Governance In Financial Institutions (GFI)

7th Banking Professional Exam Question Solution

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Part A—Broad Questions

(Answer any two questions**)**

Marks—20×2=40

Q1(a) Define corporate governance. Why is good governance so important in financial institutions?

Corporate governance is the system by which a financial institution is directed and controlled. It defines the roles and responsibilities of the board, managers, shareholders, and other stakeholders. It also sets the rules and procedures for how the financial institution makes decisions.

Importance of Good Governance:

(1) Good governance helps to protect depositors' money and ensures its responsible use.

(2) Good governance helps to keep domestic and international payment systems safe and efficient.

(3) Good governance helps to prevent problems in one financial institution from affecting other institutions and the wider economy.

(4) Good governance helps financial institutions to provide loans responsibly and support economic activities.

(5) Good governance helps financial institutions to comply with laws, rules, and regulatory requirements.

(6) Good governance helps financial institutions to manage funds properly and contribute to business and economic development.

(7) Good governance helps to protect the interests of depositors, shareholders, customers, employees, and other stakeholders.

(8) Financial Institutions are vital to the financial system and economic growth, so poor governance can cause serious problems for the wider economy.

Q1(b) State the responsibilities and authorities of the board of directors regarding human resources management as per Bangladesh Bank's guidelines.

As per Bangladesh Bank's Prudential Regulations for Banks (2014), the board's responsibilities regarding Human Resources Management and Development are:

(1) Policies related to recruitment, promotion, transfer, disciplinary measures, human resource development and service rules shall be framed and approved by the board.

(2) The chairman or any director shall not interfere in recruitment, promotion, or transfer of staff.

(3) No member of the board shall be included in any selection committee for recruitment or promotion of staff.

(4) Recruitment, promotion, transfer, and punishment of officers up to two levels below the CEO shall be decided by the Board, in accordance with the service rules approved by the Board.

(5) The Board shall focus on developing the skills of bank staff, particularly in modern IT, Management Information Systems (MIS), and proper loan appraisal.

(6) The Board shall prepare a Code of Ethics for all levels of staff and promote a strong culture of compliance throughout the organization.

Q2 (a) What do you mean by Senior Management Team (SMT)? Describe the role of SMT within a business.

A **Senior Management Team (SMT)** consists of the senior-level employees who work together to manage a financial institution. It is headed by the Managing Director/Chief Executive Officer (MD/CEO) and is responsible for implementing the institution's strategies and policies.

Role of Senior Management Team:

(1) Devising an appropriate strategy and ensuring it is implemented effectively across the organization.

(2) Setting ambitious yet achievable goals and managing teams to work toward them.

(3) Coordinating activities across functional departments (i.e. finance and HR etc.)

(4) Organizing the management of resources within the firm

(5) Managing the demands of stakeholders through the board of directors.

Q2 (b) What are the duties and responsibilities of a CEO of a commercial bank as per Bangladesh Bank's guidelines?

(1) The CEO shall perform duties within the authority given by the Board. He shall be responsible for achieving the bank's financial and business targets. He shall achieve these targets through proper business planning and effective financial management.

(2) The CEO shall ensure compliance with the Bank Company Act, 1991 and all other relevant laws and regulations in discharging the routine functions of the bank.

(3) At Board Meetings or Board Committee Meetings, the CEO must point out any deviation from the Bank Company Act, 1991 or other relevant laws and regulations when presenting any memorandum.

(4) The CEO shall report to Bangladesh Bank any violation of the Bank Company Act, 1991 or other laws/regulations.

(5) The CEO shall have authority over the recruitment and promotion of all staff except officers in the two levels immediately below the CEO, in accordance with the Board-approved HR policy and service rules.

(6) The CEO shall have authority over the transfer and disciplinary action of staff except officers in two levels immediately below the CEO, in accordance with the approved service rules.

Q 2(c) What is liquidity profile? Write down the indicators of liquidity risks.

Liquidity is ability of a bank to meet the cash demand of its customers. **Liquidity Profile** is the position of a bank's assets and liabilities. It shows how well a bank can meet its expected and unexpected cash needs at any time. It also shows whether the bank can meet these needs without suffering significant losses.

