

Market Disclosures for December 2013

Under Pillar-III of Basel II

Banks operating in Bangladesh are maintaining capital since 1996 on the basis of risk weighted assets in line with the Basel Committee on Banking Supervision (BCBS) capital framework published in 1988. The public disclosure of prudential information is an important competent of Basel committee on banking supervision's frame work of capital measurement and capital standard known as Basel-II. The purpose of market disclosure is to present relevant information on adequacy of capital in relation to over all risk exposures of the bank so that the market participants can assess the position and direction of the bank in making economics decisions.

In line with the Bangladesh Bank BRPD Circulars no.35 of 29 December 2010 as to guideline on "Risk Based Capital Adequacy for Banks" following detailed qualitative and quantitative disclosures are provided in accordance with the central banks directions covering scope of capital adequacy ,framework, capital of the bank, risk exposure and methodology ,risk mitigation strategies and capital adequacy.

1. Scope of Application

Scope of application	Qualitative disclosures	a) The name of the top corporate entity in the group to which this guidelines applies	Janata Bank Limited.
		b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated; (ii) that are given a deduction treatment and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	<p>A brief description of the Bank and its subsidiaries are below :</p> <p>Janata Bank Limited Janata Bank Limited is a state owned commercial Bank incorporated on 21 May 2007 under the Companies Act 1994 as a public limited company and governed by the Banking Companies Act 1991. Janata Bank Limited took over the businesses, assets, liabilities, right, power, privilege and obligation of erstwhile Janata Bank through a vendor agreement signed between the People's Republic of Bangladesh and Janata Bank Limited on 15 November 2007 with a retrospective effect from 1 July 2007. Janata Bank was established by the Bangladesh Bank's (Nationalization) order 1972 (P.O 26 of 1972) and is fully owned by the Government of the Peoples's Republic of Bangladesh. The bank has 897 branches including four overseas branches. Bangladesh Bank issued license on 31 May 2007 in the name of Janata Bank Limited to conduct the banking business.</p> <p>Janata Capital and Investment Limited, Dhaka Janata Capital and Investment Limited Dhaka incorporated on 13 April 2010 vide incorporation certificate No. C-83898/10 issued by the Registrar of Joint Stock Companies and Firms (RJSC) with 100% ownership of Janata Bank Limited having Taka 5000 Million authorized capital and its paid-up capital is Taka 2000 Million. The company starts its operations from 26 September 2010 and its main functions are issue management, underwriting and portfolio management.</p> <p>Janata Exchange Company Srl, Italy Janata Exchange Company Srl. Italy was incorporated on 18 January 2002 vide Ministry of Finance letter # অম/অবি/ব্যংকিং/শা-৭/বিবিধ-১২(২) 2000 dated 3 January 2001 and letter # অম/অবি/ব্যংকিং/শা-৭/১২(২)২০০০/১৬৪ dated 27 June 2001 with 100% ownership of Janata Bank Limited having authorised capital of ITL 1.00 Billion and its paid-up capital is 600,000 EURO. Apart from Rome Branch, JEC, Italy has another Branch in Milan, Italy, which was established vide MOF's approval Letter # অম/অবি/ব্যংকিং নীঃ/শা-১ /১২/(২)/২০০/ ৩/৩৫২ dated 24 November 2002.</p>

Scope of application		c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable
	Quantitative Disclosures	d) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	Not applicable

2. Capital structure

Capital structure	Qualitative Disclosures	(a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Tier 2.	<p>Regulatory capital base is quite different from Accounting capital. As per Bangladesh Bank guideline, regulatory capital consists of Tier 1, Tier 2 and Tier 3 capital.</p> <p>Tier-1 capital of JBL consists of Paid up Capital, Statutory Reserves, Legal Reserve and Retained Earnings.</p> <p>Tier-2 capital consists of applicable percentage of Revaluation reserves (50% for Fixed asset, 50% for Securities and 10% for Equity/Shares) and General Provision (against unclassified loans including SMA and Off-Balance Sheet exposures), At Present Bank does not have any debt instruments eligible for capital counting. As such, there is no Tier-3 capital instrument at this moment.</p>		
	Quantitative Disclosures	(b) Amount of core capital (Tier 1) with separate disclosure		Solo	Consolidated
				Taka in Million	
		(c) Total Supplementary Capital	Tier 2 and Tier 3 Capital	8075.36	8297.61
	(d) Deductions	Less: deductions	-	-	
	(e) Total eligible capital	Total eligible capital	<u>34301.03</u>	<u>34420.45</u>	

