Disclosure on Risk Based Capital Requirement under Pillar-3 of Basel II
As on 31 December, 2014

Scope of Application

Qualitative Disclosure	(a)	The Revised Risk Based Capital Adequacy (RBCA) framework which is called Basel-II guideline issued by Bangladesh Bank in December-2010 duly applies to The Farmers Bank Limited.
	(b)	The Farmers Bank Limited prepared its RBCA report on 'Solo Basis'. 'Solo Basis' refers to all position of the Bank including the Offshore Banking Unit.
	(c)	No incidence occurred which may cause for imposing any regulatory restriction or impediment on transfer of funds or regulatory capital within the group.
Quantitative Disclosure	(d)	No Capital deficiency in solo assessment.

Capital Structure (Qualitative Disclosures)

Regulatory capital will be categorized into three tiers: Tier 1, Tier 2, and Tier 3.The structure of the capital base of the Bank is comprised of both Tier I and Tier II capital.

Tier I Capital

The highest quality of capital components comprises the Tier I capital. This is also known as Core Capital. The components of Tier I capital are:

- Paid-up capital
- Non-repayable share premium account
- Statutory reserve
- General reserve
- Retained earnings
- Minority Interest in subsidiaries
- Non-cumulative irredeemable preference shares
- Dividend equalization account

Tier II Capital

The components of Tier II capital lacks some quality of Tier I capital, but strengthen the capital base of the Bank. This includes:

- General Provision
- Asset Revaluation Reserve
- All other preference shares
- Subordinated debt with remaining maturity of more than 5 years
- Exchange equalization account.
- Revaluation reserves for securities
- Revaluation reserves for equity instruments.

Tier 3 capital:

Tier 3 capital called 'Additional Supplementary Capital', consists of short-term subordinated debt (original maturity less than or equal to five years but greater than or equal to two years).

The calculation of Tier 1 capital, Tier 2 capital, and Tier 3 capital shall be subject to the following conditions:

a) The amount of Tier 2 capital is not exceeded the limited to 100% of Tier 1 capital.
b) 50 % of Revaluation reserves for fixed assets and securities eligible for Tier 2 capital.
c) 10% of revaluation reserves for equity instruments eligible for Tier 2 Capital.
d) Subordinated bond shall be limited to a maximum of 30% of the amount of Tier 1 Capital
e) Limitation of Tier 3: A minimum of about 28.50% of market risk needs to be supported by Tier 1 Capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a Bank's Tier 1 Capital that is available after meeting credit risk capital requirement.

Quantitative Disclosures

The Bank's capital structure consists of Tier I capital and Tier II capital. Capital Structure of the Bank is as under as on December 31, 2014.

(BDT in Crore)

	Tier-1 (Core Capital)	SOLO
	Paid-up Capital	401.61
	Statutory Reserve	2.29
	Non-repayable Share premium account	Nil
	General Reserve	Nil
	Retained Earnings	2.61
	Minority interest in Subsidiaries	Nil
	Non-Cumulative irredeemable Preferences shares	Nil
	Dividend Equalization Account	Nil
	Sub-Total: ( )	406.51
	Deductions from Tier-1 (Core Capital	
	Book value of Goodwill	Nil
	Shortfall in provisions required against classified Asset	Nil
	Shortfall in provisions required against investment in Shares	Nil
	Remaining deficit on account of revaluation of investment in securities after netting off from any other surplus on the securities	Nil
	Reciprocal crossholdings of capital / subordinated debt	Nil
	Unauthorized amount of share holding	Nil
	Investment in subsidiaries which are not consolidate	Nil
	Sub Total	Nil
	Total Eligible Tier-1 Capital	406.51
	Tier-2 (Supplementary Capital)	
	General Provision (Unclassified loans + off Balance Sheet exposure)	7.45
	Assets Revaluation Reserves up to 50%	Nil
	Revaluation Reserves for Securities up to 50%	0.73
	Revaluation Reserves for Equity instrument up to	Nil
	All other preference shares	Nil

