"Disclosure on Risk Based Capital (Basel-II)" as on December 2013

The purpose of Market Disclosure is to complement the operation of Minimum Capital Requirement (Pillar-1) & the Supervisory review Process (Pillar 2) in the Revised Capital Adequacy Framework (Basel-II). It allows market participants to assess key pieces of information on the scope of application, capital adequacy, risk exposures, risk assessment & its management processes. Market disclosures have the potential to reinforce capital regulation & other supervisory efforts to promote safety & soundness in bank.

The qualitative and quantitative disclosures of the bank under Basel-II requirements based on the audited financial position as of 31 December 2013 are prepared as per the guidelines of Bangladesh Bank on "Risk Based Capital Adequacy for Banks" to establish more transparent and more disciplined financial market.

1. Scope of Application

Qualitative Disclosures	
(a) The name of the top corporate entity in the group to which this guidelines applies	Rupali Bank Limited.
(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 (i) that are fully consolidated; (ii) that are given a deduction treatment and (iii)that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	Rupali Bank Limited (RBL) is a state-owned commercial bank. Basel-II is applied by the bank on "solo" & "consolidated" basis. Rupali Investment Limited (RIL) a fully owned subsidiary company of RBL, incorporated as a public limited company on August 27, 2010 with the registrar of Joint Stock Companies & approved by Bangladesh Securities & Exchange Commission on August 09, 2011 to perform full-fledged merchant banking activities like portfolio management, underwriting, stock trading business etc. Investment in the subsidiary company RIL is risk weighted in the bank's exposures. Rupali Securities Ltd is also a subsidiary company of RBL but operation is not started yet.
(c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable
Quantitative Disclosures	
(d) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	Not applicable

2. 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, also called as 'Core Capital', of RBL consists of paid-up capital, statutory reserve, general reserve, retained earnings and share money deposit. Tier 2 capital, also called as "Supplementary Capital", of RBL consists of general provision (against unclassified loans, SMA and Off-Balance Sheet exposures), revaluation reserves for fixed assets (50%), securities (50%) and equity instruments (10%). RBL does not have any Tier 3 capital. Total Eligible Regulatory Capital = (Eligible Tier-I Capital + Eligible Tier-II Capital)

Capital structure contd.

Quantitative Disclosures

		Solo	Consolidated
(b) Amount of core capital (Tier 1), with separate disclosure of:	**Tier 1 Capital**	**Taka in Crore**	
	Paid-up capital	244.00	244.00
	Statutory reserve	250.20	250.20
	General reserve	151.33	151.33
	Retained earnings	167.74	173.48
	Share money deposit	217.50	217.50
	Total Tier 1 Capital	**1030.77**	**1036.51**
(c) Total Supplementary Capital	**Tier 2 and Tier 3 Capital**	**244.79**	**244.79**
(d) Deductions	Other deductions from capital	(599.80)	(599.80)
(e)Total eligible capital	**Total eligible capital**	**675.76**	**681.50**

3. 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	i) The bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank. The bank has maintained capital adequacy ratio on the solo & consolidated are 5.38 percent & 5.42 percent against the minimum regulatory requirement of 10 percent. Tier-I capital adequacy ratio for solo & consolidated are 3.43 percent & 3.47 percent against the minimum regulatory requirement of 5 percent. The bank's policy is to manage and maintain its future capital considering all material risks that are covered under pillar-2 of Basel II as well as the result of Stress Tests. The primary objective of the capital management is to optimize the balance between return and risk, while maintaining economic regulatory capital in accordance with risk appetite. ii) RBL determines its risk weighted assets by multiplying the exposure amount of assets with their respective risk weight given in Basel II guidelines of Bangladesh Bank. RWA for market & operational risk are calculated by multiplying the capital charge for these risks by the reciprocal of minimum capital adequacy ratio (10%).

