DISCLOSURE ON RISK BASED CAPITAL (BASEL II)

Scope of application

Qualitative Disclosures	(a)	The name of the top corporate entity in the group to which this guidelines applies. ▪ Rajshahi Krishi Unnayan Bank (RAKUB).
	(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 (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted). ▪ It is a Solo financial statement of the Bank. ▪ Rajshahi Krishi Unnayan Bank (the Bank) is a scheduled specialized state owned Bank. Rajshahi Krishi Unnayan Bank (RAKUB) was established by the President's Ordinance No.58 of 1986 with the aim of providing agricultural credit for optimum utilization of agricultural potentials of Rajshahi Division (Rajshahi & Rangpur Division). Taking over all the 253 branches and other offices along with assets and liabilities of the Bangladesh Krishi Bank within Rajshahi Division, RAKUB started functioning on 15 March 1987. The Head Office of the bank is stationed at Rajshahi. The branch network comprises 376 branches including one in Dhaka at present. ▪ As the largest development partner in the northwest region Rajshahi Krishi Unnayan Bank aims at overall development of the farmers and all the sectors and sub-sectors of agriculture in this region. Besides providing agricultural credit, financing agri-business and agro-based industries, activities related to socioeconomic development and poverty alleviation programs, the bank also performs most of the commercial banking functions.
	(c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group. ▪ Not Applicable
	(d)	The aggregated amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.

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 Tier 1 or in Tier 2. The terms and conditions of the main features of all capital instruments have been segregated in line with the eligibility criteria set forth vide BRPD Circular No. 35 dated 29 December, 2010 and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments are as follows: **Tier 1 capital instruments** **Paid-up share capital:** Rajshahi Krishi Unnayan Bank is a scheduled specialized state owned Bank. Its authorized capital is approved by government and Paid up Capital is being paid by government time to time. **General Reserve:** All types of reserve (general & special) are created through Profit and Loss Account for fulfilling the specific purpose. **Retained Earnings:** Amount of Loss is retained with the banking company after meeting up all expenses and provisions. **Tier 2 capital instruments** General provision maintained against unclassified loans: As per BB directive, amount of provision maintained against unclassified loans as of the reporting date has been considered.

Quantitative Disclosures	(b)	The amount of Tier 1 capital, with separate disclosure of: (As on 30-06-2014)	In crore Taka
		Paid up capital	570.00
		Non-repayable share premium account	-
		Statutory reserve	-
		General reserve	20.85
		Retained earnings	-1075.83
		Minority interest in subsidiaries	-
		Non-cumulative irredeemable preference shares	-
		Dividend equalization account	-
		Total of Tier 1 Capital	-484.98
	(c)	The total amount of Tier 2 and Tier 3 capital.	-
	(d)	Shortfall in provisions required against classified assets	-
	(e)	Total eligible capital.	-484.98

c) Capital Adequacy

Qualitative Disclosures	(a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities. Capital Adequacy is the cushion required to be maintained for covering the Credit risk, Market risk and Operational risk so as

		protecting the depositors and general creditor's interest against such losses. In line with BRPD Circular No. 35 dated 29 December, 2010 [Guidelines on Risk Based Capital Adequacy (Revised regulatory Capital Framework for banks in line with Basel II)]. The Bank has adopted Standardized Approach for Credit Risk, Standardized (Rule Based) Approach for Market Risk and Basic Indicator Approach for Operational Risk for computing Capital Adequacy.	
Quantitative Disclosures	(b)	Capital requirement for Credit Risk	364.10
(As on 30-06-2013)	(c)	Capital requirement for Market Risk	0.65
	(d)	Capital requirement for Operational Risk	22.67
		Total required Capital	387.42
		Total Minimum Capital Required (MCR) as per Basel II	400.00
	(e)	Total and Tier 1 capital ratio:	
		• For the consolidated group; and Not Applicable	
		• For stand alone	
		Total	-12.51 %
		Tier 1	-12.51 %

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); ▪ Bank classifies loans and advances into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. ▪ An NPA (impaired is defined as a loan or an advance where interest and/ or installment of principal remain overdue for more than 90 days in respect of a Continuous credit, Demand loan or a Term Loan etc. ▪ Classified loan is categorized under following 03 (three) categories: > Sub- standard > Doubtful > Bad & Loss Any continuous loan will be classified as: > Sub-standard' if it is past due/overdue for 3 months or beyond but less than 6 months. > "Doubtful' if it is past due/overdue for 6 months or beyond but less than 9 months. > Bad/Loss' if it is past due/overdue for 9 months or beyond. Any **Demand Loan** will be classified as: > Sub-standard' if it remains past due/overdue for 3 months or beyond but not over 6 months from the date of claim by the bank or from the date of creation of forced loan. > Doubtful' if it remains past due/overdue for 6 months or beyond but not over 9 months from the date of claim by the bank or from the date of creation of forced loan. > Bad/Loss' if it remains past due/overdue for 9 months or beyond

from the date of claim by the bank or from the date of creation of forced loan.