	Subordinated debt	Nil
	Other if any (if any item approved by BB)	Nil
	Sub-Total	**8.18**
	Deductions if any	Nil
	Total Eligible Tier-2 Capital	**8.18**
	Total Eligible Tier-3 Capital	
	Total Eligible Capital (Tier-1+Tier-2 + Tier-3)	**414.69**

<u>Capital Adequacy</u>

For accessing Capital Adequacy the Bank has adopted Standardized Approach for Credit Risk measurement, Standardized (Rule Based) Approach for Market Risk measurement and Basic Indicator Approach for Operational Risk measurement.

<u>Qualitative Disclosures</u>

Adequate capital means enough capital to compensate with Bank's risks profile. For assessing overall risk profile and a strategy for maintaining adequate capital, Bank has developed an Internal Capital Adequacy Assessment Process (ICAAP) for practicing better risk management techniques.

Bank is strengthened and effectiveness its risk management process and internal control system in assessing and planning of economic capital against all risks. The strategic planning process critically analysis of bank's current and future capital requirements. The strategic plan includes the bank's capital needs, anticipated capital expenditures, desirable capital level, and external capital sources.

Capital Requirement and Adequacy of the Bank as on December 31, 2014 are as under:

(BDT in Crore)

Sl. No	Particulars	Solo
	Capital requirement for Credit Risk	128.66
	Capital requirement for Market Risk	5.20
	Capital requirement for Operational Risk	6.42
	Total Capital Adequacy Ratio	29.56%
	Tier 1 Capital Adequacy Ratio	28.98%
	Tier 2 Capital Adequacy Ratio	0.58%

<u>Credit Risk</u>

<u>Qualitative Disclosure:</u>

Credit risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to the Bank. Credit risk arises from the bank's dealings with or lending to corporate, individuals and other banks or financial institutions. The Farmers Bank Ltd. is managing Credit Risk through a robust process that enables the bank to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders.

Past Due/Impaired Loans

Bank classifies loans and advances (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. An NPA is defined as a loan or an advance where interest and/ or installment of principal remain overdue for more than 90 days in respect of a Continuous credit, Demand loan or Term Loan etc.

Classified loan is categorized under following 03 (three) categories:

1. Sub-standard
2. Doubtful
3. Bad & Loss

Any continuous loan will be classified as:

- 'Sub-standard' if it is past due/over due for 6 months or beyond but less than 9 months.
- 'Doubtful' if it is past due/over due for 9 months or beyond but less than 12 months.
- 'Bad/Loss' if it is past due/over due for 12 months or beyond.

Any Demand Loan will be classified as:

- Sub-standard' if it remains past due/overdue for 6 months or beyond but not over 9 months from the date of claim by the bank or from the date of creation of forced loan.
- Doubtful' if it remains past due/overdue for 9 months or beyond but not over 12 months from the date of claim by the bank or from the date of creation of forced loan.
- Bad/Loss' if it remains past due/overdue for 12 months or beyond from the date of claim by the bank or from the date of creation of forced loan.

Term Loan up to Tk.10.00 lac

- If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 months, the entire loan will be classified as “Sub-standard''.
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 months, the entire loan will be classified as ''Doubtful”.
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 12 months, the entire loan will be classified as ''Bad /Loss”.

Term Loan above Tk.10.00 lac

- In case any installment (s) or part of installment (s) of a Fixed Term Loan above Tk. 10.00 lac is not repaid within the due date, the amount of unpaid installment (s) will be termed as past due /overdue installments from the following day of the due date.
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 3 months, the entire loan will be classified as “Sub-standard''.
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 6 months, the entire loan will be classified as ''Doubtful”.
- If the amount of past due installment is equal to or more than the amount of installment (s) due within 9 months, the entire loan will be classified as ''Bad /Loss''

Agricultural Credit & Micro Credit loan will be classified as:

- If not repaid within the fixed expiry date for repayment will be considered past due / overdue after six months of the expiry date.
- If irregular status continues, the credit will be classified as 'Substandard ' after a period of 12 months.
- If irregular status continues, the credit will be classified as 'Doubtful' after a period of 36 months.
- If irregular status continues, the credit will be classified as 'Bad or Loss ' after a period of 60 months.

