

Jamuna Bank Limited
Disclosure on Risk Based Capital under Basel III
For the Year 2015

Background: These disclosures on the position of the bank's risk profiles, capital adequacy and risk management system under Pillar-III of Basel-III are made following revised "Guidelines on Risk Based Capital Adequacy" for banks issued by Bangladesh Bank in December 2014. These quantitative and qualitative disclosures are intended to complement the Minimum Capital Requirement (MCR) under Pillar-I and Supervisory Review Process (SRP) under Pillar-II of Basel-III.

The purpose of these disclosures is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of the bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets.

SCOPE OF APPLICATION

Scope of Application: The Risk Based Capital Adequacy framework applies to Jamuna Bank Limited (JBL) on 'Solo' basis as well as 'Consolidated' basis as there were two subsidiaries of the bank as on the reporting date i.e. 31 December 2015. The names of the two subsidiary companies are Jamuna Bank Capital Management Limited and Jamuna Bank Securities Limited.

Consistency and Validation: The quantitative disclosures are made on the basis of consolidated audited financial statements of JBL and its Subsidiary as at and for the year ended 31 December 2015 prepared under relevant international accounting and financial reporting standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and related circulars/ instructions issued by Bangladesh Bank from time to time. The assets, liabilities, revenues and expenses of the subsidiaries are combined with those of the parent company (JBL), eliminating intercompany transactions. So assets of the subsidiaries were risk weighted and equities of subsidiaries were crossed out with the investment of JBL while consolidating.

CAPITAL STRUCTURE

Capital Structure of JBL: Regulatory capital, as stipulated by the revised RBCA guidelines by BB, is categorized into two tiers. The total regulatory capital will consist of sum of the following categories:

- 1) Tier 1 Capital (going-concern capital)
 - a) Common Equity Tier 1
 - b) Additional Tier 1
- 2) Tier 2 Capital (gone-concern capital)

Tier 1 capital (going-concern capital) is the capital which can absorb losses without triggering bankruptcy of the bank. Tier 2 capital (gone-concern capital) is the capital which will absorb losses only in a situation of liquidation of the bank.

Conditions for Maintaining Regulatory Capital: The Bank complied with all the required conditions for maintaining regulatory capital as stipulated in the revised RBCA guidelines by Bangladesh Bank as per following details:

- Common Equity Tier 1 of at least 4.5% of the total RWA.
➤ **Status of Compliance: Complied.**
- Tier-1 Capital will be at least 5.50% of the total RWA.
➤ **Status of Compliance: Complied.**
- Minimum Capital to Risk weighted Asset Ratio (CRAR) of 10% of the RWA.
➤ **Status of Compliance: Complied.**
- Additional Tier 1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher.
➤ **Status of Compliance:** As on the reporting date there was no Additional Tier 1 capital in the capital structure of Jamuna Bank Limited.

Quantitative Disclosures: The Bank had a consolidated Capital of BDT 1,462.58 crore comprising Tier-1 capital of BDT 1,077.38 crore and Tier-2 capital of BDT 385.20 crore as on the reporting date (31 December 2015). Following table presents the details of capital as on December 31, 2015:

Tk. in Crore			
1.0	Common Equity Tier-1 (Going Concern Capital)	Consolidated	Solo (Bank)
1.1	Fully Paid-up Capital	614.12	614.12
1.2	Non-repayable Share premium account	-	-
1.3	Statutory Reserve	340.34	340.34
1.4	General Reserve	-	-
1.5	Retained Earnings	122.93	120.83
1.6	Minority interest in Subsidiaries	0.00	-
1.7	Dividend Equalization Account	-	-
1.8	Actuarial Gain/Loss	-	-
1.9	Other (if any item approved by Bangladesh Bank)	-	-
1.10	Sub-Total (1.1 to 1.9)	1,077.38	1,075.29
1.11	Shortfall in provisions required against Non Performing Loans (NPLs)	-	-
1.12	Total Common Equity Tier-1 Capital (1.10 - 1.11)	1,077.38	1,075.29
2.0	Additional Tier-1 Capital		
2.1	Non-cumulative irredeemable preference shares	-	-
2.2	Instruments issued by the bank that meet the qualifying criteria for AT1	-	-
2.3	Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties	-	-
2.4	Other (if any item approved by Bangladesh Bank)	-	-
2.5	Total Additional Tier-1 Capital (2.1 to 2.4)	-	-
A.	Total Tier-1 Capital (1.12+2.5)	1,077.38	1,075.29
3.0	Tier-2 Capital (Gone-Concern Capital)		
3.1	General Provision (Eligible for inclusion in Tier-2 will be limited to a maximum 1.25% of Credit RWA)	117.19	116.40
3.2	Revaluation Reserves as on 31 December 2014 (50% of Fixed Asset and Securities & 10% of Equities)	85.01	85.01
3.3	Subordinated debt	200.00	200.00
3.4	All other preference shares	-	-
2.5	Minority Interest i.e. Tier 2 issued by consolidated subsidiaries to third parties	-	-

2.6	Other (if any item approved by Bangladesh Bank)		-
2.7	Sub-Total (2.1 to 2.6)	402.20	401.41
2.8	Phase-in deductions @ 20% from Revaluation Reserves	17.00	17.00
B.	Total Tier-2 Capital (2.7-2.8)	385.20	384.41
C.	Total Eligible Capital (A+B)	1,462.58	1,459.70

CAPITAL ADEQUACY

Bank's Approach to Assessing Capital Adequacy: 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.

