

## DISCLOSURE UNDER BASEL III as On 30.06.2021

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 bank's 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. With the above goal, under the process of Market discipline, one of the pillars of BASEL II BKB has started to disclose It's BASEL report to Bangladesh Bank from January 2013.

Basel III reforms have been made to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spillover from the financial sector to the real economy. To cope up with the international best practices and to make the bank's capital shock absorbent Regulatory Capital Framework for banks in line with Basel III came into force from January 2015.

These disclosures have been made in accordance with the Guidelines on "Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)" issued by Bangladesh Bank vide BRPD Circular No-18 of 21 December 2014. The purpose of Market discipline in the Revised Capital adequacy Framework is to complement the minimum capital requirements and the supervisory review process. The aim of disclosure is to establish more transparent and more disciplined information 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 meet probable loss of assets.

The Major focuses of Basel-III are:

- a) Minimum Capital Requirements to be maintained by a bank against credit, market and operational risks
- b) Raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis
- c) Raise the standards for the supervisory review process
- d) Framework of public disclosures on the positions of a bank's risk profiles, capital adequacy and risk management system

The major highlights of the Bangladesh Bank regulations regarding measurement of Risk Weighted Assets and capital requirement:

- a) To maintain Capital to Risk Weighted Assets Ratio (CRAR) at a minimum of 10 percent.
- b) To adopt the standardized approach for credit risk in relation to implementation of Basel-III.
- c) To adopt Standardized (Rule Based) Approach for market risk.
- d) To adopt Basic Indicator Approach for Operational risk.
- e) To submit the returns to Bangladesh bank on a quarterly basis.

*Choi*

ⓐ

ⓑ

According to Bangladesh Bank guideline on Risk Based Capital adequacy for banks, the disclosure on the websites should be made in a web page titled "Disclosure on Risk Based Capital (Basel-III)" and the link to the page should be prominently provided on the home page of the Bank's website. Each of these disclosure pertaining to a financial year should be available on the websites until disclosure of the 4th subsequent annual as on December 31, disclosure is made and here BKB has arranged to disclose It's BASEL report on 30.06.2021 (on Audited Balance Sheet) under BASEL III as per the requirement and indications of Bangladesh Bank.

**This report has been articulated with the following areas:**

- 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

We hope this disclosure 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-III framework in the banking sector of Bangladesh.



## Disclosure framework

### The general qualitative disclosure requirements

For each separate risk area (e.g. credit, market, operational, banking book, interest rate, equity) risk, 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 measurement systems,
- Policies for hedging and mitigating risk and strategies /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
- i. Leverage Ratio
- j. Liquidity Ratio
- k. Remuneration.

### Scope of application

<b>Qualitative Disclosures</b>	a) The name of the top corporate entity in the group to which this guideline applies.	Bangladesh Krishi Bank (100% state owned Bank).
	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).	i) Capital to Risk-weighted Assets Ratio (CRAR) report of Bangladesh krishi Bank is submitted to Bangladesh Bank on 'Solo' basis. BKB has no subsidiary company.  ii) The following items are given a deduction treatment- 1) Deferred Tax Assets iii) The accounts of the Bangladesh Krishi Bank has been solo basis. There is no deducted from the capital of BKB.
	c) Any restrictions or other major impediments on transfer of fund or regulatory capital within the group.	- Not Applicable.
<b>Quantitative Disclosures</b>	d) The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	- Not Applicable.