3. Capital Adequacy

Capital Adequacy		Qualitative Disclosures		
		(a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities	<p>For accessing capital adequacy the Bank has adopted Standardized Approach for credit risk measurement, Standardized (Rule Based) Approach for market risk measurement and Basic Indicator Approach for operational risk measurement. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank</p> <p>The bank has maintained capital adequacy ratio on the solo & consolidated are 10.27 percent & 10.24 percent against the minimum regulatory requirement of 10 percent. Tier-I capital adequacy ratio for solo & consolidated are 7.85 percent & 7.77 percent against the minimum regulatory requirement of 5 percent.</p> <p>The bank's policy is to manage and maintain its future capital considering all material risks that are covered under pillar-2 of Basel II as well as the result of Stress Tests. The primary objective of the capital management is to optimize the balance between return and risk, while maintaining economic regulatory capital in accordance with risk appetite.</p> <p>ii) JBL determines its risk weighted assets by multiplying the exposure amount of assets with their respective risk weight given in Basel II guidelines of Bangladesh Bank. RWA for market & operational risk are calculated by multiplying the capital charge for these risks by the reciprocal of minimum capital adequacy ratio (10%).</p>	
		Quantitative Disclosures	Solo	Consolidated
(b) Capital Requirement		Taka in Million		
		For Credit Risk	26262.00	26058.16
		For Market Risk	3872.63	4281.21
		For Operational Risk	3257.70	3292.35
		Total Capital Requirements	<u>33392.33</u>	<u>33631.72</u>
(c) Total and Tier 1 capital ratio:		Capital Adequacy Ratio(CAR)%	10.27	10.24
		Core Capital to Risk Weighted Assets%	7.85	7.77
(d) Break-up of total assets based on its Risk Weight		Assets with 0% Risk Weight	140081.50	140087.00
		Assets with 20% Risk Weight	55159.90	55171.50
		Assets with 50% Risk Weight	46612.60	46612.60
		Assets with 75% to 100% Risk Weight	135671.00	135846.50
		Assets with more than 100% Risk Weight	87047.40	85702.50
		Total	<u>464572.40</u>	<u>463420.10</u>

4. Credit Risk

Credit risk is defined as the probability of failure of counterparty to meet its obligation as per agreed terms. Banks are very much prone to credit risk due to its core activities i.e. lending to corporate, SME, individual, another bank/FI or to another country. The main objective of credit risk management is to minimize the negative impact through adopting proper mitigants and also limiting credit risk exposures within acceptable limit.

Classification SL	Types of Loans		Classification Status		Period for classification (past due)					
a)(i) JBL follows Bangladesh Bank's BRPD Circular No.14 Dated 23 September 2012 for classification of loans & advances	1	Continuous Loan (Overdraft, Cash credit-Hypo, Cash credit-pledge etc)	SMA	2 Months	SS	3M	DF	6M	BL	9M
	1	Demand Loan (Forced Loan, PAD, LIM, FBP, IBP etc.)	SMA	2M	SS	3M	DF	6M	BL	9M
	3	Fixed Term Loan (which are repayable under a specific repayment schedule.)	SMA	2M	SS	3M	DF	6M	BL	9M
	4	Fixed Term Loan (loan amount below Tk 0.10 crore)	SMA	2M	SS	6M	DF	9M	BL	12M
	5	Short term Agriculture & Micro credit	SMA	-	SS	12M	DF	36M	BL	60M
(ii) Provisioning depending on the group:	Particulars		Short Term Agriculture & Micro Credit		Consumer Financing Other than HF,LP		SMEF	BHs/MBs/SDs	All other Credit	
	UC	Standard	5%	5%	2%	2%	0.25%	2%	1%	
		SMA	-	5%	2%	2%	0.25%	2%	1%	
Classified	SS	5%	20%	20%	20%	20%	20%	20%	20%	
	DF	5%	50%	50%	50%	50%	50%	50%	50%	
	BL	100%	100%	100%	100%	100%	100%	100%	100%	
HF=Housing Finance, LP=Loans to professionals to setup business, SMEF=Small & Medium Enterprise Financing, BHs= Loans to Brokerage House, MBs= Loans to Merchant Bank, SDs = Loans to Stock Dealers.										

