MARKET DISCLOSURE FOR DEC'2010
UNDER PILLAR-III OF BASEL II
Risk Management Unit
Rupali Bank Limited

1. Rupali Bank Ltd. is very much alert to develop sound risk management practice while carrying out day to day activities. RBL has implemented different risk management tools and techniques for both regulatory purpose and improvement of the operational and financial performance.

2. The prime objective of the risk management by RBL is taking calculative business risks while safeguarding the bank's capital, its financial resources and profitability from various risks. Risk management in RBL is conducted by high officials who are able to analyze and manage banking risk efficiently and create positive business environment.

3. In line with the guidelines issued by the Bangladesh Bank, the bank has implemented New Capital Adequacy Framework (Basel-II) with effect from January 01, 2010. The Basel-II framework, as referred, is based on three mutually reinforcing pillars. While ***Pillar-1*** of the revised framework addresses minimum capital requirement for credit, market and operational risk, the Pillar–***2*** (Supervisory Review Process) intends to ensure that the Banks have adequate capital to address all the risks in their business commensurate with bank's risk profile and control environment.

4. Pillar-3 refers to Market Discipline. As released by the Bangladesh Bank, a set of disclosures (both qualitative and quantitative) are published in the pages 55-58 of the guidelines of Risk Based Capital Adequacy for Banks. Disclosure Format (DF) 1 to Disclosure Format (DF) 9 as annexed with regard to risk management in the bank which will enable market participants to assess key information on the scope of application, capital risk exposures, risk assessment processes, Bank's risk profile and level of capitalization etc. This would also provide the market participants with the necessary data to evaluate the performance of the Bank in various parameters.

Table DF-1	**SCOPE OF APPLICATION**
Qualitative Disclosures	
1)The name of the top Bank in the group to which the Framework applies	Rupali Bank Limited is a state-owned commercial bank.
2)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 pro-rata consolidated (iii) that are given a deduction treatment; and (iv) that are neither consolidated nor deducted (e.g. where the investment is risk - weighted)	In the consolidated accounts Bank's subsidiary /Associates and Joint venture are treated as under: a) Subsidiary: **Presently the Bank has no subsidiary.** b) Associates: **Presently RBL has no associates.** c) Joint Venture: **Bank has no joint venture.** **Note:** Since the Bank has no subsidiaries, associates and joint venture companies, consolidation of financial did not arise and hence deduction of investment from capital has not been done.

SL. No	Quantitative Disclosures	
1	The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and name(s) of such subsidiaries	Not applicable
2	The aggregate amounts (e.g. current book value) of the Bank's total interests in any Financial Institutions which are risk weighted as well as their name ,their country of incorporation or residence ,the proportion of ownership interest and ,if different ,the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction.	RBL has fixed deposit of TK.2373.50 million with Financial Institutions among which Tk. 1750.00 million is with NBFI's & Tk. 623.50 million is with other Banks.

Table DF-2			**CAPITAL STRUCTURE**
Qualitative Disclosures			
1)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 Tier2.			No capital instrument has been issued by the bank.
Quantitative Disclosures			
Sl. No.	**Particulars**	**BDT in million**	**% of total capital**
1	**Tier-I (Core Capital)**		
1.1	Fully paid-up Capital	1,250.00	11.85%
1.2	Statutory Reserve	1,535.40	14.55%
1.3	Non-repayable Share Premium account	-	-
1.4	General Reserve	513.30	4.86%
1.5	Retained Earnings	315.10	2.99%
1.6	Share Deposit	75.00	0.71%
1.7	Non-cumulative irredeemable preference shares	-	-
1.8	Dividend equalization account	-	-
1.9	**Sub-Total (1.1 to 1.8)**	**3,688.80**	**34.96%**
2	**Tier-II (Supplementary Capital)**		
2.1	General Provisions (provisions for unclassified loans + provision for Off-balance sheet exposure)	1,436.90	13.62%
2.2	Assets Revaluation Reserves up to 50%	4,792.60	45.41%
2.3	Revaluation Reserve of Securities up to 50%	606.50	5.75%
2.4	Perpetual subordinated debt (up to max. 30% of eligible Tier-I capital) – row 1.9	-	-
2.5	Balance of Exchange Equalization Account	28.00	0.26%
2.6	**Sub-Total (2.1 to 2.5)**	**6,864.00**	**65.04%**

3	**Tier-III (Eligible for market risk only)**		
3.1	Short-term subordinated debt	-	-
4	**Total Eligible Capital (1.9 +2.6+ 4)**	**10,552.80**	**100.00%**