Jamuna Bank Limited focuses on strengthening and enhancing its risk management culture and internal control environment rather than increasing capital to cover up weak risk management and control practices. JBL has been generating most of its incremental capital from retained profit (stock dividend and statutory reserve transfer etc.) to support incremental growth of Risk Weighted Assets (RWA). Therefore, the Bank's Capital to Risk weighted Asset Ratio (CRAR) remains consistently within the comfort zone after implementation of Basel-III from 1 January, 2015. During the year 2015, the CRAR ranges from 10.97% to 12.74% on consolidated basis and from 11.04% to 12.83% on solo basis against minimum requirement of 10% of RWA.

Assessing regulatory capital in relation to overall risk exposure of a bank is an integrated and comprehensive process. Jamuna Bank Limited, through its Supervisory Review Committee and Management Risk Committee, is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to. Assessment of capital adequacy will be in alignment with the findings of these exercises.

Quantitative Disclosures: Following table shows component wise allocation of capital to meet three risks and an amount of additional capital maintained over MCR i.e. 10% of RWA. As on the reporting date, Jamuna Bank Limited maintained a Capital to Risk weighted Asset Ratio (CRAR) of 12.74% on 'Consolidated Basis' and 12.83% on 'Solo Basis' against required minimum of 10%. We had an excess capital of BDT 314.36 crore (Consolidated) after meeting all three risks as on the reporting date as shown in the following table:

	Tk. in Crore	
Capital Adequacy	Consolidated	Bank (Solo)
Capital requirement for Credit Risk	937.55	931.21
Capital requirement for Market Risk	102.69	101.25
Capital requirement for Operational Risk	107.98	105.60
Minimum Capital Requirement (MCR)	1,148.22	1,138.06
Available Capital for Pillar 2 Requirement	314.36	321.64
Total Capital Maintained	1,462.58	1,459.70
Total Risk Weighted Asset	11,482.20	11,380.64
Capital to Risk weighted Asset Ratio	12.74%	12.83%

CREDIT RISK

Qualitative Disclosures:

Definition of Credit Risk: Credit risk is the possibility that a borrower will fail to meet its obligation in accordance with agreed terms and conditions. That is credit risk is the risk of loss that may occur from the failure of any counterparty to make required payments in accordance with agreed terms and conditions and/or deterioration of credit worthiness. Credit risk is managed through a framework set by policies and procedures approved by the Board. The responsibility is clearly segregated between originator of business transaction and approver in the risk function.

Credit Risk Management Policies and Procedures: 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.

Asset Impairment Policy: JBL follows central bank guidelines as its asset impairment policy. Bangladesh Bank set loan impairment/classification criteria and provisioning policies vide BRPD Circular No.14 dated 23 September 2012, BRPD Circular No.05 dated 29 May 2014 and BRPD circular No.16 dated 18 November 2014. The summary of objective criteria of loan classification and provisioning requirement are as below:

Objective Criteria:

Type of Loan	Unclassified		Sub-standard	Doubtful	Bad/Loss
	Standard	SMA			
Continuous	O<2	2<O<3	3<O<6	6<O<9	O>9
Demand	O<2	2<O<3	3<O<6	6<O<9	O>9
Fixed Term (>Tk. 10.00 Lacs)	O<2	2<O<3	3<O<6	6<O<9	O>9
Fixed Term (Up to Tk. 10.00 Lacs)	O<2	2<O<6	6<O<9	9<O<12	O>12
SAC/MC	O<12		12<O<36	36<O<60	O>60

Note: O = Overdue, SMA = Special Mention Account, SAC = Short term Agricultural Credit, MC = Micro Credit.

Rate of Provision:

Particulars	Short Term Agri. Credit	Consumer Financing			SMEF	Loans to BMs/MBs/SDs	All Other Credit	
		Other than HF, LP	HF	LP				
UC	Standard	2.50%	5%	2%	2%	0.25%	2%	1%
	SMA	-	5%	2%	2%	0.25%	2%	1%
Classified	SS	5%	20%	20%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	50%	50%
	B/L	100%	100%	100%	100%	100%	100%	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.

