

Disclosure on Risk Based Capital under Basel II

(Ref. Annual Report-2010) Page No. 86-98

a) Scope of application

Qualitative Disclosures:

- (a) The name of the corporate entity: Jamuna Bank Limited
- (b) Jamuna Bank Limited prepared its Basel-II report on 'Solo' basis because the subsidiaries were not in operation on the reporting date.

b) Capital Structure

Qualitative Disclosures:

Regulatory capital will be categorized into three tiers: Tier 1, Tier 2, and Tier 3.

Tier 1 capital: Tier 1 capital called 'Core Capital' comprises of highest quality of capital elements that consists of:

- a) Paid up capital
- b) Non-repayable share premium account
- c) Statutory reserve
- d) General reserve
- e) Retained earnings
- f) Minority interest in subsidiaries
- g) Non-cumulative irredeemable preference shares
- h) Dividend equalization account

Tier 2 capital: Tier 2 capital called 'Supplementary Capital' represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank and consists of:

- a) General provision
- b) Revaluation reserves
 - Revaluation reserve for fixed assets
 - Revaluation reserve for securities
 - Revaluation reserve for equity instrument
- c) All other preference shares
- d) Subordinated debt

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) would be solely for the purpose of meeting a proportion of the capital requirements for market risk.

Conditions for maintaining regulatory capital

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 will be limited to 100% of the amount 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 debt) shall be limited to a maximum of 30% of the amount of Tier 1 capital.
- e) Limitation of Tier 3: A minimum of about 28.5% 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.

Eligible regulatory capital

In order to obtain the eligible regulatory capital for the purpose of calculating Capital Adequacy Ratio (CAR), banks are required to make following deductions from their Tier-1 capital;

- a) Intangible asset e.g., book value of goodwill and value of any contingent assets, etc. which are shown as assets
- b) Shortfall in provisions required against classified assets
- c) Shortfall in provisions required against investment in shares
- d) Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities.
- e) Reciprocal/crossholdings of bank's capital/subordinated debt artificially intended to inflate the capital position of banks
- f) Holding of equity shares in any form exceeding the approved limit under section 26(2) of the Companies Act, 1991 (Bank Company Act, 1991). The additional/unauthorized amount of holdings will be deducted at 50% from Tier 1 capital and 50% from Tier 2 capital.
- g) Investments in subsidiaries which are not consolidated. The normal practice is to consolidate subsidiaries for the purpose of assessing the capital adequacy of banking groups. Where this is not done, deduction is essential to prevent the multiple uses of the same capital resources in different parts of the group. The deduction for such investments will be 50% from Tier 1 capital and 50% from Tier 2 capital. The assets representing the investments in subsidiary companies whose capital had been deducted from that of the parent would not be included in total assets for the purposes of computing the CAR.

Eligible Tier 2 capital will be derived after deducting components (if any) qualified for deduction.

Total eligible regulatory capital will be calculated by summing up the eligible Tier 1, Tier 2 and Tier 3 capital.

Quantitative Disclosures:

- (b) The amount of Tier 1 capital, with separate disclosure of:

1. Tier-1 (Core Capital)		Tk. in Crore
1.1	Fully Paid-up Capital/Capital Deposited with BB	223.00
1.2	Statutory Reserve	122.95
1.3	Non-repayable Share premium account	-
1.4	General Reserve	-
1.5	Retained Earnings	66.06
1.6	Minority interest in Subsidiaries	-
1.7	Non-Cumulative irredeemable Preferences shares	-
1.8	Dividend Equalization Account	-

1.9	Others (Right Issue Subscription Money)	73.44
1.10	Sub-Total: (1.1 to 1.9)	485.45

(c) The total amount of Tier 2 and Tier 3 capital:

2 .Tier-2 (Supplementary Capital)		Tk. In Crore
2.1	General Provision (Standard + SMA + off Balance Sheet exposure)	71.51
2.2	Assets Revaluation Reserves up to 50%	53.17
2.3	Revaluation Reserve for Secutities up to 50%	24.46
2.4	Revaluation Reserve for equity instrument up to 10%	
2.5	All other preference shares	-
2.6	Subordinated debt	-
2.7	Other (if any item approved by Bangladesh Bank)	
2.8	Sub-Total (2.1 to 2.7)	149.14
2.9	Deductions if any (e.g. Investment in subsidiaries which are not consolidated-50%)	-
2.10	Total Eligible Tier-2 Capital (2.8-2.9)	149.14
3. Tier-3 (eligible for market risk only)		
3.1	Short-term subordinated debt	-

(c) Other deductions from capital: Nil

(d) Total eligible Capital:

Total Eligible Capital	Tk. 634.63 Cr.
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c) Capital Adequacy

Qualitative Disclosures:

A summary discussion of the bank's approach to assessing the adequacy of its capital:

As banks in Bangladesh are now in a stage of developing risk management models, BB suggested the banks for using Standardized Approach for credit risk capital requirement for banking book and Standardized (rule based) Approach for market risk capital charge in their trading book. JBL used the Basic Indicator Approach (BIA), as prescribed by Bangladesh Bank in determining capital charge against operational risk. Under the Basic Indicator Approach (BIA), the capital charge for operational risk is a fixed percentage (denoted by alpha) of average positive annual gross income of the bank over the past three years.

Quantitative Disclosures:

Sl. No.	Particulars	Tk. in Crore
b.	Capital requirement for Credit Risk	503.37
c.	Capital requirement for Market Risk	54.62
d.	Capital requirement for Operational Risk	43.56
e.	Total and Tier 1 capital ratio (For stand alone)	1 t 0.77

d) Credit Risk

Qualitative Disclosures:

(a) **Definitions of past due and impaired (for accounting purposes):**

Past Due:

- (i) Any **Continuous Loan** if not repaid/renewed within the fixed expiry date for repayment will be treated as past due/overdue from the following day of the expiry date.
- (ii) Any **Demand Loan** if not repaid/rescheduled within the fixed expiry date for repayment will be treated as past due/overdue from the following day of the expiry date.
- (iii) In case of any installment(s) or part of installment(s) of a **Fixed Term Loan(not over five years)** is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue from the following day of the expiry date.
- (iv) In case of any installment(s) or part of installment(s) of a **Fixed Term Loan(over five years)** is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue after six months of the expiry date.
- (v) The **Short-term Agricultural and Micro-Credit** if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date.

Impaired Loan:

All classified loans are termed as impaired loans. Impaired loan can be defined as under:

- (i) 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.
- (ii) 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.
- (iii) In case of **Fixed Term Loans**, which are repayable in **more than five years** of time: -
 - If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as **"Sub-standard"**.
 - If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loan will be classified as **"Doubtful"**.
 - If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 24 (twenty four) months, the entire loan will be classified as **"Bad/Loss"**.
- (iv) The **Short-term Agricultural and Micro-Credit** will be considered irregular if not repaid within the due date as stipulated in the loan agreement. If the said irregular status continues, the credit will be classified as 'Substandard ' after a period of 12 months, as 'Doubtful' after a period

of 36 months and as 'Bad/Loss' after a period of 60 months from the stipulated due date as per loan agreement.

Description of approaches followed for specific and general allowances:

General Provision: Bank maintains **General Provision** in the following way:

- a) @ 1% against all unclassified loans (other than loans under Small Enterprise and Consumer Financing and Special Mention Account.)
- b) @ 2% on the unclassified amount for Small Enterprise Financing.
- c) @ 5% on the unclassified amount for Consumer Financing whereas it has to be maintained @ 2% on the unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up business under Consumer Financing Scheme.
- d) @ 5% on the outstanding amount of loans kept in the 'Special Mention Account' after netting off the amount of Interest Suspense.