*[Handwritten signature]*

*[Handwritten mark]*

*[Handwritten mark]*

## Capital Structure

<b>Qualitative Disclosures</b>	<p>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.</p>	<p>In terms of Section 13 of the Bank Company Act, 1991 (Amended up to 2013), the terms and conditions of the main features of all capital instruments have been segregated in terms of the eligibility criteria set forth vide 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)] and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments are as follows: The capital of BKB can be classified into two tiers. The total regulatory capital will consist of sum of the following categories: 1. Tier 1 Capital (going-concern capital) a) Common Equity Tier 1 b) Additional Tier 1 2. Tier 2 Capital (gone-concern capital) Tier-1 capital consists of CET1 and Additional Tier 1 Capital highest quality capital items which are stable in nature and allow a bank to absorb losses on an ongoing basis. CET1 includes paid-up capital, statutory reserve, general reserve, retained earnings, minority interest in subsidiaries. Tier-2 capital lacks some of the characteristics of the core capital but also bears loss absorbing capacity to a certain extent. 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.</p>																				
<b>Quantitative Disclosures</b>	<p>b) Amount of Regulatory Capital With separate Disclosure of CET- 1 Additional Tier- 1 Capital Total Tier 1 Capital Tier 2 Capital</p>	<p>a. The amount of Tier-1 capital, with separate disclosure of :</p> <p style="text-align: right;">(amount figure in crore Tk)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td>Paid up capital -----</td> <td style="text-align: right;">900.00</td> </tr> <tr> <td>Re-Capitalization-----</td> <td style="text-align: right;">650.00</td> </tr> <tr> <td>Statutory reserve -----</td> <td style="text-align: right;">23.23</td> </tr> <tr> <td>General reserve -----</td> <td style="text-align: right;">58.81</td> </tr> <tr> <td>Retained earnings -----</td> <td style="text-align: right;">(11360.43)</td> </tr> <tr> <td>Minority interest in subsidiaries -----</td> <td style="text-align: right;">0.00</td> </tr> <tr> <td>Other ( if any item approved by BB) -----</td> <td style="text-align: right;">0.00</td> </tr> <tr> <td>b. The total amount of Tier -2 capital -----</td> <td style="text-align: right;">226.68</td> </tr> <tr> <td>General provision against UC &amp; Off balance sheet exposure-----</td> <td style="text-align: right;">226.68</td> </tr> <tr> <td>Revaluation reserves (50% of fixed assets &amp; securities and 10% of equities-----</td> <td style="text-align: right;">0.00</td> </tr> </table>	Paid up capital -----	900.00	Re-Capitalization-----	650.00	Statutory reserve -----	23.23	General reserve -----	58.81	Retained earnings -----	(11360.43)	Minority interest in subsidiaries -----	0.00	Other ( if any item approved by BB) -----	0.00	b. The total amount of Tier -2 capital -----	226.68	General provision against UC & Off balance sheet exposure-----	226.68	Revaluation reserves (50% of fixed assets & securities and 10% of equities-----	0.00
Paid up capital -----	900.00																					
Re-Capitalization-----	650.00																					
Statutory reserve -----	23.23																					
General reserve -----	58.81																					
Retained earnings -----	(11360.43)																					
Minority interest in subsidiaries -----	0.00																					
Other ( if any item approved by BB) -----	0.00																					
b. The total amount of Tier -2 capital -----	226.68																					
General provision against UC & Off balance sheet exposure-----	226.68																					
Revaluation reserves (50% of fixed assets & securities and 10% of equities-----	0.00																					
	<p>c) Regulatory Adjustments/Deductions from capital</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td>Deductions from Tier -1 capital ---</td> <td style="text-align: right;">0.00</td> </tr> <tr> <td>Deductions from Tier -2 capital -----</td> <td style="text-align: right;">0.00</td> </tr> </table>	Deductions from Tier -1 capital ---	0.00	Deductions from Tier -2 capital -----	0.00																
Deductions from Tier -1 capital ---	0.00																					
Deductions from Tier -2 capital -----	0.00																					
	<p>d) Total eligible capital</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td>Total eligible capital -----</td> <td style="text-align: right;">(9501.70)</td> </tr> </table>	Total eligible capital -----	(9501.70)																		
Total eligible capital -----	(9501.70)																					

(Signature)

(Signature)

(Signature)