Description of approaches followed for specific and general allowances:

The Farmers Bank Limited follows the General and Specific Provision requirement as prescribed by Bangladesh Bank time to time.

Particulars	Rate (%)
General provision on all unclassified loans of Small and Medium Enterprise	0.25
General provision against all unclassified loans (other than loans under consumer Financing, Loans to Brokerage House, Merchant Banks, Stock Dealers etc. Special Mention Account as well as SME Financing)	1%
General provision on the unclassified amount for Consumer Financing (other than Housing Finance and Loans for professionals to set up business)	5%
General provision on the unclassified amount for Housing Finance and Loans for professionals to set up business under consumer financing scheme	2%
General provision on the unclassified amount for Loans to Brokerage House, Merchant Banks, Stock dealers, etc	2%
General provision on the outstanding amount of loans kept in the Special Mention Account.	5%
General provision on the off-balance sheet exposures	1%
Specific Provision for classified Continuous, Demand and Fixed Term Loans:	
Substandard	20%
Doubtful	50%
Bad/Loss	100%
Specific Provision for Short-term Agricultural and Micro-Credits	
All credits except 'Bad/Loss'	5%
Bad/Loss	100%

Methods used to measure credit risk

In compliance with Risk Based Capital Adequacy, FBL, as per BASEL-II Guideline, uses ratings assigned by External Credit Assessment Agencies (ECAIs) approved by Bangladesh Bank. The rating is used for both fund based and Non-fund based exposure for corporate borrowers. Corporate, which are yet to get the ratings from these rating agencies, are treated as 'Unrated'.

FBL also uses the Credit Risk Grading System prepared by Bangladesh Bank before taking any exposure on Corporate and Medium clients.

Credit Risk Management Policy

Given the fast changing dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, The Farmers Bank has a robust credit risk management policy and procedures that are sensitive and responsive to these changes. A clearly defined, well-planned, comprehensive and appropriate Credit Risk Management Policy of the Bank provides a board guideline for the Credit Operation towards efficient management of its Credit portfolio.

The Bank has adopted numerous strategies to manage its credit risk including:

- Creating credit risk awareness culture
- Approved credit policy by the Board of Directors
- Separate credit risk management division
- Formation of law and recovery ream
- Independent internal audit and direct access to Board/Audit committee
- Credit quality and portfolio diversification
- Early warning system
- Provision and suspension of interest
- Scientific lending and credit approval process
- Counterparty credit rating
- Strong NPL management system

<u>Distribution of Credit Exposure by Major Types: Quantitative Disclosures</u>

Types of Credit Exposure

	Particulars	**Amount in Crore**
Types of Credit Exposure	Loan General	Nil
	Term Loan	81.08
	Time Loan	16.52
	Small And Medium Enterprise	637.23
	Consumer Finance	Nil
	LTR	7.83
	Home Loan	Nil
	Packing Credit	Nil
	House Building Loan	23.44
	Lease Finance	8.71
	Hire Purchase	Nil
	EDF Loan	30.09
	Payment Against Documents	Nil
	Cash Credit (Hypo)	28.25
	Overdraft	130.09
	Personal Loan	4.99
	Consumer Credit Scheme	0.20
	Other credit Scheme	Nil
	Staff Loan	16.46
	Credit Card	Nil
	Agricultural Credit	18.70
	Bill Purchased and Discounted	3.10
	Total	**1006.69**