Specific Provision: Bank maintains **Specific Provision** at the following rates in respect of classified Continuous, Demand and Fixed Term Loans:

- a) Sub-standard 20%
- b) Doubtful 50%
- c) Bad/Loss 100%

Provision in respect of Short-term Agricultural and Micro-Credits is to be maintained at the following rates:

- a) All credits except 'Bad/Loss' (i.e. 'Doubtful', 'Sub-standard', irregular and regular credit accounts) : 5%
- b) 'Bad/Loss' : 100%

Base for Provision:

Provision will be maintained at the above rate on the balance to be ascertained by deducting the amount of 'Interest Suspense' and value of eligible securities from the outstanding balance of classified accounts.

Discussion of the bank's credit risk management policy:

Credit risk management needs to be a robust process that enables Banks to proactively manage loan portfolio in order to minimize losses and earn an acceptable level of return for Shareholders. Central to this is a comprehensive IT system, which should have ability to capture all key customer data, risk management and transaction information. Jamuna Bank Ltd. already has real time on-line Banking system which enables to capture all key customer data. Given the fast changing dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that Banks have robust Credit risk management polices and procedures that are sensitive and responsive to these changes.

Jamuna Bank Limited being a progressive and dynamic private sector Bank formulated its own Credit Policy Guidelines to efficiently and professionally manage risks arising out of its Credit operation. The Credit Policy Guidelines was initially approved by the Board of Directors in its 59th meeting held on 08.01.2006. As per Credit Risk Management Guidelines of Bangladesh Bank, the credit policy of JBL has been refined from time to time.

The Credit Policy Guidelines of JBL encompasses a wide range of issues related to credit operation. Jamuna Bank Limited continually updates by the bank to lead the ongoing improvement in the banking sector. The focal points of the JBL credit policy are:

1. Organizational Structure
2. Segregation of Duties
3. Implementation of the concept of Relationship Banking
4. Credit Principles
5. Credit Facilities parameter
6. Discouraged Business
7. Review of Mode-wise Credit Position
8. Review of Large Loan Concentration
9. Review of Classification Position and Target
10. Credit Budget with sectoral outlook
11. Procedure of Credit Operation including credit assessment
12. Credit Risk Grading System
13. Emphasizing on Secured Lending
14. Disbursement process and Documentation
15. Credit Monitoring
16. Policy for Delegation of Lending Authority

Methods used to measure Credit Risk:

Credit risk grading is an important tool for credit risk measurement as it helps the Banks and financial institutions to understand various dimensions of risk involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a bank or a branch. Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

The credit risk grading is done by assigning weightage accordance to the severity of risk. The primary risk areas are financial risk, business/ industry risk, management risk, security risk and relationship risk. These risk components are further subdivided.

A thorough credit risk assessment is being conducted prior to the sanctioning of credit facilities. Thereafter it is done annually for each relationship. The result of this assessment is presented in the credit proposal originated from the Relationship Manager.

Following risk areas are addressed and assessed in credit sanctioning process:

- a. Borrower Analysis: Reputation, education, experience, age and success history and net worth of the borrower are considered to analyze a borrower. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions are addressed in borrower analysis.
- b. Industry Analysis: To analyze an industry JBL considers industry position i.e. threat & prospect in the industry, risk factors pertaining to the industry, borrowers position or share in the industry.

- c. Historical financial analysis: An analysis of a minimum of 3 years historical financial statements of the borrower is being presented. The analysis addresses the quality and sustainability of earning, cash flow and the strength of the borrower's balance sheet.
- d. Projected financial Performance: Where term facilities are being proposed, a projection of the borrower's future financial performance is required to be provided.
- e. Technical feasibilities / Infrastructural facilities, Seasonality of demand, Debt-Equity Ratio, Account conduct of the borrower, Security and other relevant factors are considered to assess credit risks.

Credit Risk Management System: Jamuna Bank Limited (JBL) has established a robust credit risk management system to proactively manage loan portfolio in order to minimize losses. It has significantly improved risk management culture and established standard for segregation of duties and responsibilities relating to Credit Operation of the Bank.