Indicators of Liquidity Risk:

(1) Cash outflows for different maturity buckets, flows that are known as well as can be expected (e.g. on the basis of statistical estimates or scenarios) may be included as well
(2) The level of unsecured funding
(3) The ratio of liquid assets to total assets
(4) The ratio of liquid assets to contingent liabilities
(5) The ratio of liquid assets to customers' CASA deposits
(6) Unused capacity in short-term borrowing
(7) Large depositor concentration
(8) The ratio of term liabilities to illiquid assets
(9) Intra-group exposures

Q3 (a) Briefly discuss the main categories of assets of commercial banks. Why is asset composition important for banks?

Main Categories of Assets of Commercial Banks:

(1) Cash: This includes cash in hand and balances held with the central bank and other banks. Banks keep cash to meet the daily withdrawal needs of customers and reserve requirements.
(2) Money at Call and Short Notice: This is money lent to other banks and financial institutions for a very short period, usually from 1 to 14 days. Banks earn interest on these funds while keeping them relatively liquid.
(3) Investments: Banks invest in government securities, other approved securities, and other securities. These investments provide income and can also be used to meet liquidity needs.
(4) Loans, Advances and Bills: These are the main assets of commercial banks and an important source of income. They include cash credit, overdrafts, demand loans, time loans, term loans, and bills purchased or discounted.
(5) Fixed Assets: These are long-term assets used for the bank's operations. They include land, buildings, furniture, vehicles, office equipment, and software.
(6) Other Assets: These include investments in subsidiaries, tax advances, interest receivables, prepaid expenses, security deposits, and other receivables.

Why Asset Composition is Important for Banks

(1) A higher proportion of loans and advances can increase bank profits because they generally earn higher returns, but they also carry higher risks.
(2) A sufficient amount of liquid assets helps banks to meet customers' withdrawal demands without selling other assets at a loss.
(3) The risk level of assets determines the amount of capital a bank needs and directly affects its Capital Adequacy Ratio (CAR).
(4) A diversified asset portfolio helps banks to spread risks and reduce the impact of losses from any single type of asset.
(5) Proper asset composition helps banks to manage differences in the maturity, interest rates, and cash flows of their assets and liabilities.
(6) Proper asset composition helps banks to meet regulatory requirements for cash reserves, liquid assets, and other investments.
(7) A balanced asset composition helps banks to maintain a proper balance between profitability, liquidity, and risk.

Q3 (b) Define problem asset of a bank. How to manage problem asset of a bank?

An asset is called a problem asset when there is a possibility that the bank will not collect the full amount due from the borrower. This includes both principal and interest. The bank identifies such uncertainty as a problem asset. Problem assets are commonly known as Non-Performing Loans (NPLs).

How to Manage Problem Assets:

(1) **Early Identification:** Banks should regularly review assets to identify signs of deterioration at an early stage.
(2) **Classification:** Banks should classify problem assets according to their level of risk, such as SMA, Substandard, Doubtful, and Bad and Loss.
(3) **Provisioning:** Banks should maintain adequate provisions against classified assets to cover possible losses.
(4) **Special Asset Management (SAM) Unit**: Banks should use a dedicated SAM unit to manage NPLs through loan recovery, restructuring or forbearance, foreclosure, and liquidation of recovered assets.

Q3 (c) What do you understand by three lines of defense?

The Three Lines of Defense is a risk management framework. It divides risk management responsibilities into three lines. It helps an organization manage risks, maintain proper controls, and achieve its objectives.

First Line: Business Operations:

The first line is responsible for identifying and managing risks in daily operations.

1. It identifies and manages risks in its daily activities.
2. It maintains proper processes and internal controls.
3. It follows laws, regulations, and ethical standards.

Second Line: Risk and Control Functions:

The second line provides guidance, monitoring, and support for effective risk management.

1. It provides guidance and monitors the organization's key risks.
2. It develops and improves risk management policies and controls.
3. It monitors compliance, internal control, IT security, and other key risk areas.