Credit Risk	Qualitative Disclosures	<p>(iii) Discussion of the bank's credit risk management policy:</p> <p>On the basis of Bangladesh Bank's credit risk management policies, a manual of Credit Risk Management (CRM) has been formulated and approved by JBL's Board of Directors. The key principle of credit risk management is client due diligence, which is aligned with our country and industry portfolio strategies before sanction of any credit facility as per CRM policies which emphasizes on the size & type, purpose, structure (term, conditions, repayment schedule & interest rate) and securities of the loan proposed.</p> <p>For actively aiming to prevent concentration (Single borrower /group borrower/geographical/sectoral concentration) and long tail-risks (large unexpected losses) JBL follows different prudential guidelines of its own and Bangladesh Bank. In all market conditions, the bank's capital is effectively protected by ensuring a diversified and marketable credit portfolio.</p> <p>Risk appetite for credit risk of JBL is determined by its Board of Directors desiring optimum business mix, risk preferences, the acceptable trade-off between risk & reward etc.</p> <p>The assessment process is initiated at branch/credit division and placed before Management Credit Committee (MCC) or Board for approval. This process includes borrower analysis, industrial analysis, historical financial analysis, repayment sources analysis, mitigating factors etc. Credit risk grading system has been adopted by JBL as per Bangladesh Bank's instruction that defines the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved.</p> <p>JBL is very much concern in managing non-performing loan. JBL follows Bangladesh Bank's BRPD Circular for classification of loans & advances & provisioning. Targets to recover classified loans & advances are determined for the branch, area office & divisional office at the beginning of the year. Continuous contact with the borrowers, special meeting with the defaulter formation of special task forces, announcement of special program are emphasized.</p>																																													
	Quantitative Disclosures	<table border="0"> <tr> <td>(b) Total gross credit risk exposure broken down by major types of credit exposure</td> <td style="text-align: right;">Taka in Million</td> </tr> <tr> <td>Rural Credit</td> <td style="text-align: right;">16955.67</td> </tr> <tr> <td>Transport Loan</td> <td style="text-align: right;">213.93</td> </tr> <tr> <td>General house building</td> <td style="text-align: right;">1073.78</td> </tr> <tr> <td>Loan against Import Merchandise (LIM)</td> <td style="text-align: right;">533.87</td> </tr> <tr> <td>Payment Against Document</td> <td style="text-align: right;">28677.83</td> </tr> <tr> <td>Loan Against Trust Receipt</td> <td style="text-align: right;">32370.10</td> </tr> <tr> <td>Demand Loan</td> <td style="text-align: right;">7700.58</td> </tr> <tr> <td>Cash Credit</td> <td style="text-align: right;">72820.66</td> </tr> <tr> <td>Overdrafts</td> <td style="text-align: right;">5763.28</td> </tr> <tr> <td>Other Loans</td> <td style="text-align: right;">100361.53</td> </tr> <tr> <td>Bills Purchased and Discounted</td> <td style="text-align: right;">19276.42</td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>285747.65</u></td> </tr> </table> <table border="0"> <tr> <td>(c) Geographical distribution of exposures broken down by major types of credit exposure:</td> <td style="text-align: right;">Taka in Million</td> </tr> <tr> <td>Dhaka</td> <td style="text-align: right;">198653.27</td> </tr> <tr> <td>Chittagong</td> <td style="text-align: right;">42967.86</td> </tr> <tr> <td>Sylhet</td> <td style="text-align: right;">1932.50</td> </tr> <tr> <td>Barisal</td> <td style="text-align: right;">3492.26</td> </tr> <tr> <td>Khulna</td> <td style="text-align: right;">16875.76</td> </tr> <tr> <td>Rajshahi</td> <td style="text-align: right;">11557.15</td> </tr> <tr> <td>Rangpur</td> <td style="text-align: right;">7833.86</td> </tr> <tr> <td>Overseas(UAE Branches)</td> <td style="text-align: right;">2434.99</td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>285747.65</u></td> </tr> </table>	(b) Total gross credit risk exposure broken down by major types of credit exposure	Taka in Million	Rural Credit	16955.67	Transport Loan	213.93	General house building	1073.78	Loan against Import Merchandise (LIM)	533.87	Payment Against Document	28677.83	Loan Against Trust Receipt	32370.10	Demand Loan	7700.58	Cash Credit	72820.66	Overdrafts	5763.28	Other Loans	100361.53	Bills Purchased and Discounted	19276.42	Total	<u>285747.65</u>	(c) Geographical distribution of exposures broken down by major types of credit exposure:	Taka in Million	Dhaka	198653.27	Chittagong	42967.86	Sylhet	1932.50	Barisal	3492.26	Khulna	16875.76	Rajshahi	11557.15	Rangpur	7833.86	Overseas(UAE Branches)	2434.99	Total
(b) Total gross credit risk exposure broken down by major types of credit exposure	Taka in Million																																														
Rural Credit	16955.67																																														
Transport Loan	213.93																																														
General house building	1073.78																																														
Loan against Import Merchandise (LIM)	533.87																																														
Payment Against Document	28677.83																																														
Loan Against Trust Receipt	32370.10																																														
Demand Loan	7700.58																																														
Cash Credit	72820.66																																														
Overdrafts	5763.28																																														
Other Loans	100361.53																																														
Bills Purchased and Discounted	19276.42																																														
Total	<u>285747.65</u>																																														
(c) Geographical distribution of exposures broken down by major types of credit exposure:	Taka in Million																																														
Dhaka	198653.27																																														
Chittagong	42967.86																																														
Sylhet	1932.50																																														
Barisal	3492.26																																														
Khulna	16875.76																																														
Rajshahi	11557.15																																														
Rangpur	7833.86																																														
Overseas(UAE Branches)	2434.99																																														
Total	<u>285747.65</u>																																														