The major steps taken by JBL to implement credit risk management guidelines are:

- i) It has formulated its own Credit Policy Guidelines in line with the core risk guideline of Bangladesh Bank.
- ii) The policy takes into account the sectoral concentration and specific industry exposure cap is set in the policy.
- iii) Head Office Organizational structure has been segregated in line with CRM Guideline (Credit Marketing, Credit Approval and Credit Administration activities have been separated).
- iv) Borrower's Risk Grade are assigned and mentioned in the credit proposal.
- v) All disbursement is authorized centrally in the computer system only after confirming fulfillment of documentation requirement as per sanction term. There is no scope of disbursement without approval of the competent authority.
- vi) Credit Approval Authority has been clearly defined in the policy.
- vii) Strong monitoring of loan portfolio is ensured by separate Credit Monitoring Department.

Quantitative Disclosures:

(b) Total gross credit risk exposures broken down by major types of credit exposure:

Major Types of Credit Exposure

As on 31.12.2010

(Tk. In Crore)

Sl. No.	Exposure Type	Exposure
1	Cash	100.03
2	Claims on Bangladesh Government and Bangladesh Bank	609.60
3	Claims on Multilateral Development Banks (MDBs):	0.00
4	Claims on Public Sector Entities	0.00
5	Claims on Banks & NBFIS	837.90
6	Claims on Corporate	2984.34
7	Claims under Credit Risk Mitigation	336.80
8	Claims categorized as retail portfolio & SME(excluding consumer loan)	620.84
9	Consumer Loan	27.49
10	Claims fully secured by residential property	64.17
11	Claims fully secured by commercial real estate	112.72
12	Past Due Claims	46.88
13	Capital Market Exposure	0.00
14	Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book	0.00
15	Investments in venture capital	0.00
16	Investments in premises, plant and equipment and all other fixed assets	182.21
17	Claims on all fixed assets under operating lease	0.00
18	All other assets:	
	i) Claims on GoB & BB	128.28
	ii) Staff Loan/Investment	12.09
	iii) Cash items in the Process of Collection	0.00
	iv) Claims on Off-shore Banking Unit (OBU)	0.00
	v) Other Assets (net off specific provision, if any)	63.58
	Grand Total	6,126.93

(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure:

Major Types of Credit Exposure
As on 31.12.2010

(Tk. In Crore)

Sl. No.	Exposure Type	Credit Exposure						Total
		Dhaka Division	Chittagong Division	Rajshahi Division	Barisal Division	Sylhet Division	Khulna Division	
1	Cash	45.00	15.16	28.19	0.15	5.79	5.74	100.03
2	Claims on Bangladesh Government and Bangladesh Bank	595.00	8.73	4.88	0.19	0.05	0.76	609.60
3	Claims on Multilateral Development Banks (MDBs):	-	-	-	-	-	-	-
4	Claims on Public Sector Entities	-	-	-	-	-	-	-
5	Claims on Banks & NBFIS	676.56	154.02	7.27	-	0.04	-	837.9
6	Claims on Corporate	1899.51	689.34	340.63	-	24.91	29.96	2984.34
7	Claims under Credit Risk Mitigation	194.41	87.26	40.24	3.32	8.75	2.83	336.8
8	Claims categorized as retail portfolio & SME(excluding consumer loan)	308.77	124.74	146.79	2.23	23.62	14.70	620.84
9	Consumer Loan	20.44	4.01	2.17	0.01	0.16	0.70	27.49
10	Claims fully secured by residential property	32.75	12.79	17.13	0.84	-	0.67	64.17
11	Claims fully secured by commercial real estate	72.05	1.78	38.24	-	0.65	-	112.72
12	Past Due Claims	26.13	15.34	4.74	0.05	0.2773	0.35	46.88
13	Capital Market Exposure	-	-	-	-	-	-	-
14	Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book	-	-	-	-	-	-	-
15	Investments in venture capital	-	-	-	-	-	-	-
16	Investments in premises, plant and equipment and all other fixed assets	168.91	5.94	5.06	0.48	1.10	0.73	182.21
17	Claims on all fixed assets under operating lease	-	-	-	-	-	-	-
18	All other assets:	-	-	-	-	-	-	-
	i) Claims on GoB & BB	128.28	-	-	-	-	-	128.28
	ii) Staff Loan/Investment	8.13	2.40	1.15	0.07	0.24	0.10	12.09
	iii) Cash items in the Process of Collection	-	-	-	-	-	-	-
	iv) Claims on Off-shore Banking Unit (OBU)	-	-	-	-	-	-	-
	v) Other Assets (net off specific provision, if any)	63.58	-	-	-	-	-	63.58
	Grand Total	4239.52	1121.50	636.49	7.34	65.57	56.53	6,126.93