## Capital Adequacy

<b>Qualitative Disclosures</b>	a) A summary discussion of the bank's approach for assessing the adequacy of its capital to support current and future activities	<p>With regard to regulatory capital computation approaches (minimum capital requirement) the bank is following the approach as prescribed by Bangladesh bank. Below are risk wise capital computation approaches that the bank is currently applying:            Credit Risk : Standardized Approach (SA)            Market Risk :Standardized Approach (SA)            Operational Risk: Basic Indicator Approach (BIA).</p> <p>In parallel to business growth, the bank cannot effectively manage its capital to meet regulatory requirement considering the risk profile. Below are few highlights:</p> <p>Currently Bangladesh bank prescribed Minimum Capital to Risk Weighted Assets Ratio (CRAR) is 10% whereas as on June, 2021 the CRAR of the Bank was (-) 40.10%.</p> <p>During the same period Minimum Capital Requirement (MCR) of the bank was BDT 2369.77 crore and Eligible Capital was BDT (9501.70) crore</p>
<b>Quantitative Disclosures</b>	b) Capital requirement for Credit Risk	Capital requirement for Credit Risk --Tk 23523.99crore
	c) Capital requirement for Market Risk	Capital requirement for Market Risk -- Tk.53.31 crore
	d) Capital requirement for Operational Risk	Capital requirement for Operational Risk --Tk 120.41
	e) Total Capital, CET 1 Capital , Tier-1 Capital and Tier 2 capital ratio	Capital Adequacy Ratio----- - 40.10% Core Capital to RWA (Tier-1)----- - 41.05% Supplementary Capital to RWA (Tier-2) 0.96%
	f) Capital Conservation Buffer	Capital Conservation Buffer (CCB)----- 0.00%
	g) Available Capital under Pillar 2 Requirement	Could not maintain

## 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
a.	Continuous Loan -Cash credit (Hypo & Pledge)	SMA SS DF BL	3Months 3-9 Months 9-12 Months >12 Months
b.	Demand Loan -LIM -FBP -IBP	SMA SS DF BL	3Months 3-9 Months 9-12 Months >12 Months
c.	Fixed Term Loan which are repayable under a specific repayment schedule	SMA SS DF BL	8-12 Months 12-24 Months 24-36Months >36 Months
d.	Fixed Term Loan which loan amount up to 10 lac	SMA SS DF BL	8-9 Months 9-15 Months 15-18 Months >18 Months
e.	Short term Agriculture & Micro credit	SMA SS DF BL	---- 12-36 Months 36 -60Months >60 Months

Provisioning depending on the group

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

*Q*

*GA*

*B*

<p>Qualitative Disclosures</p>	<p>a) The General qualitative disclosure requirements with respect to credit risk, including:  i) Definition of past due and impaired (for Accounting purposes)</p> <p>ii) Description of approaches followed for specific and general allowances and statistical methods.</p>	<p>- As per relevant Bangladesh Bank guidelines, the Bank defines the past due and impaired loans and advances for strengthening the credit discipline and mitigating the credit risk of the Bank. The impaired loans and advances are defined on the basis of (i) Objective / Quantitative Criteria and (ii) Qualitative judgment. For this purposes, all loans and advances are grouped into four (4) categories namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural &amp; Micro Credit.</p> <p>According to the instructions of Bangladesh Bank, all Loans &amp; Advances are classified into four segments. These are:</p> <ol style="list-style-type: none"> <li>1. Special Mention Account (SMA)</li> <li>2. Substandard (SS)</li> <li>3. Doubtful (DF)</li> <li>4. Bad / loss (BL)</li> </ol> <p>Bangladesh krishi Bank follows strictly all the regulations provided by Bangladesh Bank while calculating the above. 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.</p> <p>-The Bank follows the relevant Bangladesh Bank guideline for determination of general and specific allowances for loans and advances.</p> <p>firstly, the base for provision for the unclassified and classified loans are calculated as under:</p> <p>A. Calculation of base for provision for unclassified /standard loans:  Outstanding amount less suspended interest, if any;</p> <p>B. Calculation of base for provision for the classified loans, the higher of the following two amounts:</p> <ol style="list-style-type: none"> <li>i. Outstanding amount less suspended interest less value of eligible securities;</li> <li>ii. or 15% of outstanding amount.</li> </ol> <p>Secondly, the following rates are applied on base for provision for determination of general and specific allowances for loans as per BB's instruction.</p> <p>The Board approves the Credit Management Policy of bkb for ensuring the best practice in credit management and maintaining quality of assets. The credit policy/manual has been put in place in compliance with Bangladesh Bank's guidelines on credit risk management and other rules &amp; regulations circulated by BB from time to time.</p>
--------------------------------	--	--

