Jamuna Bank Limited
Disclosure on Risk Based Capital under Basel II
For the Year 2014

Background: These disclosures on the position of the bank's risk profiles, capital adequacy and risk management system under Pillar-III of Basel-II are made following revised "Guidelines on Risk Based Capital Adequacy" for banks issued by Bangladesh Bank in December 2010. 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-II.
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 2014. 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 2014 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 inter company 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 three tiers according to the order of quality of capital i.e. Tier 1, Tier 2, and Tier 3. Tier 1 capital called 'Core Capital' comprises of highest quality of capital elements. 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 Tier 3 capital or 'Additional Supplementary Capital' consists of short-term subordinated debt with maturity two to five years, would be solely for the purpose of meeting a proportion of the capital requirements for market risk.

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:

- The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
  - ➢ ***Status of Compliance:*** **Complied.**

- 50% of revaluation reserves for fixed assets and securities eligible for Tier-2 capital.
  - ***Status of Compliance:*** **Complied.**
- 10% of revaluation reserves for equity instruments eligible for Tier 2 capital.
  - ***Status of Compliance:*** **Complied.**
- Subordinated debt shall be limited to a maximum of 30% of the amount of Tier 1 capital.
  - ***Status of Compliance:*** As on the reporting date there was no subordinated debt in the capital structure of JBL
- **Limitation of Tier 3:** A minimum of about 28.50% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank's Tier 1 capital that is available after meeting credit risk capital requirement.

  - ***Status of Compliance:*** Capital required for meeting credit risk was BDT 808.23 crore and so the Tier-1 capital after meeting credit risk was BDT 104.83 crore (BDT 913.06 crore minus BDT 808.23 crore). Capital required for meeting 28.50% of market risk was BDT 23.41 crore (BDT 82.14 crore X 28.50%) as on the reporting date. So, this condition is met.

Quantitative Disclosures: The Bank had a consolidated Capital of BDT 1,108.25 crore comprising Tier-1 capital of BDT 913.06 crore and Tier-2 capital of BDT 195.19 crore (JBL had no Tier-3 element in its capital structure) as on the reporting date (31 December 2014). Following table presents the details of capital (Tier-1, 2 & 3) as on December 31, 2014:

Tk. in Crore

1.0	**Tier-1 (Core Capital)**	**AMOUNT**
1.1	Fully Paid-up Capital/Capital Deposited with BB	516.07
1.2	Statutory Reserve	296.60
1.3	Non-repayable Share premium account	-
1.4	General Reserve	-
1.5	Retained Earnings	100.40
1.6	Minority interest in Subsidiaries	0.00
1.7	Non-Cumulative irredeemable Preferences shares	-
1.8	Dividend Equalization Account	-
1.9	Others	-
1.10	**Sub-Total: (1.1 to 1.9)**	**913.06**
Deductions from Tier-1 (Core Capital)		
1.11	Book value of Goodwill	-
1.12	Shortfall in provisions required against classified assets	-
1.13	Shortfall in provisions required against investment in shares	
1.14	Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities	-
1.15	Reciprocal crossholdings of bank capital/subordinated debt	-
1.16	Any investment exceeding the approved limit under section 26(2) of Bank Company Act, 1991	-
1.17	Investments in subsidiries which are not consolidated - 50%	-
1.18	Other if any	-
1.19	**Sub Total (1.11 to 1.18)**	**-**
1.20	**Total Eligible Tier-1 Capital (1.10-1.19)**	**913.06**

2.0	Tier-2 (Supplementary Capital)	Amount
2.1	General Provision (Standard + SMA + off Balance Sheet exposure)	110.18
2.2	Assets Revaluation Reserves up to 50%	53.17
2.3	Revaluation Reserve for Secutities up to 50%	31.83
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)**	**195.19**
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)**	**195.19**
3.0	**Tier-3 (Additional Supplementary Capital)**	**Amount**
3.1	Short-term subordinated debt	-
4.0	**Total Supplementary Capital (2.10+3.1)**	**195.19**
5.0	**Total Eligible Capital (1.20+4.0)**	**1108.25**

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 to support incremental growth of Risk Weighted Assets (RWA). Therefore, the Bank's Capital Adequacy Ratio (CAR) remains consistently within the comfort zone since the parallel run from 1 January, 2009.