Geographical Distribution of Credit Exposure

Division	Amount in Crore
Dhaka	938.05
Chittagong	34.45
Rajshahi	0.04
Sylhet	Nil
Khulna	Nil
Rangpur	Nil
Barisal	34.15
Total	**1006.69**

	Particulars	BDT in Crore
Industry or counter party type distribution of exposures, broken down by major types of credit exposures	Agriculture	18.70
	RMG	72.75
	Textile	25.24
	Ship Building	Nil
	Ship Breaking	Nil
	Other Manufacturing Industry	Nil
	SME Loans	637.23
	Construction	18.33
	Power, Gas	32.39
	Transport, Storage & Communication	30.93
	Trade service	Nil
	Commercial real estate financing	24.15
	Residential real estate financing	16.98
	Consumer Credit	42.86
	Loans to Brokerage House	49.14
	NBFI	12.23
	Others	25.76

	As on December 31, 2014	BDT in Crore
Residual Contractual maturity breakdown of the whole portfolio broken down by major types of credit exposures	Up to 1 (One) Month	75.18
	Over 1 Month but less Than 3 months	83.56
	Over 3 Month but less Than 1year	559.35
	Over 1 Year but not more than 5 Years	141.85
	Over 5 Years	146.75
	Total	1006.69

Total Loans and Advances & Provision

Particulars	Outstanding Amount (BDT in Crore)	Provision (BDT in Crore)
Un-Classified Loans & Advances	1004.42	7.04
Classified Loans and Advances	Nil	Nil
Substandard (SS)	2.27	0.41
Doubtful (DF)	Nil	Nil
Bad/Los (BL)	Nil	Nil

Equities: Disclosures for Banking Book Positions:

<table>
<tr><td rowspan="5">Qualitative Disclosure</td><td>(a)</td><td>The general qualitative disclosure requirement with respect to the equity risk, including:

The Bank does not hold any value which is describes as “Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons” in RBCA Guidelines of Bangladesh bank.

Therefore the Bank does not needed to narrate any “Discussion of important policies covering the valuation and accounting of equity holding 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”.

Apart from above, the Bank has being calculated value at cost method for Quoted shares & Unquoted Shares.</td></tr>
<tr><td>(b)</td><td>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.
Tk. Crore
Quoted shares 0.00
Unquoted shares 0.00</td></tr>
<tr><td>(C)</td><td>The cumulative realized gain (losses) arising from sales and liquidations in the reporting period. Realized gain (losses) from equity investments .</td></tr>
<tr><td>(D)</td><td>Total unrealized gains (losses) – 0.00
Total latent revaluation gains (losses) - 0.00
Any amounts of the above included in Tier 2 Capital- 0.00</td></tr>
<tr><td>(E)</td><td>There are no 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.</td></tr>
</table>

Interest Rate Risk in the Banking Book (IRRBB):

<table>
<tr><td rowspan="16">Qualitative Disclosure</td><td>(a)</td><td colspan="4">The Banking Book consists of assets and liabilities contracted basically on account of relationship or for steady income and statutory obligations and are generally held till maturity/payment by counter party.

