DISCLOSURE ON RISK BASED CAPITAL (BASEL III)

Qualitative and Quantitative Disclosures
As on 30th June 2016 (Based on Audited Financial Report)

The following disclosures have been made in accordance with the Bangladesh Bank BRPD Circular No-18 dated 21 December 2014 as guidelines on "Risk Based Capital Adequacy". The purpose of this disclosure is to complement the minimum capital requirements and the supervisory review process. The aim of this Market discipline is 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 and hence the capital adequacy to mitigate the looming risks.

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 in 1986 with the aim of providing agricultural credit for optimum utilization of agricultural potentials of 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 within Rajshahi Division, RAKUB started functioning on 15 March 1987. The Head Office of the bank is stationed at Rajshahi. The branch network comprises of 379 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 socio-economic 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. 18 dated 21 December, 2014, Dos Circular No-01 dated: 01 January, 2015 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 30-06-2016)	Taka In crore
		Paid up capital	700.00
		Non-repayable share premium account	-
		Statutory reserve	-
		General reserve	20.85
		Retained earnings	-1073.40
		Minority interest in subsidiaries	-
		Non-cumulative irredeemable preference shares	-
		Dividend equalization account	-
		Total of Tier 1 Capital /CET-1	-352.55
	(c)	The total amount of Tier 2 and Tier 3 capital.	70.64

	(d)	Shortfall in provisions required against classified assets	-
	(e)	Total eligible capital.	-281.91

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 depositor's 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 (As on 30-06-2016)	(b)	Capital requirement for Credit Risk	382.25
	(c)	Capital requirement for Market Risk	0.63
	(d)	Capital requirement for Operational Risk	39.91
		Total required Capital	422.79
		Total Minimum Capital Required (MCR) as per Basel III	422.79
	(e)	Total and Tier 1 capital ratio:	
		• For the consolidated group; Not Applicable	-
		• For stand alone	
		CRAR	-6.67 %
		Tier 1	-8.34 %

d) Credit Risk

Qualitative Disclosures	(a)	The general qualitative disclosure requirement with respect to credit risk, including: ▪ Definitions of past due and impaired Credit (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 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 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** amounting upto tk. 10.00 Lacs 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 such types 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 for 06 (Six) months or beyond but not over 09 (Nine) 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 09 (Nine) months or beyond but not over 12 (Twelve) 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 (twelve) months or more, the entire loan will be classified as "Bad/Loss".

✓ In case of any installment(s) or part of installment(s) of a **Fixed Term Loan** amounting more than tk. 10.00 Lacs 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 such types 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 for 03 (Three) months or beyond but not over 06 (Six) 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 06 (Six) months or beyond but not over 09 (Nine) months, the entire loan will be classified as "Doubtful".

> If the amount of past due or overdue installment is due for 09 (Nine) 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	HF	LP	SMEF	Loans to BHs/MBs/ SDs against Shares	All other Credit
UC	Standard	2.5%	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 to 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, identifying, managing and mitigating credit risk as well as monitoring, supervising and recovering loans with provision for early warning system. There are separate Loans and Advances Departments-1 & 2 dedicated to credit risk management and perfection of securities. There are also separate Loan Recovery Departments-1 & 2 for monitoring irregularities and recovering loans. Audit unit of the bank independently assesses Quality of loans & compliances 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 of Directors.

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 2016.	Taka In crore
1. Crop	2373.21
2. Fisheries	67.25
3. Live stock	426.68
4. Irrigation Equipment & Farm Machinery	93.42
5. Agro-based Industries	364.17
6. SME	187.58
7. Cash Credit Loan	811.44
8. Poverty alleviation	118.91
9. Other Loan	213.24
10. Staff Loan	334.51