*[Handwritten signature]*

*[Handwritten mark]*

*[Handwritten mark]*

	<ul style="list-style-type: none"> <li>• Discussion of the Bank's credit risk management policy.</li> </ul>	<p>-Based on CRMG guidelines published by Bangladesh Bank, an updated and well managed Credit Risk Management Policy has been incorporated in Bangladesh Krishi Bank which serves as a guide to effectively avert risks involved in lending of the bank.</p> <p>-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.</p> <p>ICRRS has replaced CRG from 1<sup>st</sup> October/ 2019. ICRRS is always done meticulously while appraising a credit/loan proposal ( in case of loan amount Tk 50.00 Lac and above). As per ICRRS guide line for BKB, appraising of a credit/loan proposal in particular sectors below Tk 50.00 Lac/Tk 100.00 Lac, ICRRS is exempted.</p> <p>-Bangladesh Krishi Bank's credit policy is based on the customers' need on their business, security and earning capacity of recipient. The repayment ability of the business follows conservative approach in valuation of collateral.</p> <p>-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.</p> <p>-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.</p> <p>-Bangladesh Krishi Bank strictly adheres to the regulatory policies; rules etc as regard to credit management and are in compliance with regulatory requirements as stipulated by Bangladesh Bank from time to time.</p> <p>-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.</p>
--	---	---

*Sp*

(A)

(B)



Quantitative Disclosures	b) Total gross credit risk exposures broken down by major types of credit exposure.	(amount figure in crore Tk)
		<p>Funded----- 26186.14</p> <p>Non funded ----- 905.65</p> <p>Total ----- 27091.79</p> <p><b>Balance sheet Exposures-</b></p> <p>1. Cash----- 176.82</p> <p>2. Claims on Bangladesh Govt. &amp; BB-- 2337.84</p> <p>3. Claims on Banks and NBFIs---- 490.46</p> <p>4. Claims on Corporate----- 1823.07</p> <p>5. Claims categorized as retail portfolio 18076.19</p> <p>6. Consumer Finance----- 24.76</p> <p>7. Claims fully secured by residential property- 86.43</p> <p>8. Claims fully secured by commercial real estate 340.79</p> <p>9. SME----- 2101.81</p> <p>10. Past due Claims----- 2405.12</p> <p>11. Capital Market exposure----- 3.14</p> <p>12. Un listed Security----- 0.30</p> <p>13. Investment in premises, Fixed assets, plant-- 793.71</p> <p>14. All other assets Claims on Bangladesh Govt. &amp; BB----- 451.62</p> <p>15. Staff loan &amp; other investment----- 2045.03</p> <p>16. All other assets Cash item in process of collection----- 192.35</p> <p>17. All other assets----- 4160.43</p> <p><b>Off Balance sheet Exposure</b></p> <p>1. Claims on Bangladesh Govt. &amp; BB----- 28.65</p> <p>2. Claims on public sector entities----- 112.36</p> <p>3. Claims on Corporate----- 42.98</p>
	c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure	<p><u>Balance sheet exposures</u></p> <p>(amount figure in crore Tk)</p> <p>Dhaka Division----- 8824.41</p> <p>Mymensingh Division----- 4164.16</p> <p>Chattogram Division----- 5138.72</p> <p>Khulna Division----- 4623.80</p> <p>Barisal Division----- 2567.69</p> <p>Sylhet Division----- 1593.01</p> <p>Total----- 27091.79</p>
	d) Industry type distribution of exposures, broken down by major types of credit exposure :	<p>Industry wise distribution of loans and advances:</p> <p>(amount figure in crore Tk)</p> <p>Agriculture Crop Loan ----- 13642.89</p> <p>Fishery Loan----- 1727.06</p> <p>Livestock Loan----- 2043.92</p> <p>Textile ( Industry &amp; Trade)---- 440.47</p> <p>Transport ----- 14.37</p> <p>SME----- 2101.81</p> <p>RMG ----- 371.41</p> <p>Leather----- 20.43</p> <p>Consumer Credit----- 24.76</p> <p>Trade Financing----- 2565.05</p> <p>Others industries----- 1518.92</p> <p>Construction ,Health &amp; Storage--- 488.49</p> <p>Others ----- 502.38</p> <p>Total ----- 25461.96</p>

