Pillar 3 Market Discipline

Disclosures on Risk Based Capital (Basel III) for the year ended December 31, 2022

The purpose of Market discipline in the Revised Capital adequacy Framework is to complement the minimum capital requirements and the supervisory review process. The aim of introducing Market discipline in the revised framework 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.

The Basel III framework sets out minimum capital requirement standards for banks to ensure that banks are adequately capitalized against the risks they face and are able to withstand losses during periods of stress conditions. The framework consists of three pillars:

Pillar 1: sets out the minimum capital requirements for credit, market and operational risk;

Pillar 2: covers the review process by banks and supervisors to assess whether banks' Pillar 1 capital is adequate to meet the risk exposures and whether there is any requirement to hold additional capital in respect of any risks not covered by Pillar 1; and

Pillar 3: encourages market discipline and transparency through appropriate disclosures on capital adequacy and risk management processes.

In addition to the three pillars noted above, Basel III introduced leverage ratio, and liquidity standards namely liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) which have greater business implications for banks. Under market discipline, Basel III demands more disclosures than that of the previous.

The Bank made the qualitative and quantitative disclosures in detail below in accordance with Pillar III Market Discipline as per Guidelines on Risk Based Capital Adequacy (RBCA) under Basel-III issued by Bangladesh Bank on December 21, 2014.

The following components have been disclosed hereunder as per the requirement of RBCA guidelines under Basel-III issued by Bangladesh Bank:

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

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A. SCOPE OF APPLICATION

Qualitative Disclosures		
a)	The name of the top corporate entity in the group to which this guideline applies	The Framework applies to Citizens Bank PLC (CZB) on 'solo' basis as there was no subsidiary as on the reporting date (December 31, 2022).
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).	The Citizens Bank PLC obtained license for operating business in Bangladesh on 15th December 2020. The bank rolled out its commercial operation on 3rd July 2022. The disclosure made in the following sections has addressed Citizens Bank PLC as a single entity (Solo Basis) as there was no subsidiary as on the reporting date (31st December 2022). Citizens Bank PLC is commitment bound to ensure good corporate governance along with staying compliant on all regulatory issues; above all good risk management practices shall be the integral part of our organic culture which eventually will pave us the way to carve the distinctive position in the banking industry in the midst of stiffly competitive market scenario and attendant challenges.
c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital to subsidiaries.	Not applicable for the Bank as there was no subsidiary of the Bank on the reporting date (December 31, 2022).
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 Tier 2;	The regulatory capital under Basel-III is comprised with i) Tier-1 (Going Concern Capital) and ii) Tier-2 (Gone Concern Capital). Tier-1 Capital (Going Concern Capital) has two components of Tier 1 Capital which are Common Equity Tier 1 Capital and Additional Tier 1 Capital. It consists of highest quality

		capital items which are stable in nature and allows a bank to absorb losses on an ongoing basis. Common Equity Tier 1 Capital includes paid-up capital, statutory reserve, general reserve and retained earnings etc. and Additional Tier 1 Capital will include perpetual bond or non-cumulative preference shares etc. Tier-2 Capital (Gone Concern Capital) lacks some of the characteristics of the going concern capital but also bears loss absorbing capacity to a certain extent. General provision on unclassified loans and advances, Subordinated debt/instruments issued by the Bank that meet the qualifying criteria for Tier 2 capital, Minority interest i.e. Tier-2 issued by consolidated subsidiaries to third parties.

Quantitative Disclosures

b)	The amount of Regulatory capital, with separate disclosure of: CET1 Capital Additional Tier 1 Capital Total Tier 1 Capital Tier 2 Capital	The amount of Regulatory Capital of Citizens Bank PLC as of 31.12.2022 is noted below:
c)	Regulatory Adjustments /Deductions from capital	
d)	Total eligible capital	

Amount in Million Tk.

