



# Bangladesh Commerce Bank Ltd. (BCBL)

## Disclosure on Risk Based Capital (Basel II)

(For the year ended 31 December 2011)

### 1. CAPITAL STRUCTURE

#### 1.1 Qualitative Disclosure

Bangladesh Commerce Bank Ltd.'s capital is segmented into Tier-1 & Tier-2 capital. Tier-1 capital is 94% of total capital and comprises of 90% paid up capital & 6% statutory reserve. Tier-2 capital is 6% of total capital and comprises of general provision, revaluation reserve of Securities. Tier-2 capital is 6% of Tier-1 capital.

#### Right Share Issuance of Bangladesh Commerce Bank Ltd. (BCBL)

BCBL was able to raise the paid up capital by TK 106.87 crore through issuance of 'Right Share' in 31.12.2010.

#### Quantitative Disclosure:

Sl. No.	Particulars	Solo Tk. (in crore)	Consolidated Tk. (in crore)
1.	<b>Tier-1 capital</b>		
	Fully Paid-up Capital	198.87	198.87
	Statutory Reserve	13.53	13.53
	Other Reserve	0.38	0.38
	Retained Earnings	2.97	2.97
	Share capital BCI	3.90	3.90
	<b>Total</b>	<b>220.44</b>	<b>220.44</b>
	<b>Less : Other deductions from capital</b>	<b>22.09</b>	<b>22.09</b>
	Provision Shortfall	22.09	22.09
	<b>Total Tier-1 capital (A)</b>	<b>198.35</b>	<b>198.35</b>
2.	<b>Tier-2 capital</b>		
	General Provision	10.34	10.34
	Provision for Off Balance Sheet Exposure	2.54	2.54
	Revaluation Reserve for HTM & HFT Securities (50%)	0.65	0.65
	Non-convertible Subordinated Bond		
	Exchange Equalization Account		
	<b>Total Tier – 2 capital (B)</b>	<b>13.53</b>	<b>13.53</b>
<b>Total capital (A+B)</b>	<b>211.88</b>	<b>211.88</b>	

## 2. CAPITAL ADEQUACY

### Qualitative Disclosure:

Bangladesh Commerce Bank Ltd strictly follows the guidelines of Bangladesh Bank regarding capital adequacy.

### Quantitative Disclosure:

Sl. No.	Particulars	Solo Tk. (in crore)	Consolidated Tk. (in crore)
1.	<b>Capital requirement for Credit Risk:</b>		
	√ On – Balance sheet	1,191.59	1,304.78
	√ Off – Balance sheet	78.18	78.78
	Capital requirement for Market Risk	106.90	106.90
	Capital requirement for Operational Risk	114.80	114.80
	<b>Total RWA (Risk Weighted Asset)</b>	<b>1,491.47</b>	<b>1,382.96</b>
2.	<b>Capital Adequacy Ratio (CAR)</b> [Minimum 10% of RWA or Tk. 400 crore whichever is higher]	14.21%	13.20%
	<b>Core Capital to RWA</b>	13.30%	12.36%

## 3. CREDIT RISK

### Qualitative Disclosure:

The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation

### 3.1 Definitions of past due

#### **Special mention:**

Potentially weak loans or assets presenting an unwarranted credit risk, but less risky than Substandard assets. Assets listed for special mention generally reflect weaknesses in administration, servicing, or collection, as opposed to credit weaknesses, which are noted in examination reports as adversely classified assets.

#### **Sub-standard:**

A classification for a loan that is expected to result in a loss of interest for the lender, because the borrower is unlikely to be able to completely pay back the loan for some reason. A lender will occasionally agree to a substandard loan even though it means some revenue will be lost, because typically no principal is lost on a substandard loan, only some interest.

**Doubtful:**

Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.

**Bad /Loss:**

These are the loans that have a bleak recovery possibility.

**Unclassified:**

These are the loans where bank is fully satisfied about its repayment.