The earnings or changes in the economic value are the main focus in banking book. Interest rate risk is the risk that a bank will experience deterioration in its financial position as interest rates move over time. Interest rate risk in the banking book arises from a bank's core banking activities. Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. Changes in interest rates affect a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses.</td></tr>
<tr><td rowspan="15">(b)</td><td>CAR before-shock (%)</td><td colspan="3">29.56</td></tr>
<tr><td>Interest Rate Stress Test</td><td>Minor</td><td>Moderate</td><td>Major</td></tr>
<tr><td>Assumed change in Interest Rate</td><td>1.00%</td><td>2.00%</td><td>3.00%</td></tr>
<tr><td>Net interest income impact</td><td></td><td></td><td></td></tr>
<tr><td><12 months</td><td>-1.91</td><td>-3.81</td><td>-5.72</td></tr>
<tr><td>Capital after-shock</td><td>412.78</td><td>410.88</td><td>408.97</td></tr>
<tr><td>CAR after-shock (%)</td><td>29.43</td><td>29.29</td><td>29.16</td></tr>
<tr><td>Change in CAR after-shock (%)</td><td>-0.14</td><td>-0.27</td><td>-0.41</td></tr>
<tr><td>Re pricing impact</td><td></td><td></td><td></td></tr>
<tr><td>Change in the value of the bond portfolio</td><td>-11.03</td><td>-22.07</td><td>-33.10</td></tr>
<tr><td>Capital after-shock</td><td>401.75</td><td>388.81</td><td>375.87</td></tr>
<tr><td>CAR after-shock (percent)</td><td>28.64</td><td>27.72</td><td>26.80</td></tr>
<tr><td>Change in CAR after-shock (%)</td><td>-0.79</td><td>-1.57</td><td>-2.36</td></tr>
<tr><td>Overall change in CAR (NII and re pricing impact, %)</td><td>-0.92</td><td>-1.85</td><td>-2.77</td></tr>
</table>

Market Risk Qualitative Disclosure: Qualitative Disclosures

Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate due to changes in different market variables, namely:

- Interest Rate Risk
- Equity Position Risk
- Foreign Exchange Risk
- Commodity Risk

The market risk positions subject to the risks pertaining to interest rate related instruments and equities in the trading book and Foreign exchange risk and commodities risk throughout the Bank. Signifies the risk of loss due to decrease in market portfolio arising out of market risk factors. The bank has considered interest rate risk on banking book separately and the impact of interest rate risk on the trading book will not be considered here. The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to provide cost effective funding last year to finance asset growth and trade related transaction.

Methods used to measure Market Risk:

Standardized (Rule Based) Approach is used to measure the Market Risk of the Bank whereas for Interest Rate Risk and Equity Risk both General and Specific risk factors are applied for calculating capital charge and for Foreign Exchange and Commodities only General risk factor is applied.

Management System of Market Risk:

The duties of managing the market risk including liquidity, interest rate and foreign exchange risk lies with the Treasury Division under the supervision of ALCO committee. The ALCO committee is comprised of senior executives of the Bank, who meets at least one time in a month during the ALCO meeting. The committee evaluates the current position of the Bank and gives directions to mitigate the market risk exposure to a minimum level.

Capital Charges for Market Risk

Sl No	Market Risk	Capital Charges (BDT in Crore)
a.	Interest Rate Related instruments	4.96
b.	Equities	Nil
c.	Foreign Exchange Position	0.24
d.	Commodities	Nil

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems (for example failed IT system, or fraud perpetrated by an FBL employee), or from external causes, whether deliberate, accidental or natural. It is inherent in all of the Bank's activities. Operational risks are monitored and, to the extent possible, controlled and mitigated.

Views of BOD on system to reduce Operational Risk

The Bank's approach to operational risk is not designed to eliminate risk altogether but rather, to contain risks within levels deemed acceptable by senior management.
All functions, whether business, control or logistics functions, must manage the operational risks that arise from their activities. Operational risks are pervasive, as a failure in one area may have a potential impact on several other areas. The Bank has therefore established a cross-functional body to actively manage operational risk as part of its governance structure.
The foundation of the operational risk framework is that all functions have adequately defined their roles and responsibilities. The functions can then collectively ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability.

Potential External Events

The bank invests heavily in IT Infrastructure for better automation and online transaction environment. The bank also has huge investment on alternative power supply (both UPS & generators) and network links to avoid system failure. The Farmers Bank invests heavily on security from terrorism and vandalism to avoid damage to physical assets.

Approach for Calculating Capital Charges for Operational Risk

For local regulatory capital measurement purposes, the Bank follows the Basic Indicator Approach.

Sl No.	Particulars	BDT in Crore
a.	The Capital requirements for Operational Risk	6.42