Particulars of Regulatory Capital	**Solo (2022)**
Tier-l capital	**4,018.82**
1)Common Equity Tier-1 Capital (CET-1)	**4,018.82**
Fully Paid-up capital	4,000.00
Non- repayable share premium account	-
Statutory reserve	17.82
General reserve	-
Retained earnings	1.00
Dividend equalization reserve	-
Minority interest in subsidiaries	-
Regulatory Adjustments	-
2) Additional Tier-1 Capital (AT-1)	-
3)Total Tier-1 capital (1+2)	**4,018.82**
Tier-2 capital	**6.99**
General provision	6.99
Subordinated debt	-
All other preference shares	-
Regulatory Adjustments	-
4) TotalTier-2 capital	**6.99**
Total Eligible Capital	**4,025.81**

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 is presently following Standardized Approach for assessing and mitigating Credit Risk, Standardized Rule Based Approach for quantifying Market Risk and Basic Indicator Approach for Operational Risk to calculate Minimum Capital Requirement (MCR) under Pillar-I of Basel-III framework as per the guidelines of Bangladesh Bank. Assessing regulatory capital in relation to overall risk exposures of a bank is an integrated and comprehensive process. The Bank focuses on strengthening risk management and control environment rather than increasing capital to coverup weak risk management and control practices. CZB has been generating most of its incremental capital from retained profit to support incremental growth of Risk Weighted Assets (RWA). Besides meeting regulatory capital requirement, the Bank maintains adequate capital to absorb material risks foreseen. Therefore, the Bank's Capital to Risk Weighted Assets Ratio (CRAR) remains consistently within regulatory limit during 2022 (147.30% plus). To ensure the adequacy of capital to support the future activities, the bank assesses capital requirements periodically considering future business growth. Risk Management Division (RMD) under guidance of the SRP team/ERMC (Executive Risk Management Committee), is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to.
Quantitative Disclosures		
b)	Capital requirement for Credit Risk	
c)	Capital requirement for Market Risk	
d)	Capital requirement for Operational Risk	
e)	Total capital, CET1 capital, Total Tier 1 capital and Tier 2 capital ratio: • For the consolidated group; and • For stand alone	
f)	Capital Conservation Buffer	

Amount in Million Tk.

Particulars	**Solo 2022**
Capital requirement for Credit Risk	2,072.56
Capital requirement for Market Risk	366.27
Capital requirement for Operational Risk	80.44
Minimum capital requirement (MCR) 10% of Risk Weighted Assets or Tk.4,000.00 million which is higher.	4000.00
Total capital maintained	4025.81
Capital surplus over MCR	25.81
Capita! to Risk Weighted Assets Ratio (CRAR)	**159.80%**
CET-1to Risk Weighted Assets (RWA) ratio	159.52%
Tier-1 Capital to RWA ratio	159.52%
Tier-2 Capital to RWA ratio	0.28%

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g)	Available Capital under Pillar 2 Requirement	Capital Conservation Buffer (2.50% of RWA)	62.98
		Capital Conservation Buffer maintained (%)	149.80%
		Available Capital under Pillar 2 Requirement	(37.17)

D. CREDIT RISK

Qualitative Disclosures		
a)	The general qualitative disclosure requirement with respect to credit risk, including: • Definitions of past due and impaired (for accounting purposes); • Description of approaches followed for specific and general allowances and statistical methods; • Discussion of the bank's credit risk management policy; and	**Credit Risk:** credit risk arises from the potential that a bank's borrower will fail to meet its obligations in accordance with agreed terms. credit risk also refers the risk of negative effects on the financial result and capital of the bank caused by borrower's default on its obligations to the bank. Generally, credits are the largest and most obvious source of credit risk. However, credit risk could steam from both on-balance sheet and off-balance sheet activities. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. Credit risk comes from a bank dealing with individuals, corporate, banks and financial institutions or a sovereign. The assessment of credit risk Involves evaluating both the probability of default by the borrower and the exposure or financial impact on the bank in the event of default. **Past Due/Over Due:** A claim that has not been paid as of its due date is termed as past due claim. Payment may be for repayment/renewal/rescheduling or as an installment of a loan. Loans will be treated as past due and or overdue in the following cases: • 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. • 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 from the following day of the expiry date. • 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.