(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

Sectors & Sub-Sectors/Industries of the National Economy as on 31-12-2010.

			(Tk. in crore)
Sl.	Sectors	Sub-Sectors Industries	Outstanding
01	Agriculture	Crops	4.42
		Forestry	-
		Livestock	1.83
		Fisheries	4.10
		Others (Please Specify)	2.00
		i) Poultry Firm	40.25
		ii) Dairy Firm	0.47
		iii) Salt	-
		iv) Processing of Rice, Flour etc.	11.65
02	Mining & Quarrying	Lime Stone	-
		White Clay	-
03	Industry (Large Scale)	Food Manufacturing	62.17
		Beverage	8.01
		Tobacco	5.83
		RMG & Textile	772.59
		Footwear, other wearing apparel & made up Textiles	29.06
		Wood Cork & Allied Products	-
		Furniture & Fixture	69.45
		Paper & Paper Products	56.63
		Printing, Publishing & Allied Industries	3.64
		Leather & Leather products	1.13
		Rubber Products	-
		Chemical & Chemical Products	5.22
		Petroleum & Coal Products	-
		Non-Metallic Mineral Products	-
		Basic Metal Products	112.16
		Metal Products Except Machinery	182.52
		Machinery Except Electrical	-
		Electrical Machinery & Apparatus	53.18
		Transport Equipment	-
		Other Manufacturing Industries	374.97
	Industry (Small Scale)	-	239.80
04	Constructions		98.68
05	Power, Gas, Water & Sanitary Services	Power	-
		Gas	8.26
		Water & Sanitary Services	0.14
06	Transport, Storage & Communication	Land Transport	88.94
		Air Transport	-
		Water Transport	-
		Tele Communication	5.62
		Storage	20.60
07	Trade Services	-	2,174.28
08	Housing Services	Urban	161.23
		Rural	13.02
09	Public Admn. Defence	Central Government	-
		Local Government	-

10	Banking & Insurance	Banking	-
		Public	-
		Private	-
		Insurance	0.30
		Public	-
		Private	-
		Leasing Company	26.87
11	Professional & Misc. Services	Educational Services	3.30
		Medical Services	102.86
		Legal Services	-
		Recreation Services	-
		Personal Services	149.27
		Hotel & Restaurant Services	0.33
		Religious Services	-
		Domestic Services	48.26
Total			4,943.04

(e) Residual contractual maturity breakdown of Loans, Advances and Leases:

Particulars	Amount in TK.
Payable on Demand	2,506,694,061
Up to 3 Months	3,697,531,343
More than 3 Months but not more than 1 year	30,838,474,107
More than 1 year but not more than 5 years	9,285,864,315
More than 5 years	3,101,932,265
Total	49,430,496,091

(f)

Particulars	Tk in Crore
Gross Non Performing Assets (NPAs)	90.55
Non Performing Assets (NPAs) to Outstanding Loans and advances	1.83%
Movement of Non Performing Assets (NPAs)	
1. Opening balance	82.84
2. Additions	7.71
3. Reductions	0.00
4. Closing balance	90.55
Movement of specific provisions for NPAs	
1. Opening balance	113.00
2. Provisions made during the period	5.43
3. Write-off	0.00
4. Write-back of excess provisions	0.00
5. Closing balance	118.43

e) Equity Position Risk

Qualitative Disclosures:

Equity risk: Equity risk is the risk that one's investments will depreciate because of stock market dynamics causing one to lose money. The capital charge for equities would apply on their current market value in bank's trading book. This capital charge for both specific risk and the general market risk will be at the rate of the required minimum capital adequacy ratio. This is applied to all instruments that exhibit market behaviour similar to equities. The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, for example: units of mutual funds, and commitments to buy or sell equity.