Third Line: Internal Audit:

The third line provides independent assurance on governance, risk management, and internal controls.

1. Internal Audit works independently from management.
2. It provides objective assurance on governance, risk management, and internal controls.
3. It reports important weaknesses and findings to the Audit Committee or Board.

Q4 (a) What does emerging risk mean? State the characteristics of emerging risk.

Emerging risk is a new or unforeseen risk that is not yet fully understood or measured. It may develop in the future and can have a significant negative impact on an organization.

Characteristics of Emerging Risk

1. **Ambiguous:** It is often difficult to clearly define the risk.
2. **Chaotic:** The risk can change quickly and unpredictably.
3. **Complex**: It can affect many areas of an organization at the same time.
4. **Changing Time Horizon:** It may appear to be a distant risk but can become a serious threat sooner than expected.
5. **Uncertain:** There may not be enough information to predict its impact accurately.
6. **Uncontrollable:** It is often caused by external factors that the organization cannot directly control.
7. **Volatile:** The level and impact of the risk can change significantly within a short time.

Q4 (b) What did you mean by Off-shore Banking Unit (OBU)? With whom can an OBU do business?

An **Off-shore Banking Unit (OBU)** is a special banking unit that mainly conducts banking business in foreign currencies. An OBU may operate inside or outside the country, but it cannot accept domestic deposits or provide loans in local currency.

With Whom Can an OBU Do Business?

1. **Enterprises in EPZs, private EPZs, economic zones, and hi-tech parks**: An OBU can accept deposits, provide short-term loans, discount or negotiate bills, and issue LCs and guarantees.
2. **Fully foreign-owned enterprises:** An OBU can provide the above services to fully foreign-owned enterprises in EPZs, private EPZs, economic zones, and hi-tech parks. Prior Bangladesh Bank approval is required for medium- and long-term financing.
3. **Other enterprises**: An OBU can provide services to enterprises that are not fully foreign-owned with prior permission from Bangladesh Bank.
4. **Non-resident companies or organizations**: An OBU can provide financing if the loan is fully covered by a guarantee or LC from an acceptable foreign bank and/or foreign currency brought into Bangladesh and deposited with a bank.

5. **Non-resident individuals**: An OBU can accept deposits from non-resident individuals, including Non-Resident Bangladeshis (NRBs).
6. **Bangladesh residents**: An OBU can discount accepted bills of Authorized Dealers (ADs) in Bangladesh against import LCs opened on a deferred or usance basis.

Q4 (c) List the services covered under agent banking.

As per Bangladesh Bank's Prudential Guidelines for Agent Banking Operation, the following services are covered under Agent Banking:

- Collection of small value cash deposits and cash withdrawals (ceiling determined by Bangladesh Bank from time to time).
- Inward foreign remittance disbursement.
- Facilitating small value loan disbursement and recovery of loans and installments.
- Facilitating utility bill payment.
- Cash payment under social safety net programmes of the Government.
- Facilitating fund transfer (ceiling determined by Bangladesh Bank from time to time)
- Balance inquiry.
- Collection and processing of forms/documents for account opening, loan applications, and credit and debit card applications.
- Post-sanction monitoring of loans and advances and follow-up of loan recovery.
- Receiving of clearing cheques.
- Other functions such as collection of insurance premiums including micro-insurance.

Part B—Mathematical Problem

(Answer any one question)
Marks—10×1=10

Q5: A bank has following loan portfolio (all amount in crore taka) as of 30 June 2025: Total Gross loans 1500, where: (a) Special mention accounts 400 (b) Substandard loans 600 (c)Doubtful loans 300 (d) Bad/Loss loans 200

For those loans, Current total provisions held =600. Provision rules (used in this exercise): For SMA 20% provision, substandard 50% provision, Doubtful 75% provision and Bad/Loss 100% provision.

Instructions:

(a) Compute the bank's NPL amount and NPL ratio.

(b) Compute total required provisions and compute the provision shortfall (if any).

(c) Discuss some immediate management actions and board level decisions to improved asset quality.