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For loan classification and maintenance of specific and general provision, Bank follows relevant circulars and advices of Bangladesh Bank from time to time. Provisions and interest suspense are separately shown under other liabilities as per first schedule of Bank Company Act 1991 (amendment up to 2018), instead of netting off with loans. The summary of some objective criteria for loan classification and provisioning requirement is as below:

Approaches followed for specific and general allowances:

Particulars	Short Term Agri Credit	Consumer Financing			SMEF	Loans to BHs/MBs/SDs	All other Credit
		Other than HF, LP	HF	LP			
UC	1.0%	5%	1%	2%	0.25%	2%	1%
SMA	1.0%	5%	1%	2%	0.25%	2%	1%
SS	5%	20%	20%	20%	20%	20%	20%
DF	5%	50%	50%	50%	50%	50%	50%
B/L	100%	100%	100%	100%	100%	100%	100%

NB: CF=CONSUMER FINANCING, HF=HOUSING FINANCE, LP=LOANS FOR PROFESSIONALS TO SET UP BUSINESS, UC=UNCLASSIFIED, SMA=SPECIAL MENTION ACCOUNT, SS=SUBSTANDARD, DF=DOUBTFUL, B/L=BAD/LOSS, BHs/ MBs,/SDs= LOANS TO BROKERAGE HOUSES/MERCHANT BANKS/STOCK DEALERS.

Credit Assessment and Risk Management:

A through credit and risk assessment shall be conducted prior to the granting of credits and at least annually thereafter for all facilities. The results of this assessment to be presented in a credit proposal that originates from relationship manager/account officer and is approved by Head of Credit Division. The relationship manager/account officer shall be the owner of customer relationship and must be held responsible to ensure the accuracy of the credit proposal submitted for approval.

All proposals of credit facilities must be supported by a complete analysis of the proposed credit. A comprehensive and accurate appraisal of the risk in every credit exposure of the bank is mandatory. No proposal can be put up for approval unless there is a complete written analysis.

Approval Process:

The approval process must reinforce the segregation of Relationship Management/Marketing from the approving authority. The responsibility for preparing the Credit proposal shall attach with the RM within the corporate banking division. Credit proposal shall be recommended for approval by the RM team and forwarded to the approval team within CRM and approved by individual executive. There commendation of the Head of Corporate Banking is required prior to onward recommendation to CRM for approval.

Credit Administration:

The Credit Administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of credit facilities. For this reason, it is essential that the functions of Credit Administration be strictly segregated from Relationship Management/ Marketing in order to avoid the possibility of controls being compromised or issues not being highlighted at the appropriate level.

Credit Monitoring:

To minimize credit losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of a borrower. The respective officials shall monitor the following exceptions:

- Past due principal or interest payments, past due trade bills, account excesses, and breach of credit covenants;
- Credit terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow up;
- Timely corrective action is taken to address findings of any internal, external or regulator inspection /audit.

Quantitative Disclosures

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

Amount in Million Tk.

Sln.	Major types of loans	2022
1	Cash credit and overdrafts	208.65
2	Loans (General)	777.60
3	House building loan	-
4	Loan against trust receipt	-
5	Bills purchased and discounted	-
6	Other Loans	-
	Total	**986.25**

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

Amount in Million Tk.

Particulars	Name of Division	2022
Region Based	Dhaka	985.51
	Chittagong	0.74
	Rajshahi	-
	Sylhet	-
	Khulna	-
	Mymensingh	-
	Rangpur	-
	Barisal	-
	Total	**986.25**
Country Based	Domestic	986.25
	Overseas	-

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

Amount in Million Tk.

Sln.	Major Industry Types	2022
1	Agri and micro credit through NGO	411.49
2	Commercial and trading	43.77
3	Construction	50.05
4	Cement and ceramic industries	-
5	Chemical and fertilizer	-
6	Crops, fisheries and livestock's	-
7	Electronics and electrical goods	-
8	Food and allied industries	-
9	Consumer finance	43.03
10	Metal and steel products	232.64
11	Pharmaceutical industries	-
12	Power and fuel	-
13	Rubber and plastic industries	-
14	Readymade garments industry	-
15	Ship building & breaking industry	-
16	Sugar and edible oil refinery	-
17	Transport and e-communication	-
18	Textile mills	-
19	Other manufacturing or extractive industries	-
20	Others	205.27
	Total	**986.25**

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

Amount in Million Tk.

Particulars	2022
On demand	-
In not more than 1 month	-
In more than 1 month but not more than 3 months	-
In more than 3 months but not more than 1 year	944.54
In more than 1 year but not more than 5 years	34.04
In more than 5 years	7.67
Total	986.25

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f) By major industry or counterparty type:

- Amount of impaired loans and if available, past due loans, provided separately;
- Specific and general provisions; and
- Charges for specific allowances and charge-offs during the period.