**3.2 Methods Used to Measure Credit Risk**

Credit risk is inherent in traditional banking products such as loans, commitments to lend and contingent liabilities (for example, letters of credit) as well as in “traded products”: repurchase agreements (repos and reverse repos) and securities borrowing and lending transactions. The risk control processes applied to these products are fundamentally the same, although the accounting treatment varies, as they can be carried at amortized cost or fair value, depending on the type of instrument and, in some cases, the nature of the exposure.

**3.3 Credit Risk Management System**

Credit risk is controlled and monitored by establishing appropriate limits and operational controls to constrain credit exposure to individual counter parties and counterparty groups. There are specific policies and procedures applicable to different business segments.

Credit risk regulatory capital requirements are computed based on the standardized approach prescribed by Bangladesh Bank. In The Standardized Approach credit risk is measured in a standardized manner supported by external credit assessments. Under this approach, risk weightings are mapped to exposure types.

**Quantitative Disclosure:****Solo Basis:**

p)	Unlisted equity investments and regulatory capital instruments issued by other banks(other than those deducted from capital) held in banking book		1.25		
q)	Investments in venture capital	1.50		19.99	29.99
r)	Investments in premises, plant and equipment and all other fixed assets		1.00	9.23	9.23
s)	Claims on all fixed assets under operating lease		1.00	-	-
t)	All other assets				
	i) Claims on GoB & BB (specified in Table 2 in page 13)		0.00	14.06	-
	ii) Staff Loan/investment		0.20	16.62	3.32
	iii) Cash items in process of collection		0.20	-	-
	iv) Claims on off-shore Banking Units (OBU)		1.00	-	-
	v) Other assets (not specified above) (Net of specific provision, if any)		1.00	79.07	79.07
	<b>Total</b>			<b>1,694.09</b>	<b>1,190.90</b>

**Bangladesh Commerce Bank Ltd.**  
**Work Sheet - 1 Risk Weighted Asset for Credit Risk**  
**Balance Sheet Exposures**  
**As on 31.12.2011**

Tk in crore

Sl	Exposure Type	Rating	Risk Weight	Exposure	RWA
1	2	3	4	5	6 = (4x5)
a)	Cash		0	28.64	-
b)	Claims on Bangladesh Government and Bangladesh Bank		0	211.29	-
c)	Claims on other Sovereigns & Central banks		0	-	-
d)	Claims on Bank for International Settlements, International Monetary Fund and European Central Bank		0	-	-
e)	Claims on Multilateral Development Banks (MDBs)				
	i) IBRD, IFC, ADB, AfDB, EBRD, IADB, EIB, EIF, NIB, CDB, IDB, CEDB		0	-	-
	ii) Other MDBs	1	0.20	-	-
		2,3	0.50	-	-
		4,5	1.00	-	-
		6	1.50	-	-
		Unrated	0.50	-	-
f)	Claims on Public Sector Entities (Other than Government) in Bangladesh	1	0.20	-	-
		2,3	0.50	-	-
		4,5	1.00	-	-
		6	1.50	-	-
		Unrated	0.50	-	-
g)	Claims on Banks & NBFIs:				
	i) Maturity over 3 months	1	0.20	9.06	1.81
		2,3	0.50	22.95	11.48
		4,5	1.00	-	-
		6	1.50	-	-
		Unrated**	1.00	-	-
	ii) Original Maturity less than 3 months (Money at Call & SN)		0.20	238.00	47.60
h)	Claims on Corporate	1	0.20	42.51	8.50
		2	0.50	7.38	3.69
		3,4	1.00	61.35	61.35
		5,6	1.50	-	-
		Unrated	1.25	490.94	613.68
i)	Claims under Credit Risk Mitigation [From Work Sheet - 1 (a)]				
		PSE	N/A	-	-
		Bank & NBFIs	N/A	-	-
		Corporate	N/A	-	-
		Retail & Small	N/A	25.35	-
		Consumer Finance	N/A	-	-
		Residential property	N/A	-	-
		Commercial Real State	N/A	-	-
		Consumer**	N/A	106.00	-
	<b>Fixed Risk Weight Groups:</b>				
j)	Claims Categorized as retail portfolio & Small Enterprise (excluding Consumer loan) upto 1 crore		0.75	159.57	119.68
k)	Consumer Finance		1.00	7.06	7.06
l)	Claims fully secured by residential property		0.50	12.77	6.39
m)	Claims fully secured by commercial real estate		1.00	20.62	20.62
n)	Past due Claims (Risk Weights are to be assigned (Risk Weights are to be assigned of specific provision)			-	-
	- Where specific provisions are less than 20 per cent of the outstanding amount of the past due Claim		1.50	111.63	167.45
	- Where specific provisions are less than 20 per cent of the outstanding amount of the past due Claim		1.00	-	-
	- Where specific provisions are more than 50 per cent of the outstanding amount of the past due claim	881.26	0.50	-	-
	2. Claims fully secured against residential property that are past due for more than 90 days and/or impaired specific provision held there-against is less than 20% of outstanding amount	881.26	1.00	-	-
	3. Loans and claims fully secured against residential property that are past due by 90 days and/or impaired 20% of outstanding amount		0.75	-	-
o)	Capital Market Exposure (See note 7)		1.25	-	-