Quantitative Disclosures:

Total gross credit risk exposures broken down by major types of credit exposure: Bangladesh Bank guidelines on RBCA, stipulated to segregate bank's asset portfolio into different categories and the following table shows our gross exposure in each asset category.

Major Types of Credit Exposure

As on 31.12.2015

(Tk. In Crore)

Sl.	Exposure Type	Exposure	
		Consolidated	Solo (Bank)
1	Cash	143.57	143.57
2	Claims on Bangladesh Government and Bangladesh Bank	2,649.46	2,638.35
3	Claims on Multilateral Development Banks (MDBs):	-	-
4	Claims on Public Sector Entities	-	-
5	Claims on Banks & NBFIS		
	Original Maturity over 3 months: BB's Rating Grade: 1	309.81	309.81
		2,3	59.84
		4,5	-

	6	-	-
	Unrated	52.02	52.02
	Original Maturity less than 3 months	785.46	785.46
6	Claims on Corporate		
	BB's Rating Grade: 1	794.92	794.92
	2	1,114.06	1,114.06
	3,4	582.41	582.41
	5,6	-	-
	Unrated	2,778.93	2,778.93
	Claims on SME		
	SME1		
	SME2	2.57	2.57
	SME3	6.42	6.42
	SME4	17.69	17.69
	SME5	-	-
	SME6	-	-
	Unrated (small enterprise & <BDT 3.00 m)	372.93	372.93
	Unrated (small enterprise having ≥BDT 3.00m & Medium Enterp.)	633.72	633.72
7	Claims under Credit Risk Mitigation	901.99	901.99
8	Claims categorized as retail portfolio (excluding SME, consumer loan & Staff Loan) upto 1 Crore.	32.82	32.82
9	Consumer Loan	80.15	80.15
10	Claims fully secured by residential property	48.19	48.19
11	Claims fully secured by commercial real estate	44.47	44.47
12	Past Due Claims	469.32	469.32
13	Capital Market Exposure	229.81	56.08
14	Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book	0.87	140.87
15	Investments in venture capital	-	-
16	Investments in premises, plant and equipment and all other fixed assets	251.30	222.81
17	Claims on all fixed assets under operating lease	-	-
18	All other assets:		
	i) Claims on GoB & BB	113.73	75.53
	ii) Staff Loan/Investment	29.42	29.42
	iii) Cash items in the Process of Collection	-	-
	iv) Claims on Off-shore Banking Unit (OBU)	0.00	0.00
	v) Other Assets (net off specific provision, if any)	65.42	72.62
	Grand Total	12,571.26	12,466.93

Credit Exposure by Risk Weight: Bank needs more capital for assets where risk weight is higher and the below table shows our exposure under three main risk weight bands.

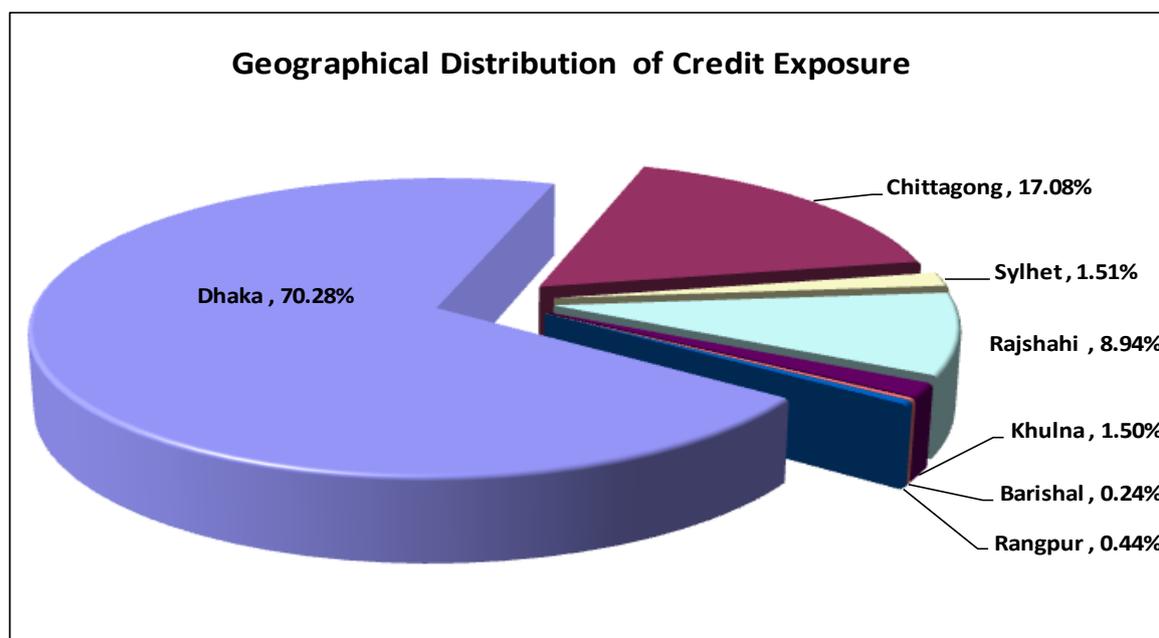
TK. in Crore

Particulars	Credit Exposure		
	Balance Sheet	Off-Balance Sheet	Total
Less than 100% risk weight	7181.10	842.24	8023.34
100% risk weight	1855.76	229.57	2085.33
More than 100% risk weight	3430.07	976.38	4406.45
Total	<u>12466.93</u>	<u>2048.19</u>	<u>14515.12</u>

