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BASEL–II Compliance Status of State Owned Commercial Banks in Bangladesh: 'A Study on Agrani Bank Ltd'

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Abstract: This paper on the compliance status of Basel-II of a state owned bank will provide a detailed picture of risk management of bank as well as a gross picture of Basel-II implementation status in Bangladesh. This study will also indicate any shortfall of bank in terms of Basel-II compliance and offer suitable recommendations.. In this Paper, I have divulged the calculation of eligible capital, total risk exposure, risk weighted assets and capital adequacy ratio for Agrani Bank Limited. Following the standardized approach to calculate risk weighted assets. I have also shown the impact of Basel II adoption and problems regarding its implementation in banking industry of Bangladesh.

Keywords: BASEL-II, Credit Risk, Market Risk, Operational Risk, Tier-1 Capital, Tier-2 Capital, Tier-3 Capital

1. Introduction

At present in banking industry, banks face different risks during the dealings of its banking activities. Banks mainly deal with deposits and loans activities but for banks, loans are the largest and most obvious source of risk. Experience in recent years has shown that absence of proper management of such risk has resulted in significant losses or even crippling losses for a number of banking institutions. Effective credit risk management is therefore vital to ensure the credit activities of banking institutions are conducted in a prudent manner and the risk of potential bank failures reduced. So, appropriate policies, procedures and systems should be implemented at each financial institution for identifying, measuring, monitoring and controlling credit risk effectively. As Bank deals with the depositors' money, it must have some safety precaution when giving loan. To prevent such failure international accords like Basel I, Basel II are formulated. Bangladesh Bank instructed all the scheduled banks of Bangladesh to adopt Basel II from 2007.Though it has not been made fully activated yet and the simpler approach to measuring capital was taken by the Bangladesh Bank, still it's a big challenge for all the Banks. Regulatory authorities are therefore making efforts to design appropriate strategies that would enable the banking sector for smooth transition to Basel II. 'The New Accord' comprises of three pillars. Pillar I sets out the minimum capital requirements. Pillar II defines the process of supervisory review of a financial institution's risk management framework. Pillar III determines market discipline through improved disclosure. As a regulator, Bangladesh Bank is required to design policies that will facilitate smooth transition to Basel II. From July 2010 Bangladesh Bank decided to implement Basel II in Bangladesh. In this report I have shown the calculation of eligible capital, total risk exposure, risk weighted assets and capital adequacy ratio for Agrani Bank Limited. Follow the standardized approach to calculate risk weighted assets. I have also shown the impact of Basel II adoption and problems regarding its implementation in banking industry of Bangladesh.

2. Literature Review

The implementation of the new capital adequacy framework (Basel-II) has gained a lot of interest all over the world. The effective adoption of this new international supervisory regulation has been confronted by many challenges and issues. In Bangladesh Basel-II has been curtailed to some extent and made appropriate for the banking sector. With growing complexity of operations and product innovations, financial institutions have progressively become more exposed to a diverse set of risks. These risks are, not limited with, credit risk, interest rate risk, liquidity risk, foreign currency risk, strategic risk, compliance risk, reputational risk, country risk, market risk and operational risk.

There have been large amount of studies over Basel-II implementation, its benefits and possible issues to be confronted to implement. Dr. Shamshad Akhtar (2006), the former Governor of the State Bank of Pakistan, has intense study on Basel accord.According to him, Basel II Accord aims to align banks' capital with their basic risk profiles. It is very elaborate and far superior in terms of its coverage and details. It exploits effectively the new frontiers of risk management. It seeks to give impetus to the development of a sound risk management system which hopefully will promote a more efficient, equitable and prudent allocation of resources (Akhtar, 2006, pp. 2-4). In another study Richard Herring expressed that the aims of the new Basel Accord on capital Adequacy included correction of lacking of Basel-I what he termed as "widely perceived defects in the original Basel Accord". He also said that the new accord also aligned "capital regulations with evolving best practices in risk management (Herring, 2005, pp. 267-287). Another spokesman of Basel-II Dr. Richard Brealey welcomed the new basel accord saying "the new Accord will enhance banks' safety and soundness, strengthen the stability of the financial system as a whole, and improve the financial sector's ability to serve as a source for sustainable growth for the broader economy" (Brealey, 2006, pp. 34-43).