Given:

- Total Gross Loans: Tk. 1,500 crore
- Special Mention Accounts (SMA): Tk. 400 crore
- Substandard (SS): Tk. 600 crore
- Doubtful (DF): Tk. 300 crore
- Bad/Loss (BL): Tk. 200 crore
- Current provisions held: Tk. 600 crore
- Provision rates: SMA = 20%, SS = 50%, DF = 75%, BL = 100%

(a) Compute the bank's NPL amount and NPL ratio.

NPL Amount = Substandard + Doubtful + Bad/Loss = 600 + 300 + 200 = Tk. 1,100 crore

NPL Ratio = , =

(b) Compute total required provisions and compute the provision shortfall (if any).

Required Provisions:

- SMA: 400×20% = Tk. 80 crore
- Substandard: 600 × 50% = Tk. 300 crore
- Doubtful: 300 × 75% = Tk. 225 crore
- Bad/Loss: 200 × 100% = Tk. 200 crore

Total Required Provision = 80 + 300 + 225 + 200 = Tk. 805 crore.

Provision Shortfall = Required Provision − Provisions Held = 805 − 600 = Tk. 205 crore

(c) Discuss some immediate management actions and board level decisions to improve asset quality.

Management should strengthen the Special Asset Management Unit to recover classified loans. It should immediately review all Substandard and Doubtful loans and take legal action where needed. The Board should ensure the Tk. 205 crore provision shortfall is covered this year, even if it reduces the reported profit. It should also approve stricter credit policies to prevent further growth in NPLs.

Q 6: A bank has the following exposures on its balance sheet as of 31 December 2025:

Asset Type	Amount	Credit Risk Weight (%) as per Bangladesh Bank

Cash in Hand	22500.00	0%
Claims on Asian Development Bank	2325.00	0%
Commercial Real Estate Loan	3200.00	50%
Retail Portfolio	3800.00	75%
Investment in Venture Capital	1000.00	150%

Instructions :

(a) Calculate the total risk weighted asset (RWA) for a bank.
(b) Calculate the Minimum Capital Requirement (MCR) for bank as per present Capital Adequacy Ratio (CAR).
(c) The bank has a capital of BDT 550.00 crore. Is it adequate? Justify your answer

Given (as of 31 December 2025):

- Cash in hand: Tk. 2,250 crore | Risk Weight: 0%
- Claims on Asian Development Bank: Tk. 2,325 crore | Risk Weight: 0%
- Commercial real estate loans: Tk. 3,200 crore | Risk Weight: 50%
- Retail Portfolio: Tk. 3,800 crore | Risk Weight: 75%
- Investment in Venture Capital: Tk. 1,000 crore | Risk Weight: 150%

(a) Total Risk-Weighted Asset (RWA) for the bank.

RWA = Amount × Risk Weight for each asset category:

- Cash in hand: 2,250 × 0% = Tk. 0 crore
- Claims on ADB: 2,325 × 0% = Tk. 0 crore
- Commercial real estate: 3,200 × 50% = Tk. 1,600 crore
- Retail Portfolio: 3,800 × 75% = Tk. 2,850 crore
- Venture Capital: 1,000 × 150% = Tk. 1,500 crore

Total RWA = 0 + 0 + 1,600 + 2,850 + 1,500 = Tk. 5,950 crore

(b) Calculate the Minimum Capital Requirement (MCR) for the bank as per present Capital Adequacy Ratio (CAR).

Minimum Capital Requirement = Total Risk Weighted Assets × Capital Adequacy Ratio= 5,950 × 12.50% = Tk. 743.75 crore

(c) The bank has a capital of BDT 550 crore. Is it adequate? Justify your answer.

Minimum Capital Requirement is Tk. 743.75 crore and actual capital of the bank is Tk. 550 crore. Hence the bank's capital of Tk. 550 crore is not adequate.

Justification:

- The bank has a capital deficit of Tk. 743.75 − 550 = Tk. 193.75 crore. It must raise additional capital to meet regulatory requirements.
- Actual Capital Adequacy Ratio= which is below the minimum required Capital Adequacy Ratio of 12.50% (including capital conservation buffer) as mandated by Bangladesh Bank.

