DISCLOSURE UNDER BASEL II As On 31-12-2015.

Banks operating in Bangladesh are maintaining capital since 1996 on the basis of risk weighted assets in line with the Basel Committee on Banking Supervision (BCBS) capital framework published in 1988. Considering present complexity and diversity in the banking industry and to make the banks capital requirement more risk sensitive. Bangladesh Bank, being the central bank of the country has decided to adopt the Risk Based Capital Adequacy for banks in line with capital adequacy framework devised by the BCBS popularly known as ' Basel II'. Bangladesh Bank prepared a guideline to be followed by all scheduled banks from January 2009. These guidelines are articulated with the following areas, viz;

A) Introduction and constituents of Capital,

B) Credit Risk,

C) Market Risk,

D) Operational Risk,

E) Supervisory Review Process,

F) Supervisory Review Evaluation Process,

G) Market Discipline,

H) Reporting Formats and

I) Annexure

These guidelines will be able to make the regulatory requirements more appropriate and will also assist the banks to follow the instructions more efficiently for smooth implementation of the Basel II framework in the banking sector of Bangladesh.

The major highlights of the Bangladesh Bank regulations are:

a) To maintain Capital Adequacy Ratio (CAR) at a minimum of 10% of Risk weighted assets

b) To adopt the Standardized Approach for credit risk for implementing Basel -II

c) To adopt Standardized (Rule Based) Approach for market risk and Basic indicator Approach for operational risk and to submit the returns to Bangladesh Bank on a quarterly basis.

Disclosure framework

The general qualitative disclosure requirements

For each separate risk area (e.g. credit, market, operational, banking book, interest rate risk, equity) bank must describe their risk management objectives and policies, including:

- Strategies and processes,
- The structure and organization of the relevant risk management function,
- The scope and nature of risk reporting and / or measurement systems,
- Policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigates.

The following components set out in tabular form are the disclosure requirements
a) Scope of application
b) Capital structure
c) Capital adequacy
d) Credit risk
e) Equities: disclosures for banking book positions
f) Interest rate risk in the banking book (IRRBB)
g) Market risk
h) Operational risk

Scope of application

Qualitative Disclosures	a	The name of the top corporate entity in the group to which this guide lines applies Bangladesh Krishi Bank.
	b	An outline of differences on the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group that are fully consolidated. Bangladesh Krishi Bank's MCR has been arrived at on consolidation Basis- 1) that are not given a deduction treatment, BKB has no subsidiary company. 2) that are neither solo nor deducted (e.g. where the investment is risk weighted)
	c	) Any restrictions, or other major impediments, on transfer of fund or regulatory capital within the group Yes, there are
Quantitative Disclosures	d	The aggregate amount of capital deficiencies in all subsidiaries included in the consolidation that are not deducted and the name(s) of such subsidiaries.

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 . Tier -1 Capital comprises of paid up Capital, Statutory Reserve , General Reserve and Retained Earnings. Tier-2 Capital consists of General Provision, Asset Revaluation Reserve Revaluation Reserve for Securities, and Revaluation Reserve for Equity Instrument and Balance of Exchange Equalization account.
Quantitative Disclosures	**b**	**The amount of Tier-1 capital, with separate disclosure of :** (amount figure in crore Tk) a)Paid up capital --- 900.00 Re-Capitalization---250.00 Statutory reserve ---23.23 General reserve ---58.81 Retained earnings ---(6486.29) Minority interest in subsidiaries --------------------------------0.00 Other (if any item approved by BB) ------------------------ 0.00 b) The total amount of Tier -2 capital --------------------448.79 d) Deductions from Tier -1 capital ------------------------555.43 e) Deductions from Tier -1I capital ------------------------55.63 e) Total eligible capital ------------------------------------(5417.12)

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. Since its inception in 2009 the bank has been following Standardized Approach, Standardized (Rule Based) Approach and Basic indicator Approach for calculating capital requirement against Credit Risk, Market Risk and Operational Risk respectively.
Quantitative Disclosures	**b**	(b) Capital requirement for Credit Risk -------------- Tk 1365.20 crore. (c) Capital requirement for Market Risk ------------------- Tk.2.86 crore (d) Capital requirement for Operational Risk ---------- -Tk 32.41 crore. (e) Capital Adequacy Ratio--------------------------------- -38.68% (f) Tier-1 Capital to RWA----------------------------------- -41.49%

Credit Risk

Credit risk is defined as the possibility of failure of counterparty to meet its obligation as per agreed terms. Banks are very much prone to credit risk due to its core activities i.e. lending to corporate, SME, individual. The main objects of credit risk management is to minimize the negative impact through adopting proper mitigates and also limiting credit risk exposure within acceptable limit.