*(Handwritten mark)*

*(Handwritten mark)*

*(Handwritten mark)*

	<p>e) Residual contractual maturity breakdown of the whole portfolio broken down by major types of credit exposure.</p>	<p><b>Loan Exposure.</b> (amount figure in crore Tk)</p> <table> <tr><td>Receivable on Demand</td><td>406.38</td></tr> <tr><td>Within 3 months</td><td>1354.59</td></tr> <tr><td>Within 3 months to 12 months</td><td>6772.95</td></tr> <tr><td>Within 1 year to 5 years</td><td>13545.89</td></tr> <tr><td>More than 5 years</td><td>5011.98</td></tr> <tr><td>Total -----</td><td>27091.79</td></tr> </table>	Receivable on Demand	406.38	Within 3 months	1354.59	Within 3 months to 12 months	6772.95	Within 1 year to 5 years	13545.89	More than 5 years	5011.98	Total -----	27091.79										
Receivable on Demand	406.38																							
Within 3 months	1354.59																							
Within 3 months to 12 months	6772.95																							
Within 1 year to 5 years	13545.89																							
More than 5 years	5011.98																							
Total -----	27091.79																							
	<p>f) By major industry or counterparty type :  <ul style="list-style-type: none"> <li>• Amount of impaired loans and if available past due loans, provided separately</li> <li>• Specific provision</li> <li>• General provisions</li> <li>• Changes for specific allowances and change</li> </ul> Off during the period</p>	<p>(amount figure in crore Tk)</p> <p>2405.12 core</p> <p>1693.00 crore</p> <p>226.69 crore</p> <p>Not Applicable</p>																						
	<p>g) Gross Nonperforming Assets (NPAs) Nonperforming Assets (NPAs) to Outstanding loans &amp; advances</p> <p>Movement of Non Performing Assets (NPAs)</p> <p>Movement of specific provisions for NPAs :</p>	<p>Tk 2405.12 crore</p> <p>0.096:1</p> <p>(amount figure in crore Tk)</p> <table> <tr><td>Opening balance-----</td><td>2732.71</td></tr> <tr><td>Add: Newly classified-----</td><td>1106.33</td></tr> <tr><td>Cash recovery &amp; adjustment-----</td><td>(499.95)</td></tr> <tr><td>Interest Waiver-----</td><td>(8.26)</td></tr> <tr><td>Re-scheduling-----</td><td>(925.71)</td></tr> <tr><td>Closing balance -----</td><td>2405.12</td></tr> </table> <p>(amount figure in crore Tk)</p> <table> <tr><td>Opening balance-----</td><td>1697.57</td></tr> <tr><td>Transfer to unclassified loans &amp; advances ---</td><td>(4.58)</td></tr> <tr><td>Transfer to Diminution in Value of Investments--</td><td>0.00</td></tr> <tr><td>Transfer to Profit &amp; Loss account -----</td><td>0.00</td></tr> <tr><td>Closing balance-----</td><td>1692.99</td></tr> </table>	Opening balance-----	2732.71	Add: Newly classified-----	1106.33	Cash recovery & adjustment-----	(499.95)	Interest Waiver-----	(8.26)	Re-scheduling-----	(925.71)	Closing balance -----	2405.12	Opening balance-----	1697.57	Transfer to unclassified loans & advances ---	(4.58)	Transfer to Diminution in Value of Investments--	0.00	Transfer to Profit & Loss account -----	0.00	Closing balance-----	1692.99
Opening balance-----	2732.71																							
Add: Newly classified-----	1106.33																							
Cash recovery & adjustment-----	(499.95)																							
Interest Waiver-----	(8.26)																							
Re-scheduling-----	(925.71)																							
Closing balance -----	2405.12																							
Opening balance-----	1697.57																							
Transfer to unclassified loans & advances ---	(4.58)																							
Transfer to Diminution in Value of Investments--	0.00																							
Transfer to Profit & Loss account -----	0.00																							
Closing balance-----	1692.99																							