Table DF-3	**CAPITAL ADEQUACY**
Qualitative Disclosures	

1. Bangladesh Bank adopted Basel –I for credit risk through BRPD Circular # 01 dated January 08, 1996, which was subsequently revised on 25th November 2003 by BRPD master Circular # 10. RBL has been fully compliant to Basel I capital Requirement of 10%.
2. A Quantitative Impact Study (QIS) was done by Bangladesh Bank to implement the Basel II in Bangladesh in 2007
3. To implement Basel II, Bangladesh Bank had published Roadmap on December 30, 2007 and Basel II Guidelines through BRPD Circular # 09, dated December 31, 2008
4. Bangladesh Bank has recognized External Credit Assessment Institutions (ECAIs) through BRPD Circular # 05, dated April 29, 2009.
5. Banks in Bangladesh have started reporting on parallel calculation of Minimum Capital Requirement (MCR) from April 2009 based on financials March 31, 2009.
6. According to BRPD Circular # 10, dated March 10, 2010, Minimum Capital Requirement (MCR) will be 8% up to June 30, 2010, 9% up to June 30, 2011 and 10% from July 01, 2011. RBL hopes to be fully capital compliant.

Sl. No	**Quantitative Disclosures**	BDT in million
1	Capital requirements for Credit Risk:	8,562.90
	1.1a Portfolios subject to standardized approach-Funded	6,773.90
	1.1b Portfolios subject to standardized approach-Non-Funded	1,789.00
2	Capital requirements for Market Risk (Standardized Approach)	493.90
	2.1 Interest rate risk	305.30
	2.2 Foreign exchange risk	31.60
	2.3 Equity risk	157.00
3	Capital requirements for Operational Risk (Basic Indicator Approach)	969.30
4	Total and Tier-1 & Tier-II Capital Ratio:	
	4.1 Total CAR	9.47%
	4.2 Tier- I CAR	3.31%
	4.3 Tier-II CAR	6.16%

Table DF-4	CREDIT RISK: GENERAL DISCLOSURE

Qualitative Disclosures

1. **Credit Risk :**

Credit risk is one of the prime risks of a bank. It indicates the potential loss arising from contractual failure of the borrower with the bank. The failure may be resulted from unwillingness of the borrower or due to decline of the financial conditions.

2. **Credit Risk Management Policies** :

The Bank has put in place a well-structured Credit Risk Management Policy known as Credit Policy Manual (CPM) approved by the Board in 2008. The Policy document defines organization structure, role and responsibilities and, the processes whereby the Credit Risks carried by the Bank can be identified, quantified and managed within the framework that the Bank considers consistent with its mandate and risk tolerance.

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 organizational structure of RBL's Head Office level has been designed in line with CRM Guidelines. The duties of the executives & officers working in the credit areas like credit approval, administration, monitoring and recovery functions, have been segregated for smooth functioning. Maintaining asset quality, assessing risks in lending to particular customer, sanctioning credit, formulating policy for lending operation etc. are included in prior and post approval CRM activities.

Prior Approval CRM Activities of RBL

- A thorough due diligence is done 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.
- The assessment process is initiated at branch/credit division which is placed before Credit Committee (CRE-COM) or Board for approval. It includes borrower analysis, industrial analysis, historical financial analysis, repayment sources analysis, mitigating factors etc.
- In determining single borrower or large loan limit, the instructions of Bangladesh Bank are strictly followed, i.e. funded loan limit is 15% and funded with non-funded loan limit is 25% of the bank's capital.
- Internal audit is conducted at periodical interval to ensure compliance of the policies of the bank and regulatory bodies.
- Credit risk grading system has been adopted by RBL as per Bangladesh Bank's instruction. The system defines the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved.
- Any credit approval is subject to the banking regulations in force or to be imposed by the regulatory body from time to time and to the changes in the banking policy.
- Data collection check list and limit utilization form are being prepared for regular assessment.

Post Approval CRM Activities of RBL
• RBL has implemented Early Alert System (EAS) to identify Special Mentioned Account those may result in deterioration of the repayment prospects for the asset or in the bank's credit position at some future date with a likely prospect of being downgraded. The Early Alert Report, mentioning all the weaknesses, is completed by the Relationship Manager by seven days and forwarded to the management for approval to affect any downgrade. • RBL also follows Bangladesh Bank guidelines regarding CIB reporting, provisioning, write off of bad and doubtful debts, and suspension of interest. Regardless of the length of time a loan is past due, provision is raised against the actual and expected losses at the time they are estimated. The Recovery Division of RBL determines the forced sale value (FSV) of nonperforming loan (NPL) accounts. FSV is the amount expected to be realized through the liquidation of collateral held as security. Provision is maintained for any shortfall in the FSV to cover total classified loan outstanding.