Bangladesh krishi Bank follows Bangladesh Bank's BRPD circular no-14 Dated 10.09.2012 for classification of loans and advances.

Classification SL	Types of Loans	Classification Status	Period of Classification
1	Continuous Loan –Cash credit (Hypo & Pledge)	SMA SS DF BL	2 Months 3 Months 6 Months 9 Months
2	Demand Loan -LIM -FBP -IBP	SMA SS DF BL	2 Months 3 Months 6 Months 9 Months
3	Fixed Term Loan which are repayable under a specific repayment schedule	SMA SS DF BL	2 Months 3 Months 6 Months 9 Months
4	Fixed Term Loan which loan amount below 10 lac	SMA SS DF BL	2 Months 3 Months 6 Months 9 Months
5	Short term Agriculture & Micro credit	SMA SS DF BL	---- 12 Months 36 Months 60 Months

Provisioning depending on the group:-

Particulars		Short Term Agriculture & Micro Credit	Consumer Financing			All other Credit
			Other than HF,LP	HF	LP	
UC	Standard	5%	5%	2%	2%	1%
	SMA	-	5%	2%	2%	1%
Classified	SS	5%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%
	BL	100%	100%	100%	100%	100%

Qualitative Disclosures	a	The General qualitative disclosure requirements with respect to credit risk, including: -As regards capital charge for Credit Risk, all assets in Banking Book have been risk weighted strictly based on pre specified risk weight as determined by Bangladesh Bank as per RBCA guideline. However, the Bank has conducted proper mapping with the grading of Bangladesh for those exposures or claims graded by ECAI. • Definition of past due and impaired (for Accounting purposes) • Any claim or exposure that has been overdue for 90 days or more is called past and impaired loan in accordance with the definition given by Bangladesh Bank as per section 5(CC) of the Bank Companies Act.1991 . • Description of approaches followed for specific and general allowances and statistical methods. -The Bank has been following standardized approach for assessing the requirement of capital charge against Credit Risk. The methodology used for this approach is to rate the exposures or by the ECAI (External Credit Assessment Institution) • Discussion of the Bank's credit risk management policy. -Based on CRMG guidelines published by Bangladesh Bank, an updated and well managed Credit Risk Management Policy has been placed in Bangladesh Krishi Bank . -It serves as a guide to effectively avert risks involved in lending of the bank. -The Credit Risk Grading (CRG) has been in place since its introduction in 2005 and it is being used for making proper lending decision and for administering the CRM process. -Bangladesh Krishi Bank credit policy is based on the customers' need on their business and security, earning capacity of recipient. the repayment ability of the business, and follows conservative approach in valuation of collateral. -The Credit policy of the bank is focused on the economic goal of the country and policies adopted by the Government. It strives towards the materialization of the Government policies leading overall economic development of the country. -The policy stresses the need to give special attention to problem loans and to initiate appropriate action for protecting the Banks interest on a timely basis. -Bangladesh Krishi Bank strictly adheres to the regulatory policies, rules etc as regard to credit management and is in compliance with regulatory requirements as stipulated by Bangladesh Bank from time to time. -The objective of credit risk management is to minimize the different dimension of risks associated with credit exposures and to maintain credit risk profile of the bank within tolerable range.

Quantitative Disclosures	b	Total gross credit risk exposures broken down by major types of credit exposure. (amount figure in crore Tk) Funded-- 17960.28 Non funded -- 657.92 Total -- 18618.20 **Balance sheet Exposures-** 1) Cash--- 101.32 2) Claims on Bangladesh Govt & BB-------------------------- 1611.23 3) Claims on Banks and NBFIs-------------------------------- 468.27 4) Claims on Corporate-- 1468.45 5) Claims categorized as retail portfolio------------------------ 9882.61 6) Consumer Finance-- 39.93 7) claims fully secured by residential property----------------- 545.25 8) claims fully secured by commercial real estate--------------- 278.40 9) SME--656.73 10) Past due Claims-- 4070.07 11) Capital Market exposure------------------------------------- 3.14 12) Un listed Security-- 0.30 13) Investment in premises, Fixed assets, plant-------------------- 639.49 14) All other assets Claims on Bangladesh Govt & BB--------- 1034.38 15) Staff loan & other investment---------------------------------- 1434.91 16) All other assets Cash item in process of collection--------- 495.86 17) All other assets-- 108.60 **Off Balance sheet Exposure** 1) Claims on Bangladesh Govt & BB----------------------------- 40.00 2) Claims on public sector entities-------------------------------- 104.00 3) Claims on Corporate-- 1.39
	c	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure <u>Balance sheet exposures</u> (amount figure in crore Tk) Dhaka Division-- 6203.87 Mymensingh Division--2850.30 Chittagong Division-- 3558.43