	Total:	4990.41

(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 2016 (with Staff Advances).	Taka In crore
	▪ **Rajshahi Division:**	**2316.47**
	1. Rajshahi	550.72
	2. Naogaon	380.13
	3. Chapai Nawabgonj	137.22
	4. Natore	155.71
	5. Pabna	239.76
	6. Sirajgonj	245.80
	7. Bogra	373.24
	8. Joypurhat	233.89
	▪ **Rangpur Division:**	**2671.33**
	1. Rangpur	607.58
	2. Gaibandha	308.22
	3. Dinajpur	380.49
	4. Kurigram	311.64
	5. Nilphamari	450.79
	6. Lalmonirhat	302.69
	7. Thakurgaon	155.45
	8. Panchagarh	154.47
	▪ **Dhaka Branch**	**2.61**
(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 2016.	In crore Taka
	1. Cold Storage Loan	203.55
	2. Rice Mills	20.69
	3. Flower Mills	4.26
	4. Edible Oil Mills	0.75
	5. Mini Sugar Mills	0.06
	6. Spice Mills	5.14
	7. Bread & Biscuit Factory	0.07
	8. Saw Mills	0.07
	9. Biri Factory	0.00
	10. Silk Factory	0.00
	11. Handloom/Weavers Scheme	7.22
	12. Engineering and metal Industries	1.42
	13. Ice Factory	0.62
	14. Fruit Processing	14.42
	15. Other	105.90
(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 2016.	Taka In crore
		1. On demand	-
		2. Within one to three month	-
		3. Within three to twelve month	3740.96
		4. Within one to five years	492.11
		5. More than five years	757.34
	(f)	By major industry or counterparty type:	
		▪ Amount of impaired loans and if available, past due loans, provided separately;	Taka In crore
		1. Standard	3654.39
		2. Special Mention Accounts	26.04
		3. Sub- Standard	164.57
		4. Doubtful	101.22
		5. Bad/Loss	709.68
		6. Staff loan	334.51
		▪ Specific and general provisions; ▪ Provision Maintained against Loans	530.06
	(g)	▪ Gross Non Performing Assets (NPAs)	1212.50
		▪ Non Performing Assets (NPAs) to Outstanding Loans & advances	24%
		▪ Movement of Non Performing Assets (NPAs)	
		▪ Opening balance	1244.01
		▪ Additions	338.73
		▪ Reductions	370.24
		▪ Closing balance (NPAs = NPL+NPA)	1212.50
		▪ Movement of Speific provisions for NPAs	
		▪ Opening balance	770.18
		▪ Provisions made during the period	1.25
		▪ Write-off & Interest remission	15.46
		▪ Write-back of excess provisions	(90.43)
		▪ Closing balance	696.46

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 amount of the above included in Tier 2 capital. Not Applicable
	(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 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 (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 0.00 ▪ 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 Staffs • Potential external events ▪ Rajshahi Krishi Unnayan Bank as a state owned Bank is exposed to direct 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, strategic 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 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. 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	Taka In crore
		▪ The capital requirements for operational risk	39.91

i) Liquidity Ratio

Qualitative Disclosures	(a)	**Views of BOD on system to reduce liquidity Risk.** - RAKUB has adopted the Basel III framework on liquidity standards as prescribed by Bangladesh Bank (BB) and has put in place requisite 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 Asset Liability Management Committee (ALCO) every month for review where ALCO is chaired by the Managing Director. The Risk Management Committee of the board sits quarterly to discuss the overall risk scenario of the bank. **Methods used to measure liquidity Risk.** The following methods are used to measure Liquidity risk - Liquidity Coverage Ratio (LCR) - Net Stable Funding Ratio (NSFR) - Cash Reserve Ratio (CRR), - Statutory Liquidity Ratio (SLR) - 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. ALCO meets once in a month to review strategies on Asset Liability Management.
Quantitative Disclosures	(b)	Liquidity Coverage Ratio 226% Net Stable Funding Ratio (NSFR) 176% Stock of High quality liquid assets 10003.00 crore Total net cash outflows over the next 30 calendar days 122.47 core Available amount of Stable funding 1208.45 crore Required amount of Stable funding 686.20 crore

Leverage Ratio

Qualitative Disclosures	(a)	Views of Board of Director on system to reduce excessive leverage In line with the BASEL III guidelines, RAKUB Board of Directors emphasis to improve Leverage Ratio by enhancing 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. Tier 1 Capital is calculated as per BASEL III guidelines. In the case of exposure measure, RAKUB includes both on balance sheet exposure and off balance sheet exposure Approach for calculating exposure- Leverage ratio of Bank has been worked out under the Basic Indicator Approach of RBCA guidelines in Solo-Basis.
Quantitative Disclosures	(b)	Leverage Ratio (-) 5.78% On balance sheet exposure 6096.79 Crore Off balance sheet exposure 0.10 Crore Total exposure 6096.89 crore

Remuneration

Qualitative **Disclosures**	(a)	Information relating to the bodies that oversee remuneration and mandate of the Management: At the management level, primarily the HR Planning, Deployment and operation division (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 (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches: The bank does not have any foreign subsidiary and branch. Its branches as well as controlling offices are located in the north and north west part 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.
	(b)	Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy: ▪ Not Applicable
	(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks: ▪ Not Applicable
	(d)	Description of the different forms of variable remuneration (i.e. cash, shares, and share -linked instruments and other forms) that the bank utilizes and the rationale for using these different forms: ▪ Not Applicable

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 and total amount of guaranteed bonuses awarded during financial year: Two guaranteed Festival Bonus as well as 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.
	(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. Total Amount of deferred remuneration paid out in the financial year: ▪ Not Applicable
	(d)	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: ▪ Not Applicable