SL. No	**Quantitative Disclosures**	BDT in million
1	Total gross credit risk exposures, Fund based and Non-fund based separately.	
	1.1 Fund Based	66,049.00
	1.2 Non Fund Based	75,614.60
2	**Geographic distribution of exposures**	
	Dhaka	42,752.28
	Chittagong	10,357.66
	Sylhet	381.26
	Barisal	1741.61
	Khulna	8,456.23
	Rajshahi	1,013.38
	Rangpur	1,346.55
3	**Sectorwise distribution of exposures**	
	Government sector	619.87
	Other public sector	9,697.86
	Private sector	55,731.24
4	**Residual contractual maturity breakdown of assets:**	
	Payable on Demand	9,787.50
	Over 1 month but not more than 3 months	9,546.70
	Over 3 months but not more than 1 year	20,977.42
	Over 1 year but not more than 5 years	4,444.46
	Over 5 years	21,292.87
	TOTAL	**43,486.40**

SL. No	**Quantitative Disclosures**	BDT in million
5	Amount of NPAs (Gross)	**7902.71**
	5.1 Substandard	289.25
	5.2 Doubtful	24.11
	5.3 Bad & Loss	7589.35
6	NPA Ratios (Gross NPAs to gross advances)	11.96%
7	Movement of NPAs (Gross)	
	8.1 Opening balance	10944.30
	8.2 Additions	-
	8.3 Reductions	3041.50
	8.4 Closing balance	**7902.70**
8	Movement of provisions for NPAs	
	9.1 Opening balance	7757.90
	9.2 Provisions made during the period	-
	9.3 Write-off	1720.80
	9.4 Write-back of excess provisions	1301.20
	9.5 Closing Balance	**4735.90**

Table DF-5	**Credit Risk : Disclosures for Portfolios Subject to the Standardized Approach**

Qualitative Disclosures

1. **General Principle** :

In accordance with the Bangladesh Bank guidelines, the Bank has adopted Standardized Approach of the New Capital Adequacy Framework for computation of capital for credit risk as parallel run during 2009 and live from 01.01.2010. In computation of capital, the Bank has assigned risk weights to different asset classes as prescribed by the Bangladesh Bank.

2. **External Credit Ratings** :

2.1. Bangladesh Bank has permitted Banks to use the external ratings of the two domestic External Credit Assessment Institutions (ECAIs) namely (a) Credit Rating Information and Services Limited (CRISL) and (b) Credit Rating Agency of Bangladesh (CRAB). In consideration of the above guidelines, the Bank has decided to accept the ratings assigned by all these ECAIs.

2.2. The Bank shall use the ratings assigned for any type of exposures by any of these ECAIs as accepted and provided by the borrowers. External ratings assigned, fresh or reviewed, at least during the previous 12 months shall only be reckoned for capital computation by the Bank. Wherever, a borrower possesses more than one rating from ECAIs, the guidelines prescribed by the Bangladesh Bank is followed as regards to assignment of risk weight for computation of capital. Accordingly, the Bank has taken into consideration the borrower's loan exposure ratings assigned by Bank's approved ECAIs (if any), while computing capital for credit risk under segments namely Corporate.

2.3 In case of Bank's investment in particular issues of Corporate / SME, the issue specific rating of the approved ECAIs will also be reckoned and accordingly the risk weights will be applied after a corresponding mapping to rating scale provided in Bangladesh Bank guidelines. The Bank is well aware for the application of higher risk weight (125%) for the unrated exposures relating to all fresh sanctions or renewals as per the Bangladesh Bank guidelines. The Bank has taken steps for getting the exposures of Corporate Borrowers rated by ECAIs in 2010 and onward.

SL. No	**Quantitative Disclosures**	**BDT in million**
1.	For exposure amounts after risk mitigation subject to the standardized approach, amount of the Bank's outstanding (rated and unrated) in the following three major risk buckets as well as those that are deducted;	
	1.1. Below 100 % risk weight	60,994.50
	1.2. 100 % risk weight	17,162.30
	1.3. More than 100 % risk weight	33,224.90
	1.4 Amount Deducted for risk mitigation	21.90

Table DF – 6	Credit Risk Mitigation : Disclosure For Standardized Approach

Qualitative Disclosures

1. In line with the regulatory requirements, the Bank is going to put in place a well-articulated Policy on Credit Risk Mitigation and Collateral Management duly approved by the Bank's Board.

