Community Bank

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Disclosures

On

Risk Based Capital (Basel III)

2020

Disclosures on Risk Based Capital (Basel III) based on 31st December 2020

Introduction

Basel III is a global regulatory capital and liquidity framework established by the Basel Committee on Banking Supervision ("Basel Committee"). Basel III includes three complementary pillars:

- **Pillar 1** establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA.
- **Pillar 2** requires banks to have an internal capital adequacy assessment process and requires that banking supervisors evaluate each bank's overall risk profile as well as its risk management and internal control processes.
- **Pillar 3** encourages market discipline through disclosure requirements which allow market participants to assess the risk and capital profiles of banks.

Pillar 3 recognizes that market discipline has the potential to reinforce capital regulation and other supervisory efforts to promote safety and soundness in banks and financial systems. Market discipline imposes strong incentives on banks to conduct their business in a safe, sound and efficient manner. It can also provide a bank with an incentive to maintain a strong capital base as a cushion against potential future losses arising from its risk exposures.

In line with the Bangladesh Bank BRPD Circular 18 dated December 21, 2014 on 'Guideline on Risk Based Capital Adequacy', following detailed qualitative and quantitative disclosures are provided.

Components of Disclosure:

Disclosure is organized as per Bangladesh Bank requirement in the following components:

a) Scope of Application
b) Capital Structure
c) Capital Adequacy
d) Credit Risk
e) Equities: Disclosures for Banking Book Positions
f) Interest Rate Risk in the Banking Book
g) Market Risk
h) Operational Risk
i) Leverage Ratio
j) Liquidity Ratio
k) Remuneration

a) Scope of application:

Qualitative Disclosures	
a) The name of the top corporate entity in the group to which this guidelines applies	**Community Bank Bangladesh Limited.**
b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated; (ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted(e.g. where the investment is risk-weighted).	**Community Bank Bangladesh Limited.** Community Bank Bangladesh Limited (the "Bank") was incorporated in Bangladesh on 10th October 2018 under the Companies Act, 1994 as a Public Limited Company and received its banking license from Bangladesh Bank on 1st November 2018 as a scheduled commercial bank. The Risk Based Capital Adequacy Framework applies to Community Bank Bangladesh Limited (CBBL)) on 'solo' basis as there was no subsidiary as on the reporting date (December 31st 2020). 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. CBBL provides its service with its 18 Branches, 156 ATM Booths and Mobile Banking app, service desks and vibrant alternative delivery channels in Bangladesh. Branches are located in different areas such as Dhaka, Gazipur, Narayanganj, Chattogram, Habiganj, Narsingdi, Tangail, Cumilla, Khulna, Dinajpur, Nawabganj, Mymensingh. Currently the bank does not have any off-shore Banking Unit (OBU) and subsidiary company.
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable
Quantitative Disclosures	
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

b) Capital Structure:

Qualitative Disclosures	
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 or in Tier 2 capital.	As per Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for Banks in line with Basel III) introduced by Bangladesh Bank, 'Common Equity Tier-1 (CET 1)' Capital of Community Bank consists of (i) Paid-up Capital, (ii) Statutory Reserve and (iii) Retained Earnings. Community Bank does not have 'Additional Tier 1 (AT 1)' Capital since it did not issue any instrument that meets the qualifying criteria for Additional Tier 1 Capital. Tier-2 Capital consists of General provision against unclassified loans and advances. Compliance with Regulatory Requirements by CBBL: The Bank

complied with all the required conditions for maintaining regulatory capital as stipulated in the Basel III guidelines as per following details:

Particulars	Minimum Criteria	Status of compliance
Common Equity Tier 1 (CET1) Capital Ratio	4.50%	Complied
Tier 1 capital Ratio	6.00%	Complied
Minimum capital to Risk Weighted Asset Ratio (CRAR) including Capital Conservation Buffer	12.50%	Complied
Maximum limit of Tier-2 capital: Tier 2 capital can be maximum up to 4% of the total RWA or 88.89% of CET-1, whichever is higher.	-	Complied

Quantitative Disclosures

b) The amount of Regulatory capital of Community Bank Bangladesh Limited under Basel-III as of 31st December, 2020 as below:

1. Common Equity Tier-1 (Going Concern Capital)	Solo
	BDT in Million
Paid-up Capital	4,610.00
Statutory Reserve	9.33
Retained Earnings	(313.24)
Subtotal	4,306.09
Less: Regulatory Adjustment for Tier-1 Capital Goodwill and all other intangible assets (WDV of Software)	(177.24)
Total Common Equity Tier-1 Capital	**4,128.85**
2. Tier-2 Capital (Going-Concern Capital)	
General Provision	218.55
Revaluation Reserves for Securities up to 50%	-
Total Admissible Tier-2 Capital	**218.55**
3. Total Regulatory Capital (1+2)	**4,347.40**

c) Capital Adequacy:

Qualitative Disclosures	
a) A summary discussion of the bank's approach for assessing the adequacy of its capital to support current and future activities.	The Bank assesses the adequacy of its capital in terms of Section 13 (1) of the Bank Company Act, 1991 (Amended up to 2018) and instruction contained in BRPD Circular No. 18 dated 21 December 2014 [Guidelines on 'Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel III)] and other relevant rules & regulation issued by BB from time to time. The Bank follows following approaches for calculating Risk Weighted Asset (RWA): ▪ Standardized approach for Credit risk ▪ Standardized approach for Market risk ▪ Basic indicator approach for Operational risk Assessing regulatory capital in relation to overall risk exposure of a bank is an integrated and comprehensive process. CBBL follows the 'asset based' rather than 'capital based' approach in assessing the adequacy of capital to support current and projected business activities. The Bank assesses the capital requirement

	considering the existing size of portfolio, concentration of portfolio to different risk weight groups, asset quality, profit trend etc. on quarterly rest. The Bank also forecasts the adequacy of capital in terms of its capacity of internal capital generation, maintaining the size of the portfolio, asset quality, conducting credit rating of the borrowers, segregation of portfolio to different risk weight groups etc. As of 31st December 2020, Bank maintained total regulatory capital (CET-1/Tier 1 and Tier 2) of BDT 4,347.40 million against the minimum requirement including capital conservation buffer of BDT 4,000.00 million with a surplus of BDT 347.40 million. Bank's capital to risk-weighted asset ratio (CRAR) as of 31st December 2020 stood at 26.93% (consisting of 25.58% in CET 1 capital and 1.35% in Tier 2 capital) against the regulatory requirement of minimum including capital conservation buffer 12.50%. This surplus capital both in term of absolute amount and ratio (CRAR) is considered to be adequate to absorb all the material risks to which the Bank may be exposed in future. The Bank maintained more than adequate capital against the regulatory requirement to uphold and strengthen the confidence of its investors, depositors and other stakeholders.

Quantitative Disclosures	BDT in Million
Risk Weighted Assets & Minimum Capital requirement under following Risk:	(Solo)
Risk Weighted Assets (RWA)	
(b) RWA for Credit Risk	14,909.08
(b1) Portfolio subject to standardized approach- Funded (On-Balance Sheet)	14,490.91
(b2) Portfolio subject to standardized approach- Non Funded (Off-Balance Sheet)	418.17
(c) RWA for Market Risk (standardized approach)	419.83
(d) RWA for Operational Risk (Basic indicator approach)	813.03
Total Risk Weighted Assets (b+c+d)	**16,141.94**
Minimum Capital Required (10% of RWA)	
(e) Capital Required for Credit Risk	1,490.91
(f) Capital Required for Market Risk	41.98
(g)Capital Required for Operational Risk	81.30
Total Capital Required (e+f+g)	**1,614.19**
Minimum Capital Requirement (MCR) BDT 4000.00 million or 10% of RWA, whichever is higher	4,000.00
Total Regulatory Capital and Capital to Risk-weighted Assets Ratio (CRAR):	
(1) Total Tier-1 Capital	4,128.85
Common Equity Tier-1 Capital	4,128.85
Additional Tier 1 Capital	-
(2) Total Tier-2 Capital	218.55
Total Regulatory Capital (1+2)	**4,347.40**
Capital Ratio	
1. Common Equity Tier 1 (CET 1) Ratio	25.58%
2. Tier 1 Capital Adequacy Ratio	25.58%
3. Tier-2 Capital Adequacy Ratio	1.35%
Capital to Risk-weighted Asset Ratio (CRAR)	**26.93%**
Capital Conservation Buffer	**16.93%**
Available capital under Pillar 2 requirement	**347.40**

d) Credit Risk:

Qualitative Disclosures	
a) The general qualitative disclosure requirement with respect to credit risk:	
(i) Definitions of past due and impaired (for accounting purposes);	Credit risk is managed through a framework which sets 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 risk of Corporate, Retail and CMSME business are being assessed by Credit Risk Management Division (CRMD). After approval, Credit Administration Division (CAD) disburses the credit approved by Credit Risk Management Division (CRMD) while operation team both branches & head office are being act for credit collection. These both divisions are supported by Legal Division of the bank. Additionally, Internal Control and Compliance Division (ICCD) conducts on-site and off-site audit for all credits. CBBL has a structured Credit Risk Management Policy known as Credit Risk Management Policy & Guidelines (CRMP&G) approved by the Board of Directors, first in 2019 and which is under process of review. The CRMP&G defines organization structure, role and responsibilities and, the processes whereby the credit risks carried by the bank can be identified, quantified and managed within the framework that the bank considers consistent with its mandate and risk tolerance. Bank also has a system of identifying and monitoring problem accounts at the early stages of their delinquency through auto generation of past- due report, so that timely corrective measures are initiated. Corporate, Retail and CMSME segment offer different customized products and are guided by separate Product Program Guidelines (PPGs) approved by the Board and/or management. As per relevant Bangladesh Bank guidelines, the Bank defines the past due and impaired loans and advances for strengthening the credit discipline and mitigating the credit risk of the 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 4 (four) categories namely- (a) Continuous Loan, (b) Demand Loan, (c) Fixed Term Loan, and (d) Short-term Agricultural & Micro Credit. **Definition of past due/ overdue:** • 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. 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. Whereas, 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 six months of the expiry date. 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. **Definition of impaired/ classified/ non-performing loans and advances are as follows:** • A Continuous Loan, Demand Loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan which will remain past due/overdue for a period of 03 (three) months or beyond but less than 09 (nine) months, the entire loan will be put into the "Sub-standard (SS)".

