Market Disclosure for December 2012
Under Pillar-III of Basel II

The purpose of Market Disclosure is to present relevant information on adequacy of capital in relation to overall risk exposures of the bank so that the market participants can assess the position and direction of the bank in making economics decisions . It allows market participants to assess key pieces of information on the scope of application, capital adequacy, risk exposures, risk assessment & its management processes. Market disclosures have the potential to reinforce capital regulation & other supervisory efforts to promote safety & soundness in bank.

The qualitative and quantitative disclosures of the bank under Basel-II requirements based on the audited financial position as of 31 December 2012 are prepared as per the guidelines of Bangladesh Bank on "Risk Based Capital Adequacy for Banks" to establish more transparent and more disciplined financial market.

1. Scope of Application

Scope of application	**Qualitative disclosure**		
		(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).	**A brief description of the Bank and its subsidiaries are below :** **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 People's Republic of Bangladesh. The bank has 888 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. **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. **Janata Exchange Company Srl, Italy** Janata Exchange Company Srl. Italy was incorporated on 18 January 2002 vide Ministry of Finance letter # অম/অবি/ব্যাংকিং/শা-৭/বিবিধ-১২(2) 2000 dated 3 January 2001 and letter #

			অম/অবি/ব্যাংকিং/শা-৭/১২(2)2000/164 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/ব্যাংকিং নীঃ/শা-1 /12 /(2)/200/ 3/352 dated 24 November 2002.
		(c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable
	Quantitative	(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.	Tier 1 capital, also called as 'Core Capital', of JBL consists of paid-up capital, statutory reserve, Legal reserve and retained earnings . Tier 2 capital, also called as 'Supplementary Capital', of JBL consists of general provision (against unclassified loans, SMA and Off-Balance Sheet exposures), revaluation reserves for fixed assets (50%), securities (50%) and equity instruments (10%). JBL does not have any Tier 3 capital. Total Eligible Regulatory Capital = (Eligible Tier-I Capital + Eligible Tier-II Capital)		
	Quantitative Disclosures	**(b) Amount of core capital (Tier 1), with separate disclosure of:**		**<u>Solo</u>**	**<u>Consolidated</u>**
			Tier 1 Capital	**Taka in Million**	
			Paid-up capital	11000.00	11000.00
			Statutory reserve	5968.20	5968.20
			Legal reserve	89.81	89.85
			Retained earnings	(11167.83)	(11323.91)
			Total Tier 1 Capital	**5890.18**	**5734.14**
		(c) Total Supplementary Capital	**Tier 2 and Tier 3 Capital**	**7532.35**	**7551.49**
		(d) Deductions	less deductions from capital-2	(1642.17)	(1817.35)
		(e)Total eligible capital	**Total eligible capital**	**11780.36**	**11468.28**

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	i) The bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank. The bank has maintained capital adequacy ratio on the solo & consolidated are 3.70 percent & 3.58 percent against the minimum regulatory requirement of 10 percent. Tier-I capital adequacy ratio for solo & consolidated are 1.85 percent &1.79 percent against the minimum regulatory requirement of 5 percent. 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. 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%).

Quantitative Disclosures

(b) Capital Requirement

(c)Total and Tier 1 capital ratio:

(d)Break-up of total assets based on its Risk Weight

	Solo	**Consolidated**
	Taka in Million	
For Credit Risk	26617.70	26392.10
For Market Risk	2520.26	2821.30
For Operational Risk	2760.02	2776.10
Capital Adequacy Ratio(CAR)%	3.70	3.58
Core Capital to Risk Weighted Assets%	1.85	1.79
Assets with 0% Risk Weight	125535.40	125562.90
Assets with 20% Risk Weight	74801.50	74837.50
Assets with 50% Risk Weight	45195.90	45195.90
Assets with 75% to100% Risk Weight	97812.40	98139.20
Assets with more than 100% Risk Weight	113251.80	111604.20
Total	**456597.00**	**455339.70**

4. Credit Risk

Credit Risk	Qualitative Disclosure		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
			2	**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	**FixedTerm 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

	Particulars		Short Term Agriculture & Micro Credit	Consumer Financing: Other than HF,LP	Consumer Financing: HF	Consumer Financing: LP	SMEF	BHs/ MBs /SDs	All other Credit
(ii)Provisioning depending on the group:	UC	Standard	5%	5%	2%	2%	0.25%	2%	1%
		SMA	-	5%	2%	2%	0.25%	2%	1%
	Classified	SS	5%	20%	20%	20%	2 %	20%	20%
		DF	5%	50%	50%	50%	50%	50%	50%
		BL	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.

(iii)Discussion of the bank's credit risk management policy:

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.

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.

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.

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.

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.