Credit Risk	Quantitative Disclosures	Taka in Million	
		(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure	
		Rural Credit	16955.67
		Textile(Industry & Trade)	18805.80
		Jute industries	7400.10
		Tannery(Industry & Trade)	5430.90
		Sugar& Food	4822.30
		Food (Industry & Trade)	2057.60
		Steel & Engineering	7980.80
		House Building	1073.80
		Bricks	1472.50
		Cold Storage	448.00
		Jute Trade	165.80
		Tea	3.60
		Transport	213.92
		Others	61840.90
		Import Credit	50694.96
		Industrial Credit	57530.60
		Export Credit	48850.40
		Total	<u>285747.65</u>
	(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure	i) Maturity Grouping of loans and advances	Taka in Million
		Loans and advances are repayable	
		Repayable on demand	32859.02
		Not more than 3 months	55252.03
		More than 3months but not more than 1years	64251.03
		More than 1 years but not more than 5years	76502.94
		More than 5 years	56882.63
		Total	<u>285747.65</u>
	f) Major counterparty wise amount of impaired loans& Provision	Loans and advances on the basis of significant concentration including bills purchased and discounted	
		Advances to allied concerns of directors	-
		Advances to Managing directors and other Senior Executive	109.12
		Advances to customer group (amounting more than 10% of banks total capital)	152932.40
		Other customers	105448.76
		Advance to staff	27257.37
		Total	<u>285747.65</u>
		Sectorwise loans and advances	
		Government	5866.53
		Other Public	15566.84
		Private	264314.28
		Total	<u>285747.65</u>
		Government	
		Unclassified	5739.03
		Classified	127.50
		Sub Total	<u>5866.53</u>
		Other public	
		Unclassified	15446.25
		Classified	120.59
		Sub total	<u>15566.84</u>
		Private	
		Unclassified	232795.51
		Classified	31518.77
		Sub total	<u>264314.28</u>

Credit Risk	Quantitative Disclosures		Classification wise loan- advances & provisions		
			Summary	Outstanding	Provision kept
			Standard	247850.75	2656.04
			SMA	6130.04	290.41
			Sub Total	<u>253980.79</u>	<u>2946.45</u>
			Classified		
			Substandard	7076.52	1222.00
			Doubtful	4296.11	902.20
			Bad & Loss	20394.23	17221.13
			Sub Total	<u>31766.86</u>	<u>19345.33</u>
			Grand Total	<u>285747.65</u>	<u>22291.78</u>
		(g) Movement of NPA & Provisions			Taka in Million
			Gross non performing loan (NPLs)		31766.86
			Non performing loan (NPLs) to outstanding loans & advance		11.12%
			Movement of NPAs (Gross)		
			Opening balance classified loan & advance		53201.70
			Add :Newly classified during the year		6243.56
			Less: Cash recovery		(5757.10)
			Written off		(10834.30)
			Interest Waiver		(454.70)
			Rescheduling & Re- Structuring		(10632.30)
			Closing balance		<u>31766.86</u>
			Opening balance specific provision		<u>31771.68</u>
			Less: Fully provided debts written-off		(8937.46)
			Exchange fluctuation		(33.52)
			Transfer from unclassified loan		(695.51)
			Transfer to retained earning		(3335.50)
			Add: Recoveries amount write-off		562.82
			Specific provisions made during the year		12.83
			Closing balance		<u>19345.34</u>

5. Equities: Disclosures for banking book positions

The major portion of the bank's holding of equity exposure is mainly with the purpose of capital gain. The quoted shares are valued both at cost price and market price basis. However, the unquoted shares are valued at their cost price.