- A Continuous Loan, Demand Loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan which will remain past due/overdue for a period of 09 (nine) months or beyond but less than 12 (twelve) months, the entire loan will be put into the "Doubtful (DF)".
- A Continuous loan, Demand loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan which will remain past due/overdue for a period of 12 (twelve) months or beyond, the entire loan will be put into the "Bad/Loss (B/L)".
- Loans have to be treated as defaulted loan as per section 5(GaGa) of the Banking Companies Act, 1991 and to be reported accordingly as per formats given in BRPD Circular No.08 dated August 02, 2015. In this regard, a portion of the "Sub-standard (SS)" loans will be reported as defaulted loan.

Short-term Agricultural and Micro-credit: The Short-term Agricultural and Micro Credit will be considered irregular if not repaid within the due date as stipulated in the loan agreement. If the said irregular status continues, the credit will be classified as '**Sub-standard**' after a period of **12 months**, as '**Doubtful**' after a period of **36 months** and as '**Bad/Loss**' after a period of **60 months** from the stipulated due date as per the loan agreement.

Loan Classification of Cottage, Micro and Small credits under CMSME:

- A Continuous Loan, Demand Loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 06 (six) months or beyond but less than 18 (eighteen) months, the entire loan will be classified as "Sub-standard (SS)".
- A Continuous Loan, Demand Loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 18 (eighteen) months or beyond but less than 30 (thirty) months, the entire loan will be classified as "Doubtful (DF)".
- A Continuous loan, Demand loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 30 (thirty) months or beyond, the entire loan will be classified as "Bad/Loss (B/L)".

(ii)Description of approaches followed for specific and general allowances and statistical methods;

Loan Type	**Rates of Provision**				
	Un- Classified		**Classified**		
	Standard	**SMA**	**SS**	**DF**	**BL**
All unclassified loans (other than loans under small enterprise and consumer financing and BHs, MBs, SDs)	1%	1%	20%	50%	100%
Medium enterprise financing	0.25%	0.25%	20%	50%	100%
Cottage, Micro and Small credits under CMSME Financing	0.25%	0.25%	5%	20%	100%
Consumer financing (other than housing finance, credit card and loans for professionals under consumer financing scheme)	2%	2%	20%	50%	100%
Consumer financing (for housing finance)	1%	1%	20%	50%	100%
Consumer financing (for credit card)	2%	2%	20%	50%	100%
Consumer financing (for professionals)	2%	2%	20%	50%	100%
Loans to Brokerage Houses (BHs)/Merchant Banks(MBs)/ Stock Dealers (SDs) against Shares etc.	2%	2%	20%	50%	100%
Short term Agricultural & Micro-Credits	1.00%	-	5%	5%	100%

(iii) Discussion of the Bank's credit risk management policy

The Bank has put in place a well-structured Credit Risk Management Policy duly the Bank's approved by the Bank's Board of Directors. The Policy document defines Credit risk organization structure, roles & responsibilities and the processes whereby the management of Credit Risks carried out by the Bank can be identified, quantified & managed within policy. The framework that the Bank considers consistent with its mandate and risk tolerance. Credit Risk is monitored on a bank-wide basis and compliance with the risk limits approved by Board/Risk Management Committee of Board.

Community Bank has taken earnest steps to put in place best credit risk management practices in the bank. Besides, the bank has framed a policy on Valuation Methodology with the approval by the Board. According to methodology, such securities normally accepted by the Bank to protect the interest. These securities act as mitigation against the credit risk to which the bank is exposed.

Quantitative Disclosures

(b)Total gross credit risk exposures broken down by major types of credit exposures:

Major types of credit exposure as per disclosures in the audited financial statements as of 31st December 2020 are as follows:

BDT in Million

Particulars	Outstanding	Mix (%)
Overdrafts	5,492.18	28.17%
Demand Loan	377.52	1.93%
Term loans	13,530.18	69.40%
Staff loans	80.94	0.42%
Bills purchased and discounted	15.67	0.08%
Total Loans and advances	**19,496.49**	**100.00%**

(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.