Part C—Problem Solving

(Solve any **one** case)
Marks—20×1=20

Q7: Case 1: Reforming Board Committee sat Unity Bank PLC.

Unity Bank PLC, a listed commercial bank in Bangladesh, had been struggling with weak internal controls and delayed risk response. A Bangladesh Bank inspection noted that while the bank had an Audit Committee, Executive committee and risk management committee on paper, their activities were largely symbolic. The audit committee met irregularly and lacked independent oversight. The risk management committee failed to respond to raising credit risks indicators while the executive committee overstepped by influencing operational matters. Recognizing the governance breakdown the board undertook reforms. It appointed two qualified independent directors to the Audit Committee, ensuring financial and legal expertise. The risk management committee was restructured with defined terms of reference and quarterly reporting was mandatory. The executive committee's scope was narrowed, focusing only one argent interim decision between board meetings. With the reforms, Unity Bank reported improved risk tracking, more credible financial reporting and restored trust among regulators and investors.

Questions:

(a) What governance gaps were evident initially in the Unity Bank's committee structure and functioning?

(b) How do independent directors strengthen the effectiveness of the Audit Committee?

(c) Why is it important to have clearly defined roles for each board committee?

(d) How can a board ensure that its committees are not just formalities but function effectively?

Solution:

(a) What governance gaps were evident initially in Unity Bank’s committee structure and functioning?

Unity Bank had several governance gaps. The Audit Committee met irregularly and lacked independent oversight. The Risk Management Committee failed to respond to rising credit risks. The Executive Committee exceeded its role by becoming involved in operational matters. The committees also lacked sufficient qualified independent directors. Their roles and responsibilities were not clearly defined, which caused confusion and weak accountability.

(b) How do independent directors strengthen the effectiveness of the Audit Committee?

Independent directors provide objective and unbiased oversight because they are not involved in daily management. They can review financial reports and audit findings more critically. Their financial, legal, or banking knowledge helps identify weaknesses. They can also question management and auditors when necessary. Thus, they improve audit quality, transparency, and accountability.

(c) Why is it important to have clearly defined roles for each board committee?

Clearly defined roles prevent overlap and conflicts among committees. They make each committee accountable for its responsibilities. They also help committees focus on their specific areas, such as audit, risk, or executive decisions. Clear roles support regulatory compliance and improve the quality and timeliness of decisions.

(d) How can a board ensure that its committees are not just formalities but function effectively?

The board should appoint qualified members and include independent directors where required. Each committee should have a clear Terms of Reference. Committees should hold regular meetings and discuss important issues. Their reports and recommendations should be submitted to the full board. The board

should also monitor implementation and regularly assess committee performance to ensure compliance with Bangladesh Bank requirements.

Q8: Case 2: Managing Material Risks at Star Bank PLC

Star Bank PLC, a midsized commercial bank, faced significant challenges from credit risk, liquidity risk and interest rate risks threatening its financial stability. Rapid loan portfolio growth raised the risk of borrower defaults, particularly in a volatile economy. Simultaneously, a mismatch between long term loan and short term deposit posed liquidity concerns while interest rate fluctuations pressured the bank's earnings and capital. To address these risks, Star Bank adopted targeted mitigation strategies as follows: The bank strengthened its credit assessment process with detailed borrower analysis and regular loan performance monitoring. It also increased loan loss reserves using predictive models of difficult problem assets. To maintain cash flow, the bank introduced cash flow forecasting and liquidity buffers while diversifying, funding sources to reduce reliance on volatile deposits. To bank employed hedging strategies using interest rate swaps and options to protect its asset and liabilities values from adverse rate movements.

Questions:

(a) What key material risk did Star Bank PLC face and why were they significant?

(b) How did the bank's credit risk strategy improve its loan portfolio quality?

(c) What liquidity risk measures were taken and why are the vital to stability?

(d) What ongoing steps should the bank take to monitor and manage the key risks?

Solution:

(a) What key material risks did Star Bank PLC face, and why were they significant?