*P*

*A*

*B*

## Equities: Disclosures for Banking Book positions

<b>Qualitative Disclosures</b>	<p>a) The general qualitative disclosure requirement with respect to equity risk including:</p> <ul style="list-style-type: none"> <li>• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.</li> <li>• 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.</li> </ul>	<p>-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.</p> <p>-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.</p> <p>Market value of allotted securities has been determined on the basis of the value of securities at the last trading day of the year. The non-listed investments in securities are shown at cost.</p>
<b>Quantitative Disclosures</b>	<p>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.</p> <p>c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.</p> <p>d) • Total unrealized gains (losses)</p> <ul style="list-style-type: none"> <li>• Total latent revaluation gains (losses)</li> <li>• Any amounts of the above included in Tier 2 capital.</li> </ul> <p>e) 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.</p>	<p>Investment in shares at cost price:</p> <p>a) Quoted shares-----3.14 crore</p> <p>b) Un-quoted shares----0.30 crore</p>

Q

Q

Q

## Interest rate risk in the banking book (IRRBB)

<b>Qualitative Disclosures</b>	<p>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.</p>	<p>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.</p> <p>Bangladesh Krishi Bank discusses the interest rate issue in its ALCO/MCC meeting. In addition BKB 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 has become risk sensible for its Assets comparable to its Liabilities.</p> <p>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 favour for any change in interest rate.</p>																																																												
<b>Quantitative Disclosures</b>	<p>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)</p>	<p>The bank has been using " Stress Testing" based on the guideline published by Bangladesh Bank to determine the following:</p> <p>-Impact on earning</p> <p>-Impact on Capital requirements</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 10%;">Sl.No</th> <th style="width: 50%;">Particulars</th> <th colspan="3" style="width: 40%;">Amount (Tk. In Crore)</th> </tr> </thead> <tbody> <tr> <td>01.</td> <td><b>Total Risk Sensitive Assets</b></td> <td colspan="3" style="text-align: center;">27091.79</td> </tr> <tr> <td>02.</td> <td><b>Risk Sensitive Liabilities</b></td> <td colspan="3" style="text-align: center;">27089.33</td> </tr> <tr> <td>03.</td> <td><b>Weighted Average Duration of Assets</b></td> <td colspan="3" style="text-align: center;">1.14</td> </tr> <tr> <td>04.</td> <td><b>Weighted Average Duration of Liabilities</b></td> <td colspan="3" style="text-align: center;">0.69</td> </tr> <tr> <td>05.</td> <td><b>Duration Gap</b></td> <td colspan="3" style="text-align: center;">0.45</td> </tr> <tr> <td rowspan="2" style="text-align: center;">06.</td> <td rowspan="2" style="text-align: center;">Assumed change in Interest rate</td> <td style="text-align: center;">1%</td> <td style="text-align: center;">2%</td> <td style="text-align: center;">3%</td> </tr> <tr> <td style="text-align: center;">Minor</td> <td style="text-align: center;">Moderate</td> <td style="text-align: center;">Major</td> </tr> <tr> <td colspan="5" style="text-align: center;"><b>Reprising Impact</b></td> </tr> <tr> <td style="text-align: center;">07.</td> <td style="text-align: center;">Change in value of bond portfolio (Under stress testing)</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td style="text-align: center;">08.</td> <td style="text-align: center;">Capital After shock</td> <td style="text-align: center;">-9630.21</td> <td style="text-align: center;">-9758.71</td> <td style="text-align: center;">-9887.22</td> </tr> <tr> <td style="text-align: center;">09.</td> <td style="text-align: center;">CRAR aftershock (%)</td> <td style="text-align: center;">-43.70%</td> <td style="text-align: center;">-44.29%</td> <td style="text-align: center;">-44.87%</td> </tr> </tbody> </table>			Sl.No	Particulars	Amount (Tk. In Crore)			01.	<b>Total Risk Sensitive Assets</b>	27091.79			02.	<b>Risk Sensitive Liabilities</b>	27089.33			03.	<b>Weighted Average Duration of Assets</b>	1.14			04.	<b>Weighted Average Duration of Liabilities</b>	0.69			05.	<b>Duration Gap</b>	0.45			06.	Assumed change in Interest rate	1%	2%	3%	Minor	Moderate	Major	<b>Reprising Impact</b>					07.	Change in value of bond portfolio (Under stress testing)	-	-	-	08.	Capital After shock	-9630.21	-9758.71	-9887.22	09.	CRAR aftershock (%)	-43.70%	-44.29%	-44.87%