Major industry type amount of impaired loans:

Amount in Million Tk.

Sln.	Major Industry Types	2022
1	Agri and micro credit through NGO	-
2	Commercial and trading	-
3	Construction	-
4	Cement and ceramic industries	-
5	Chemical and fertilizer	-
6	Crops, fisheries and livestock's	-
7	Electronics and electrical goods	-
8	Food and allied industries	-
9	Consumer finance	-
10	Metal and steel products	-
11	Pharmaceutical industries	-
12	Power and fuel	-
13	Rubber and plastic industries	-
14	Readymade garments industry	-
15	Ship building & breaking industry	-
16	Sugar and edible oil refinery	-
17	Transport and e-communication	-
18	Textile mills	-
19	Other manufacturing or extractive industries	-
20	Others	-
Total		-

Gross Non-Performing Assets (NPAs)

Amount in Million Tk.

Particulars	**2022**
Gross Non-Performing Assets (NPAs)	-
Nonperforming assets to outstanding loans and advances	-
Movement of Non-Performing Assets (NPAs):	-
Opening balance	-
Additions/ (Reductions)	-
Closing balance	-
Movement of specific provisions for NPAs:	-
Opening balance	-
Provision made during the period	-
Write off	-
Write back of excess provisions	-
Closing balance	-

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E. EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

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 • 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.	Banking book positions consist of those assets which are bought for holding until they mature. The bank treats unquoted equities as banking book assets. Unquoted equities are not traded in the bourses or in the secondary market, they are shown in the balance sheet at cost price and no revaluation reserve is created against these equities. Our investment in quoted 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). 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

b) 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.

Amount in Million Tk.

Particulars	Amount (Solo) 2022	
	Cost Price	Market Pric
Unquoted Share	-	-
Quoted Share	94.32	82.85

c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.

d) • Total unrealized gains (losses)
• Total latent revaluation gains (losses)

Amount in Million Tk.

Particulars	**(Solo) 2022**
The cumulative realized gains (losses) arising from sales and liquidations in the reporting period	0.314
Total unrealized gains (losses)	(12.51
Total latent revaluation gains (losses)	-
Any amounts of the above included in Tier 2 capital	-

CITIZENS BANK
RMD Division, HO, Dhaka

• Any amounts of the above included in Tier 2 capital.

e) 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.

Amount in Million Tk.

Particulars	**(Solo) 2022**
Unquoted Share	-
Quoted Share	165.70

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 affects the bank's financial condition due to adverse movements in interest rates of interest sensitive assets and liabilities. Interest Rate Risk is managed through use of Gap analysis of rate sensitive assets and liabilities and monitored through prudential limits and stress testing. The IRRBB is monitored in movements/changes on a monthly basis and the impact on Net Interest Income is assessed. Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition.

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 increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB,

Gap analysis: Duration Gap

Amount in Million Tk.

Particulars	**2022**
Weighted average duration of assets (DA) in years	1.05
Weighted average duration of liabilities (DL) in years	0.20
Duration gap (DA-DL) in years	0.95

Change of market value of equity due to increase in interest rates as of December 31, 2022

Amount in Million Tk

Particulars	**1%**	**2%**	**3%**
Fall in Market Value of Equity	-6.48	-12.95	-19.43

CITIZENS BANK
RMD Division, HO, Dhaka

<table>
<tr><td></td><td>broken down by currency (as relevant).</td><td>Interest Rate Risk in the Banking Book under Simple Sensitivity Analysis:
Amount in Million Tk
<table>
<tr><th>Particulars</th><th>3 months</th><th>6 months</th><th>1 year</th><th>Above 1 year</th></tr>
<tr><td>Interest sensitive assets</td><td>3,980.20</td><td>314.85</td><td>629.70</td><td>3,980.20</td></tr>
<tr><td>Interest sensitive liabilities</td><td>1,247.79</td><td>123.05</td><td>246.11</td><td>1,247.79</td></tr>
<tr><td>Net gap</td><td>2,732.41</td><td>191.79</td><td>383.59</td><td>2,732.41</td></tr>
<tr><td>Cumulative gap</td><td>2,732.41</td><td>2,924.20</td><td>3,307.79</td><td>2,732.41</td></tr>
<tr><td>Interest rate changes</td><td>1%</td><td>1%</td><td>1%</td><td>1%</td></tr>
<tr><td>Yearly earnings impact</td><td>27.32</td><td>1.92</td><td>3.84</td><td>0.23</td></tr>
<tr><td>Accumulated earnings impact</td><td>27.32</td><td>29.24</td><td>33.08</td><td>33.31</td></tr>
</table>
</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