On the other hand there are also many studies on problems and shortfalls of Basel-II implementation. According to Richard Herring, Basel-II has improved the banks' safety and soundness. But this benefit could have been achieved at a lower cost (Herring, 2005, pp. 267--287). It is also expressed that due to Basel-II implementation banks have to keep extra amount of capital against the risks and thus the additional capital requirement will bring burden on the customers. Thus customers have to pay extra charges and fees. This will have serious effect on developing countries where still there are many sectors and people are yet to be brought under the circle of financial inclusion. Some studies showed doubt whether developing countries especially countries of Africa have the resources and ability to implement Basel-II. For example countries like Zimbabwe having hyper-inflation will find it very difficult to comply with Basel-II since high inflation rate will weaken the capital's value and thus it will require constantly additional amount of capital against the risks (Hudson, 2003, pp. 32-35).

Particularly in case of Bangladesh, researches indicate that Basel-II implementation will be very helpful for the steady but strong growth of financial sector in Bangladesh. But there are lots of concerns regarding Basel-II implementation in Bangladesh. Especially challenges banks may face are: poor compliance of pillar-II and pillar-III, low credit rating coverage, development of Internal Credit Adequacy Assessment Process (ICAAP), availability of reliable data, IT infrastructure requirements of the banks, operational cost of Basel-II implementation and last but not the least, adverse selection and moral hazard problem (Ahmed and Pandit, 2011, p. 60-63).

3. Objectives of the Study

This research serves mainly three objectives. These objectives are:

- To present the current Basel-II guidelines applicable for scheduled banks in Bangladesh;
- To present the current scenario of Basel II compliance ofAgrani bank Limited in line with Bangladesh bank's guidelines; and
- To point out the shortfalls of Agrani bank Limited in terms of Basel-II compliance and offering suitable recommendations to overcome the shortfalls.

4. Methodology

4.1. Research Type

This is a descriptive research which is relevant to an inquisitive study as it require some analysison the performance of selected bank in terms of Basel-II guidelines of BB.

4.2. Types of Data

For this report, data will be collected from both primary and secondary sources.

4.2.1. Primary Sources

Oral interview of the respective officers of Risk Management Unit

4.2.2. Secondary Sources

- Website of Agrani bank (www.agranibank.org)
- Website of Bangladesh Bank (www.bb.org.bd)
- RBCA guideline, December 2010 by BB.
- Amendment to RBCA guidelines by BB, 2014.
- Qualitative & Quantitative Disclosures under Pillar-3 of Basel-II of Agrani bank.
- Annual reports of Agrani bank.

4.3. Data Analysis Tools

After collecting the relevant data, I conduct the relevant analysis of data consisting of both statistical analysis and financial as mentioned below-

Financial Analysis

For conducting the financial analysis, I have utilized the historical data analysis and the ratio analysis relating only to the Capital Adequacy Measurement of Agrani Bank Ltd as shown below:

- Tier-1 Capital Ratio
- Tier-2 Capital Ratio
- Capital Adequacy Ratio

5. Basel II Compliance by Agrani Bank Limited

5.1. Under Pillar- I: Minimum Capital Requirement

By maintaining required capital related ratio we can say that they (Agrani bank limited) are appropriately following pillar I principle under Basel II.

5.1.1. Capital Related Ratios

Here I calculate and interpreted Tier-1, Tier-2 and Capital Adequacy ratio for the year of 2013

- Tier-1(Core capital) Ratio
- Tier-2(Supplementary capital) Ratio
- Capital Adequacy Ratio

(i) Tier-1(Core capital) Ratio:

$$=\frac{\text{Tier}-1\text{ capital}}{\text{Total Risk weighted assets}}$$

$$=\frac{1212.35}{21{,}369.85}$$

$$=5.67\%$$

Here,

Tier-1(Core Capital)

According to Bangladesh bank guidelines there are certain types of capital which has to be included in the Tier-1 capital of a bank. In below Agrani bank's Tire-1 capital status according to Bangladesh bank's guidelines has to be shown.

	(Taka in crore)
Paid up capital	2072.29
Non-repayable share premium account	0.00
Statutory reserve	551.84
General reserve	0.50
Retained earnings	(224.93)
Minority interest in subsidiaries	0.00
Non-cumulative irredeemable preference shares	0.00
Dividend equalization account	0.00
Others (if any item approved by BB)	0.00
Sub-Total	2399.70

Deduction:

Book value of goodwill and contingent

Assets which are shown as assets	531.89
Other (if any item approved by Bangladesh Bank)	655.46
Total eligible tier-1 Capital	1,212.35

And

Risk weighted asset:

Agrani bank follows different approach for measuring different kinds of risk according to Bangladesh bank guideline. Which are-

(a) Standardized Approach for credit risk.

(b) Standardized (Rule Based) Approach for market risk.

(c) Basic Indicator Approach for operational risk.