Quantitative Disclosures:

Bank's Holdings of Shares

Tk. in crore

Sl. No.	Particulars	Value of Shares	Total Liabilities	% of value of shares to Total Liabilities
a)	Own Portfolio	26.41	6465.56	0.41%
b)	Market value of liened shares	3.33		0.05%
c)	Custody			
	Total Holdings	29.74		0.46%

Exposure in Capital Market

Tk. in crore

Sl. No.	Particulars	Amount	Total Liabilities	% of Capital Market Exposure to Total Liabilities
a)	Own Portfolio	26.47	6465.56	0.41%
b)	Loan to own subsidiary/subsidiaries			0.00%
c)	Loan to others for merchant banking and brokerage activities	145.00		2.24%
d)	Guarantee against loan of own subsidiary/subsidiaries and others			0.00%
e)	Loan to Stock Dealer			0.00%
	Total Exposure	171.47		2.65%

Capital requirements for equity position risk:

(Tk in Crore)

Sl. No.	Particulars	Amount (Market Value)	Weight	Capital Charge
	1	2	3	4=(2X3)
a)	Specific Risk :	26.45	9%	2.38
b)	General Market Risk:	26.45	9%	2.38
	Total			4.76

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

Qualitative Disclosures:

Interest rate risk is the potential that the value of the on-balance sheet and the off-balance sheet positions of the bank would be negatively affected with the change in the interest rates. In general, as rates rise, the price of a fixed rate bond will fall, and vice versa.

Interest rate risk in the banking book arises from mismatches between the future yield of an asset and their funding cost. The Bank assess interest rate risk in earning perspective which is traditional approach to interest rate risk assessment and obtained by measuring the changes in the Net Interest Income (NII) on Net Interest Margin (NIM) i.e. the difference between total interest income and the total interest expenses. Asset Liability Committee (ALCO) monitors the interest rate movement on a regular basis. Duration Gap analysis is one of the technique by which JBL measures interest rate risk in the banking book on a half-yearly basis. Duration is the measure of a portfolio's price sensitivity to changes in interest rates.

Quantitative Disclosures:

The changes in the economic value of equity due to change in interest rates on balance sheet positions along the three interest rate changes:

<u>Interest Risk-Increase in Interest Rate:</u>	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock	1%	2%	3%
Regulatory Capital	6346.32	6346.32	6346.32
RWA	66839.00	66839.00	66839.00
CAR (%)	9.49	9.49	9.49
Weighted Average yield on asset (%)	9.96%	9.96%	9.96%
Total Assets	70753.70	70753.70	70753.70
Duration GAP	1.38	1.38	1.38
Fall in MVE(on-balance sheet)	946.28	1892.56	2838.84
Net fall in MVE (on-balance sheet & off-balance sheet)	946.28	1892.56	2838.84
Tax adjusted Loss	544.11	1088.22	1632.33
Revised Capital	5802.21	5258.10	4713.99
Revised RWA	66294.89	65750.78	65206.67
Revised CAR (%)	8.75%	8.00%	7.23%

g) Market Risk

Qualitative Disclosures:

Market risk is the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors. The four standard market risk factors are stock prices, interest rates, foreign exchange rates and commodity prices.

Method used to measure Market Risk

Capital charge for specific risk against interest related instruments designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer. The charge for Specific risk is graduated in the following categories.

Government category: This category will include all the existing government securities. All BDT denominated government securities will carry zero percent capital charge weight as well as for foreign currency denominated securities whether issued by domestic or foreign governments.

The capital requirement for general market risk is designed to capture the risk of loss arising from in market interest rates. Long or short positions in debt securities and other sources of interest rate exposures, including derivative instruments, are slotted into a maturity ladder comprising 13 time-bands (or 15 time-bands in case of low coupon instruments). Fixed-rate instruments should be allocated to the residual term to maturity and floating-rate instruments according to the residual term to the next re-pricing date.