Geographical Distribution of Loans & Advances: Our business is concentrated in two major cities- Dhaka and Chittagong as country's business activities are concentrated in these two locations. The following table shows Loans & Advances in different divisions:

TK. in Crore

Sl. No.	Divisions	Loans & Advances	Percentage
1	Dhaka	6132.48	70.28%
2	Chittagong	1490.12	17.08%
3	Sylhet	131.92	1.51%
4	Rajshahi	780.20	8.94%
5	Khulna	131.08	1.50%
6	Barishal	20.74	0.24%
7	Rangpur	38.69	0.44%
Total		8,725.23	100.00%



Credit Exposure by Major Industry or Sector: Major sector wise credit exposure as on 31 December, 2015 was as below and the exposure amount remained within the appetite of the bank.

TK. in Crore

Sl. No.	Sectoral Structure of Lending	Outstanding as on 31.12.2015	As % of Total Loans & Advances
1)	Agricultural & Fisheries	181.64	2.08%
2)	Large & Medium Scale Industry	1125.40	12.90%
3)	Working Capital	2536.51	29.07%
4)	Export Credit	752.80	8.63%
5)	Commercial Credit	2144.64	24.58%
6)	Small and Cottage Industries	804.59	9.22%
7)	Others	1179.65	13.52%
Total Loans & Advances		8,725.23	100.00%

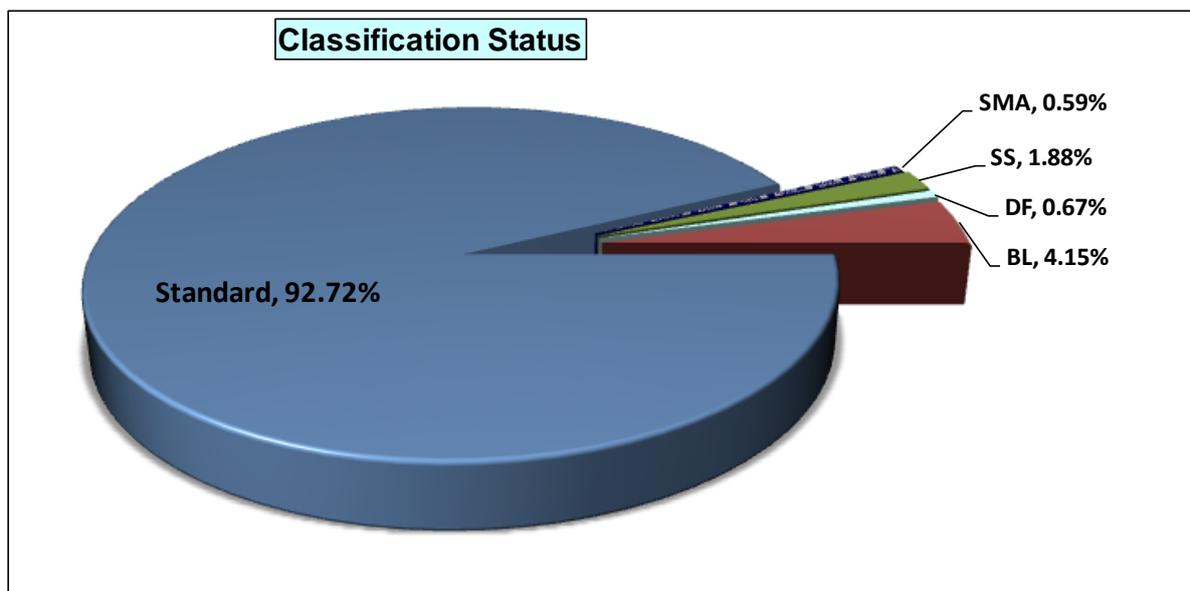
Residual Contractual Maturity of Loans and Advances:

Particulars	Amount in Crore TK.
Up to 1 Month	4,250.76
More than 1 Month to 3 Months	889.82
More than 3 Months but not more than 1 year	1,971.88
More than 1 year but not more than 5 years	1,481.20
More than 5 years	131.60
Total	8,725.23

Non Performing Assets: Total non-performing loans and advances was BDT 583.97 crore as on 31.12.2015 while it was BDT 442.21 crore in 2014.