Assessing regulatory capital in relation to overall risk exposure of a bank is an integrated and comprehensive process. Jamuna Bank Limited, through its Basel-II Supervisory Review Committee (B2SRC) and Risk Management Committee, is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to. Assessment of Regulatory Capital 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 Adequacy Ratio (CAR) of 11.23% on 'Consolidated Basis' and 11.25% on 'Solo Basis' against required minimum of 10%. We had an excess capital of BDT 121.73 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)
a.	Capital requirement for Credit Risk	808.23	808.61
b.	Capital requirement for Market Risk	82.14	80.34
c.	Capital requirement for Operational Risk	96.15	94.03
	Capital maintained to meet credit, market and operational risks	986.52	982.99
d.	Some additional capital over MCR maintained by the bank	121.73	122.83
	Total Capital Maintained	**1108.25**	**1105.82**

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 September 23, 2012. 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	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%	5%	5%	5%	5%	5%
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 31.12.2014

(Tk. In Crore)

Sl.	Exposure Type	Exposure	Risk Weighted Asset
1	Cash	124.67	-
2	Claims on Bangladesh Government and Bangladesh Bank	2873.26	-
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	404.61	80.92
	2,3	80.78	40.39
	4,5	-	-
	6	-	-
	Unrated	21.97	21.97
	Original Maturity less than 3 months	382.66	76.53
6	Claims on Corporate		
	BB's Rating Grade: 1	480.94	96.19
	2	1100.49	550.25
	3,4	447.83	447.83
	5,6	-	-
	Unrated	2800.28	3500.35
	Claims on SME		
	SME1	-	
	SME2	0.68	0.27
	SME3	2.43	1.46
	SME4	-	-
	SME5	-	-
	SME6	-	-
	Unrated (small enterprise & <BDT 3.00 m)	313.52	235.14
	Unrated (small enterprise having ≥BDT 3.00m & Medium Enterp.)	536.58	536.59
7	Claims under Credit Risk Mitigation	1118.15	103.67
8	Claims categorized as retail portfolio (excluding SME, consumer loan & Staff Loan) upto 1 Crore.	36.04	27.03
9	Consumer Loan	68.44	68.44
10	Claims fully secured by residential property	29.71	14.86
11	Claims fully secured by commercial real estate	39.45	39.45
12	Past Due Claims	251.12	273.67
13	Capital Market Exposure	204.69	255.86
14	Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book	16.00	20.00
15	Investments in venture capital	-	-
16	Investments in premises, plant and equipment and all other fixed assets	256.43	256.43
17	Claims on all fixed assets under operating lease	-	-
18	All other assets:		
	i) Claims on GoB & BB	95.28	-
	ii) Staff Loan/Investment	11.75	2.35
	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)	75.25	75.25
	Grand Total	**11,773.04**	**6,724.90**

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.