According to following this approaches they find out their risk weighted asset which has been given below-

Risk weighted Assets for

Credit risk	(Taka in crore)
On - Balance sheet	15,747.92
Off - Balance sheet	365.99
	16,113.91
Market risk	2,348.24
Operational risk	2,907.70
Total: (A+B+C)	21,369.85

Interpretation:

According to Basel principle every bank has to maintain at least 4% Tire-1 capital ratio. On this perspective we can say that Agrani bank maintain more enough Tier-1 capital ratio then standard. Their Tier-1 capital ratio is 5.67%.

From the above analysis we can also see that Agrani bank's Tier-1 capital and risk weighted asset selection and calculation have been appropriately done by following Bangladesh bank's guidelines under Basel II.

(ii) Tier-2 (Supplementary capital) Ratio:

$$=\frac{\text{Tier}-2\text{ capital}}{\text{Total Risk weighted assets}}$$

$$=\frac{936.88}{21{,}369.85}$$

$$=4.38\%$$

Here,

Tier-2 capital:

According to Bangladesh bank guidelines there are certain types of capital which has to be included in the Tier-2 capital of a bank. In below Agrani bank's Tire-2 capital status according to Bangladesh bank's guidelines has to be shown.

General provision	(Taka in crore)
(UC + SMA + Off B/S exposure+ Consumer Finance)	349.41
Assets revaluation reserves up to 50%	553.52
Revaluation reserve for approved securities	
(ICB Share) up to 50%	28.68
Revaluation reserve for equity instrument up to 10%	1.36
Other (Balance of Exchange Equalization A/C)	3.91
Sub-total	936.88

And,

Risk weighted asset

Here it will be same as the previous one which amount is 21,369.85

Interpretation:

According to Basel principle every bank also has to maintain at least 4% Tire-2 capital ratio. On this perspective we can say that Agrani bank maintain enough Tier-2 capital ratio because their Tier-2 capital ratio is 4.38%.

Tier-2 capital maintenance of Agrani bank is very good because according to Bangladesh bank-

- Every bank has to maintain 50% revaluation reserves for fixed asset for Tier-2 capital which is appropriately maintain by Agrani bank. And
- 45% of revaluation reserve for securities. In where Agrani bank maintain 50%.
- Agrani bank also maintain 10% revaluation reserve for equity instrument which is not considered as mandatory by Bangladesh bank.
- Agrani bank also include balance for exchange equalization in the Tier-2 capital which is not directly ordered by Bangladesh bank to maintain but they maintain so we can easily say that it is good.

(iii) Capital Adequacy Ratio:

$$= \frac{\text{Total regulatory capital}}{\text{Total Risk weighted assets}}$$

$$= \frac{\text{Tier}-1\text{ capital}+\text{Tier}-2\text{ capital}+\text{Tier}-3\text{ capital}}{\text{Total Risk weighted assets}}$$

$$= \frac{1212.35 + 936.88 + 0}{21{,}369.85}$$

$$=10.05\%$$

Interpretation:

According to Basel principle every bank has to maintain at least 8% Capital adequacy ratio but Bangladesh bank increase it to 10%. On this perspective we can say that Agrani bank maintain enough Capital Adequacy Ratio because their Capital Adequacy Ratio is 10.05%.

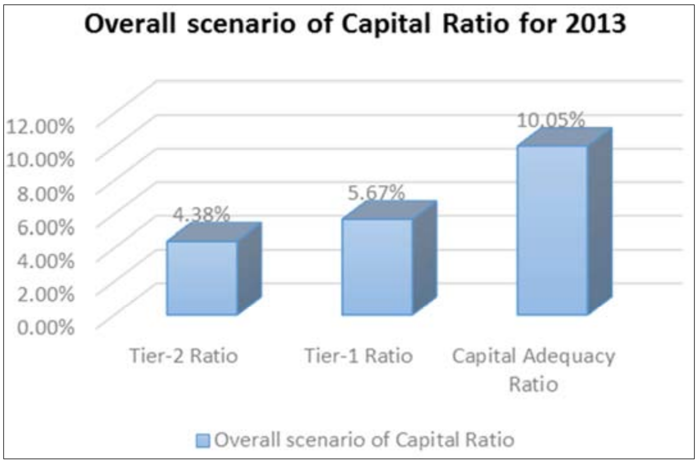

Figure 1. *Decision:Satisfactory.*

5.1.2. Historical Data Analysis

In below I am trying to show five years condition of Agrani bank limited about the term of

- MCR
- Tier-1 Ratio
- Tier-2 Ratio
- Capital Adequacy Ratio

(i) MCR (Minimum Capital Requirement):

Here at first I show the calculation of MCR and then compare it with EC (Eligible Capital)