(Tk. In Crore)

Classification Status	% of Total Loans	Outstanding
Standard	92.72%	8089.91
Special Mention Account (SMA)	0.59%	51.25
Sub-standard (SS)	1.88%	163.79
Doubtful (DF)	0.67%	58.12
Bad/Loss (B/L)	4.15%	362.16
Total	100.00%	<u>8,725.23</u>



Movement of Non Performing Assets: The closing volume of non performing loans and Advances was BDT 583.97 crore while it was BDT 442.21 crore in the opening balance of the year 2015. Movement of non performing assets during the year is presented in the following table:

Particulars	Tk in Crore
1. Opening balance as on 01 January 2015	442.21
2. Additions during the year	322.43
3. Reductions during the year	180.67
4. Closing balance as on 31 December 2015	583.97
Non Performing Assets (NPAs) to Outstanding Loans and advances	6.69%

Movement of specific provisions for NPAs is presented in following table:

Particulars	Tk in Crore
1. Opening balance	179.69
2. Provisions made during the period	126.93
3. Adjustment/Write-off during the year	151.62
4. Closing balance	154.99

EQUITY POSITION RISK

Equity Risk: Equity risk is the risk that one's investments will depreciate because of stock market dynamics causing one to lose money. Investment of JBL in equity securities is broadly categorized into two parts: Securities (Shares-common or preference, Mutual Fund) that are traded in the secondary market (trading book assets) and Un-quoted securities that are categorized as banking book assets.

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 behavior 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:

Total Investment in Capital Market (Consolidated Basis)

(Tk. in Crore)

	Name of Stock	Cost Price	Market Price	Profit /Loss	Total Capital as per BCA, 1991	% of Investment in Capital Market to total prescribed Capital Components
1	Portfolio: Bank					
a)	Shares	20.94	11.60	0.31		
	Less Equity investment in subsidiaries other than Merchant Bank and Brokerage Subsidiaries	-				
b)	Mutual Fund/Fund	6.26	5.14	0.00		
c)	Bonds/Debentures	-				
d)	Loan to others for merchant banking and brokerage activities	90.09	90.09			
e)	Loan to Stock Dealer	-				
f)	Placement/others	1.26	1.26			
	Less placement in subsidiaries	-				
2	Portfolio: Subsidiaries					
a)	Shares	7.05	5.33	(0.25)		
b)	Mutual Fund/Fund	2.19	1.85			
c)	Bonds/Debentures	-				
d)	Loans:					
	Margin Loan	131.96	131.96			
	Bridge Loan	-				
e)	Placement/others	-				
	Total Capital Market Exposure	259.75	247.22		913.07	27.08%

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 :	16.73	10%	1.67
b)	General Market Risk:	16.73	10%	1.67
	Total			3.35

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

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.

Interest rate risk in the banking book arises from mismatches between the future yield of an asset and their funding cost. The immediate impact of changes in interest rates is on the Bank's net interest income (the difference between total interest income and the total interest expenses) for particular period of time, while the long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures are affected.

The process of interest rate risk management by the bank involves determination of the business objectives, expectation about future macro economic variables and understanding the money markets and debt market in which it operates. Interest rate risk management also includes quantifying the appetite for interest rate risk to which bank is comfortable.

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 quarterly basis. Duration is the measure of a portfolio's price sensitivity to changes in interest rates.

Quantitative Disclosures:

The impact of interest rate movement:

Tk. in Crore

Particulars	< 3 months	3-6 months	6-12 months
Total Rate Sensitive Assets	5365.56	967.92	1250.14
Total Rate Sensitive Liabilites	4851.13	1583.65	727.05
Gap	514.43	-615.73	523.09
Cummulative Gap	514.43	-101.30	421.79
Regulatory Capital	1459.70	1459.70	1459.70
Total RWA	11380.64	11380.64	11380.64
CAR before Shock	12.83%	12.83%	12.83%
Interest Rate Stress Test	Minor	Moderate	Major
Assumed Decrease in Interest Rate	1.00%	2.00%	3.00%
Net Interest Income Impact: <12 months	-4.22	-8.44	-12.65
Tax Adjusted Impact	-2.53	-5.06	-7.59
Capital after Shock	1457.17	1454.64	1452.11
CAR after Shock	12.80%	12.78%	12.76%
Change in CAR after Shock	-0.02%	-0.04%	-0.07%
Duration GAP	1.00	1.00	1.00
Change in Market Value of Equity	-121.62	-243.25	-364.87
Tax Adjusted Loss	-69.93	-139.87	-209.80
Regulatory Capital (after shock)	1389.77	1319.83	1249.90
Total RWA(after shock)	11371.06	11371.06	11371.06
CAR after Shock	12.22%	11.61%	10.99%

MARKET RISK

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 equity prices, interest rates, foreign exchange rates and

commodity prices. The objectives of our market risk policies and processes are to obtain the best balance of risk and return whilst meeting customers' requirements. The primary categories of market risk for the bank are:

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.