Quantitative Disclosures

		Solo	Consolidated
		Taka in crore	
(b) Capital Requirement	For Credit Risk	1077.33	1081.05
	For Market Risk	50.68	50.68
	For Operational Risk	127.64	128.14
(c)Total and Tier 1 capital ratio:	Capital Adequacy Ratio (CAR) %	5.38	5.42
	Core Capital to Risk Weighted Assets%	3.43	3.47
(d)Break-up of total assets based on its Risk Weight	Assets with 0% Risk Weight	6648.39	6653.11
	Assets with 20% Risk Weight	5185.32	5185.32
	Assets with 50% Risk Weight	1334.26	1334.26
	Assets with 75% to 100% Risk Weight	5912.52	5935.85
	Assets with more than 100% Risk Weight	2538.09	2538.09
	Total	**21618.58**	**21646.63**

4. Credit Risk

Qualitative Disclosures	Classification SL	Types of Loans	Classification Status	Period for classification
a(i) RBL follows Bangladesh Bank's BRPD Circular No.14 Dated 23 September 2012 for classification of loans & advances	1	**Continuous Loan** (Overdraft, Cash credit-Hypo, Cash credit-pledge etc)	SMA	2 Months
			SS	3M
			DF	6M
			BL	9M
	2	**Demand Loan** (Forced Loan, PAD, LIM, FBP, IBP etc.)	SMA	2M
			SS	3M
			DF	6M
			BL	9M
	3	**Term Loan** (which are repayable under a specific repayment schedule- within 5 years.)	SMA	2M
			SS	3M
			DF	6M
			BL	9M
	4	**Term Loan** (which are repayable under a specific repayment schedule- above 5 years.)	SMA	2M
			SS	3M
			DF	6M
			BL	9M
	5	**Short term Agriculture & Micro credit**	SMA	-
			SS	12M
			DF	36M
			BL	60M

(ii)Provisioning depending on the group:

Particulars		Short Term Agriculture & Micro Credit	Consumer Financing: Other than HF,LP	Consumer Financing: HF	Consumer Financing: LP	SMEF	BHs/ MBs /SDs	All other Credit
UC	Standard	5%	5%	2%	2%	0.25%	2%	1%
UC	SMA	-	5%	5%	5%	5 %	5%	5%
Classified	SS	5%	20%	20%	20%	20 %	20%	20%
Classified	DF	5%	50%	50%	50%	50 %	50%	50%
Classified	BL	100%	100%	100%	100%	100 %	100%	100%

HF=Housing Finance, LP=Loans to professionals to setup business, SMEF=Small & Medium Enterprise Financing, BHs= Loans to Brokerage House, MBs= Loans to Merchant Bank, SDs = Loans to Stock Dealers.

(iii)Discussion of the bank's credit risk management policy:

On the basis of Bangladesh Bank's credit risk management policies, a manual of Credit Risk Management (CRM) has been formulated and approved by RBL's Board of Directors. The key principle of credit risk management is client due diligence, which is aligned with our country and industry portfolio strategies before sanction of any credit facility as per CRM policies which emphasizes on the size & type, purpose, structure (term, conditions, repayment schedule& interest rate) and securities of the loan proposed.

For actively aiming to prevent concentration (Single borrower/group borrower/geographical/sectoral concentration) and long tail-risks (large unexpected losses; RBL follows different prudential guidelines of its own and Bangladesh Bank. In all market conditions, the bank's capital is effectively protected by ensuring a diversified and marketable credit portfolio.

Risk appetite for credit risk of RBL is determined by its Board of Directors desiring optimum business mix, risk preferences, the acceptable trade-off between risk & reward etc.

Credit Risk contd.

Qualitative Disclosures	
	The assessment process is initiated at branch/credit division and placed before Management Credit Committee (MCC) or Board for approval. This process includes borrower analysis, industrial analysis, historical financial analysis, repayment sources analysis, mitigating factors etc. Credit risk grading system has been adopted by RBL as per Bangladesh Bank's instruction that defines the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. RBL is very much concern in managing non-performing loan. RBL follows Bangladesh Bank's BRPD Circular for classification of loans & advances & provisioning. Targets to recover classified loans & advances are determined for the branch, workstation & divisional office at the beginning of the year. Continuous contact with the borrowers, special meeting with the defaulter, recruitment of recovery specialist, formation of special task forces, announcement of special program are emphasized.