Table 1. *Calculation of MCR (Taka in crore).*

Year	Risk Weighted Asset	Capital Ratio	MCR
2013	21369.85	10%	2136.99
2012	21455.30	10%	2145.53
2011	21411.28	10%	2141.13
2010	19,325.57	9%	1,739.30
2009	12,052.44	8%	964.2

Source: (Agrani bank's annual reports)

Table 2. *Comparison between MCR and EC (Eligible capital)(Taka in crore).*

Year	Eligible capital (Tier-1+Tieer-2+Tier-3)	Minimum capital requirement	Surplus or shortfall
2013	2149.23	2136.99	12.24
2012	(1319.54)	2145.53	(3465.07)
2011	1387.45	2141.13	(753.68)
2010	1778.39	1,739.30	39.09
2009	991.45	964.2	27.25

Source: (Agrani bank's annual reports)

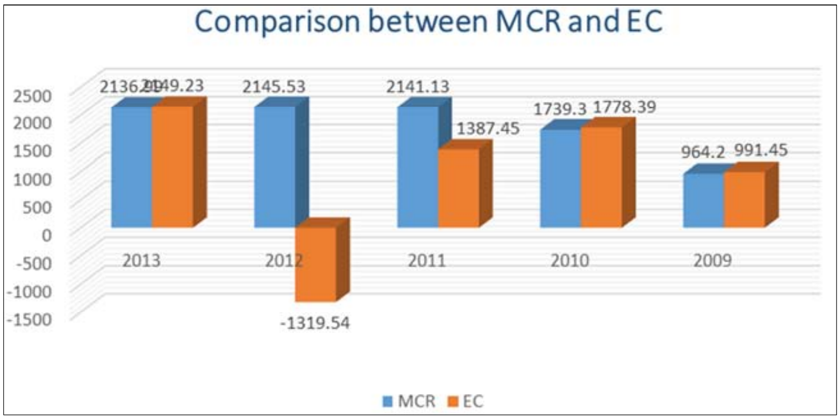

***Figure 2.** Comparison between MCR & EC.*

Interpretation:

Here we can see the condition of MCR and EC for five years and we can say that Agrani bank was in good condition on the perspective of holding capital in the year of 2013, 2010 and 2009. If we notice in the graph then we can easily able to understand it because in the graph we can see that for the year 2013, 2010 and 2009 the difference between the height of EC and MCR pillar is lower than the others and both year eligible capital is greater than the minimum capital requirement.

(ii) Tier-1 Ratio:

Five years Tier-1 capital Ratio has been given below.

***Table 3.** Five years Tier-1 capital Ratio.*

Years	2013	2012	2011	2010	2009
Tier-1 capital ratio	5.67%	(6.15%)	7.88%	6%	6%

Source: (Agrani bank's annual reports)

***Figure 3.** Tier-1 Capital Ratio.*

Interpretation:

From this graph we see that the highest Tier-1 ratio was 8% for the year 2011 and then was 6% for the year 2010 and 2009. The lowest value was -6% for the year 2012 and current condition of Tier-1 ratio is 5.67%

(iii) Tier-2 Capital Ratio:

Five years Tier-2 capital Ratio has been given below.

***Table 4.** Five years Tier-2 Capital Ratio.*

Years	2013	2012	2011	2010	2009
Tier-2 capital ratio	4.38%%	0.00%	3%	3%	2%

Source: (Agrani bank's annual reports)

***Figure 4.** Tier-2 Capital Ratio.*

Interpretation:

In the year 2011, 2010 and 2009 Tier-1 capital ratio was quite better than the year 2013 but in the year 2013 Tier-2 capital ratio is much better than the year 2011, 2010 and 2009. For the year 2012 it was 0% that means in that year bank does not hold any kind of tier-2 capital. Actually in that year overall condition of the bank was bad.

(iv) Capital Adequacy Ratio:

Five years Capital Adequacy Ratio has been given below.

***Table 5.** Five years Capital Adequacy Ratio.*

Years	2013	2012	2011	2010	2009
Capital Adequacy ratio	10.05%	6.15%)	10.99%	9.2%	8.22%

Source: (Agrani bank's annual reports)

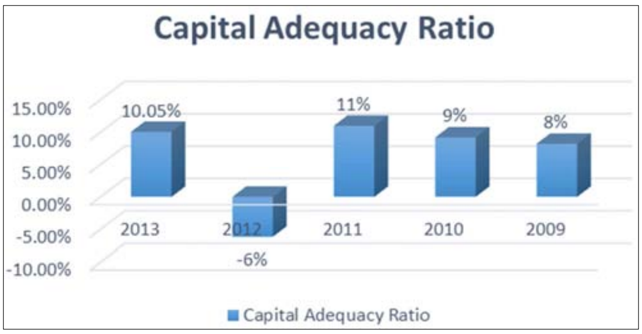

***Figure 5.** Capital Adequacy Ratio.*

Interpretation:

It is the main capital ratio for a bank. If a bank has not enough Tier-1 capital ratio or Tier-2 capital ratio but their overall capital adequacy ratio is enough according to requirement then it will be considered as good enough capital holding company according to Bangladesh bank because Bangladesh bank only say that every bank has to maintain at least 10% as capital adequacy ratio but according to Basel they said that every bank has to main all three capital ratio separately according to requirement.

So from the above discussion we can say that except 2012 overall capital ratio of Agrani bank is good because their adequacy ratio was enough according to requirement of Bangladesh bank.

(v) Decision:

For all factor I already have given interpretation separately so now I only give the decision about the best year.

From the historical analysis based on capital related requirement we can say that in 2010 bank was in the best situation because in that year all requirement were more enough then the standard and 2013 was the second year then 2009 andthen 2011. In 2012 bank was in one of his worst position in their history. Actually in that year they were in net loss for that reason their retained earnings balance was in a negative form which effect on their capital requirement negatively but good thing is bank can able to recover it in 2013 more efficiently.

5.2. Under Pillar- II (Supervisory Review Process)

Bank must have SRP (Supervisory Review Process) team or Risk Management Unit to assess overall risk profile and formulate strategy for maintaining adequate capital. Agrani Bank Limited has an independent division for this which name is

‘Core Risk Management & Basel-II Implementation Division’

This Division collects data from other divisions in monthly, quarterly, half yearly or yearly. Then findings of the segments are discussed in monthly meeting of the Division chaired by the CEO& MD of the Bank. If any deviation or deterioration is found, immediate corrective measures are taken. Bangladesh Bank, as a regulatory body, has prescribed format to reflect Bank’s total scenario. ABL complies with the directives & submit it to concerned department of Bangladesh Bank.

5.2.1. Authority

The board of directors is the highest authority to approve the policies and process submitted by the management. After approval, the management implements it through different divisions of head office and branches in field level. This is the overall scenario of related authority.

Figure 6. *List of Authority.*

In line with BASEL-II accord, ABL considers six core risks which are –

Figure 7. *Different categories of risks.*

They ensure the following things:

- All the risks are tried to mitigate and compensate with charged capital. The line management awareness can protect the Bank from risky events.
- Agrani Bank Limited has developed a risk appetite framework considering its stakeholders aspirations and its total exposures of balance sheet and off-balance sheet components. Sometimes the borrowers are unwilling to pay back money they borrowed. So, necessary steps are taken prior to risky events. These risks can be measured financially in line with international standard.
- Agrani Bank Limited takes well-calculated business risks to safeguard its assets and profitability as per the adopted guidelines of Bangladesh Bank.

5.2.2. Decision

So we can say that Agrani bank follows piller-2 requirement very efficiently because according to requirement they have an independent division for risk measurement and their decision making, monitoring, and review authority framework and activities is quite satisfactory.

5.3. Under Pillar-3 (Market Discipline)

According to Bangladesh Bank‘s regulation Agrani bank publishes its Capital adequacy disclosure in its website at the end of December in each year. Besides this, ABL attaches its disclosures to its annual report. Like other scheduled banks ABL also follows the format specified by the BB to publish the market disclosures on CAR.

5.3.1. Disclosure Framework

According to Basel accord every bank has to disclose market sensitive information under 8 categories in qualitative and quantitative form. In below that are described.

(i) Scope of application:

Qualitative Disclosures:

Table 6. *List of related entities.*

The name of the top corporate entity in the group to which this guidelines applies.	**AB Bank Ltd.**
An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b)that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investments risk weighted)	The consolidated financial statements of the Bank include the financial statements of following institutions: Agrani Equity & Investment Limited: Agrani Bank Limited is the parent company of Agrani Equity & Investment Ltd. which was established to perform merchant banking activities in Bangladesh. Date of incorporation: 16 March 2010 Date of Commencement: 16 March 2010 Authorized Capital: Tk. 500,00,00,000 Paid up Capital: Tk. 200,00,00,000 Ownership Interest in Capital: Tk. 200,00,00,000 (100%) Agrani SME Financing Company Limited: Agrani Bank Limited is the parent company of Agrani SME Financing Company Limited which is established to perform retail banking activities in Bangladesh. Date of incorporation: 27 October 2010 Date of Commencement: 27 October 2010 Authorized Capital: Tk.500,00,00,000 Paid up Capital: Tk.50,00,00,000 Ownership Interest in Capital: Tk.50,00,00,000 (100%) Agrani Exchange House Private Limited, Singapore Agrani Bank Limited is the parent company of Agrani Exchange House Private Limited, Singapore which was established to perform activities as a remittance house. Date of incorporation: 4 January 2002 Date of Commencement: 2 August 2002 Authorized Capital: SGD 2,00,000 Paid up Capital: SGD 2,00,000 Ownership Interest in Capital: SGD 2,00,000 (100%) Agrani Remittance House SDN, BHD, Malaysia Agrani Bank Limited is the parent company of Agrani Remittance House SDN, BHD, Malaysia which was established to perform activities as a remittance house. Date of incorporation: 18 August 2005 Date of Commencement: 13 January 2006 Authorized Capital: MYR 10,00,000 Paid up Capital: MYR 10,00,000 Ownership Interest in Capital: MYR 10,00,000 (100% Agrani Exchange Co. (Australia) Pty. Limited Agrani Bank Limited is the parent company of Agrani Exchange Co. (Australia) Pty. Limited which was established to perform activities as a remittance house. Date of incorporation: 19 December 2011 Date of Commencement: - Authorized Capital: AUD 5,80,000 Paid up Capital: AUD 1,61,900 Ownership Interest in Capital: AUD 1,61,900 (100%) Agrani Remittance House Canada, Inc Agrani Bank Limited is the parent company of Agrani Remittance House Canada, Inc. which is established to perform activities as a remittance house. Date of incorporation: 11 July 2012 Date of Commencement: Authorized Capital: CAD 4,50,000 Paid up Capital: CAD 1,00,000 Ownership Interest in Capital: CAD 1,00,000 (100%

Source: (Agrani bank–2013)

Quantitative Disclosures:

Since the Capital requirement of ABL has come both on Solo & Consolidated basis, such capital requirement of the above discussed subsidiaries has not been assessed:

(ii) Capital Structure

Qualitative Disclosures:

As per the RBCA Guidelines each bank has to maintain CAR on Consolidated basis or solo basis as per instructions given by Bangladesh Bank from time to time. The minimum CAR for the year ended December 31, 2013 was 10 percent. The regulatory capital under Basel-II is composed of (i) Core Capital (Tier-1), (ii) Supplementary Capital (Tier- 2) and (iii) Additional Supplementary Capital (Tier-3) which is only for market risk.

Quantitative Disclosures:

Capital, which has to be included in the tier-1, tier-2 and tier-3, has already discussed in the part of ratio analysis of this report. So now I don't repeat it.

(iii) Capital Adequacy:

Qualitative Disclosures

a) Assessment of Capital Adequacy is carried out in conjunction with the Capital Adequacy reporting to Bangladesh Bank and the approaches were pursued to calculate Minimum Capital Requirement are (1) Credit Risk-Standardized Approach (SA), (2) Market Risk-Standardized (Rule Based) Approach and (3) Operational Risk -Basic Indicator Approach (BIA).

Quantitative Disclosures:

Table 7. *Quantitative disclosures capital requirementTaka in crore.*

Particulars	Solo	Consolidated
Capital requirement for Credit Risk	1,611.39	1560.36
Capital requirement for Market Risk	234.82	234.82
Capital requirement for Operational Risk	290.77	293.94
Total and Tier- 1 capital ratio	1.00:.57	1.00:.56

Source: (Agrani bank–2013)

(iv) Credit Risk:

Qualitative disclosures:

Table 8. *Qualitative disclosures of loan classification.*

Type of credit facility	Loan Classification							
	SMA		Sub standard		Doubtful		Bad and Loss	
	Overdue period	Provision (%)	Overdue period	Provision (%)	Overdue period	Provision (%)	Overdue period	Provision (%)
Continuous Loan	60 days or more	5%	3 months or more but less than 6 months	20%	6 months or more but less than 9 months	50%	9 months or more	100%
Demand Loan	60 days or more	5%	3 months or more but less than 6 months	20%	6 months or more but less than 9 months	50%	9 months or more	100%
Fixed Term Loan more than Tk.10 lac	60 days or more	5%	3 months or more but less than 6 months	20%	6 months or more but less than 9 months	50%	9 months or more	100%
Fixed Term Loan up to Tk.10 lac	60 days or more	5%	6 months or more but less than 9 months	20%	9 months or more but less than 12 months	50%	12 months or more	100%
Short Term Agriculture & Micro credit	90 days or more	5%	12 months or more but less than 36 months	20%	36 months or more but less than 60 months	50%	60 months or more	100%