G. Market Risk

Qualitative Disclosures		
a)	Views of BOD on trading/investment activities	Market risk arises due to changes in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. The financial instruments that are held with trading intent or to hedge against various risks, are purchased to make profit from spreads between the bids and ask price are subject to market risk. CZB is exposed to market risk mostly stemming from Government Treasury Bills and Bonds, foreign currency etc.
	Methods used to measure Market risk	There are several methods used to measure market risk and the bank uses those methods which deem fit for a particular scenario. For measuring interest risk from earnings perspective, the bank uses maturity gap analysis, duration gap analysis, sensitivity analysis and mark to market (MTM) method and for measuring foreign exchange risk. CZB uses standardized (Rule Based) method for Calculating capital charge against market risks for minimum capital requirement of the Bank under Basel-III.
	Market Risk Management system	The Bank has its own Market Risk Management System which includes Asset Liability Risk Management (ALM) and Foreign Exchange Risk Management under the core risk management guidelines.

<table>
<tr><td></td><td>Policies and processes for mitigating market risk</td><td>• Risk Management and reporting is based on parameters such as Maturity Gap Analysis, Duration Gap Analysis etc. in line with the global best practices.
• Risk Profiles are analyzed and mitigating strategies are suggested by the Asset Liability Committee.
• Foreign Exchange Net Open Position (NOP) limits (Day limit / Overnight limit), deal-wise trigger limits, Stop-loss limit, Profit / Loss in respect of cross currency trading are properly monitored and exception reporting is regularly carried out.
• Holding equities is monitored regularly so that the investment remains within the limit as set by Bangladesh Bank.
• ALCO analyzes market and determines strategies to attain business goals.
• Reconciliation of foreign currency transactions.</td></tr>
<tr><td colspan="3">Quantitative Disclosures</td></tr>
<tr><td>b)</td><td>The capital requirements for:
interest rate risk;
equity position risk;
foreign exchange risk; and
Commodity risk</td><td>The capital requirements:
Amount in Million Tk
<table>
<tr><th>Particulars</th><th>2022</th></tr>
<tr><td>Interest rate risk</td><td>200.57</td></tr>
<tr><td>Equity position risk</td><td>165.70</td></tr>
<tr><td>Foreign exchange risk</td><td>-</td></tr>
<tr><td>Commodity Risk</td><td>-</td></tr>
<tr><td>Total</td><td>366.27</td></tr>
</table></td></tr>
</table>

H. OPERATIONAL RISK

Qualitative Disclosures		
a)	Views of BOD on system to reduce Operational Risk	Operational risk is the risk which may arise directly or indirectly due to failure or breakdown of system, people and process. This definition includes legal risk, but excludes strategic and reputation risk. The Bank manages these risks through a control-based environment in which processes are documented, authorization is kept independent and transactions are reconciled and monitored. This is supported by a periodic process conducted by ICCD and monitoring external operational risk events, which ensure that the Bank stays in line with the international best practices.
	Performance gap of executives and staffs	CZB is an equal opportunity employer. It recognizes the importance of having the right people at right positions to achieve organizational goals. Our recruitment and selection are governed by the philosophy of fairness, transparency and diversity. The bank believes that training and knowledge sharing is the best way to reduce knowledge gap. Therefore, it arranges trainings on a regular basis for its employees to develop their expertise. The bank offers competitive pay package to its employees based on performance and