2. As advised by Bangladesh Bank, the Bank has adopted the comprehensive approach relating to credit risk mitigation under Standardized Approach, which allows fuller offset of eligible securities against exposures, by effectively reducing the exposure amount by the value ascribed to the securities. Thus the eligible financial collaterals have been used to reduce the credit exposure in computation of credit risk capital. In doing so, the Bank has recognized specific securities in line with the Bangladesh Bank guidelines on the matter.

3. Other approved forms of credit risk mitigation are "On Balance Sheet Netting" and availability of "Eligible Guarantees". On balance sheet netting has been reckoned to the extent of the deposits available against the loans/advances of the borrower (to the extent of exposure) as per Bangladesh Bank guidelines. Further, in computation of credit risk capital, the types of guarantees recognized for taking mitigation, in line with Bangladesh Bank guidelines. All types of securities eligible for mitigation are easily realizable financial securities. As such, presently no limit/ceiling has been prescribed to address the security concentration risk in credit risk mitigation.

SL. No.	**Quantitative Disclosures**	BDT in million
1	For disclosed credit risk portfolio under the standardized approach, the total exposure that is covered by:	
1.1Eligible financial collateral; after the application of haircuts.	26.52	

Table DF-7	Market Risk: Disclosures Relating to Market Risk in Trading Book

Qualitative Disclosures

Market Risk :

Market risk is defined as the risk of losses in, on and off-balance sheet positions arising from movements in market prices i.e. interest rate and equities in the trading book; commodity price & foreign exchange position. 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.

Policies for Management of Market Risk:
RBL has put in place Board approved Asset Liability Management Policy for effective management of Market Risk in the Bank. Bank is going to finalize comprehensive policy on Market Risk. The policies set various risk limits for effective management of Market Risk and ensuring that the operations are in line with Bank's expectation of return to market risk through proper Asset Liability Management. The policies also deal with the reporting framework for effective monitoring of Market Risk. Asset Liability Committee (ALCO) of RBL regularly reviews these risk exposures in the following manner: • It advises for both the opportunities and threats to its liquidity and balance sheet positions as well as positions of maturing assets and liquidity contingency plan. • ALCO monitors the liquidity management of treasury, as per Bangladesh Bank's instruction, by i) setting tolerance for cumulative cash flow mismatches (maximum cumulative outflow limit 20% of balance sheet assets) ii) setting limit on loan to deposit ratio (81% expected,110% maximum), iii) setting limit on dependence on institutional deposits which are volatile in nature. • ALCO also monitors the rate sensitive assets and liabilities of the bank.

SL. No	**Quantitative Disclosures**	BDT in million
1	**Capital requirements for Market Risk**	
	1.1 Interest rate risk	305.30
	1.2 Equity position risk	157.00
	1.3 Foreign exchange risk	31.60

Table DF-8	**Interest Rate Risk in the Banking Book (IRRBB)**
	Qualitative Disclosures
Interest Rate Risk in the Banking Book: Interest rate risk refers to a possible monetary loss caused by adverse changes in interest rates affecting the underlying structure of the bank's business: its lending and deposit-taking activities. 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). Going forward the Bank will adopt Traditional Gap Analysis combined with Duration Gap Analysis for assessing the impact on the Economic Value of Equity (Economic Value perspective) by applying a notional interest rate shock. Change in Market Value in Equity (MVE) is Tk. (597.89) million due to increase in interest rate by 1%.	

Table DF – 9	OPERATIONAL RISK: GENERAL DISCLOSURES

Qualitative Disclosures

Operational risk is the potential loss resulting from inadequate or failed internal processes or systems, human error, or external events. Five broad categories of operational risk events are: i) Internal Process Risk, ii) People Risk, iii) Systems Risk, iv) External Risk, v) Legal Risk. These events are interrelated.

The operational risk management process of RBL aims to reduce the bank's overall risk level to one that is acceptable to both senior management and its regulatory supervisor. ICC Division of RBL plays a vital role in managing operational risk.

1 In line with the final guidelines issued by Bangladesh Bank, the Bank has adopted the **Basic Indicator Approach** for **computing capital for operation risk**.

2. As per the guidelines, the capital for operational risk is equal to 15% of average positive annual Gross Income of the previous three years, as defined by the Bangladesh Bank.

BDT in million

Year	Gross Income (GI)	Average (GI)	15% of Average Gross Income
2008	5,467.00	6,461.93	969.29
2009	6,853.00		
2010	7,065.80		