Quantitative Disclosures

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

	Taka in Million
Rural Credit	16418.30
Transport Loan	123.00
General house building	1312.00
Loan against Import Merchandise (LIM)	2208.50
Payment Against Document	28926.60
Loan Against Trust Receipt	48829.30
Demand Loan	6560.20
Cash Credit	81079.30
Overdrafts	4941.70
Other Loans	87409.60
Bills Purchased and Discounted	27531.10
	305339.60

(c) Geographical distribution of exposures broken down by major types of credit exposure:

	Taka in Million
Dhaka	210119.50
Chittagong	41879.00
Sylhet	1669.70
Barisal	3191.50
Khulna	18140.90
Rajshahi	10934.80
Rangpur	7691.40
Mymensigh	4511.40
Comilla	5263.80
Overseas(UAE Branches)	1937.60
Total	**305339.60**

		(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure	**Taka in Million** Jute Industry (Govt. & Private) 4987.40 Tannery Industry 3722.30 Jute Business 217.50 Small & Cottage Industry - Cold Storage/Ice plant 543.40 Textile 18050.20 Sugar mills 3789.60 Steel & Engineering 2715.50 Food 2190.40 House Building 1466.20 Transport 754.20 Bricks 1058.50 Tea 2.90 Import Credit 73358.80 Export Credit 43353.90 Industrial credit 55501.80 Rural Credit 16418.30 Other 77208.70 **Total** **305339.60**
		f)Major counterparty wise amount of impaired loans& Provision :	**Taka in Million** **Unclassified** — **Loan amount** / **Provision** Standard 247892.10 / 2028.20 SMA 4245.70 / 212.20 Sub Total **252137.80** / **2240.40** **Classified** Substandard 12958.30 / 2114.70 Doubtful 8081.10 / 3071.40 Bad & Loss 32162.30 / 26585.60 Sub Total **53201.70** / **31771.70** **Grand Total** **305339.60** / **34012.10**
		(g) Movement of NPA & Provisions	**Taka in Million** Gross Non Performing Assets(NPAs) 53201.70 Non Performing Assets (NPAs) to outstanding Loans & advance 17.42% Movement of NPAs (Gross) Opening balance 15040.00 Additions during the year 42420.20 Reductions (Cash Recovery +Adjustment +Write-Off) (4258.50) **Closing balance** **53201.70** Movement of specific provisions for NPAs Opening balance 8175.10 Provisions made during the period 25215.30 Recovered from previously written off loans Fully Provided debts Write-off (2008.70) Transferred from off-balance sheet exposure 390.00 **Closing Balance** **31771.70**

5. Equities: Disclosures for banking book positions

Equities: Disclosures for banking book positions

Qualitative Disclosures

Requirement	Disclosure
(a)The general qualitative disclosure requirement with respect to equity risk, including: • 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.	-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. -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.
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.	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.

Particulars	Solo		Consolidated	
	Taka in Million			
	Cost Price	Fair Value	Cost Price	Fair Value
Unquoted Shares	6468.70	6468.70	6468.70	6468.70
Quoted Shares	4192.80	8338.00	4192.80	8338.00
Total	**10661.50**	14806.70	**10661.50**	14806.70

The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	Nil
Total unrealized gains	3730.60
Total latent revaluation gains (losses)	Nil
Any amounts of the above included in Tier 2 capital	373.10

Capital charge for Equity exposure assessed for total amount is soloTk1667.60 Million and consolidated Tk1968.70 Million

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

Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures

Requirement	Disclosure
(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.

		(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.24.55 Crore

7. Market risk

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.
		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	553.50	553.50
(c) Equity position risk	1667.60	1968.70
(d) Foreign Exchange risk	299.20	299.20
(e) Commodity risk	Nil	Nil

8. Operational risk

Operational Risk	Qualitative Disclosures	• 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.
		• 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.
		• Potential external events	- No potential external event is expected to expose the bank to significant operational risk.
		• 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 JBLǿs 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.
		• Approach for calculating capital charge for operational risk	JBL uses the basic indicator approach (BIA) to calculate its operational risk. Under BIA, the capital charge for operational risk is a fixed percentage denoted by Ŭ (alpha) of average positive annual gross income (GI) of the bank over the past three years. The capital charge may be expressed as follows: $K=[(GI1 + GI2 + GI3) \times \alpha] /n$ Where, K = Capital charge under the basic indicator approach GI= Only Positive annual gross income over the previous three years Ŭ = 15% N = Number of the previous three years of which gross income is positive Gross income: Gross income (GI) is defined as net ñNet Interest Incomeò plus ñNet Non-interest incomeò. It is intended that this measure should: 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	• The capital requirements for operational risk	**Solo** / **Consolidated** **Taka in Million** 2760.00 / 2776.00