Quantitative Disclosures

		Taka in crore
(b)	Loan General	4736.07
	Cash Credit	3013.01
	Overdrafts	274.06
	Other Loans	2440.45
	Bills Purchased and Discounted	279.04
	Total	**10742.63**

		Taka in crore
(c) Geographical distribution of exposures:	Dhaka	7101.19
	Chittagong	1443.11
	Sylhet	101.45
	Barisal	283.59
	Khulna	1234.51
	Rajshahi	218.54
	Rangpur	360.24
		10742.63

		Taka in crore
(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure	Jute Industry (Govt. & Private)	356.29
	Tannery Industry	326.17
	Jute Business	423.93
	Small & Cottage Industry	-
	Cold Storage/Ice plant	89.00
	Textile	2798.00
	Garments	525.00
	Engineering	725.00
	Food	399.00
	Chemicals	415.00
	Shipping/ Transport	116.00
	Shoe	37.00
	Services	158.00
	Ceramic	18.00
	Plastic	27.00
	Dairy	9.00
	Printing & Publications	143.00
	Other	4177.24
	Total	**10742.63**

Credit Risk contd.

Quantitative Disclosures				
				Taka in crore
(e)Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Payable on Demand			214.85
	Over 1 month but not more than 3 months			2685.66
	Over 3 months but not more than 1 year			2900.51
	Over 1 year but not more than 5 years			2363.38
	Over 5 years			2578.23
	Total			**10742.63**
				Taka in crore
(f)Major counterparty wise amount of impaired loans :	**Government**	**Unclassified:**		
		Standard	-	
		Special Mention Account(SMA)	-	
		Classified:		
		Substandard		
		Doubtful		
		Bad & Loss	54.05	
		Sub Total		**54.05**
	Other Public	**Unclassified:**		
		Standard	707.62	
		Special Mention Account (SMA)		
		Sub total		707.62
		Classified:		
		Substandard		
		Doubtful		
		Bad & Loss	34.01	
		Sub total		**34.01**
	Private	**Unclassified:**		
		SMA+Standard	8235.76	
		SS+DF+BL	1711.19	
		Sub total		**9946.96**
		Grand Total		**10742.63**
		Classified:		
		Substandard	185.87	
		Doubtful	121.83	
		Bad & Loss	1491.55	
		Sub Total		**1799.25**
Summary				**Taka in crore**
	Unclassified			
	Standard		8869.31	
	SMA		74.07	
		Sub Total		**8943.38**
	Classified			
	Substandard		185.87	
	Doubtful		121.83	
	Bad & Loss		1491.55	
		Sub Total		**1799.25**
		Grand Total		**10742.63**

Credit Risk contd.

Quantitative Disclosures	
(g) Movement of NPA & Provisions	

Taka in crore

Gross Non Performing Assets(NPAs)	1799.25
Non Performing Assets (NPAs) to outstanding Loans & advance	17.48 %
Movement of NPAs (Gross)	
Opening balance	**2262.79**
Additions during the year	1776.62
Reductions (Cash Recovery +Adjustment +Write-Off)	(2240.16)
Closing balance	1799.25
Movement of specific provisions for NPAs	
Opening balance	636.74
Provisions made during the period	103.86
Recovered from previously written off loans	**0.01**
Fully Provided debts Write-off	
Transferred from off-balance sheet exposure	
Closing Balance	**740.61**

5. Equities: Disclosures for banking book positions

Qualitative Disclosures	
(a)The general qualitative disclosure requirement with respect to equity risk, including: • Differentiation between holdings in which capital gains are expected and those taken under other objectives including for relationship and strategic reasons • 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.	-Differentiation between holdings of equities for capital gain and those taken under other objectives is being clearly identified. The equity positions are reviewed periodically by the senior management. -Important policies covering equities valuation and accounting of equity holdings in the Banking Book are based on use of the cost price method for valuation of equities.
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.	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.

Particulars	Solo		Consolidated	
	Taka in Crore			
	Cost Price	Fair Value	Cost Price	Fair Value
Unquoted Shares	555.35	555.35	555.35	555.35
Quoted Shares	135.03	413.57	135.03	413.57
Total	**690.38**	**968.92**	**690.38**	**968.92**

The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	Nil
Total unrealized gains	278.54
Total latent revaluation gains (losses)	Nil
Any amounts of the above included in Tier 2 capital	27.85

Capital charge for Equity exposure assessed for total amount without group segregation is 27.01.