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.

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

Commodity Price Risk: Commodity price risk arises from changes in commodity prices and implied volatilities in commodity options, covering energy, precious metals, base metals and agriculture. Currently we do not have any exposure in commodity financing.

Market Risk Management:

To manage, monitors & control the above risks the Bank has Risk Management Committee & Asset-Liability Committee comprising the al 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.

To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Among the ratios, the key ratios that ALCO regularly monitors are Liquid asset to total assets, Volatile Liability dependency ratio, medium term funding ratio and short term borrowing to Liquid assets ratio. ALCO also regularly monitors the interest rate sensitive gap and duration gap of total portfolio.

To manage exchange rate risk, bank always keep its net open position within the limit set by central bank. Also to manage exchange rate risk in cross currency, bank always square its position in cross currency or convert its exposure to USD. 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.

To manage equity risk, the bank ensures taking prudent investment decisions complying sectoral preference as per investment policy of the bank and capital market exposure limit set by BB.

Quantitative Disclosure

Capital Required for Market Risk:

TK. in Crore	
Particulars	Amount
Capital requirements for:	
- Interest rate risk;	89.57
- Equity position risk;	3.35
- Foreign exchange risk; and	8.33
- Commodity risk	-
Total Capital Required for Market Risk	101.25

OPERATIONAL RISK

Operational Risk is defined as the risk of direct or indirect 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.

Views of Board of Directors (BOD) on system to reduce Operational Risk:

The policy for operational risks including internal control and compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance (IC&CD) to protect against all operational risks.

As a part of continued surveillance, the management committee (MANCOM), Risk Management Committee (at the management level) and Risk Management regularly reviews different aspects of operational risk. The analytical assessment was reported to the Board/ Risk Management Committee/Audit Committee of the Bank for review and formulating appropriate policies, tool & techniques for mitigation of operational 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:

Jamuna Bank Limited operates its business in an umbrella of inter connected socio-economic and political environment. Few externalities affect business performance directly such as macro economic conditions, regulatory policy changes, changes in demand, status of infrastructure whereas few factors affect operations of the business directly or indirectly such as force shut down due to political instability, threat of vandalism to the bank's sophisticated physical outlets including IT equipments etc.

Policies and processes for mitigating operational risk:

The policy for operational risks including internal control and compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. A policy guideline on Risk Based Internal Audit (RBIA) System is in operation. As per RBIA, branches with high risk status and subjected to more frequent audit by Internal Control and Compliance (IC&CD). IC&CD directly report to Audit Committee of the Board.

Currently, Jamuna Bank Limited is using some models or tools for mitigating operational risk such as Self Assessment of Anti-fraud Internal Control; Quarterly Operational Report (QOR) and Departmental Control Function Check List (DCFCL) in line with the Bangladesh Bank's relevant Instructions and recommendations. It is required to submit the statement on Self Assessment of Anti-fraud Internal Control to Bangladesh Bank on quarterly rest.

In addition, Bank's Anti- Money laundering activities are headed by CAMLCO and their activities are devoted to protect against all money laundering and terrorist finance related

activities. The newly established Central Customer Service & Complaint Management Cell was also engaged in mitigating the operation risks of the Bank. Apart from that, there is adequate check and balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.

Approaches for calculating capital charge for operational risk

The Bank follows the Basic Indicator Approach (BIA) as prescribed by BB through BRPD Circular No. 18 dated 21 December 2014 [Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)]. Under this approach, the capital charge for operational risk is a fixed percentage (denoted by alpha, α) of average positive annual gross income of the bank over the past three. 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 for operational risk is enumerated by applying the following formula:

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

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)

α = 15 percent

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

Besides, Gross Income (GI) is calculated as “Net Interest Income” plus “Net non-Interest Income”. The GI shall be:

- a) Gross of any provisions (including interest suspense)
- b) 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.

Quantitative Disclosure

Capital Required for Operation Risk:

Basic Indicator Approach As on 31.12.2015

(Amount in crore taka)

Sl.	Operational Risk	2015	2014	2013	Capital Charge (15% of Gross Income)
1.	Gross Income	793.58	702.41	616.08	105.60
2.	Last 3 years Average annual Gross Income	704.02			

LIQUIDITY RISK

Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or when a bank is unable to fulfill its commitments in time when payment falls due.

Views of Board of Directors (BOD) on system to reduce Liquidity Risk:

Liquidity risk arises when the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, in particular, its failure to meet obligations to repay depositors and fulfil commitments to lend.

The appropriate and efficient management of liquidity is essential to JBL in ensuring the confidence of the financial markets in order to pursue its identified business strategy.