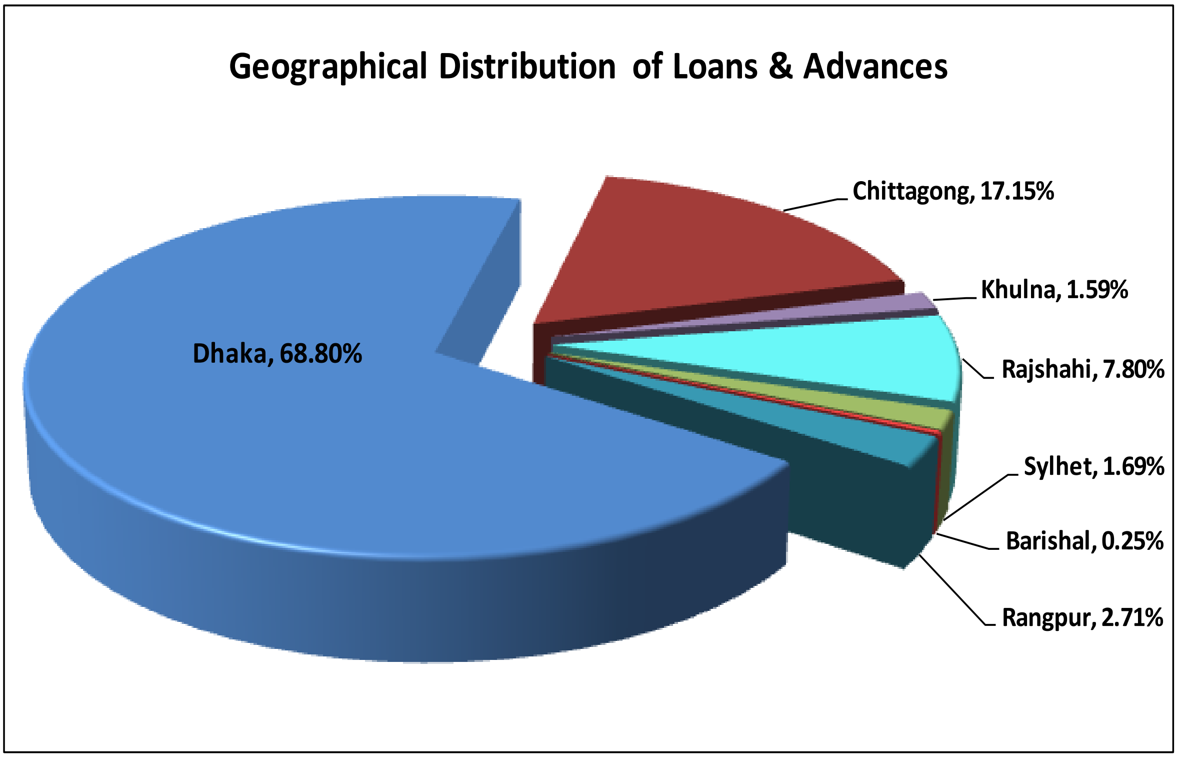
TK. in Crore

Particulars	Credit Exposure		
	Balance Sheet	Off-Balance Sheet	Total
Less than 100% risk weight	7023.32	517.82	7541.14
100% risk weight	1536.17	102.63	1638.80
More than 100% risk weight	3213.55	859.97	4073.52
Total	**11,773.04**	**1,480.42**	**13,253.46**

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	5359.60	68.80%
2	Chittagong	1335.96	17.15%
3	Khulna	124.04	1.59%
4	Rajshahi	607.85	7.80%
5	Sylhet	131.65	1.69%
6	Barishal	19.84	0.25%
7	Rangpur	211.04	2.71%
Total		**7,789.98**	**100.00%**



Credit Exposure by Major Industry or Sector: Major sector wise credit exposure as on 31 December, 2014 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 31.12.2014	As % of Total Loans & Advances
1)	Agriculture and Agro-based Industry	107.38	1.38%
2)	RMG	505.59	6.49%
3)	Textile	299.12	3.84%
4)	Ship Building	0	0.00%
5)	Ship Breaking	111.54	1.43%
6)	Other Manufacturing Industry	1731.6	22.23%
7)	SME Sector	645.5	8.29%
8)	Construction	607.74	7.80%
9)	Power, Gas	33.77	0.43%
10)	Transport, Storage and Communication	371.42	4.77%
11)	Trade Service	1675.35	21.51%
12)	Commercial real estate financing	133.62	1.72%
13)	Residential real estate financing	43.24	0.56%
14)	Consumer Credit (i.e. Auto/vehicle loans for personal use, personal loans, any purpose loans etc.)	412.12	5.29%
15)	Capital Market (loan provided for brokerage or merchant banking, to stock dealer or any kind of capital market activities)	20.57	0.26%
16)	Credit Card	91.43	1.17%
17)	Non-bank financial institutions	127.59	1.64%
18)	Bank Acceptance (i.e. LDBP, FDBP)	760.29	9.76%
19)	Others	112.11	1.44%
Total Loans & Advances		**7,789.98**	**100.00%**

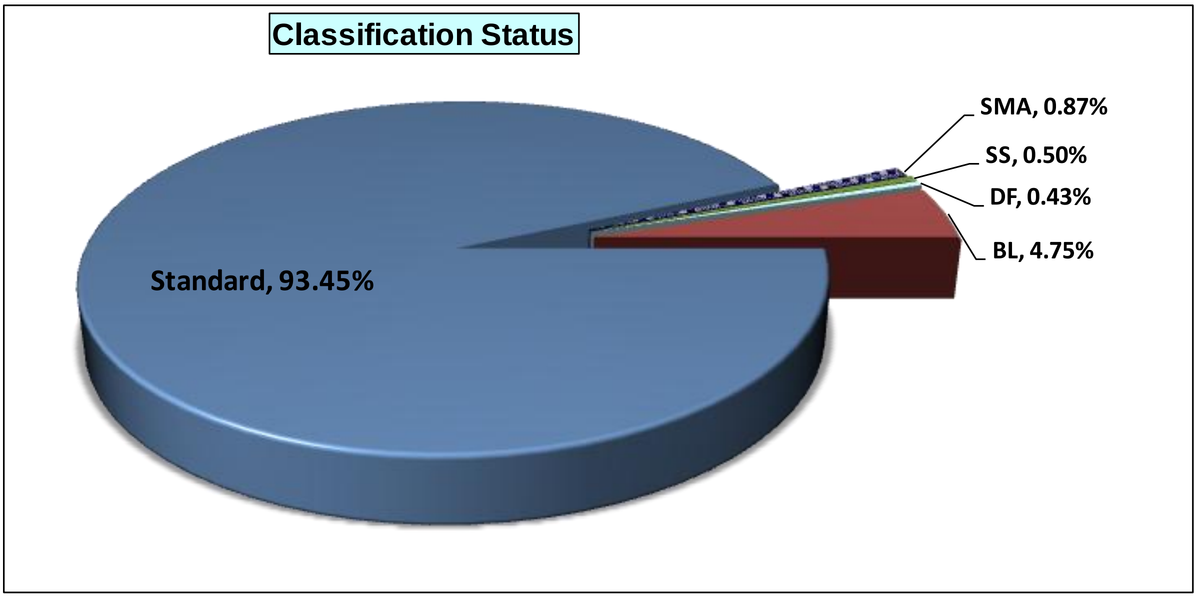
Residual Contractual Maturity of Loans and Advances:

Particulars	Amount in Crore TK.
Up to 1 Month	1,984.22
More than 1 Month to 3 Months	1497.94
More than 3 Months but not more than 1 year	2,559.98
More than 1 year but not more than 5 years	1,593.54
More than 5 years	154.31
Total	**7,789.98**

Non Performing Assets: Total non-performing loans and advances was BDT 442.21 crore as on 31.12.2014 while it was BDT 513.37 crore in 2013.