		Khulna Division--- 2755.90 Barisal Division--- 1648.97 Sylhet Division--- 942.81 Total--- 17960.28
	d	Industry type distribution of exposures, broken down by major types of credit exposure : Industry -wise distribution of loans and advances: (amount figure in crore Tk) Agriculture Crop Loan -------------------------- 8584.77 Fishery Loan--------------------------------------- 1003.81 Livestock Loan------------------------------------ 982.55 Textile (Industry & Trade)----------------------- 420.65 Transport -- 12.90 SME-- 656.70 RMG --- 490.71 Leather--- 18.50 Consumer Credit-------------------------------------- 39.93 Trade Financing------------------------------------ 2486.98 Others industries----------------------------------- 1276.26 Construction ,Health & Storage------------------- 823.65 Others -- 1162.87 Total --- 17960.28
	e	Residual contractual maturity breakdown of the whole portfolio broken down by major types of credit exposure. **Funded Exposure.** (amount figure in crore Tk) Repayable on Demand 412.10 Not more than 3 month 3176.77 More than 3 month but not more than 1 year 6072.19 More than 1 year but not more than 5 year 4094.62

		More than 5 year 4204.60 Total --- 17960.28
	f	By major industry or counterparty type : • Amount of impaired loans and if available past due loans, provided separately-------------------- 4070.07 crore • Specific provision -------------------------------------- 2274.22 crore • General provisions------------------------------------- ---255.25 • Changes for specific allowances and change Off during the period : Not Applicable
	g	Gross Non performing Assets (NPAs) ---------------------Tk 4070.07 crore Non performing Assets (NPAs) to Outstanding loans & advances : 0.24:1.00 Movement of Non Performing Assets (NPAs) (amount figure in crore Tk) Opening balance--------------------------- 4310.06 Additions------------------------------------ 811.79 Reductions--------------------------------- 1051.78 Closing balance ---------------------------- 4070.07 Movement of specific provisions for NPAs : (amount figure in crore Tk) Opening balance-------------------------------- 2042.50 Provisions made during the period ---------- 471.89 Write off & Interest Remission-------------- 9.52 Write -back of excess provision ------------- 230.65 Closing balance--------------------------------- 2274.22

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. -Basically, there is no differentiation for all equity holdings are held for expected capital gain. However, there are holdings which are kept for relationship and strategic reason apart from capital gains. • 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. -Equity holdings in the banking book are recorded in the books of accounts at cost price. In fact there is no valuation methodology used in the bank. Provisions are made against equity holdings when there takes place any decrease in the value of equity holdings.
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. -- Capital requirements broken down by appropriate equity groupings, consistent with the banks methodology. as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements. Investment in shares at cost price: a) Quoted shares-------3.14 core b) Un-quoted shares----0.30 core

Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures	**a**	The general qualitative disclosure requirement including the nature of IRRBB and key assumptions. including assumptions regarding loan prepayments and behavior of non maturity deposits and frequency of IRRBB measurement. Interest rate risk describes how the bank would be negatively affected with the change in the interest rates on its On- balance sheet and the Off- balance sheet exposures. The Bank uses a simple Sensitivity Analysis as well as Duration Gap Analysis to determine its vulnerability against the adverse moment of market variables. Bangladesh Krishi Bank discusses the interest rate issue in its ALCO meeting on monthly basis . In addition JBL assesses the interest rate risk using simple duration analysis as per the formula given by Bangladesh Bank in its guidelines on Stress Testing. For change in interest rates, currently, Bangladesh Krishi Bank is more risk sensible for its Assets comparable to its Liabilities. The Bank is on a continuous process of re-structuring in its assets and liabilities to make a balance between them and to bring the situation back in its favor for any change in interest rate.
Quantitative Disclosures	**b**	The increase (decline) in earning or economic value (or relevant measure used by management) for upward and downward rate shocks according to management method for measuring IRRBB. broken down by currency (as relevant) The bank has been using " Stress Testing" based on the guideline published by Bangladesh Bank to determine the following: Impact on earning and Impact on Capital requirements