Additionally, the Bank manages risk in relation to:

1. The mismatched funding of medium term assets by short term or retail liabilities, which can increase the potential for liquidity problems at a future date and
2. Meeting regulatory requirements at all times

The Bank at all times maintains financial resources, including capital and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

Treasury has overall responsibility for liquidity management on a day-to-day basis and in the event of a liquidity crisis. In normal conditions liquidity is managed as per policy and guidelines already established.

To avoid the risk of liquidity related penalty or regulation on JBL, Market Risk Management advises immediately of any event that could adversely impact relationships with regulators. Bank complies with all regulatory reporting requirements, terms and conditions for the operation of accounts with central banks in respect of liquidity risk.

Liquidity Management Strategy:

The Bank applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. The Bank uses cash flow match approach and liquid assets approach. **Under the cash flow approach** the Bank attempts to match the cash outflows against the contractual cash inflow leaving around one month cash requirement at all times to absorb unexpected cash movement. The excess liquidity for over one month is managed on the basis of liquid assets approach and as per guidelines.

The Bank has to maintain liquid assets of at least 20% of deposit liabilities in the form of cash or assets that can be converted into cash within a period not exceeding 30 days.

Liquidity risk is monitored and evaluated daily by Treasury to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of the liabilities.

The Basel liquidity principles are implemented more specifically in the Bank's overall liquidity risk framework through the following:

- I. Board Risk Management Committee and Asset & Liability Committee being focused on the liquidity strategy and management;
- II. Liquidity and Contingency Liquidity policies;

- III. Liquidity Gap / Market Access Requirement analysis for daily management against liquidity limits;
- IV. Monitoring of Liquidity ratios to re-align short term and medium term structural imbalances;
- V. Management of liquidity concentration risk for Significant Funding Sources (large depositors);
- VI. Liquidity Stress tests and the Contingency funding plan.

Liquidity Monitoring and Control

Market Risk Management has established a monitoring and reporting framework for liquidity risk that provides pertinent information to ALCO.

The following lists the salient aspects of monitoring that is done on a regular basis:

1. Monitoring of the implementation of the limits according to Market Risk Policy guidelines
2. Timely detection and correction of deficiencies in the policies, processes and procedures of liquidity gap risk
3. Managing liquidity risk through on-going, periodic and annual reviews
4. Verifying the authenticity and availability of the sources of funds available to the Bank

Liquidity Stress Testing:

As part of our Regulatory requirement our Risk Management addresses unusual and unexpected events to occur and accordingly prepares to face and survive such situations. This requires foreseeing situations under hypothetical scenarios considering the question 'what-if' and development of stress tests in such scenarios. This enables the organization to be well equipped to cope with the crisis situations when they arise.

Contingency Funding Plan:

Contingency planning is a combination of early warning procedures and advance preparation for potential high-severity / low-probability liquidity events. In the unlikely event of a funding crisis, good contingency planning makes the difference between being in control and simply reacting to events.

The need for a robust contingency funding plan is driven by the following factors:

- I. Bank can never avoid liquidity risk
- II. As liquidity risk increases, it becomes even more un-hedgable.
- III. It is too expensive to hold enough liquidity to survive a severe or prolonged funding crisis.

Therefore, contingency planning may be defined as the bridge between the liquidity the bank chooses to hold and the maximum it might need.

Main Contributor:

The main contributors to JBL LCR on assets side are Treasury Bills & Bonds, and one of the instruments of Govt. Borrowing, while on the liability side the major portion is deposits mainly contributed by our large corporate & retail customers.

Liquidity Coverage Ratio:

LCR or Liquidity Coverage Ratio is a new liquidity standard introduced by the Basel Committee. This standard is built on the methodologies of traditional liquidity coverage ratio used by banks to assess exposure to contingent liquidity events. LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days. LCR goes beyond measuring the need for liquid assets over the next 30 days in a normal environment. It measures the need for liquid assets in a stressed environment, in which deposits and other sources of funds (both unsecured and secured) run off, to various extents, and unused credit facilities are also drawn down in various magnitudes.

Composition of High Quality Liquid Assets (HQLA):

The HQLA of JBL LCR consists of Cash, placements /Reverse Repos and the investments in Govt. Security ie Treasury Bills & Bonds which are included due to its repo-ability characteristic.

Net Stable Funding Ratio:

NSFR or Net Stable Funding Ratio is another new standard introduced by the Basel Committee. The NSFR aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items. The minimum acceptable value of this ratio is 100 percent, indicating that available stable funding (ASF) should be at least equal to required stable funding (RSF). ASF consists of various kinds of liabilities and capital with percentage weights attached given their perceived stability. RSF consists of assets and off-balance sheet items, also with percentage weights attached given the degree to which they are illiquid or “long-term” and therefore requires stable funding. The time horizon of the NSFR is one year.