Equities: Disclosures for banking book positions	Qualitative Disclosures																													
	<p>(a)The general qualitative disclosure requirement with respect to equity risk, including:</p> <ul style="list-style-type: none"> Differentiation between holdings in which capital gains are expected and those taken under other objectives including for relationship and strategic reasons Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices. 	<p>-Differentiation between holdings of equities for capital gain and those taken under other objectives is being clearly identified. The equity positions are reviewed periodically by the senior management.</p> <p>-Important policies covering equities valuation and accounting of equity holdings in the Banking Book are based on use of the cost price method for valuation of equities.</p>																												
Quantitative Disclosures	<p>Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.</p>	<p>Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.</p> <table border="1"> <thead> <tr> <th rowspan="3">Particulars</th> <th colspan="2">Solo</th> <th colspan="2">Consolidated</th> </tr> <tr> <th colspan="4">Taka in Million</th> </tr> <tr> <th>Cost Price</th> <th>Fair Value</th> <th>Cost Price</th> <th>Fair Value</th> </tr> </thead> <tbody> <tr> <td>Unquoted Shares</td> <td>4427.70</td> <td>4427.70</td> <td>4427.70</td> <td>4427.70</td> </tr> <tr> <td>Quoted Shares</td> <td>6971.60</td> <td>10979.00</td> <td>6971.60</td> <td>10979.00</td> </tr> <tr> <td>Total</td> <td>11399.30</td> <td>15406.70</td> <td>11399.30</td> <td>15406.70</td> </tr> </tbody> </table> <p>The cumulative realized gains (losses) arising from sales and liquidations in the reporting period. Nil</p> <p>Total unrealized gains 3606.76 Total latent revaluation gains (losses) Nil Any amounts of the above included in Tier 2 capital 360.67</p> <p>Capital charge for equity exposure assessed for total amount is solo Tk 2195.80 Million and consolidated Tk 2604.40 Million</p>	Particulars	Solo		Consolidated		Taka in Million				Cost Price	Fair Value	Cost Price	Fair Value	Unquoted Shares	4427.70	4427.70	4427.70	4427.70	Quoted Shares	6971.60	10979.00	6971.60	10979.00	Total	11399.30	15406.70	11399.30	15406.70
Particulars	Solo			Consolidated																										
	Taka in Million																													
	Cost Price	Fair Value	Cost Price	Fair Value																										
Unquoted Shares	4427.70	4427.70	4427.70	4427.70																										
Quoted Shares	6971.60	10979.00	6971.60	10979.00																										
Total	11399.30	15406.70	11399.30	15406.70																										

6. Interest rate risk in the banking book (IRRBB)

Interest rate risk in the banking book reflects the shocks to the financial position of the bank including potential loss that the bank may face in the event of adverse change in market interest rate. This has an impact on earning of the bank through net interest earning as well as on market value of equity or net worth.

Interest rate risk in the banking book (IRRBB)	Qualitative Disclosures	(a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	- To manage this risk in the banking book, bank considers the impact of interest rate changes on both assets and liabilities, and its particular features including, among other things, terms and timing. Changes in interest rates affect both the current earnings (earning perspective) as well as the net worth of the bank (economic value perspective). JBL periodically computes the interest rate risk on the banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. For computation of the interest rate mismatches the guidelines of Bangladesh Bank are followed. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO regularly.
	Quantitative Disclosures	(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	- At 1% increase in Interest Rate, fall in MVE (Market Value Equity) is Tk 254.40 million.

7. Market Risk

Market risk is defined as the possibility of loss to a bank caused by changes/movements in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. Bank's exposure to market risk arises from investments (interest related instruments and equities) in trading book [HFT categories] and the foreign exchange positions. The objective of the market risk management is to minimize the impact of losses on earnings and equity.