Market Risk

Qualitative Disclosures.	a	**Views of BOD on 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 calculated 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. **Policies and process for mitigating market risk** -The only mitigation tool that the Bank uses is the " Marking to Market" for mitigating market risk, Besides, a set risk/ loss tolerance level is in place to mitigate market risk.
Quantitative Disclosures	b	The capital requirements for (amount figure in crore Tk) interest rate risk Tk. 0.00 Equity position risk Tk 0.37 Foreign exchange risk Tk.2.49 Commodity risk - Tk 0.00

Operational Risk

Qualitative Disclosures	a	Operational Risk of Bank has been worked out under the Basic Indicator Approach of RBCA guidelines.
Quantitative Disclosures	b	The capital requirements for (amount figure in crore Tk) Operational risk------------- Tk. 32.41

Liquidity Ratio

Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or when a bank is unable to fulfill its commitments in time when payment falls due. Thus, liquidity risk can be of two types:

Qualitative Disclosures.	a	**Views of BOD on system to reduce liquidity Risk.** - BKB 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). The Treasury Department 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 as well as to the Risk Management Committee (Management Level). 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 - Net Stable Funding Ratio (NSFR) - Cash Reserve Ratio (CRR), - Statutory Liquidity Ratio (SLR) - Medium Term Funding Ratio (MTFR) - Maximum Cumulative Outflow (MCO) - Loan Deposit Ratio **Liquidity Risk Management system** - The Central Accounts-1deptt 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. **Policies and process for mitigating liquidity risk** - The Liquidity risk management of the Bank is undertaken by the Asset Liability Management group in the Treasury in accordance with the Board approved policies and ALCO approved funding plans.
Quantitative Disclosures	b	Liquidity Coverage Ratio--------------34.16% Net Stable Funding Ratio(NSFR)---102.63% Stock of High quality liquid assets—1475.63 crore Total net cash outflows over the next 30 calendar days—525.12 core Available amount of Stable funding ---- 15418.70 crore Required amount of Stable funding ---- 15023.43 crore

Leverage Ratio

In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced by Bangladesh Bank. The leverage ratio is intended to achieve the following objectives:
a)constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and
b) reinforce the risk based requirements with an easy to understand and a non-risk based measure.

Qualitative Disclosures	a	**Views of BOD on system to reduce excessive leverage** In line with the BASEL III guidelines, BKB Board of Directors emphasis to improve Leverage Ratio by enhancing Tier 1 capital . 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, BKB includes both on balance sheet exposure and off balance sheet exposure. **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, BKB 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------------------- (-)28.79% On balance sheet exposure------- 17960.28 crore Off balance sheet exposure------- 657.92 crore Total exposure----------------- 18618.20 crore

Remuneration

<table>
<tr>
<td>Qualitative Disclosures</td>
<td>a

b

c

d

e</td>
<td>Information relating to the bodies that oversee remuneration and mandate of the Management
- BKB follows the national pay scale -2009 and 2015
Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy
- N/A
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.

- N/A

A discussion of the bank's policy on deferral and vesting of variable remuneration and a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting
- The Bank has various schemes in regards to deferred and vested variable remuneration which are as under:
a) Death cum Survival Superannuation Fund provides superannuation and other benefits to the employees of the Bank on their death, disability, retirement/or being incapacitated at any time or for any other cause that may be deemed fit as per Govt. rule.
b) Staff House Building Loan (a permanent employee any rank after completion of 5 (five) years of service, can avail of a House Building Loan at Bank Rate as per policy and approval from the appropriate Authority
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

- N/A</td>
</tr>
<tr>
<td>Quantitative Disclosures</td>
<td>a

b</td>
<td>Number of employees having received a variable remuneration award during the financial year
-Total 10,697 number of employees got variable remunerations during the year 2015.
Number and total amount of guaranteed bonuses awarded during financial year.

-2 (Two) number of guaranteed bonus (Festival Bonus) and Ex-gracias were awarded during the year and the amount of bonus was Tk. 42.66 crore

Total amount of outstanding deferred remuneration, split into cash, share and share-linked instruments and other forms.</td>
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	c	- N/A **Total Amount of deferred remuneration paid out in the financial year.** -N/A
	d	**Breakdown of amount of remuneration awards for the financial year to show:** Fixed and variable Fixed remuneration is Tk. 355.15 crore and variable remuneration is Tk. 132.54 crore. **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:** **-N/A**