Currency Mismatch:

As outlined in guideline, while the LCR is expected to be met on a consolidated basis and reported in a common currency, bank manages the liquidity needs in each significant currency. As indicated in the LCR, the currencies of the stock of HQLA are similar in composition to the operational needs of the bank. Bank does not assume that currencies are transferable and convertible in a stress period.

Quantitative Disclosure

(Amount in crore taka)	
Particulars	Amount
Liquidity Coverage Ratio	219.85%
Net Stable Funding Ratio (NSFR)	111.94%
Stock of High Quality Liquid Assets	4,604.75
Total net cash outflows over the next 30 calendar days	2,094.49
Available amount of stable funding	12,577.98
Required amount of stable funding	11,236.47

LEVERAGE RATIO

Basel III introduces a simple, transparent, non-risk based Leverage Ratio to constrain excessive on- and off-balance sheet leverage in the banking sector and supplement risk based capital requirements as a safeguard against model risk. The leverage ratio is calculated by dividing tier 1 capital with total exposure.

Leverage ratio requires that the bank's high quality capital (Tier 1 capital) will be 3 per cent of its total exposure. Exposures include on-and off-balance sheet items.

Quantitative Disclosure

(Amount in crore taka)

	Particulars	Amount
A.	Tier-1 Capital (considering all regulatory adjustments)	1,075.29
B.	On balance sheet exposure	14,153.08
C.	Off balance sheet exposure	2,119.12
D.	Regulatory adjustments made to Tier 1 capital	0.00
E.	Total exposure (B+C-D)	16,272.20
F.	Leverage Ratio (A/E)*100	6.61%

REMUNERATION

Information relating to the bodies that oversee remuneration:

- The Board of Directors of Jamuna Bank Ltd. approved a remuneration policy in October 2013.
- As per policy of the Board of Directors, the Human Resources fixed the remuneration of an employee and Financial Administration is responsible to ensure the payment of the same.
- No external consultants were engaged in the remuneration process.
- There is a unique job grade wise pay role for all of the employees who are working in different branches/areas of the Bank. The employees of the subsidiaries are also enjoying the same pay role. And there are no foreign subsidiaries of Jamuna Bank Limited
- For the purposes of this remuneration disclosure, a Senior Management includes:
 - Managing Director 1
 - Additional Managing Director (Resigned & Released) 1
 - Deputy Managing Directors 3
 - Head of HR 1
 - Head of FAD & CFO 1

There are no other employees in this group considered as material risk takers.

Information relating to the design and structure of remuneration processes:

- The objectives of the Jamuna Bank's Remuneration Policy are:
 - Attracting, developing and retaining the talents
 - To be one of the top paying Bank
- Key features include:
 - Fixed Remuneration Component (All allowances other than Basic & House Rent)
 - Variable Remuneration Component (Basic Salary with House Rent Allowance)

- The remuneration committee did not review the remuneration policy in the past year, as such no material changes have been made in the current fiscal year.
- All types of remuneration (i.e. regular/contractual) are fixed by the relevant remuneration committee. Remuneration of all employees is based on their job grades. And there are no special criteria of remuneration for risk and compliance employees in Jamuna Bank Limited.

Description of the ways in which current and future risks are taken into account in the remuneration processes:

- There are no key risks that the Bank takes into account when implementing remuneration measures.

Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.

The main performance metrics include:

- Financial performance of the organization compared to the Annual Budget.
- Implementation of the executive’s business plan which addresses the strategies required to achieve the Board’s strategic vision.
- Assessment against company values and behavior statements

Senior Executives are paid a fixed salary for their position based on skills and knowledge, market considerations, retention and sustained performance.

Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms.

Jamuna Bank remuneration policy does not provide for deferred or variable remuneration. All remunerations are fixed.

Quantitative Disclosure

Particulars	Amount	
No. of meeting held by the Remuneration Committee	2	
Remuneration paid to the Committee members	N/A (as all the members are already paid employee)	
No. of employees having received a variable remuneration award during the financial year.	N/A	
Number and total amount of guaranteed bonuses	N/A	
Number and total amount of Sign-on awards	N/A	
Number and total amount of Severance payments	No.	Amount (in Million)
	50	50.04
Total amount of outstanding deferred remuneration	Jamuna Bank remuneration policy does not allow any deferred remuneration	
Total amount of deferred remuneration paid out in the financial year.		
Breakdown of amount of remuneration awards for the financial year:	Breakdown of Remuneration is as follows (Taka in Million):	
	Basic Salary	815.28
	Allowances	690.74
	Festival Bonus	139.53
	Gratuity	152.00

	Provident Fund Contribution	75.85
	Performance Bonus	210.00
	Total:	2,083.40
Quantitative information about employees' exposure to implicit and explicit adjustments of deferred remuneration and retained remuneration:	There is no deferred or retained remuneration exposures for employees of the Bank	