Rajshahi Krishi Unnayan Bank

Disclosure on Risk Based Capital Adequacy (BASEL III, Pillar- III)
Qualitative and Quantitative Disclosures
As on 30th June, 2019 (Based on Audited Financial Report)

The following disclosure has been made in accordance with the Bangladesh Bank BRPD Circular No-18 dated 21 December 2014 as guidelines on "Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in Line with Basel III ". The purpose of this disclosure is to complement the minimum capital requirements and the supervisory review process. It aims to establish more transparent and more disciplined financial market so that stakeholders can assess the position of the bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to put back probable losses of assets. With a view to attain the purposes Rajshahi Krishi Unnayan Bank (RAKUB) has developed a set of disclosure containing the key pieces of information on the assets, risk exposures, risk assessment processes overall the capital adequacy to mitigate the looming risks.

a) 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). It is a scheduled state owned specialized Bank. RAKUB was established by the President's Ordinance No.58 in 1986 with the aim of providing agricultural credit for optimum utilization of agricultural potentials of the then Rajshahi Division (Rajshahi & Rangpur Division) and now it has been in operation under The RAKUB Act 19, 2014. Taking over all the 253 branches and other offices along with assets and liabilities of the Bangladesh Krishi Bank, RAKUB started functioning on 15 March 1987. The Head Office of the bank is stationed at Rajshahi. The branch network comprises of 381 branches including one in Dhaka at the reporting date. 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 socio-economic development and poverty alleviation programs, the bank performs most of the commercial banking functions.
	(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) :** ❖ The Bank prepares solo basis financial statements.

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 or Tier 2 :**

- The composition of regulatory capital is different from that of accounting capital in line with Basel regime. 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. 18 dated 21 December, 2014 and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments of the bank are:

  Tier 1 capital instruments

  Paid-up capital: Rajshahi Krishi Unnayan Bank is a scheduled specialized state owned Bank. Its authorized capital is approved and Paid up Capital is being paid by government.

  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 Bangladesh Bank BRPD Circular No. 05, dated 31.05.2016, total amount of provision maintained against unclassified loans is considered as Tier 2 capital.

uantitative Disclosures	(b)	Capital Structure of the bank	Taka In crore
	1.	**Tier 1 capital:**	
	a.	Paid up capital	824.80
	b.	Statutory reserve	-
	c.	General reserve	20.79
	d.	Retained earnings	-1100.46
	e.	Total of Tier 1 Capital /CET-1	-254.87
	2.	**Tier 2 Capital:**	
	a.	Shortfall in provisions required against classified assets	-
	b.	General Provision against UC loan	41.88
	c.	Total Tier 2 Capital	41.88
	3.	**Total amount of eligible capital.**	**-212.99**

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 with a view to protecting the depositor's and general creditor's interest against such losses. In line with BRPD Circular No. 18 dated 21 December, 2014 [Guidelines on Risk Based Capital Adequacy (Revised regulatory Capital Framework for banks in line with Basel III)] the bank has adopted Standardized Approach for Credit Risk and Market Risk, Basic Indicator Approach for Operational Risk for computing Capital Adequacy.	
Quantitative Disclosures	(b)	Capital requirement for Credit Risk	449.79
	(c)	Capital requirement for Market Risk	0.63
	(d)	Capital requirement for Operational Risk	40.39
	(e)	Total Minimum Capital Required (MCR) as per Basel III	490.81
	(f)	Total and Tier 1 capital ratio:	
		• For the consolidated group; Not Applicable	-
		• For stand alone	
		Capital to Risk Weighted Asset Ratio (CRAR)	-4.34%
		Tier 1 Capital to Risk Weighted Asset	-5.19 %

d) Credit Risk:

Qualitative Disclosures	(a)	**The general qualitative disclosure requirement with respect to credit risk, including :** **Discussion on the bank's credit risk management policy :** ❖ Credit risk is the potential that a bank's borrower or counterparty fails to meet its obligations in accordance with the agreed terms. Bank is exposed to credit risk from its dealing with or lending to corporate, individuals and other banks or financial institutions. The Bank has a well structured delegation of credit approval authority for ensuring good governance and better control in credit approval system. Considering the key elements of credit risk, the bank has established Lending Policy Manual in line with the Bank's Credit Risk Management (CRM) guideline. The Board approves the credit policy keeping in accordance with Bangladesh Bank guidelines to ensure the best practice in credit risk management and to maintain quality of assets. There are separate Loans and Advances Department-1 & 2 dedicated to credit risk management and perfection of securities. There are also separate Loan Recovery Department-1 & 2 for monitoring irregularities and recovering loans. Zonal Audit Offices of the bank independently assesses Quality & compliance status of loans. Adequate provision is maintained against loans as per Bangladesh Bank guidelines. Statuses of loans are regularly reported to the Bank Management and Board of Directors.