Sl.No	Particulars	Amount (Tk. In Crore)																																																												
01.	<b>Total Risk Sensitive Assets</b>	27091.79																																																												
02.	<b>Risk Sensitive Liabilities</b>	27089.33																																																												
03.	<b>Weighted Average Duration of Assets</b>	1.14																																																												
04.	<b>Weighted Average Duration of Liabilities</b>	0.69																																																												
05.	<b>Duration Gap</b>	0.45																																																												
06.	Assumed change in Interest rate	1%	2%	3%																																																										
		Minor	Moderate	Major																																																										
<b>Reprising Impact</b>																																																														
07.	Change in value of bond portfolio (Under stress testing)	-	-	-																																																										
08.	Capital After shock	-9630.21	-9758.71	-9887.22																																																										
09.	CRAR aftershock (%)	-43.70%	-44.29%	-44.87%																																																										

G

A

B

## Market Risk

**Market risk** is the risk of losses in positions arising from movements in market prices.

There is no unique classification as each classification may refer to different aspects of market risk. Nevertheless, the most commonly used types of market risk are:

- Equity risk, the risk that stock or stock indices prices or their implied volatility will change.
- Interest rate risk, the risk that interest rates or their implied volatility will change.
- Currency risk, the risk that foreign exchange rates or their implied volatility will change.
- Commodity risk, the risk that commodity prices or their implied volatility will change.

<b>Qualitative Disclosures.</b>	<p>a) <b>Views of BOD on investment activities.</b></p> <p><b>Methods used to measure Market Risk</b></p> <p><b>Market Risk Management system</b></p> <p><b>Policies and process for mitigating market risk</b></p>	<p>-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.</p> <p>-The Bank uses the standardized (Rule Based) approach to calculated market risk for trading book exposures.</p> <p>-ALCO is the key tool for managing market risk. An ALCO is in place in the bank to administer the system.</p> <p>-There are approved limits for loan deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on and off balance sheet items, borrowing from money market, foreign exchange position and refinance from Bangladesh Bank.</p> <p>The limits are mentioned and enforced regularly to protect against market risk.</p> <p>These limits are reviewed based on prevailing market and economic conditions to minimize risk due to market fluctuation.</p>
<b>Quantitative Disclosures</b>	<p>b) The capital requirements for</p> <p>Interest rate risk</p> <p>Equity position risk</p> <p>Foreign exchange risk</p> <p>Commodity risk</p>	<p style="text-align: right;">(amount figure in crore Tk)</p> <p style="text-align: right;">Tk.0.00</p> <p style="text-align: right;">Tk 0.26</p> <p style="text-align: right;">Tk.5.07</p> <p style="text-align: right;">Tk 0.00</p>







## Operational Risk

**Operational risk** is the prospect of loss, resulting from inadequate or failed procedures, systems or policies, Employee errors, Systems failures, Fraud or other criminal activity.