Geographical distribution of credit exposures as per the disclosures in the audited financial statements as of 31st December **2020** are as follows:

BDT in Million

Particulars	Outstanding	Mix (%)
Dhaka Division	16,650.71	85.40%
Chittagong Division	1,685.51	8.65%
Khulna Division	315.50	1.62%
Rajshahi Division	-	-
Barisal Division	-	-
Sylhet Division	624.67	3.20%
Rangpur Division	220.10	1.13%
Total Loans and advances	**19,496.49**	**100.00%**

(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposures.

Industry or counterparty type distribution of exposures, broken down by major types of credit exposures as per the disclosures in the audited financial statements as of 31st December 2020 are as follows:

BDT in Million

Particulars	Outstanding	Mix (%)
RMG	166.80	0.86%
Textile	478.60	2.45%
Food and allied industries	1,032.10	5.29%
Pharmaceutical industries	549.80	2.82%
Cement and ceramic industries	203.30	1.04%
Power and gas	556.90	2.86%
Steel Industries	406.39	2.08%
Paper Industries	99.17	0.51%
Electronic Goods Manufacturing	153.03	0.78%
Polymer and polythene industries	157.00	0.81%
Rubber and Plastic Industries	110.20	0.57%
Assembling Industry	101.50	0.52%
Feed for poultry and livestock	0.10	0.00%
Service industries	1,289.30	6.61%
Retail Trading	23.20	0.12%
Wholesale Trading	307.70	1.58%
Residential Real Estate	100.90	0.52%
Infrastructure Development	31.90	0.16%
Consumer financing	129.16	0.66%
Merchant banks & brokerage houses	678.50	3.48%
Microfinance institutions and NGOs	320.90	1.65%
Bangladesh Police Payroll	12,504.20	64.13%
Others	14.90	0.08%
Staff loan	80.94	0.42%
Total Loans and advances	**19,496.49**	**100.00%**

(e) Residual contractual maturity break down of the whole portfolio, broken down by major types of credit exposure.

Residual contractual maturity of exposures as per the disclosures furnished in the audited financial statements as of 31st December 2020 are as follows:

BDT in Million

Particulars	Outstanding	Mix (%)
Repayable on demand	440.33	2.26%
More than 1 months to 3 months	618.93	3.17%
More than 3 months to 1 Year	4,843.61	24.84%
More than 1 year to 5 years	12,347.41	63.33%
More than 5 years	1,246.21	6.39%
Total	**19,496.49**	**100.00%**

(f) By major industry or counterparty type

a) Amount of impaired loans and if available, past due loans, provided separately:
Nil

b) Specific and general provisions

Specific and general provisions for loans portfolio and general provision for off-balance sheet exposures of the Bank as per audited financial statements as of 31st December 2020 was as under:

BDT In Million

Particulars of specific and general provisions for entire loan portfolio and off-balance sheet exposures	Amount
Specific provision for loans and advances	-
General provision for loans and advances	202.35
General provision for off-balance sheet exposures	16.20
Total	**218.55**

c) Charges for specific allowances and charges-offs (general allowances) during the period

The specific and general provisions for loans portfolio and general provision for off-balance sheet exposures of the Bank charged during the year as per audited financial statements for the year ended 31st December 2020 are as under:

BDT in million

Particulars	2020	2019
Specific provisions for loans and advances	-	-
General provisions for loans and advances		
Opening balance	7.54	-
Additions during the year		
On balance sheet	194.81	7.54
Off balance sheet	16.20	-
Closing balance sheet	**218.55**	**7.54**

(g) Gross Non Performing Assets (NPAs): Nil

e) Equities: Disclosures for Banking Book Position

Qualitative Disclosures:

(a) The general qualitative disclosure requirement with respect to equity risk, including:

Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and	CBBLs total equity share holding comprises of two purposes i.e. capital gain and other strategic reason like equity participation and investment diversification. Bank's investment in equity securities are broadly fall under 2 categories: ➢ Quoted Securities (traded in the secondary market; trading book assets) ➢ Unquoted Securities (not traded in secondary market; banking book assets)
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.	Our investment in shares are being monitored and controlled by the Investment Committee, are reflected in accounts through proper methodologies and accounting standards of the local & International. As per Bangladesh Bank circular (ref: BRPD circular number -14 dated June 25, 2003), the quoted shares are

valued as per market price in the stock exchange(s). Equity securities holdings in the banking book or unquoted are recognized at cost price.

Provisions for shares are maintained for unrealized loss (gain net off) arising from diminution in value of investments. Provision for shares against unrealized loss (gain net off) has been made according to DOS circular number-04 dated 24 November 2011 and for mutual funds (closed-end) according to DOS circular letter no-3 dated 12 March 2015 of Bangladesh Bank.

Quantitative Disclosures

Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.

Values disclosed in balance sheet of investment in share (solo) as on 31st December 2020 is as under:

BDT in million

Particulars	**Cost Price**	**Market Price**
Investment in Share	168.34	209.62

The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.
- Realized gain (losses) from equity investments

- Total unrealized gains (losses)
- Total latent revaluation gains (losses)
- Any amounts of the above included in Tier 2 capital.