The capital charge for the securities is the resultant figure found by multiplying market value of the securities by the capital charge weight.

Market Risk Management System, Policies and process for mitigating market risk:

Market risk is the risk of loss resulting from changes in the value of assets and liability due to fluctuation in risk factors such as interest rates, foreign exchanges rates and stock prices and the risk of loss resulting from changes in earnings generated from assets and liabilities. Market Risk consists of:

Interest Rate Risk: The risk of loss resulting from changes in interest rates. As a result of mismatch of interest rates on its assets and liabilities and/or timing differences in the maturity thereof.

Bank monitors and controls the risk by rating of the individual clients as well as the Bank has its own system for rating individual credits. Bank also monitors maturity mismatch of its assets & liabilities periodically. Bank has a Risk Management Committee.

Foreign Exchange Risk: It is the risk to earnings and capital arising from adverse movements in currency exchange rates. It refers to the impact of adverse movement in currency exchange rates on the value of open foreign currency position and. There are also the risk of default of the counter parties and settlement risk. For monitoring and controlling the risk Bank has made contacts with several foreign banks and closely monitors the incoming and outgoing sources & payment schedule of foreign currency.

Equity Risk: It is risk that results from adverse changes in the value of equity related portfolios.

Further, to manage, monitors & control the above risks the Bank has the risk Management committee & Asset-Liability Committee comprising the Divisional Heads and Seniors Executives and Mid Office etc. They set in every month to discuss the matters and takes immediate steps as and when required to mitigate the issues.

Quantitative Disclosure

Market risk on trading Book	(Tk in Crore)
The capital requirements for:	
√ Interest rate risk;	45.03
√ Equity position risk;	4.76
√ Foreign exchange risk; and	4.82
√ Commodity risk	0.00

h) Operational Risk

Qualitative Disclosure

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

The operational risk may be of this following category:

- Internal Fraud.
- External Fraud.
- Employment practices & work plan.
- Clients, products & business practice.
- Damage of physical assets.
- Business disrupt & system failure.
- Execution, delivery & process management.
- Legal risk.

Potential External Events:

External Events that means theft of information, Hacking Damage, Third party Theft & Forgery. The Risk Management Unit of our Bank reviews the external fraud monthly basis and takes necessary action against any of the above External events.

Policies and processes for mitigating operational risk:

The Bank developed a Risk Management unit and Supervisory Review Committee for reviewing and managing operational risk as well as evaluating of the adequacy of capital. It includes policies outlining the bank's approach to identifying, assessing, monitoring and controlling/mitigating the risk.

Measurement Methodology:

Banks operating in Bangladesh shall compute the capital requirements for Operational risk under the Basic Indicator Approach (BIA). Under BIA, the capital charge for operational risk is a fixed percentage, denoted by α of average positive annual gross income of the bank over the past three years. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator when calculating the average. The capital charge may be expressed as follows:

$$K = [(GI_1 + GI_2 + GI_3) \times \alpha] / n$$

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 b)

α = 15%

n = number of the previous three years for which gross income is positive.

Gross Income: Gross income is defined as “Net Interest Income” plus “Net non-interest Income”. It is intended that this measure should:

- a) Be gross of any provisions (includes interest suspense)
- b) Be gross of operating expenses, including fees paid to outsourcing service providers:
- c) Exclude realized profits/losses from the sale of securities held to maturity in the banking book:
- d) Exclude extraordinary or irregular items as well as categorize
- e) Exclude income derived from insurance.

Gross income = Net profit (+) provision & contingencies (+) operating expenses (-) items (c) to (e) above.

Basic Indicator Approach As on 31.12.2010

(Amount in crore taka)

Sl.	Operational Risk	2010	2009	2008	Capital Charge
	Gross Income	386.85	301.96	182.42	43.56

Quantitative Disclosure

(d) Operational risk

(Tk in Crore)

The capital requirements for:

Operational Risk

43.56