Source: (Agrani bank–2013)

Quantitative Disclosure:

Table 9. *Quantitative disclosures of loans (Taka in crore).*

		Consolidated	Solo
Total (gross) Credit Risk Exposure broken down by major types of credit exposure	Funded	35,626.66	36,219.22
	Non Funded	2,251.31	2,251.31
	Total	37,877.97	38,470.51
Geographical distribution of exposures	Urban Branches		
	Dhaka		11803.24
	Chittagong		2180.93
	Khulna		755.43
	Sylhet		217.17
	Barishal		633.36
	Rajshahi		783.90
	Rangpur		570.60
	Total		16944.63
	Rural Branches		
	Dhaka		226.17
	Chittagong		36.71
	Khulna		336.76
	Sylhet		82.32
	Barishal		264.10
	Rajshahi		375.75
	Total		1321.81

		Solo
Industry or counterparty type distribution of exposures	Agriculture & Fishery	972.07
	Jute & Jute Goods	758.18
	Transport, Storage & Communication	174.27
	Ship Breaking	115.72
	Textile & Readymade Garments	1947.77
	Food & Allied Industry	550.84
	Construction & Engineering	175.75
	Pharmaceuticals & Chemicals	345.42
	Leather Sector	380.86
	Power Sector	1119.90
	Professional & Services	236.95
	Housing	638.20
	Wholesale/ Retail Trading	2,833.58
	Personal (Staff & other personal Loan)	2,128.84
	Others	7,918.19
Residual Contractual maturity breakdown of the whole portfolio by major types of credit exposure.	Repayable on demand	437.96
	Repayable up to 3 months	2239.36
	Repayable over 3 months but below 1 year	7114.22
	Repayable over 1 year but below 5 years	3696.94
	Repayable over 5 years	6807.79
	Total	20296.54
By major industry or counterparty type	Amount of impaired loans and if available, past due loans, provided separately	2,305.66
	Specific Provisions	1,687.15
	General provisions	211.56

Source: (Agrani bank–2013)

(a) Gross Non-Performing Assets (NPAs):

Movement of Non-Performing Assets (NPAs):

	Taka in crore
Opening balance	5380.13
Additions	838.71
Reductions	(2638.91)
Closing balance	3579.93

(v) Equities: Disclosures for Banking Book Positions

Qualitative Disclosures:

ABL has considerable investment in equity shares of various companies and mutual funds and has active participation in the secondary market. Board, Executive and Investment committee oversee the management of investment portfolio and its associated risk to which bank may be exposed. In the investment process ABL strictly follows the internal policies and procedures put into place in this respect. ABL also holds unquoted equities intent of which is not trading and the same are shown as banking book asset in the balance sheet. As these securities are not quoted or traded in the bourses they are shown in the balance sheet at cost price and no revaluation reserve has been created against these equities.

Quantitative Disclosures:

TK. 122.94 crore (Investment in unquoted share Tk. 983.51 Crore × 1.25 Risk weight × 10% Capital requirement) has been assessed against unquoted equity holdings and shown in MCR.

(vi) Interest rate risk in the banking book

Qualitative Discloser:

- ABL measures the Interest Rate Risk by calculating duration gap i.e. positive duration gap which affects bank's profitability adversely with the increase of interest rate and negative duration gap which increases the Bank's profitability with the going down of interest rate.
- ABL discusses the interest rate issue in its ALCOM meeting on monthly basis. In addition,
- ABL 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, ABL is more risk sensible for its Assets comparable to its Liabilities.
- The Bank is on a continuous process of re-structuring in its assets and liabilities to make a balance between them and to bring the situation back in its favor incase of any change in interest rate

Quantitative Disclosures:

The increase (decline) in earnings or economic value (or relevant measure taken by the management) for upward and downward rate shocks according to management's method for measuring IRRBB has been broken down by currency (as relevant).

(vii) Market Risk:

Qualitative Disclosures:

The Bank uses the standardized (Rule Based) approach to calculate market risk for trading book exposures.

Quantitative Disclosures

The capital requirement is for:	(Taka in crore)
Interest rate risk	88.69
Equity risk	133.69
Foreign exchange risk	12.44
Commodity risk	0.00

(viii) Operational risk:

Qualitative Disclosures

- ABL manages this risk through a chain based processes which are documented, authorized and independent.
- The Bank uses the Basic Indicator Approach to calculate the capital requirement of its operational risk.