Market Risk	Qualitative Disclosures	(a) Views of BOD on trading/investment activities	-The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to obtain maximum returns without taking undue risks.
		Methods used to measure Market risk	-Standardized Approach (SA) is used for calculating capital charge against market risk (interest rate risk, equity position & foreign exchange risk) which is determined separately. The total capital requirement in respect of market risk is the sum of capital requirement measured in terms of two separately calculated capital charges for specific market risk and general market risk for each of these market risk sub-categories.
		Market Risk Management system	JBL makes investment decision based on historical data of market movements of all comparable financial instruments to avoid general market risk. For managing specific risk JBL emphasizes on investment in Government treasury bonds and quality financial instruments, which are less volatile in nature. Treasury front office, back office & mid office have been established and functioning through an independent organizational chain as per terms & of the manual

Market Risk		Conditions ,Policies and processes for mitigating market risk	-There are approved limits for credit deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items, borrowing from money market and foreign exchange position. The limits are monitored and enforced regularly to protect against market risks. These limits are reviewed based on prevailing market and economic conditions to minimize risk due to market fluctuation.	
	Quantitative Disclosures	The capital requirements for:		Solo Consolidated Taka in Million
			(b) Interest rate risk	997.80 997.80
			(c) Equity position risk	2195.80 2604.40
			(d) Foreign Exchange risk	679.00 679.00
			(e) Commodity risk	Nil Nil

8. Operational risk : Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputation risks. Bank is still at the initiation stage of required policies and procedures for all areas of its operations. Bank strictly follows KYC norms for its customer dealings and other banking operations. The Bank is going to frame comprehensive operational risk management policy to be approved by the board. Supporting policies already been adopted by the bank which deal with management of various areas of operational risk are (a) Operational manual for general banking (b) Compliance risk management policy, (c) Foreign exchange risk management policy (d) Policy document on know your customers (KYC) and anti money laundering (AML) procedures (e) IT Business continuity and disaster recovery policy etc. JBL has developed standard operating procedures (SOP) to minimize risk for major operation support divisions

Operational Risk	Qualitative Disclosures	<ul style="list-style-type: none"> Views of BOD on system to reduce operational risk 	-Internal Control & Compliance (ICC) is the main tool in managing operational risk. Management, through three units of ICC i.e. monitoring, compliance and Audit & Inspection; controls overall operation of the bank. Board audit committee directly oversees the functions of ICC to prevent operational risks.
		<ul style="list-style-type: none"> Performance gap of executives and staffs 	-There is no significant performance gap as JBL takes necessary steps for HR development and ensures proper distribution of its human resources.
		<ul style="list-style-type: none"> Potential external events 	- No potential external event is expected to expose the bank to significant operational risk.
		<ul style="list-style-type: none"> Policies and processes for mitigating operational risk 	JBL has formed MANCOM (Management Committee) to identify measure, monitor and control the risks through framing required policies and procedures. The policy of managing operational risk through internal control and compliance is approved by the board taking into account the relevant guidelines of Bangladesh Bank. DCFCL (departmental control function check list) and QOR (quarterly operation report) are applied for evaluation of the branches operational performance. Manuals related to credit, human resources, finance & accounts, treasury, audit and inspection etc. have been prepared for continuous recognition and assessment of all material risk that could adversely affect the achievement of JBL's goal. The audit & inspection division makes a year wise risk based audit plan to carry out comprehensive audits & inspections on the banking operations in procedures are in place & complied with.

Operational Risk	<ul style="list-style-type: none"> • Approach for calculating capital charge for operational risk 	<p>The 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 (alpha) 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:</p> $K = [(GI1 + GI2 + GI3) \times \alpha] / n$ <p>Where, K = Capital charge under the basic indicator approach GI= Only positive annual gross income over the previous three years $\alpha = 15\%$ N = Number of the previous three years of which gross income is positive Gross income: Gross income (GI) is defined as net “Net Interest Income” plus “Net Non-interest income”. It is intended that this measure should:</p> <ul style="list-style-type: none"> i) be gross of any provision ii) be gross of operating expenses including fees paid outsourcing service provider; iii) exclude realized profit/losses from the sale of securities held to maturity in banking book; iv) exclude extraordinary or irregular items, v) exclude income derived from insurance 						
	Quantitative Disclosures	<ul style="list-style-type: none"> • The capital requirements for operational risk 	<table border="0"> <tr> <td style="padding-right: 20px;">Solo</td> <td>Consolidated</td> </tr> <tr> <td colspan="2" style="text-align: center;">Taka in Million</td> </tr> <tr> <td style="text-align: center;">3257.70</td> <td style="text-align: center;">3292.40</td> </tr> </table>	Solo	Consolidated	Taka in Million		3257.70
Solo	Consolidated							
Taka in Million								
3257.70	3292.40							