✓ In case of any installment(s) or part of installment(s) of a **Fixed Term Loan** is not repaid within the due date, the amount of unpaid installment(s) will be termed as "past due or overdue installment", In case of Fixed Term Loans:-

> If the amount of past due or overdue installment is equal to or more than the amount of installment(s) due within 3 (three) months, the entire loan will be classified as "Sub-standard".

> If the amount of past due or overdue installment is equal to or more than the amount of installment(s) due within 6 (six) months, the entire loan will be classified as "Doubtful".

> If the amount of past due or overdue installment is equal to or more than the amount of installment(s) due within 9 (nine) months, the entire loan will be classified as "Bad/Loss".

✓ 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 'Substandard' 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.

- Description of approaches followed for specific and general allowances and statistical methods;

Particulars		Short Term Agri. Credit	Other than HF & LP	HF	LP	SMEF	Loans to BHs/MBs/ SDs against Shares	All other Credit
UC	Standard	5%	5%	2%	2%	0.25%	2%	1%
	SMA	0%	5%	2%	2%	0.25%	2%	1%
Classified	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%

- Discussion of the bank's credit risk management policy;

  - The Board approves the credit policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in credit risk management and maintain quality of assets. Authorities are properly delegated ensuring check and balance in credit operation at every stage i.e. screening, assessing risk, identification, management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early warning system. There is a separate Loan and Advance Department-1 & 2 for dedicated credit risk management and ensuring perfection of securities, separate Loan

		Recovery Department-1 & 2 for monitoring and recovery of irregular loans. Internal control & compliance Department independently assess Quality of loans & Advances compliance status of loans. Adequate provision is maintained against classified loans as per Bangladesh Bank guidelines. Statuses of loans are regularly reported to the Bank Management and Board.
Quantitative Disclosures	(b)	Total gross credit risk exposures broken down by major types of credit exposure.

Major types of credit exposure as per disclosure in the audited financial statements as on 30 June 2014.	In crore Taka
1. Crop	2057.41
2. Fisheries	54.30
3. Live stock	392.71
4. Irrigation Equipment & Farm Machinery	113.01
5. Agro-based Industries	326.62
6. SME	152.88
7. Cash Credit Loan	757.77
8. Poverty alleviation	121.93
9. Other Loan	185.03
10. Staff Loan	294.12
Total:	4455.78

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

Division & District wise Loans and Advances as per disclosure in the audited financial statements as on 30 June 2014.	In crore Taka
Rajshahi Division:	1971.28
1. Rajshahi	453.60
2. Naogaon	341.59
3. Chapai Nawabgonj	125.31
4. Natore	127.22
5. Pabna	210.98
6. Sirajgonj	197.08
7. Bogra	303.64
8. Joypurhat	211.86
Rangpur Division:	2190.26

	1. Rangpur	481.87
	2. Gaibandha	266.08
	3. Dinajpur	297.17
	4. Kurigram	267.84
	5. Nilphamari	365.83
	6. Lalmonirhat	260.71
	7. Thakurgaon	120.69
	8. Panchagarh	130.07
	▪ Dhaka Branch	0.12
(d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	
	▪ Industry or counterparty type distribution of exposures, as per disclosure in the audited financial statements as on 30 June 2014.	In crore Taka
	1. Cold Storage Loan	175.07
	2. Rice Mills	23.44
	3. Flower Mills	2.98
	4. Edible Oil Mills	0.94
	5. Mini Sugar Mills	0.07
	6. Spice Mills	0.00
	7. Bread & Biscuit Factory	0.32
	8. Saw Mills	0.15
	9. Biri Factory	0.00
	10. Silk Factory	0.00
	11. Handloom/Weavers Scheme	7.30
	12. Engineering and metal Industries	0.94
	13. Ice Factory	0.74
	14. Other	114.67
(e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	
	▪ Residual contractual maturity breakdown of the whole portfolio, as per disclosure in the audited financial statements as on 30 June 2014.	In crore Taka
	1. On demand	-
	2. Within one to three month	-
	3. Within three to twelve month	2556.22
	4. Within one to five years	1206.92
	5. More than five years	398.52
(f)	By major industry or counterparty type:	
	▪ Amount of impaired loans and if available, past due loans, provided separately;	In crore Taka
	1. Standard	2962.21
	2. Special Mention Accounts	24.10
	3. Sub- Standard	260.32
	4. Doubtful	183.13
	5. Bad/Loss	1026.01
	6. Staff loan	294.12