		merit. It always tries to develop a culture where all employees can apply his/her talent and knowledge to work for the organization with high ethical standards in order to add more value to the company and for the economy.
	Potential external events	• Russian invasion of Ukraine has already cast a dark shadow on global economy by threatening the global financial system to an unprecedented level. • Global inflationary pressure will increase further due to big jump in oil and commodity prices as the war has also threatened to disrupt the global supply chain making the world trade costlier. • Bangladesh is likely to face a series of troubles on both economic and geo-political fronts. Economic shock will be felt immediately whereas geo-political difficulty will be visible in the near future. Being globally exposed mostly through trade, the economic shock will be transmitted at a faster rate. • Bangladesh's export to Russia and its adjacent countries would hamper and at the same time the import prices of fertilizer's especially urea might increase due to the war. • Import cost would be higher due to global inflation which creates pressure on dollar prices. • Bank may face issue in managing affordable fund in mid/long run due to vulnerable market condition caused by slow growth, higher inflation.
	Policies and processes for mitigating operational risk	The Bank has adopted policies which deal with managing different Operational Risks. Bank strongly follows KYC norms for its customer dealings and other banking operations. The Internal Control and Compliance Division of the Bank, the inspection teams of Bangladesh Bank and External Auditors conduct inspection on different branches and divisions at Head Office and submit reports presenting the findings of the inspections. Necessary control measures and corrective actions have been taken on the suggestions or observations made in these reports.
	Approach for calculating capital charge for operational risk	The Bank has adopted Basic Indicator Approach (BIA) to compute capital charge against operational risk under Basel III as per Bangladesh Bank Guidelines
Quantitative Disclosures		
b)	The capital requirements for operational risk	**Capital requirement for operational risk** Amount in Million Tk

Particulars	Solo
	2022
The capital requirements for operational risk	80.44

Calculation of Capital Charge for Operational Risk: Basic Indicator Approach

CITIZENS BANK PLC
RMD Division, HO, Dhaka

Amount in Million Tk

Year	**Gross Income (GI)**	**Average GI**	**15% of Average GI**
2022	21.47		
2021	85.78		
2020	107.25	53.63	8.04
Total			

I. LIQUIDITY RATIO

Qualitative Disclosures		
a)	Views of BOD on system to reduce liquidity Risk	Liquidity risk is the risk of probability to be unable to meet short term financial demands by the bank. This may occur due to the inability to convert a security or fixed asset to cash without a loss of capital and/or income in the process. The Citizens Bank PLC has proficient Board of Directors that has always been giving utmost importance to minimizing the liquidity risk of the Bank. In order to reduce liquidity risk, strict maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) is also being emphasized on a regular basis. Apart from these, as part of Basel-III requirement Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are also maintained under the guidance of the Board of Directors.
	Methods used to measure Liquidity risk	The tools and procedures deployed by CZB to manage liquidity risks are comprehensive. The measurement tools used to assess liquidity risks are: • Statutory Liquidity Requirement (SLR) • Cash Reserve Ratio (CRR) • Asset to Deposit Ratio (ADR) • Structural Liquidity Profile (SLP) • Maximum Cumulative Outflow (MCO) • Liquidity Coverage Ratio (LCR) • Net Stable Funding Ratio (NSFR) • Liquid Asset to Total Deposit Ratio • Liquid Asset to Short Term Liabilities
	Liquidity risk management system	Liquidity risk management is a key banking function and an integral part of the asset and liability management process. The fundamental role of banks is the maturity transformation of short-term deposits (liabilities) into long-term loans (assets) and this makes banks inherently vulnerable to liquidity risk. 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

<table>
<tr><td></td><td></td><td>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.</td></tr>
<tr><td></td><td>Policies and processes for mitigating liquidity risk</td><td>We strictly follow the Bangladesh Bank instructions and policy guideline to prepare the structural liquidity profile and submit it to Bangladesh Bank every month. We also place liquidity related information to the meeting of the Board of Directors/Board Risk Management Committee so that they can give necessary directives to adjust/prevent us from the branch of the limits set by the Board and the Bangladesh Bank,</td></tr>
<tr><td colspan="3">Quantitative Disclosures</td></tr>
<tr><td>b)</td><td>Liquidity Coverage Ratio
Net Stable Funding Ratio (NSFR)
Stock of High-quality liquid assets
Total net cash outflows over the next 30 calendar days
Available amount of stable funding
Required amount of stable funding</td><td>Amount in Million Tk.
<table>
<tr><th>Particulars</th><th>2022</th></tr>
<tr><td>Liquidity Coverage Ratio (LCR)</td><td>937.52%</td></tr>
<tr><td>Net Stable Funding Ratio (NSFR)</td><td>167.86%</td></tr>
<tr><td>Stock of High-quality liquid assets</td><td>1.6065</td></tr>
<tr><td>Total net cash outflows over the next 30 calendar days</td><td>0.1714</td></tr>
<tr><td>Available amount of stable funding</td><td>6.195</td></tr>
<tr><td>Required amount of stable funding</td><td>3.690</td></tr>
</table></td></tr>
</table>