BDT in million

Particulars	Solo (Bank)
Total Realized gain (losses)	18.84
Total unrealized gains (losses)	25.08
Total latent revaluation gains (losses)	-
Any amounts of the above included in Tier 2 capital.	-

Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.

The capital requirement for equity investment as of 31st December 2020 is as under:

BDT in million

Particulars	**Market value**	**Risk Weight**	**Capital Charge**
Specific Risk	209.62	10%	20.96
General Market Risk	209.62	10%	20.96

f) 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 prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as well as the net worth of the bank (economic value perspective). Re-pricing risk is often the most apparent source of interest rate risk for a bank and is often gauged by comparing the volume of a bank's assets that mature or re-price within a given time period with the volume of liabilities that do so.

Quantitative Disclosures

(b) The impact of changes in interest rate for On-balance sheet rate sensitive assets and rate sensitive liabilities of Community Bank Bangladesh Limited as per financial statements as of 31st December 2020 under earning perspective with simple sensitivity analysis is furnished below:

BDT in million

Particulars	**3 months**	**6 months**	**1 year**
Rate sensitive assets **[A]**	305.72	137.46	424.00
Rate sensitive liabilities **[B]**	558.58	503.58	851.45
Net GAP [A-B]	(252.86)	(366.12)	(427.45)
Cumulative GAP	(252.86)	(618.98)	(1,046.43)
Interest rate change (IRC) [Note 1]	1.0%	1.0%	1.0%
Net Interest Income (NII) = i(Change in interest rate) X gap	(0.63)	(1.83)	(4.27)
Negative impact on earnings	0.63	1.83	4.27

Note 1: Assuming 1% rise in interest rates for both asset and liability portfolio of the Bank.

Duration Gap Analysis:

The focus of the Duration Analysis is to measure the level of a bank's exposure to interest rate risk in terms of sensitivity of Market Value of its Equity (MVE) to interest rate movements. Duration Gap can be used to evaluate the impact on the Market Value of Equity of the bank under different interest rate scenarios. ALCO monitors the Leveraged Liability Duration and duration gap of the total bank balance sheet on a quarterly basis to assess the impact of parallel shift of the assumed yield curve. The duration gap analysis as per financial statements as of 31st December 2020 is furnished below:

Particulars	**Duration in years**
Weighted average duration of assets	2.81
Weighted average duration of liabilities	0.92
Duration gap	2.02

BDT in million

Particulars	Impact on earnings due to change in interest rates		
	Minor shock (1%)	Moderate shock (2%)	Major shock (3%)
Changes in Equity	(541.52)	(1,083.04)	(1,624.56)
After shock Equity (CAR)	23.59%	20.23%	16.88%

g) Market Risk:

Qualitative Disclosures:

i) Views of BOD on trading/ investment activities	The Board approves all policies related to market risk, set limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance assets growth and trade related transactions. The market risk covers the followings risks of the Bank's balance sheet: i) Interest rate risk ii) Equity price risk iii) Foreign exchange risk and iv) Commodity price risk
ii) Methods used to measure Market risk	Standardized approach has been used to measure the Market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of risk subcategories. For each risk categories minimum capital requirement is measured in terms of two separately calculated capital charges for "specific risk" and "general market risk"

<table>
<tr><td>iii) Market Risk Management System</td><td>The Treasury Department manages market risk covering liquidity, interest rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the bank. ALCO is chaired by the Managing Director. ALCO meetings are held at least once in a month.</td></tr>
<tr><td>iv) Policies and processes for mitigating market risk:</td><td>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 risks. The ALCO of the Bank meets on regular basis to review the prevailing market condition, exchange rate, foreign exchange position and transactions to mitigate foreign exchange risks.</td></tr>
<tr><td colspan="2">Quantitative Disclosures</td></tr>
<tr><td>The capital requirements for market risk</td><td>BDT in Million
<table>
<tr><th>The Capital Requirements for:</th><th>Amount</th></tr>
<tr><td>• Interest rate risk</td><td>-</td></tr>
<tr><td>• Equity position risk</td><td>41.92</td></tr>
<tr><td>• Foreign exchange risk</td><td>0.06</td></tr>
<tr><td>• Commodity risk</td><td>-</td></tr>
<tr><td>Total capital requirement for Market risk</td><td>41.98</td></tr>
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h) Operational Risk:

a) Qualitative Disclosures	
i) Views of Board of Directors (BODs) on system to reduce Operational Risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural It is inherent in all of the Bank's activities. The policy for operational risks including internal control and compliance risk is approved by the Board taking in to account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of the respective division to protect against all operational risk.
ii) Performance gap of executives and staffs	Community Bank is an equal opportunity employer. It has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. At Community Bank, we recognize the importance of having the right people at right positions to achieve organizational goals.
iii) Potential external events	No potential external events are expected to expose the Bank to significant operational risk.
iv) Policies and processes for mitigating operational risk	Internal control mechanism is in place to control and minimize the operational risks. If any controls are found to be ineffective during the course of Risk & Control Self-Assessment, corrective measures are adopted in due course. A monitoring system is also in place for tracking the corrective actions plan periodically.
v) Approach for calculating capital charge for operational risk	The Bank follows the Basic Indicator Approach (BIA) in terms of BRPD Circular No. 18 dated 21 December 2014 Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III). The BIA stipulates the capital charge for operational risk is a fixed percentage, denoted by α (alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross

	income. The capital charge for operational risk is enumerated by applying the following formula: $K = [(GI1 + GI2 + GI3)\ \alpha]/n$ **Where:** K = the capital charge under the Basic Indicator Approach GI = only positive annual gross income over the previous three years α = 15 percent n = number of the previous three years for which gross income is positive.
b) Quantitative Disclosures	
The capital requirement for operational risk	BDT in Million

Particulars	Amount
Capital requirement for Operational Risk	81.30
Total Capital Requirement for Operational Risk	81.30

i) Liquidity Ratio:

i) Views of Board of Directors on system to reduce liquidity Risk	The Board of Directors of Community Bank that has always been giving most importance to minimizing the liquidity risk of the bank. In order to reduce liquidity risk strict maintenance of Cash Reserve Ratio (CRR), Statutory Liquidity Reserve (SLR), Advance Deposit Ratio and Maximum Cumulative Outflow are also being emphasized on a regular basis. As per Basel-III requirement, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are also maintained well above the minimum requirement.
ii) Methods used to measure Liquidity risk	Under Basel III, the following methods and tools are mandated for measuring the liquidity risk. **a) Liquidity Coverage Ratio (LCR):** LCR or Liquidity Coverage Ratio is a new liquidity standard introduced by the Basel Committee. This standard is 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. LCR goes beyond measuring the need for liquid assets over the next 30 days in a normal environment. It measures the need for liquid assets in a *stressed* environment, in which deposits and other sources of funds (both unsecured and secured) run off, to various extents, and unused credit facilities are also drawn down in various magnitudes. **b) Net Stable Funding Ratio (NSFR):** NSFR or Net Stable Funding Ratio is another new 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. 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 requires stable funding. The time horizon of the NSFR is one year. Like the LCR, the NSFR calculations assume a stressed environment.

	c) In addition to the above, the following tools measures have been put in place to monitor the liquidity risk management position of the Bank on a continued manner: • Asset-Liability Maturity Analysis (Liquidity profile); • Whole sale borrowing capacity; • Maximum Cumulative Outflow (MCO); • Cash Reserve Ratio (CRR); • Statuary Liquidity Ratio (SLR); • Advance Deposit Ratio (ADR); • Undrawn Commitment Limit; • Liquid Assets to total Deposit; and • Liquid Assets to Short Term Liabilities.
iii) Liquidity Risk Management System	The Board of Directors of the bank set policy and different liquidity ratio limits for liquidity risk management. Asset and Liability Management Committee (ALCO) is responsible for both statutory and prudential liquidity management. Ongoing liquidity management is discussed as a regular agenda of ALCO meeting, which takes place on a monthly basis. The ALCO of the Bank monitors & manages liquidity and interest rate risk in line with the business strategy. At the ALCO meeting, bank's liquidity position, limit utilization, changes in exposure and liquidity policy compliance are presented to the committee. Asset Liability Management Desk closely monitors and controls liquidity requirements on a daily basis. ALM activity including liquidity analysis & management is conducted through coordination between various ALCO support groups residing in the functional areas of balance sheet management.
iv) Policies and Processes for mitigating Liquidity risk	Liquidly Risk Management is guided by Asset Liability Management Policy of the bank. Liquidly risk management and Liquidity Contingency Plan are the two major aspects in the ALM policy. Bank has Asset Liability Management Committee (ALCO) to monitor the liquidity risk on a regular basis. Based on the detail recommendation from ALM desk, ALCO take appropriate action to manage the liquidity risk.

Quantitative Disclosures

The liquidity ratios & indicators as on 31st December,2020 are represent below

BDT in Million

Particulars	
Liquidity Coverage Ratio (LCR) [%}	193.98%
Net Stable Funding Ratio (NSFR) [%}	119.22%
Stock of High quality liquid assets(SHQLA) [Million]	4,397.66
Total net cash outflows over the next 30 calendar days [Million]	2,267.09
Available amount of stable funding [Million]	25,600.91
Required Stable Funding (RSF) [Million]	21,474.33

j) Leverage Ratio:

Qualitative Disclosures

i) Views of Board of Directors on system to reduce excessive leverage	In order to avoid building-up of an excessive on- and off-balance sheet leverage in the banking system, a simple, transparent and non-risk based leverage ratio has been introduced under the Base III framework. Board of Directors of our Bank continuously monitoring the exposure limit of lending, capital strength of our Bank in order to avoid building-up excessive on- and off-balance sheet leverage. Besides, Board Risk Management Committee BRMC) also reviews the leverage ratio and other liquidity position/ratios while reviewing the comprehensive risk management report on time to time basis.

ii) Policies and processes for managing excessive on and off-balance sheet leverage	The Leverage Ratio is intended to achieve the following objectives: a) Constrain the build-up of leverage in the banking sector which could damage the broader financial system and the economy b) Reinforce the risk based requirements with any easy-to-understand and non-risk based measure. A minimum Tier 1 leverage ratio of 3% is being prescribed by Bangladesh Bank both at solo and consolidated level. In view of the impact of leverage into the business, our Bank Management takes decision about future investment. Considering the financial strength, the bank also prepares capital planning and business budget to go on a right way.
iii) Approach for calculating exposure	Community Bank meticulously maintain leverage ratio well above the BB minimum requirement. CBBL follows the approach mentioned in the revised RBCA for calculating exposure of the bank. The exposure measure for the leverage ratio generally follows the accounting measure of exposure. The calculation of leverage ratio at the end of each calendar quarter is required to submit to BB based on the following definition of capital and total exposure: $\text{Leverage Ratio (LR)} = \frac{\text{Tier 1 Capital (after related adjustment)}}{\text{Total Exposure (after related deductions)}} > 3\%$

Quantitative Disclosures:

BDT in Million

Particulars	
Leverage Ratio (%)	14.40%
On balance sheet exposure	28,043.55
Off balance sheet exposure	802.54
Regulatory adjustment	(177.24)
Total exposure	28,668.85

k) Remuneration:

Qualitative Disclosures

a)	Information relating to the bodies that oversee remuneration:	
	i) Name of the bodies that oversee remuneration	Community Bank's HR Policy & Practices focus to attract, retain and motivate top talents to meet its sustainable growth. The Community Bank Ltd. has a competitive compensation and benefits system that helps to ensure pay equity, is linked with performance and affordability. The compensation and benefits have set through market and peer group comparison. The Board of Directors of the bank approve the remuneration policy recommended by senior management. Though the bank has no permanent external consultant for managing remuneration but expert opinion may have been sought by management in case to case basis. The Human Resources Division comprises of executive and officers including Divisional Head. Human Resources Division (HRD) along with Chief Financial Officer of the Bank oversees the remuneration. The Board of Directors of the Bank approves remuneration policy and other policies time to time. Presently Community Bank Ltd. does not have any separate body or external consultant to oversee remuneration.
	ii) Composition of the main body overseeing remuneration	
	iii) Mandate of the main body overseeing remuneration	
	iv) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process	
	v) A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches	

	vi) A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group	Scope of the CBBL Remuneration Policy: Policy applies to all the permanent employees of the bank. Additionally, separate Compensation and Benefit Package is usually approved for temporary and casual staff on case to case basis. Any other benefit is guided by the contract agreement with individual employees. The senior management team, branch managers and the employees engaged in different functional division at head office, branches and units (except the employees involve in internal control & compliances and risk management) are considered as material risk taker of the bank.
b)	Information relating to the design and structure of remuneration processes:	
	i) An overview of the key features and objectives of remuneration policy	Community Bank aims to create a performance based compensation plan in order to attract and retain its talent. As a part of employee motivation through monetary incentive, the management has already introduced performance based increment and benefit plan. Bank's Performance, Team Performance and Individual employee Performance will be taken into consideration. The remuneration policy is designated to establish pay structure based on performance, skills and competencies. Salary Structure: (i) Basic (ii) House Rent (iii) Medical (iv) Conveyance (v) Leave Fare Assistance (vi) Other Benefits (such as car, furniture, telephone etc.) Remuneration structure of the bank is reviewed as and when management deem appropriate to allow for adjustments in the cost of living and market forces pertaining to the banking industry. HR Division initiates the process, makes proposal to Board for approval.
	ii)Whether the remuneration committee reviewed the bank's remuneration policy during the past year, and if so, an overview of any changes that was made	
	iii) A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee	
c)	Description of the ways in which current and future risks are taken into account in the remuneration processes:	
	i) An overview of the key risks that the bank takes into account when implementing remuneration measures	Bank takes into account the following key risks when managing and determining remuneration: i. Financial Risk ii. Operational Risk iii. Compliance risk In addition, Bank also has taken consideration when implementing remuneration such as turnover rate, attract & retain the experienced & productive officials, general inflation and peer banks comparison.
	ii) An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure.	Both financial and non-financial measures are considered to take account of these risk. The management proposes competitive remuneration and other non-financial benefits like promotion, training etc. so that employees turnover ratio can be kept under tolerable limit. Sometimes few issues are difficult to measure relating to employees e.g. value, creativity, helpfulness to customers, commitment risk etc. In such cases, management applies qualitative judgment for determining the remuneration.
	iii) A discussion of the ways in which these measures affect remuneration	While evaluating the performance of each employee annually, all financial and non-financial indicators as per pre-determined objectives are considered and accordingly the result of the performance varies from one to another and thus affect the remuneration as well.