<p><b>Qualitative Disclosures</b></p>	<p>a) <b>i. Views of Board of Directors (BOD) on system to reduce Operational Risk</b></p> <p><b>ii. Performance gap of executives and staffs</b></p> <p><b>iii. Potential external events</b></p> <p><b>iv. Policies and processes for mitigating operational risk</b></p> <p><b>v. Approach for calculating capital charge for operational risk</b></p>	<p>The policy for operational risks including internal control and compliance risk is approved by the Board in line with the relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance Division (IC&amp;CD) to protect against all operational risks.</p> <p>BKB has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. BKB's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.</p> <p>BKB operates its business with few external risk factors relating to the socio-economic condition, political atmosphere, regulatory policy changes, natural disaster etc. based on the overall perspective of the country.</p> <p>The policy for operational risks including internal control and compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank.</p> <p>The Bank follows the Basic Indicator Approach (BIA) in terms of BRPD Circular No. 18 dated 21 December 2014 [Guidelines on 'risk Based capital Adequacy for Banks' (revised regulatory capital framework in line with Basel III)]. The BIA stipulates the capital charge for operational risk is a fixed percentage, denoted by <math>\alpha</math> (alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula:  <math display="block">K = [(GI1 + GI2 + GI3) \alpha] / n</math> Where: K = the capital charge under the Basic Indicator Approach  GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)  <math>\alpha</math> = 15 percent  n = number of the previous three years for which gross income is positive.</p> <p>Besides, Gross Income (GI) is calculated as "net Interest Income" plus "net non -Interest Income".</p>
<p><b>Quantitative Disclosures</b></p>	<p>b) The capital requirements for Operational risk</p>	<p style="text-align: right;">Tk. 120.41 crore</p>

## 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. In line with the provisions of liquidity risk management under Basel III, Bangladesh Bank on the basis of the relevant guideline of Bank for International Settlements (BIS) has identified the (i) Liquidity Coverage Ratio (LCR); (ii) Net Stable Funding Ratio (NSFR); and (iii) Leverage under the purview of 'Liquidity' ratio vide BRPD Circular No. 18 dated 21 December 2014 and DOS Circular No. 1 dated 1 January 2015.

<p><b>Qualitative Disclosures.</b></p>	<p><b>a) Views of BOD on system to reduce liquidity Risk.</b></p>	<p>- The Board of Directors reviews the liquidity risk of the Bank on half yearly rest while reviewing the half yearly Financial Statements, quarterly Stress Testing Report etc. Besides, Managing Director also reviews the liquidity position while reviewing the daily fund position. 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) &amp; Net Stable Funding Ratio (NSFR). The Treasury Management Department computes the LCR &amp; NSFR and reports LCR &amp; NSFR to the Asset Liability Management Committee (ALCO) every month for reviewing 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.</p>
	<p><b>Methods used to measure liquidity Risk.</b></p>	<p>The following methods are used to measure Liquidity risk;</p> <ul style="list-style-type: none"> <li>Liquidity Coverage Ratio (LCR);</li> <li>Net Stable Funding Ratio (NSFR);</li> <li>Cash Reserve Ratio (CRR);</li> <li>Statutory Liquidity Ratio (SLR);</li> <li>Medium Term Funding Ratio (MTFR);</li> <li>Maximum Cumulative Outflow (MCO);</li> <li>Loan Deposit Ratio (LDR)</li> </ul>