**Consolidated Basis:**

**Bangladesh Commerce Bank Ltd.**  
**Work Sheet - 1 Risk Weighted Asset for Credit Risk**  
**Balance Sheet Exposures**  
**As on 31.12.2011**

Tk in crore

Sl	Exposure Type	Rating	Risk Weight	Exposure	RWA
1	2	3	4	5	6 = (4x5)
a)	Cash		0	28.64	-
b)	Claims on Bangladesh Government and Bangladesh Bank		0	211.29	-
c)	Claims on other Sovereigns & Central banks		0	-	-
d)	Claims on Bank for International Settlements, International Monetary Fund and European Central Bank		0	-	-
e)	Claims on Multilateral Development Banks (MDBs)				
	i) IBRD, IFC, ADB, AfDB, EBRD, IADB, EIB, EIF, NIB, CDB, IDB, CEDB		0	-	-
	ii) Other MDBs	1	0.20	-	-
		2,3	0.50	-	-
		4,5	1.00	-	-
		6	1.50	-	-
		Unrated	0.50	-	-
f)	Claims on Public Sector Entities (Other than Government) in Bangladesh	1	0.20	-	-
		2,3	0.50	-	-
		4,5	1.00	-	-
		6	1.50	-	-
		Unrated	0.50	-	-
g)	Claims on Banks & NBFI:				
	i) Maturity over 3 months	1	0.20	9.06	1.81
		2,3	0.50	35.06	17.53
		4,5	1.00	-	-
		6	1.50	-	-
		Unrated**	1.00	-	-
	ii) Original Maturity less than 3 months (Money at Call & SN)		0.20	238.00	47.60
h)	Claims on Corporate	1	0.20	42.51	8.50
		2	0.50	15.36	7.68
		3,4	1.00	61.35	61.35
		5,6	1.50	-	-
		Unrated	1.25	509.60	637.00
i)	Claims under Credit Risk Mitigation [From Work Sheet - 1 (a)]	PSE	N/A	-	-
		Bank & NBFI	N/A	-	-
		Corporate	N/A	-	-
		Retail & Small	N/A	25.35	-
		Consumer Finance	N/A	-	-
		Residential property	N/A	-	-
		Commercial Real State	N/A	-	-
		Consumer**	N/A	106.00	-
	<b>Fixed Risk Weight Groups:</b>				
j)	Claims Categorized as retail portfolio & Small Enterprise (excluding Consumer loan) upto 1 crore		0.75	159.57	119.68
k)	Consumer Finance		1.00	7.06	7.06
l)	Claims fully secured by residential property		0.50	12.77	6.39
m)	Claims fully secured by commercial real estate		1.00	20.62	20.62
n)	Past due Claims (Risk Weights are to be assigned)				
	(Risk Weights are to be assigned of specific provision)				
	- Where specific provisions are less than 20 per cent of the outstanding amount of the past due Claim		1.50	111.63	167.45
	- Where specific provisions are less than 20 per cent of the outstanding amount of the past due Claim		1.00	-	-
	- Where specific provisions are more than 50 per cent of the outstanding amount of the past due claim	912.03	0.50	-	-
		912.03		-	-
	2. Claims fully secured against residential property that are past due for more than 90 days and/or impaired		1.00	-	-
	specific provision held there-against is less than 20% of			-	-
	outstanding amount			-	-