Quantitative Disclosures:

Capital Requirements for operational risk-

Particulars	Solo	Consolidated
	(Taka in crore)	
Capital requirements	290.77	293.94

5.3.2. Decision Point

Here I actually try to show how they disclose their activity to the related parties according to Basel and do they maintain it properly according to Bangladesh bank guideline? So according to requirement we can say that they do it properly because they disclose their market sensitive information under 8 categories in both qualitative and quantitative form. But I think there are some shortfalls in the discloser. Which are-

- They only show about their provision maintaining procedure for classified loan but they don't define loan classification procedure in a way in the disclosure. But if they would do then it will become easier for the stakeholders for realizing the quality of asset. They actually just refers the BRPD's circular in their disclosure. They actually avoid full explanation of classification, which is not actually in favor of stakeholder.
- Specifics and general provision by major counterparty and industry are not shown.

6. Findings

After intense analysis of the capital adequacy status, supervisory review process and market disclosure of ABL, following findings have been deduced:

- ABL in 2013, Capital Adequacy Ratio was 10.05% which was enough according to the regulatory requirement (10%). It represents the strong financial and risk management strengthen of ABL.
- For 2013 their tier-1 to RWA ratio was 5.67% which is higher than the regulatory requirement of Basel (4%). actually for that there is no requirement has been fixed by Bangladesh bank, they only give some guideline for choosing the element of tier-1 and Tier-2 capital. About the maintenance of that requirement has been described from the fourth point.
- For 2013 their tier 2 capital ratio was 4.38% which is higher than the regulatory requirement of Basel (4%)
- The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
- 50% of revaluation reserves for fixed assets for Tier 2 capital has been maintained.
- 45% of revaluation reserves for eligible securities for Tier-2 capital has been maintained.
- 10% of revaluation reserves for equity instrument for Tier-2 capital has also been maintained.
- Agrani bank also include balance for exchange equalization in the Tier-2 capital which is not directly ordered by Bangladesh bank to maintain but they maintain.
- ABL has no short term subordinate debt, so its tier 3 capital base is zero.
- Agrani bank follows Standardized Approach for credit and market risk. For operational risk they follow basic indicator approach..
- Agrani Bank Limited has an independent division for assessing overall risk profile and formulate strategy for maintaining adequate capital which name is 'Core Risk Management & Basel-II Implementation Division'

7. Conclusions

Basel II implementing does not mean just charging capital for credit, market and operational risk. It also covers the monitoring and mitigating risk. In banking sector, another name of risk management is now Basel II implementation. Banking sector in our country is facing severe competition. So banks are taking aggressive marketing strategy for making profit which also results in additional risk. Since banks are required to increase their capital base according to the risk they are taking, interest of the depositors in the bank also remains protected. As a commercial bank, ABL also has taken different marketing strategies for making profit. At the same time it implements Basel II according to BB's guidelines and meets the entire regulatory requirement. From this point of view the depositors of ABL are very safe. But as a commercial bank being hungry for profit, mere implementing Basel-II is not enough rather bank should be morally motivated and prepare its own policy and guidelines in lines with Basel accords and other regulatory policies. Now we know that Basel-II is not enough for banks and so Basel committee has advanced the Basel-II as Basel-III and going to be implemented worldwide from 2014. If banks are not itself aware of risk management and risk mitigation as well as morally motivated then incidents like "Bismillah group" and "Hallmark" will take place frequently in our country.

Recommendations

Like other commercial banks in Bangladesh Agrani Bank Limited is complying guidelines on risk based capital adequacy which is a regulatory framework in line with Basel II,but on the basis of the analysis, there are some recommendations for ABL to make itself stronger through Basel II implementation. These have been revealed below-

- Rated customer requires less risk weight. So ABL should prefer rated client in giving loan. ABL can attract the rated clients by offering special price (interest) for the loan.
- Credit concentration is one of main problems faced by

ABL. It is the main reason behind the Non-Performing Loan. ABL should diversify its loan portfolio as much as possible to lessen the credit concentration risk at its minimum level.

- ABL currently fostering unhealthy deposit mix comprising high volume of "high cost deposit" and low volume of "low cost deposit", which is hampering bank's profitability. So ABL should give emphasis on the marketing of low cost deposit scheme.
- For market discipline they disclose their weight for classified loan but in there they only show about their provision maintaining procedure for classified loan but they don't define loan classification procedure in a way in the disclosure. But if they would do then it will become easier for the stakeholders for realizing the quality of asset. They actually just refers the BRPD's circular in their disclosure. They actually avoid full explanation of classification, which is not actually in favor of stakeholder.
- Generally, credit officer of the loan sanctioning branch is responsible for verifying and supervising the client to whom loan is granted. EBL should also make responsible another group of officers at head office for onsite supervision. As a result safety of loan would be enhanced.

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