J. LEVERAGE RATIO

<table>
<tr><td colspan="3">Qualitative Disclosures</td></tr>
<tr><td>a)</td><td>Views of BOD on system to reduce excessive leverage</td><td>Leverage ratio is the ratio of Tier 1 capital to total on and off-balance sheet exposures. It was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. CZB has embraced this ratio along with Basel III guideline as a credible supplementary measure to risk based capital requirement and assess the ratio periodically. The Board also believes that the Bank should maintain its leverage ratio on and above the regulatory requirements which will eventually increase the public confidence in the organization</td></tr>
<tr><td></td><td>Policies and processes for managing excessive on and off- balance sheet leverage</td><td>The bank reviews its leverage position as per the Guidelines on Risk Based Capital Adequacy (revised regulatory capital framework for banks in line with Basel III). In addition, the bank has Risk Appetite as per Credit Risk Management Policy and Risk Appetite Framework of the Bank. The Bank also employ Annual Budget Plan and Capital</td></tr>
</table>

		Growth Plan for managing excessive on and off-balance sheet leverage.
	Approach for calculating exposure	The bank calculates the exposure under standardized approach as per the Guidelines on Risk Based Capital Adequacy (revised regulatory capital framework for banks in line with Basel III).
Quantitative Disclosures		
b)	Leverage Ratio On balance sheet exposure Off balance sheet exposure Total exposure	Amount in Million Tk.

Particulars	**2022**
Leverage Ratio	54.99%
On balance sheet exposure	730.79
Off balance sheet exposure	-
Total exposure	**730.79**

K. Remuneration

Qualitative Disclosures		
a)	Information relating to the bodies that oversee remuneration. Disclosures should include: Name, composition and mandate of the main body overseeing remuneration. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process. A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches. A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	Mainly, the Human Resources Division overseas the 'remuneration' in line with its HR management strategy under supervision of Senior Management Team (SMT) of the Bank. The pay scale is approved by the competent authority where the salaries and increments are fixed designation wise and the same is followed accordingly. The Senior Management Team (SMT), as responsible for overseeing the Bank's remuneration, overviews the remuneration and recommend to the Board of Directors of the Bank for approval of its required restructuring and modification in proportion with the industry best practices as per requirement. The Bank has no External Consultant regarding 'remuneration' and its process. However, provision is there for acquiring expert opinion in case of settlement of employees' dues in case of death, penalty etc. if required, by the management.
b)	Information relating to the design and structure of remuneration processes. Disclosures should include: An overview of the key features and objectives of remuneration policy.	The Bank is committed to maintain a fair and competitive remuneration structure and does not differentiate the pay structure by regions. We consider the members of the senior management, branch managers and the employees engaged in different functional

CITIZENS BANK RMD Division, HO, Dhaka

	Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made. A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	divisions at Head Office (except the employees involved in internal control, risk management and compliance) as the material risk takers of CZB. Remuneration and other associated matters are guided by the Bank's approved Service Rules as well as instruction and guidance from the Board from time to time in line with the industry's prevailing practice with the objectives of retention and hiring of experienced workforce focusing on justifiable growth of the Bank.
c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include: An overview of the key risks that the bank takes into account when implementing remuneration measures. An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed). A discussion of the ways in which these measures affect remuneration. 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.	Human Resources Division under guidance of the Senior Management Team (SMT), the Board and senior management reviews the issues of remuneration and its associated matters from time to time. The risk and compliance employees are carrying out the activities independently as per specific terms of references, job allocated to them. Regarding remuneration of the risk and compliance employees. Human Resources Division does not make any difference with other mainstream/ regular employees and sets the remuneration as per the prevailing rule of the Bank primarily governed by the employees' service rule of the Bank.
d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include: An overview of main performance metrics for bank, top-level business lines and individuals.	The business risk including credit/default risk, compliance & reputational risk are mostly considered when implementing the remuneration measures for each employee /group of employees. Financial and Liquidity risks are also considered. 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