Star Bank PLC faced three major risks: credit risk, liquidity risk, and interest rate risk. Rapid loan growth increased the risk of borrower default and financial loss. The mismatch between long-term loans and short-term deposits created liquidity problems. Changes in interest rates could increase funding costs and reduce earnings. These risks could weaken the bank’s capital, profitability, liquidity, and depositor confidence.

(b) How did the bank’s credit risk strategy improve its loan portfolio quality?

The bank strengthened its credit assessment by analyzing borrowers’ repayment capacity, cash flows, and collateral. It also monitored loan performance regularly to identify weak accounts early. The bank increased loan loss provisions for problem assets. These measures helped reduce NPLs, improve loan recovery, and protect the bank’s capital.

(c) What liquidity risk measures were taken, and why are they vital to stability?

The bank introduced cash flow forecasting to identify future liquidity shortages. It maintained liquidity buffers in assets that could be quickly converted into cash. It also diversified its funding sources and reduced reliance on volatile deposits. These measures helped the bank meet withdrawal demands, maintain depositor confidence, and avoid liquidity crises.

(d) What ongoing steps should the bank take to monitor and manage the key risks?

The bank should regularly review its credit portfolio and use early warning systems to identify problem loans. It should monitor liquidity gaps and key ratios such as LCR and NSFR. The ALCO should monitor interest rate movements and repricing gaps. The Risk Management Committee should regularly report major risk indicators to the Board. The bank should take timely corrective action when risks increase.

Part D—Understanding Terminology

(Answer any five out of eight)
Marks—2×5=10

(a) Brand vs Brand Promise

1. Brand is the overall identity and image of a company, whereas brand promise is the specific value or experience that a company promises to provide to customers.
2. Brand develops over time through products, services, reputation, and customer experiences, whereas brand promise clearly states what customers can expect from the brand.
3. Brand represents how customers see and feel about a company, whereas brand promise represents what the company commits to deliver.

(b) Executive Committee vs Audit Committee

1. Executive Committee handles urgent business matters between Board meetings, whereas Audit Committee oversees financial reporting, internal controls, and audit activities.
2. Executive Committee can have a maximum of 7 Board members, whereas Audit Committee can have a maximum of 5 members.
3. Executive Committee is chaired by the Board Chairman, whereas Audit Committee must include at least 2 independent directors and cannot include Executive Committee members.

(c) Time Loan vs Term Loan

1. Time Loan is a short-term loan generally repayable within one year, whereas Term Loan is a medium- or long-term loan generally repayable over more than one year.
2. Time Loan is mainly used for temporary funding needs, whereas Term Loan is mainly used for investment and other long-term purposes.
3. Time Loan is generally repaid in a lump sum at maturity, whereas Term Loan is generally repaid through periodic installments.

(d) Credit Risk vs Liquidity Risk

1. Credit Risk is the risk that a borrower will fail to repay a loan as agreed, whereas Liquidity Risk is the risk that a bank cannot meet its financial obligations when due.
2. Credit Risk mainly arises from lending activities, whereas Liquidity Risk mainly arises from a mismatch between the maturity of assets and liabilities.
3. Credit Risk can cause losses from loan defaults, whereas Liquidity Risk can force a bank to sell assets quickly or raise funds at a high cost.

(e) Islamic Window vs Islamic Bank

1. Islamic Window is a separate section of a conventional bank that provides Shariah-compliant services, whereas Islamic Bank operates fully according to Islamic Shariah principles.
2. Islamic Window operates alongside conventional banking services, whereas Islamic Bank does not provide conventional interest-based banking services.
3. Islamic Window is part of a conventional bank, whereas Islamic Bank operates as a fully Shariah-compliant bank.

(f) Banker as a Trustee vs Banker as an Agent

1. Banker as a Trustee holds a customer's valuable items for safekeeping, whereas Banker as an Agent performs specific tasks on behalf of the customer.
2. Banker as a Trustee does not own the items held for the customer, whereas Banker as an Agent acts according to the customer's instructions.
3. Banker as a Trustee must protect and return the customer's property, whereas Banker as an Agent carries out activities such as collecting cheques or paying bills.