(Tk. In Crore)

Classification Status	% of Total Loans	Outstanding
Standard	93.45%	7279.63
Special Mention Account (SMA)	0.87%	68.13
Sub-standard (SS)	0.50%	38.76
Doubtful (DF)	0.43%	33.19
Bad/Loss (B/L)	4.75%	370.27
Total	**100.00%**	**7,789.98**



Movement of Non Performing Assets: The closing volume of non performing loans and Advances was BDT 442.21 crore while it was BDT 513.37 crore in the opening balance of the year 2014. 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 2014	513.37
2. Additions during the year	297.46
3. Reductions during the year	398.72
4. Closing balance as on 31 December 2014	442.21
Non Performing Assets (NPAs) to Outstanding Loans and advances	5.68%

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

Particulars	Tk in Crore
1. Opening balance	225.67
2. Provisions made during the period	109.69
3. Adjustment/Write-off during the year	155.67
4. Closing balance	179.69

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 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:

Total Investment in Capital Market (Consolidated Basis)

(Tk. in Crore)

Investment in Capital Market			Total of Consolidated Capital Components as stated in the last audited Balance Sheet					% of Investment in Capital Market to total prescribed Capital Components
	Component	Amount	Paid up	Statutory Reserve	Retain Earnings	Share Premium	Total	
1	**Portfolio: Bank**							
a)	Shares	27.41						
	Less Equity investment in subsidiaries other than Merchant Bank and Brokerage Subsidiaries	-						
b)	Mutual Fund/Fund	6.32						
c)	Bonds/Debentures	-						
d)	Loan to others for merchant banking and brokerage activities	83.37						
e)	Loan to Stock Dealer	-						
f)	Placement/others	0.06	448.75	259.65	69.38	-	**777.78**	**31.36%**
	Less placement in subsidiaries	-						
2	**Portfolio: Subsidiaries**							
a)	Shares	4.86						
b)	Mutual Fund/Fund	4.10						
c)	Bonds/Debentures	-						
d)	Loans:							
	Margin Loan	117.80						
	Bridge Loan	-						
e)	Placement/others	-						
	Total	**243.92**						

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 :	26.69	10%	2.67
b)	General Market Risk:	26.69	10%	2.67
	Total			**5.34**

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. 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 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	4005.32	1115.32	1997.99
Total Rate Sensitive Liabilites	6135.73	1530.32	473.51
Gap	-2130.41	-415.01	1524.48
Cummulative Gap	-2130.41	-2545.42	-1020.94
Regulatory Capital	1105.82	1105.82	1105.82
Total RWA	9829.87	9829.87	9829.87
CAR before Shock	11.25%	11.25%	11.25%
Interest Rate Stress Test	**Minor**	**Moderate**	**Major**
Assumed Increase in Interest Rate	**1.00%**	**2.00%**	**3.00%**
Net Interest Income Impact: <12 months	-10.21	-20.42	-30.63
Tax Adjusted Impact	-5.87	-11.74	-17.61
Capital after Shock	1099.95	1094.08	1088.21
CAR after Shock	**11.19%**	**11.13%**	**11.07%**
Change in CAR after Shock	-0.06%	-0.12%	-0.18%
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)	1035.89	965.95	896.02
Total RWA(after shock)	9820.29	9820.29	9820.29
CAR after Shock	**10.55%**	**9.84%**	**9.12%**

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 stock 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 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.

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.

Quantitative Disclosure

Capital Required for Market Risk:

TK. in Crore

Particulars	Amount
Capital requirements for:	
- Interest rate risk;	69.71
- Equity position risk;	5.34
- Foreign exchange risk; and	7.08
- Commodity risk	-
Total Capital Required for Market Risk	**82.14**

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.

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 Committee 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.

Quantitative Disclosure

Capital Required for Operation Risk:

Basic Indicator Approach
As on 31.12.2014

(Amount in crore taka)

Sl.	Operational Risk	2014	2013	2012	Capital Charge (15% of Gross Income)
1.	Gross Income	719.32	630.66	573.01	**96.15**
2.	Last 3 years Average annual Gross Income	641.00			