022: Tk. 0.48 crore. Non-deferred paid during the year 2022: Nil</p> <p>Different forms used (cash, shares and share linked instruments, other forms): All the remunerations have provided in the form of cash.</p>	Particulars	BDT in crore	Basic salary	10.17	Allowances	10.40	Festival bonus	1.60	Provident fund contribution	0.89	Total	24.05
Particulars	BDT in crore													
Basic salary	10.17													
Allowances	10.40													
Festival bonus	1.60													
Provident fund contribution	0.89													
Total	24.05													
k)	Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration													
	f) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments;	Nil												
	ii) Total amount of reductions during the financial year due to ex post explicit adjustments;	Nil												
	iii) Total amount of reductions during the financial year due to ex post implicit adjustments;	Nil												