(g) Digital Banking vs Traditional Banking

1. Digital Banking provides banking services through digital channels, whereas Traditional Banking mainly provides services through physical branches.
2. Digital Banking allows customers to access many services without visiting a branch, whereas Traditional Banking generally requires customers to visit a branch.
3. Digital Banking reduces the need for physical infrastructure and staff, whereas Traditional Banking requires more branches and employees to provide services.

(h) Liquidation vs Merger

1. Liquidation is the process of closing a bank by selling its assets and settling its liabilities, whereas Merger is the process of combining two or more banks into one entity.
2. Liquidation results in the bank ceasing to exist, whereas Merger allows the combined bank to continue its operations.
3. Liquidation is generally used when a bank cannot continue its business, whereas Merger is generally undertaken to improve financial strength, efficiency, or market position.

Part E—Short Questions

(Answer any five questions)
Marks—4×5=20

(a) Risk Appetite: Risk appetite is the amount and type of risk that a financial institution is willing to accept to achieve its objectives. It shows how much risk the Board and management are ready to take.

- It guides them in deciding which risks to take and which to avoid.
- It can be expressed in qualitative or quantitative terms.
- The Board should review it regularly particularly once in a year.

(b) Going Concern Capital: Going concern capital is the capital that can absorb losses while a bank continues its normal operations.

- It is mainly known as Tier-1 Capital.
- It consists mainly of Common Equity Tier-1 (CET-1) and Additional Tier-1 (AT-1) capital.
- CET-1 includes paid-up ordinary share capital, share premium, statutory reserves, retained earnings, and other eligible reserves.
- Additional Tier-1 mainly includes qualifying perpetual subordinated instruments.

(c) Credit Concentration: Credit concentration means giving too many loans to one borrower, group, sector, area, or type of collateral.

- High concentration increases risk because problems in one borrower or sector can cause large losses to the bank.
- Banks set exposure limits for borrowers and sectors to control this risk.
- Diversifying loans helps to reduce concentration risk and protect the bank from large losses.

(d) Material Risk

Material risk is a risk that can cause significant financial loss, operational problems, regulatory action, or damage to a bank's reputation. Common material risks include credit risk, liquidity risk, market risk, operational risk, reputational risk, and compliance risk. A risk is considered material when its possible impact is significant compared with the bank's size and capital. Banks need to identify and assess material risks regularly. Proper management of these risks helps to protect the bank's financial stability and continued operations.

(e) Market Positioning

Market positioning means creating a clear and different image of a bank in the minds of its target customers compared with competitors.

- A bank first identifies its target customers and understands their needs.
- Then, it identifies its strengths and competitive advantages and decides how it wants customers to see the bank.
- Finally, the bank communicates this position through its products, services, and marketing activities.

(f) Underwriting Service

Underwriting is a service where a merchant or investment bank helps a company sell its securities. The underwriter may buy the securities that remain unsold, so the company can raise the required capital even when public demand is low.

Underwriting can be used for IPOs, rights issues, and bond issues. In firm commitment underwriting, the underwriter guarantees to buy the unsold securities. In best efforts underwriting, the underwriter only tries to sell the securities and does not guarantee that the entire issue will be sold.

(g) Bridge Bank

A bridge bank is a temporary bank created by a regulatory authority. It is created when a bank fails or faces serious financial problems. It continues important banking services until a permanent solution is found.

A bridge bank takes over selected assets, operations, and liabilities of the failed bank. Its main purpose is to protect depositors and keep essential banking services running. It also helps prevent depositor panic and wider financial problems.

The bridge bank operates for a temporary period. The failed bank may then be sold, merged, or otherwise resolved.

(h) SMT

Senior Management Team (SMT) is a group of senior officers. They work together to manage the day-to-day operations of a bank.

The Board forms the SMT. It must include the MD/CEO and Chief Financial Officer (CFO). Officers responsible for policy-making or major business units may also be members. However, Internal Control and Compliance (ICC or Internal Audit executives cannot be members.

The SMT implements the bank's strategies and policies. It also ensures effective internal control and regulatory compliance.

The Board provides overall direction and oversight. The SMT manages the bank's day-to-day activities.