	3. Loans and claims fully secured against residential property that are past due by 90 days and /or impaired		0.75		-
	20% of outstanding amount				-
o)	Capital Market Exposure (See note 7)		1.25	45.00	56.25
p)	Unlisted equity investments and regulatory capital instruments issued by other banks(other than those deducted from capital) held in banking book		1.25		
q)	Investments in venture capital	1.50		-	-
r)	Investments in premises, plant and equipment and all other fixed assets		1.00	9.74	9.74
s)	Claims on all fixed assets under operating lease		1.00	-	-
t)	All other assets				
	i) Claims on GoB & BB (specified in Table 2 in page 13)		0.00	14.06	-
	ii) Staff Loan/investment		0.20	16.62	3.32
	iii) Cash items in process of collection		0.20	-	-
	iv) Claims on off-shore Banking Units (OBU)		1.00	-	-
	v) Other assets (not specified above) (Net of specific provision, if any)		1.00	132.80	132.80
	<b>Total</b>			<b>1,812.09</b>	<b>1,304.78</b>

## 4 MARKET RISK

### Qualitative Disclosure:

#### 4.1 Methods Used to Measure Market Risk

To measure of market risk the Bank uses Standardize Approach.

#### 4.2 Market Risk & Liquidity Risk Management Policies and System

The objective of investment policy covering various facet of Market Risk, is to assess and minimize risks associated with treasury operations by extensive use of risk management tools. Broadly it encompasses policy prescriptions for managing systematic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

For market arising out of various products in trading book of the Bank and its business activities, the bank sets regulatory internal and ensure adherence thereto. Limits for exposure to counter-parties, industries and countries are monitored and the risks are controlled through Stop Loss Limits, Overnight Limit, Daylight Limit, Aggregate Gap Limit, Value at Risk (VAR) Limit for Forum, Inter-bank dealing and investment limit etc.

For the Market Risk Management of the bank, it has a mid-office with separate desks for Treasury & Asset Liability Management (ALM).

Asset Liability Management Committee (ALCO) is primarily responsible for establishing the market risk management, asset liability management of the bank, procedures thereof, implementing core risk management framework issued by regulator, best risk management practices followed globally and ensuring that internal parameters, procedures, practices/policies and risk management prudential limits are adhered to.

Liquidity risk of the bank is assessed through Gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limit fixed thereon. Further bank is also monitoring the liquidity position through various stock ratios. The bank is proactively using duration gap and interest rate forecasting to minimize the impact of interest rate changes.

#### 4.3 Market Risk in Trading Book.

Market risk regulatory capital requirements are computed based on the standardized approach prescribed by BB.

##### Quantitative Disclosure:

Sl. No.	Particulars	Amount Tk. (in crore)
1.	<b>The capital requirements for:</b>	
	Interest rate risk	3.74
	Equity position risk	6.58
	Foreign exchange risk	0.37
	Commodity risk	-
	<b>Total:</b>	<b>10.69</b>

#### 5. OPERATIONAL RISK

##### Qualitative Disclosure:

##### **Approach for Calculating Capital Charges for Operational Risk**

For local regulatory capital measurement purposes, the Bank follows the Basic Indicator Approach.

##### Quantitative Disclosure:

Sl. No.	Particulars	Tk. (in crore)
1.	<b>The capital requirements for:</b>	
	Operational risk	114.80