CITIZENS BANK PLC
RMD Division, HO, Dhaka

	A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance. A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.	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 have been brought to all concerned of the Bank from time to time.
e)	Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include: 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. 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.	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. No material change has been made during the year 2022 that could affect the remuneration. The Board sets the Key Performance Indicators (KPIs) 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 & profit target with the threshold of NPL ratio, cost-income ratio, capital to risk weighted asset ratio (CRAR), ROE, ROA, liquidity position (maintenance of CRR and SLR) etc. The remuneration of each employee is paid based on her/his individual performance evaluated as per set criteria. And, accordingly, the aggregate amount of remuneration of the Bank as a whole is linked/ impacted to the same extent. The Bank follows remuneration process as per set criteria with no in general adjustment in the event of weak performance metrics/scorecard. The Banks pays variable remuneration i.e. Annual Increment based on the yearly

<table>
<tr><td></td><td></td><td>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 is made provision on aggregate/individual employee basis; actual payment is made upon retirement, resignation etc. as the case may be, as per rule.</td></tr>
<tr><td>f)</td><td>Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include:

An overview of the forms of variable remuneration offered (ie
cash, shares and share-linked instruments and other forms.

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 the factors that determine the mix
and their relative importance.</td><td>The Bank pays variable remuneration 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.

The following variable remuneration has been offered by CZB to its employees.
Annual Increment and Incentive Bonus
Bank provides annual increments and incentive bonus based on performance to the employees with the view of medium to long term strategy and adherence to Citizens Bank values.</td></tr>
<tr><td colspan="3">Quantitative Disclosures</td></tr>
<tr><td>g)</td><td>Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.</td><td>Amount in Million Tk.
<table>
<tr><th rowspan="2">Particulars</th><th colspan="2">2022</th></tr>
<tr><th>Number</th><th>Remuneration</th></tr>
<tr><td>Number of meetings held of Board of Directors</td><td>5</td><td>0.46</td></tr>
</table></td></tr>
<tr><td>h)</td><td>Number of employees having received a variable remuneration award during the financial year.

Number and total amount of guaranteed bonuses awarded during the financial year.

Number and total amount of sign-on awards made during the financial year.

Number and total amount of severance payments made during the financial year.</td><td>Amount in Million Tk.
<table>
<tr><th rowspan="2">Particulars</th><th colspan="2">2022</th></tr>
<tr><th>Number</th><th>Amount</th></tr>
<tr><td>Employees having received a variable remuneration award (Profit Bonuses)</td><td>-</td><td>-</td></tr>
<tr><td>Guaranteed bonuses awarded (Festival Bonuses)</td><td>2</td><td>10.5</td></tr>
<tr><td>Sign-on awards made</td><td>-</td><td>-</td></tr>
</table></td></tr>
</table>

Severance payments made (PF, GF, Leave Encashment)	-	-

i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.

Total amount of deferred remuneration paid out in the financial year.

Amount in Million Tk.

Particulars	**2022 Amount**
Total amount of outstanding deferred remuneration (PF, GF etc.):	-
Cash	-
Shares	-
Share-linked instruments & others	-
Total amount of deferred remuneration paid out in 2022	-

j) Breakdown of amount of remuneration awards for the financial year to show:

- fixed and variable.
- deferred and non-deferred.
- different forms used (cash, shares and share linked instruments, other forms).

Amount in Million Tk.

Particulars	**2022 Amount**
Breakdown of amount of remuneration:	-
Fixed (Salary & allowances)	-
Variable (Incentive Bonuses)	-
Deferred (PF, GF)	-
Non-deferred	-
Different forms used	-
Cash	-
Shares	-
Share-linked instruments & others	-

k) Quantitative information about employees' exposure to implicit (eg fluctuations in the value of shares or performance units) and explicit adjustments (eg claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:

Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.

Amount in Million Tk.

Particulars	**2022 Amount**
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments	-
Total amount of reduction during 2022 due to ex post explicit adjustments	-
Total amount of reduction during 2022 due to ex post implicit adjustments	-

	Total amount of reductions during the financial year due to ex post explicit adjustments. Total amount of reductions during the financial year due to ex post implicit adjustments.	

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