6. 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.	- To manage this risk in the banking book, bank considers the impact of interest rate changes on both assets and liabilities, and its particular features including, among other things, terms and timing. Changes in interest rates affect both the current earnings (earning perspective) as well as the net worth of the bank (economic value perspective). RBL periodically computes the interest rate risk on the banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. For computation of the interest rate mismatches the guidelines of Bangladesh bank are followed. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO regularly.
(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).	- At 1% increase in Interest Rate, fall in MVE (Market Value Equity) is Tk.45.26 crore

7. Market risk

Qualitative Disclosures			
(a) Views of BOD on trading/investment activities	-The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to obtain maximum returns without taking undue risks.		
Methods used to measure Market risk	-Standardized Approach (SA) is used for calculating capital charge against market risk (interest rate risk, equity position & foreign exchange risk) which is determined separately. The total capital requirement in respect of market risk is the sum of capital requirement measured in terms of two separately calculated capital charges for specific market risk and general market risk for each of these market risk sub-categories.		
Market Risk Management system	- RBL makes investment decision based on historical data of market movements of all comparable financial instruments to avoid general market risk. For managing specific risk RBL emphasizes on investment in Government treasury bonds and quality financial instruments, which are less volatile in nature. Treasury Front Office, Back Office & Mid Office have been established and functioning through an independent organizational chain as per terms & of the manual.		
Conditions ,Policies and processes for mitigating market risk	-There are approved limits for credit deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items, borrowing from money market and foreign exchange position. The limits are monitored and enforced regularly to protect against market risks. These limits are reviewed based on prevailing market and economic conditions to minimize risk due to market fluctuation.		
Quantitative Disclosures			
The capital requirements for:		**Solo**	**Consolidated**
		Taka in Crore	
	(b) Interest rate risk	23.04	23.04
	(c) Equity position risk	27.01	27.01
	(d) Foreign Exchange risk	0.63	0.63
	(e) Commodity risk	Nil	Nil

8. Operational risk

Qualitative Disclosures	
• Views of BOD on system to reduce Operational Risk	-Internal Control & Compliance (ICC) is the main tool in managing operational risk. Management, through three units of ICC i.e. monitoring, compliance and Audit & Inspection; controls overall operation of the bank. Board audit committee directly oversees the functions of ICC to prevent operational risks.
• Performance gap of executives and staffs	-There is no significant performance gap as RBL takes necessary steps for HR development and ensures proper distribution of its human resources.
• Potential external events	- No potential external event is expected to expose the bank to significant operational risk.
• Policies and processes for mitigating operational risk	-RBL has formed MANCOM (Management Committee) to identify measure, monitor and control the risks through framing required policies and procedures. The policy of managing operational risk through Internal Control and Compliance is approved by the Board taking into account the relevant guidelines of Bangladesh Bank. DCFCL (departmental control function check list) and QOR (quarterly operation report) are applied for evaluation of the branches operational performance. Manuals related to Credit, Human Resources, Finance & Accounts, Treasury, Audit and Inspection etc. have been prepared for continuous recognition and assessment of all material risk that could adversely affect the achievement of RBL's goal. The audit & inspection division makes a year wise risk based audit plan to carry out comprehensive audits & inspections on the banking operations in procedures are in place & complied with.
• Approach for calculating capital charge for operational risk	-RBL uses the basic indicator approach (BIA) to calculate its operational risk. Under BIA, the capital charge for operational risk is a fixed percentage denoted by α (alpha) of average positive annual gross income (GI) of the bank over the past three years. The capital charge may be expressed as follows: $K=[(GI1 + GI2 + GI3) \times \boldsymbol{\alpha}] / n$ Where, K = Capital charge under the basic indicator approach GI= Only Positive annual gross income over the previous three years α = 15% N = Number of the previous three years of which gross income is positive
Quantitative Disclosures	
• The capital requirements for operational risk	**Solo** / **Consolidated** **Taka in Crore** 127.64 / 128.14