		▪ Specific and general provisions; and ▪ Provision Maintained against Loans	623.38
	(g)	▪ Gross Non Performing Assets (NPAs)	1703.38
		▪ Non Performing Assets (NPAs) to Outstanding Loans & advances	38.22%
		▪ Movement of Non Performing Assets (NPAs)	
		▪ Opening balance	1481.64
		▪ Additions	685.40
		▪ Reductions	463.66
		▪ Closing balance (NPAs = NPL+NPA)	1703.38
		▪ Movement of Speific provisions for NPAs	
		▪ Opening balance	0.00
		▪ Provisions made during the period	90.93
		▪ Write-off & Interest remission	0.00
		▪ Write-back of excess provisions	0.00
		▪ Closing balance	90.93

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 Not Applicable.
		▪ 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. Not Applicable.
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. Not Applicable.
	(c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period. Not Applicable.
	(d)	• Total unrealized gains (losses) • Total latent revaluation gains (losses) • 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. Not Applicable.

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. Not Applicable
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, broken down by currency (as relevant). Not Applicable

g) Market risk

Qualitative Disclosures	(a)	• Views of BOD on trading/investment activities The BOD of the Bank views the ' Market Risk' as the risk to the banks earnings and Capital due to change in the market level of interest rates of securities, foreign exchange and equities as well as the volatilities of those changes. • Methods used to measure Market risk The Bank uses the standardized (Rule Based) approach to calculate market risk for trading book exposures. • Market Risk Management system ALCO is the key tool for managing market risk. An ALCO is in place in the bank to administer of the system.
Quantitative Disclosures	(b)	• The capital requirements for: ▪ Interest rate risk; 0.00 ▪ Equity position risk; 0.63 ▪ Foreign exchange risk; and 0.02 ▪ Commodity risk. 0.00

h) Operational risk

Qualitative Disclosures	(a)	• Views of BOD on system to reduce Operational Risk ▪ The policy for operational risks including internal control & compliance risk is approved by the board taking into account relevant guidelines of Bangladesh bank. Audit committee of the Board oversees the activities of Internal Control & Compliance Department (ICCD) to protect against all operational risk. • Performance gap of executives and staffs ▪ There is no material performance gap among the Executives and Staff. • Potential external events ▪ Rajshahi Krishi Unnayan Bank as a state owned Bank is exposed to directed loans as the major external event. Bank has internal manuals on Internal Control and Compliance where details of operational policies & Procedures have been stated. ▪ Bank regularly monitors and reviews the performance of

employees both quantitatively and qualitatively through analysis of achievement of business target in various parameters and behavioral, tactical and leadership aspects through confidential evaluation process.

- Policies and processes for mitigating operational risk
  - The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh bank. Policy guidelines on Internal Audit system is in operation. Branches are audited regularly by Zonal Audit Office under supervision of Internal Control & Compliance Department (ICCD). It is the policy of the bank to put all the branches of the bank under any form of audit at least once in a year. ICCD directly report to Audit Committee of the Board. Bank's Anti- Money laundering activities are headed by CAMELCO and their activities are devoted to protect against all money laundering and terrorist finance related activities. There is no record of any money laundering and terrorist finance related activities of the bank. Apart from that, there is adequate check & balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.

- Approach for calculating capital charge for operational risk
  - Basic Indicator Approach was used for calculating capital charge for operational risk as of the reporting date.

Quantitative Disclosures	(b)	The capital requirements for operational risk	In crore Taka
		▪ The capital requirements for operational risk	22.67

(Md. Ataur Rahaman)	(Md. Maznur Rahman)	(Md. Mashiur Islam)	(Md. Younus Ali)
Principal Officer	Senior Principal Officer	Assistant General Manager	Deputy General Manager