Definitions of past due and impaired Credit (accounting purposes)

- All loans and advances are classified into performing and non-performing (NPL) in accordance with the Bangladesh Bank guidelines in this respect. An impaired credit 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 Continuous credit, Demand loan 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 9 months.

> "Doubtful" if it is past due/overdue for 9 months or beyond but less than 12 months.

> "Bad/Loss" if it is past due/overdue for 12 months or beyond.

✓ In case of **Fixed Term Loan** installment or part of installment is not repaid/renewed within the due date given by the bank, the amount of such loan will be considered as overdue after expiring 6 months from the due date :

> If the amount of past due or overdue installment is equal to or more than the amount of installment(s) due for 3 months or beyond but less than 9 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 for 9 months or beyond but less than 12 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 for 12 months or more, 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 provisions and statistical methods:	

Particulars		Short Term Agri. Credit (%)	Other than HF & LP (%)	Credit Card (%)	HF (%)	LP (%)	SMEF (%)	Loans to BHs/MBs/ SDs against Shares (%)	All other Credit (%)
UC	**Standard**	1	5	2	2	2	0.25	2	1
	SMA	0	5	2	2	2	0.25	2	1
Classified	**SS**	5	20	20	20	20	20	20	20
	DF	5	50	50	50	50	50	50	50
	B/L	100	100	100	100	100	100	100	100

Quantitative Disclosures	(b)	**Total gross credit risk exposures are segregated by major types of credit exposure :**	
		▪ Major types of credit exposure as per disclosure in the audited financial statements	Taka In crore
		1. Crop	2605.90
		2. Fisheries	91.20
		3. Live stock	479.43
		4. Irrigation Equipment & Farm Machinery	73.36
		5. Agro-based Industries	389.45
		6. SME	337.46
		7. Cash Credit Loan	1088.70
		8. Poverty alleviation	126.47
		9. Other Loan	267.29
		10. Staff Loan	371.32
		Total:	5830.58

Quantitative Disclosures	(c)	**Geographical distribution of exposures are segregated in significant areas by major types of credit exposure :**

❖ Division & District wise Loans and Advances as per disclosure in the audited financial statements:	Taka In crore
Rajshahi Division:	**2714.87**
1. Rajshahi	588.09
2. Naogaon	427.98
3. Chapai Nawabgonj	167.66
4. Natore	199.76
5. Pabna	292.98
6. Sirajgonj	290.06
7. Bogra	477.10
8. Joypurhat	271.24
Rangpur Division:	**3112.06**
1. Rangpur	673.47
2. Gaibandha	338.34
3. Dinajpur	465.93
4. Kurigram	353.85
5. Nilphamari	517.42
6. Lalmonirhat	362.63
7. Thakurgaon	208.93
8. Panchagarh	191.49
Dhaka Branch	**3.65**

	(d)	**Industry or counterparty type distribution of exposures are segregated by major types of credit exposure :**

❖ Industry type exposures, as per disclosure in the audited financial statements as on	In crore Taka
1. Cold Storage Loan	186.00
2. Rice Mills	18.25
3. Flour Mills	17.84
4. Edible Oil Mills	0.18
5. Mini Sugar Mills	7.87
6. Biscuit Factory	0.04
7. Saw Mills	0.02
8. Loom and Handicrafts	5.02
9. Engineering and Workshop	1.19
10. Ice Factory	0.58
11. Others	152.45
Total	**389.44**

Quantitative Disclosures	(e)	**Residual contractual maturity of the whole portfolio are segregated 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 2019.	Taka In crore
1. On demand	-
2. Within one to three months	-
3. Within three to twelve months	4494.23
4. Within one to five years	529.22
5. More than five years	807.13

	(f)	**By major industry or counterparty type :**	
		❖ Amount of impaired loans and if available, past due loans, provided separately;	Taka In crore
		1. Standard	4348.31
		2. Special Mention Accounts	11.01
		3. Sub- Standard	166.05
		4. Doubtful	102.58
		5. Bad/Loss	831.31
		6. Staff loan	371.32
		❖ Specific and general provisions; ▪ Provision Maintained against Loans	312.08
	(g)	❖ Non Performing Loans (NPL)	1099.94
		❖ Non Performing Loans (NPL) to Outstanding Loans & Advances	18.87%
		❖ Movement of Non Performing Assets (NPL)	
		▪ Opening balance	1306.35
		▪ Additions	191.72
		▪ Reductions	(398.13)
		▪ Closing balance	1099.94
		❖ **Movement of Specific Provisions for NPLs :**	
		▪ Opening balance	400.90
		▪ Write-off	(0.00)
		▪ Interest remission	(2.92)
		▪ Recovery of written off loan	0.38
		▪ Provision moved to general provision	(4.28)
		▪ Write-back of excess provisions	(123.87)
		▪ Closing balance	270.21

e) Equities: Disclosures for Banking Book Positions:

Qualitative Disclosures	(a)	**The general qualitative disclosure requirement with respect to equity risk :** ❖ RAKUB has investment in equity share of ICB Islami Bank Ltd. (ex Oriental Bank Ltd.). As per the Oriental Bank (reconstruction) scheme, 2007 by Bangladesh Bank, RAKUB owed equity share of ICB Islami Bank against it's deposit. The equity holding of the bank is shown in the balance sheet at cost price. Adequate provisions are maintained against the losses of the equity holding.
Quantitative Disclosures	(b)	**Value disclosed in the balance sheet of investments :** Details — Amount in crore Book Value — 3.16 Market Value — 1.26 Gain/Loss — (1.90) Maintained Provision for loss — 1.90

f) Interest rate risk in the banking book (IRRBB):

<table>
<tr><td>Qualitative Disclosures</td><td>(a)</td><td>The general qualitative disclosure of IRRBB.
Interest rate risk in the banking book arises from mismatches between the future yield of assets and their funding costs. Interest rate risk is the potential that the value of the assets or liabilities of the bank would be negatively affected with the fluctuation of interest rates. Changes in interest rates also affect the underlying value of the bank assets, liabilities and off-balance sheet instruments because the economic value of future cash flows changes when interest rates changes. The bank uses quarterly basis simple sensitivity Analysis to determine its vulnerability against the adverse movement of market variables.</td></tr>
<tr><td>Quantitative Disclosures</td><td>(b)</td><td>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):</td></tr>
</table>

Sl. No	Particulars	Amount in Crore		
01.	Risk Sensitive Assets up to 12 Month	5035.32		
02.	Risk Sensitive Liabilities up to 12 Month	2233.85		
03.	Assumed Change in Interest Rate	Minor	Moderate	Major
		1%	2%	3%
04.	Net Interest Income Impact	28.01	56.03	84.04
05.	Post Shock Capital	-184.99	-156.97	-128.96
06.	Post Shock CRAR (%)	-3.77	-3.20	-2.63

g) Market Risk:

<table>
<tr><td>Qualitative Disclosures</td><td>(a)</td><td>Views of BOD on trading/investment activities
❖ Market Risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in different market variables, which arises due to Interest rate movements, foreign exchange rate movements, Equity price movements, Commodity price movements. The BOD of the Bank views the ' Market Risk' as the risk of the bank's 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 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 the system.</td></tr>
</table>

Quantitative Disclosures	(b)	**The capital requirements for :** ❖ Interest rate risk 0.00 ❖ Equity price risk 0.63 ❖ Foreign exchange risk 0.00 ❖ Commodity risk 0.00

h) Operational Risk:

Qualitative Disclosures	(a)	**Views of BoD on system to reduce Operational Risk :** ❖ Operational Risk arises from inadequate processes or systems, inefficient people or external causes, whether intentional, accidental or natural inherent in the bank's activities. 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 directly oversees internal control & compliance activities to mitigate operational risk. **Performance gap of executives and staffs :** ❖ There is no material gap in the performance of executives and staffs, except a few exceptions. **Potential external events :** ❖ Rajshahi Krishi Unnayan Bank has developed manuals on Internal Control and Compliance where details of operational policies & Procedures have been stated. The 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, strategic and leadership aspects through confidential evaluation process. **Policies and processes for mitigating operational risk :** ❖ The bank manages operational risk through a chain based process which is documented, authorized and independent. Policy guidelines on Internal Audit system of the bank is in operation. Branches are audited regularly by Zonal Audit Offices and Divisional Audit Offices under supervision of Audit Unit of Head Office. 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. Internal audit and compliance related department/Unit (Compliance Department, Audit Unit and Monitoring Unit) report to the Audit Committee of the Board. Bank's Anti-Money laundering activities are headed by CAMELCO which ensures protection against all money laundering and terrorist finance. There is no record of any money laundering and terrorist finance in 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 (BIA) is used for calculating capital charge for operational risk.	
Quantitative Disclosures	(b)	**The capital requirements for operational risk**	Taka in crore
		▪ The capital requirements for operational risk	40.39

i) Liquidity Ratio:

Qualitative Disclosures	(a)	**Views of BOD on system to reduce liquidity Risk :** ❖ Liquidity risk arises for the inability to meet financial demands which usually occurs due to the failure to convert hard asset to cash without a loss of capital and/or income in the process. The BOD emphasizes on maintaining enough liquidity required at all times and in all circumstances. To ensure proper liquidity management RAKUB has adopted the Basel III framework on liquidity standards as prescribed by Bangladesh Bank (BB) and put in place required systems and processes to enable periodical computation and reporting of the Liquidity Coverage Ratio (LCR) & Net Stable Funding Ratio (NSFR). Central Accounts Department-1 computes the LCR & NSFR and reports the same to the bank management. Liquidity position of the bank is regularly informed to the BOD. **Methods used to measure liquidity Risk :** ❖ Following methods are used to measure liquidity risk - Liquidity Coverage Ratio (LCR) - Net Stable Funding Ratio (NSFR) - Cash Reserve Ratio (CRR), - Medium Term Funding Ratio (MTFR) - Maximum Cumulative Outflow (MCO) - Advance Deposit Ratio (ADR) **Liquidity Risk Management system :** ❖ Central Accounts-department-1 of the Bank manages liquidity risk with oversight from Assets-Liability Management Committee (ALCO) comprising senior executives of the Bank headed by the managing Director. ALCO meets once in a month to review strategies on Asset Liability Management.

Quantitative Disclosures	(b)	Liquidity Coverage Ratio 531% Net Stable Funding Ratio (NSFR) 184% Stock of High quality liquid assets 168.95 crore Average total net cash outflows over the next 30 calendar days 31.81 crore Available amount of Stable funding 1211.17 crore Required amount of Stable funding 659.04 crore Advance Deposit Ratio 97%

j) Leverage Ratio:

Qualitative Disclosures	(a)	**Views of Board of Directors on system to reduce excessive leverage :** ❖ Leverage ratio is introduced in the Basel-III framework to supplement risk-based capital requirements to avoid building up excessive on and off-balance sheet leverage in the banking system. In line with the BASEL III guidelines, RAKUB BOD emphasizes on improving Leverage Ratio by enhancing Common Equity Tier-1 capital. **Policies and process for managing excessive on and off balance sheet leverage :** ❖ Leverage ratio is calculated dividing the Tier 1 Capital by the total Exposure (after related deduction). Tier 1 Capital is calculated as per BASEL III guidelines. In the case of exposure measurement, RAKUB includes both on and off balance sheet exposure. **Approach for calculating exposure :** ❖ Leverage ratio of the bank has been worked out under the Basic Indicator Approach of RBCA guidelines in Solo-Basis.
Quantitative Disclosures	(b)	Leverage Ratio (-) 3.44% Total Tier -1 Capital -254.87 On balance sheet exposure (after related deduction) 7407.16 Crore Off balance sheet exposure 0.00 Crore Total exposure (after related deduction) 7407.16 Crore

k) Remuneration:

<table>
<tr><td rowspan="3">Qualitative Disclosures</td><td>(a)</td><td>Information relating to the bodies that oversee remuneration:
❖ At the management level, primarily Personnel Management Department oversees the 'remuneration' in line with the National pay scale 2015.

External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process :
❖ Since the bank follows the national pay scale-2015, it requires no advice with regard to the remuneration process from any external consultant and therefore, no commission to this effect is paid to any agencies.

A description of the scope of the bank's remuneration policy (e,g, by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches :
❖ There is no foreign subsidiary and branch of The bank . Its branches as well as controlling offices are located in Rajshahi, Rangpur and Dhaka divisions of the country. The remuneration policy follows uniform rule of the national pay scale and does not change due to the employees working at diversified geographical locations.</td></tr>
<tr><td>(b)</td><td>Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that was made :
❖ As a state owned bank, RAKUB follows National Pay Scale/2015 from 1st July 2015. Therefore, it cannot review the remuneration policy and make any change to the said policy.</td></tr>
<tr><td>(c)</td><td>An overview of main performance metrics for bank, top-level business lines and individuals :
❖ All employees of the bank (including those working in controlling offices) have been imposed a yearly target of deposit mobilization and loan recovery (related personnel). But the target achievement does not affect in the remuneration policy of the bank.</td></tr>
</table>

Quantitative Disclosures	(a)	**Number of meeting held by the main body overseeing remuneration during the financial year and remuneration paid to its member :** ❖ Not Applicable
	(b)	**Number of employees having received a variable remuneration award during the financial year :** ❖ Since RAKUB follows Government remuneration Policy, no variable remuneration policy exists in the bank. **Number and total amount of guaranteed bonuses awarded during financial year :** ❖ Two guaranteed Festival Bonus as well as a Boishakhi Bonus are awarded during the year. In addition to these, every year an Ex-gratia is awarded which is subject to the government approval. In the reporting period a total amount of tk. 18.26 crore have been awarded in the form of festival bonuses and Boishakhi bonus. In addition to this, a total amount of tk. 9(nine) crore has been preserved for Ex-gratia which would be provided after govt. approval.
	(c)	**Total amount of outstanding deferred remuneration, split into cash, share and share-linked instruments and other forms :** ❖ The remuneration of the employees is paid only in the form of cash.

The End