		The Bank has introduced the following categories of evaluation for remuneration: • Evaluation of Bank's performance, • Evaluation of Team performance; • Evaluation of individual employee performance, and • Evaluation of values & discipline.
	iv) A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration	No material change has been made during the year 2020.
d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration:	
	i) An overview of main performance metrics for bank, top-level business lines and individuals	The Bank sets the Key Performance Indicators (KPIs) while approving the business target/ budget for each year. 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, NIM, yield on loans, provision coverage ratio, capital to risk weighted asset ratio (CRAR), ROE, ROA, liquidity position (maintenance of CRR and SLR) etc.
	ii) A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance	The remuneration of each employee is paid based on her/his individual performance, team performance, bank performance & cost of living adjustment. And, accordingly, the aggregate amount of remuneration of the Bank as a whole is linked/ impacted to the same extent.
	iii) A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining "weak" performance metrics	The Bank follows remuneration process as per set criteria with no in general adjustment in the event of weak performance metrics.
e)	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance:	
	i) A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance	CBBL believes that the individual and team performance should be regularly appreciated and recognized so as to keep our employees motivated to give their best efforts. The Bank has already introduced the value of longer term variable part of remuneration i.e. the amount of provident fund made provision on aggregate/ individual employee basis; actual payment is made upon retirement, resignation etc. as the case may be, as per rule. The gratuity fund is also approved by the Board of Directors, for implementation from 2021.

	ii) A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements	The bank provides Provident Fund contribution and Gratuity Fund contribution for the employees as deferred payment. The bank does not provide any deferred variable remuneration.
f)	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.	
	i) An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms. A description of the elements corresponding to other forms of variable remuneration (if any) should be provided	Bank recognizes the effort and performance of its employees based on its Compensation and Benefit policy which consist of base salary and different benefit packages mentioned earlier. The Bank is also paying variable remuneration on case to case basis on the basis of achieving monthly KPI. A summary of Short-term and Long-term compensation plan are as follows: **i. Short term incentive or reward** • Yearly increment; • Business accomplishment financial award; • Non-Cash form such as accelerate promotion, award & certification, training etc. **ii. Long term service benefits:** • Provident fund; • Gratuity; • Employee house building loan with simple interest rate; • Leave encashment
	ii) A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description of the factors that determine the mix and their relative importance	As a part of employee motivation through monetary incentive, the management is planning to introduce KPI based performance bonus system to the employees.
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.
h)	i) Number of employees having received a variable remuneration award during the financial year	Not Applicable
	ii) Number and total amount of guaranteed bonuses awarded during the financial year	The number of festival bonus disbursed to the employees during the year 2020 was equivalent to two basic salary and the total amount in Taka was Tk. 26,077,538.00.
	iii) Number and total amount of sign-on awards made during the financial year	Nil

<table>
<tr><td></td><td>iv) Number and total amount of severance payments made during the financial year</td><td>Nil</td></tr>
<tr><td>i)</td><td>i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms</td><td>NIL</td></tr>
<tr><td></td><td>ii) Total amount of deferred remuneration paid out in the financial year</td><td>NIL</td></tr>
<tr><td>j)</td><td>Breakdown of amount of remuneration awards for the financial year to show:</td><td>i) Fixed and variable remuneration paid in 2020 are as follows:
BDT in million<table><tr><th>Particulars</th><th>Amount</th></tr><tr><td>Salary</td><td>336.76</td></tr><tr><td>Festival Bonus</td><td>26.08</td></tr><tr><td>PF contribution</td><td>16.05</td></tr><tr><td>Total</td><td>378.89</td></tr></table></td></tr>
<tr><td></td><td></td><td>ii) Deferred and non-deferred (paid during the year)
BDT in million<table><tr><th>Particulars</th><th>Amount</th></tr><tr><td>Deferred</td><td>-</td></tr><tr><td>Non-deferred</td><td>-</td></tr></table></td></tr>
<tr><td></td><td></td><td>iii) Different forms used (cash, shares and share-linked instruments, other forms).
• Remuneration is paid on cash basis (i.e. direct credit to the employee Bank account and/or Payment Order/ Cheque), as the case may be, as per rule/ practice.</td></tr>
<tr><td>k)</td><td colspan="2">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: **Not Applicable**</td></tr>
<tr><td></td><td>i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments</td><td>Not Applicable</td></tr>
<tr><td></td><td>ii) Total amount of reductions during the financial year due to ex post explicit adjustments</td><td>Not Applicable</td></tr>
<tr><td></td><td>iii) Total amount of reductions during the financial year due to ex post implicit adjustments</td><td>Not Applicable</td></tr>
</table>