

## **Market Discipline Disclosures under Risk Based Capital Adequacy (Basel II)**

The purpose of market discipline in the Revised Capital Adequacy Framework is to complement the minimum capital requirements and the supervisory review process under Pillar II of BASEL II as well as to disclose relevant information on capital adequacy in relation to various risk of the bank so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets as well as can make the economic decision. The disclosures under Pillar-III of the framework of the bank as on 31 December 2011 are as under:

- A) Scope of Application
- B) Capital Structure
- C) Capital Adequacy
- D) Credit Risk
- E) Equities: Disclosures for Banking Book Positions
- F) Profit Rate Risk in Banking Book (PRRBB)
- G) Market Risk
- H) Operational risk

### **A) Scope of Application**

#### **Qualitative Disclosures:**

The Risk Based Capital Adequacy framework applies to Export Import Bank of Bangladesh Limited (EXIM Bank) on 'Consolidated Basis' as there were three subsidiaries of EXIM Bank as on the reporting date namely; EXIM Exchange Company (UK) Limited, EXIM Exchange Company (Canada) Limited and EXIM Islami Investment Limited.

The Exim Bank Limited was incorporated as a public limited company in Bangladesh under Companies Act, 1994. It commenced its banking business August 03, 1999 under the license issued by Bangladesh Bank. Presently the Bank has 62 (Sixty two) branches. The Bank went for Initial Public Offering in 2004 and its shares are listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited as a publicly traded company for its general class of shares. The principal activities of the Bank are to provide all kinds of commercial banking services to its customers through its branches.

EXIM Exchange Company (UK) Ltd., a subsidiary company of Exim Bank Limited was incorporated in U.K. and commenced its remittance business from 30 June 2009. The Paid up capital of the Co. is GBP 375 thousand against Authorised capital for GBP 1.00 Million. The principal activities of the company are to carry on the remittance business and to undertake and participate in transactions, activities and operations commonly carried on or undertaken by remittance and exchange house.

EXIM Exchange Company (Canada) Ltd., a subsidiary company of Exim Bank Limited was incorporated in Canada and commenced its remittance business from January 23, 2010. The Paid up capital of the Co. is CAD 600 thousand against Authorised capital for CAD 1.00 Million. The principal activities of the company are to carry on the remittance business and to undertake and participate in transactions, activities and operations commonly carried on or undertaken by remittance and exchange house.

EXIM Islami Investment Limited is a subsidiary company of Exim Bank Limited incorporated as a public limited company and started its operation on December 01, 2010. The Paid up capital of the Co. is Tk. 100.00 Crore against Authorised capital for Tk. 500.00 Crore. The main objectives of the company are to carry out the business of full-fledged merchant banking activities like issue management, portfolio management, underwriting, corporate advisory services etc

For accounting and regulatory purpose the whole group of EXIM Bank and its subsidiaries EXIM Exchange Company (UK) Ltd. & EXIM Exchange Company (Canada) Ltd. and EXIM Islami Investment Limited are fully consolidated in the report. The quantitative disclosures are made on the basis of consolidated audited financial statement of EXIM Bank and its subsidiaries as at 31 December 2011 prepared under relevant international financial reporting standard and related circular/instructions issued by Bangladesh Bank from time to time. The assets, liabilities, revenue and expense of the subsidiaries are combined with those of the parent company (EXIM Bank) eliminating inter company transactions. However intra group balances and transactions are eliminated in full.

**Quantitative Disclosures:** There is no capital deficiency in the financial year 2011 in solo or consolidated basis.

## **B) Capital Structure**

### **Qualitative Disclosures:**

Capital adequacy norms classify capital funds into

- i) **Tier-I capital** called 'Core Capital' comprises of highest quality of capital elements that consists of paid up capital, statutory reserves, capital reserve eligible for inclusion in Tier-I capital that comply with requirement specified by Bangladesh Bank.
- ii) **Tier-II capital** called 'Supplementary Capital' represents other elements, which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank and consists of revaluation reserve, general provision and loss reserve etc
- iii) **Tier-III capital** called 'Additional Supplementary Capital', Consist of short-term subordinated debt would be solely for the purpose of meeting a proportion of the capital requirements for market risk.

The required conditions for maintaining regulatory capital as stipulated in the revised RBCA guidelines by Bangladesh Bank are:

Market Disclosures under Risk Based Capital Adequacy.....

- 1) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
- 2) 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital.
- 3) 10% of revaluation reserves for equity instruments eligible for Tier 2 capital.
- 4) Subordinated debt (definition and qualification in) shall be limited to a maximum of 30% of the amount of Tier-I capital.
- 5) Limitation of Tier 3: A minimum of about 28.5% of market risk needs to be supported by Tier-I capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank's Tier-I capital that is available after meeting credit risk capital requirement

**Quantitative Disclosures:**

Taka in Crore

SI No.	Particulars	Consolidated
1	<b>The total amount of Tier-I Capital</b>	<b>1445.78</b>
2	Paid up capital	922.35
3	Statutory Reserve	384.98
4	Non-repayable Share premium account	-
5	General Reserve	-
6	Retained Earnings	132.16
7	Minority interest in Subsidiaries	0.01
8	Non-Cumulative irredeemable Preferences shares	-
9	Dividend Equalization Account	6.28
10	Other (if any item approved by Bangladesh Bank)	-
11	<b>The total amount of Tier-II and Tier-III capital</b>	<b>162.53</b>
12	<b>Other deductions from capital</b>	<b>-</b>
13	<b>Total eligible capital</b>	<b>1608.31</b>

**C) Capital Adequacy**

**Qualitative Disclosures:**

In terms of RBCA guidelines on Basel-II framework issued by Bangladesh Bank, the bank has adopted the standardized approach for credit risk, standardized (rule based) approach for market risk and basic indicator approach for operational risk. In addition to regulatory capital requirement of computation for assessing capital adequacy as per pillar-I, the bank also assess interest (Profit) rate risk in banking book, equity risk, foreign exchange risk on a quarterly basis to assess adequacy of capital available as a cushion to withstand shock from business environment adversities. As per capital adequacy guidelines, the bank is required to maintain a minimum CAR of 10.00% with regards to credit risk, market risk and operational risk.

EXIM Bank has been generating most of its incremental capital by way of stock dividend, issuance of rights share and statutory reserve, retained earnings etc. to support the incremental growth of Risk Weighted Assets (RWA). The bank is in the process of having credit rated of its corporate customers which already have an impact of reducing RWA. The bank is able to maintain capital adequacy ratio (CAR) at 10.89% on consolidated basis against the regulatory minimum level of 10.00%. Excess capital (Taka 131.05 crore) above the regulatory minimum was meant for supporting anticipated future business growth and to serve as a buffer for unexpected shock

thereby ensuring that the Bank's CAR does not fall below the regulatory minimum level even in adverse condition. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.

### Quantitative Disclosures:

Taka In Crore

SI No.	Particulars	Solo	Consolidated
1	Capital Requirement for Credit Risk	1319.58	1312.23
2	Capital Requirement for Market Risk	65.62	68.77
3	Capital Requirement for Operational Risk	95.33	96.26
4	Total and Tier 1 Capital Ratio:	89.89%	89.90%
5	Minimum Capital Requirement	1480.54	1477.26
6	Total Risk Weighted Assets (RWA)	14805.37	14772.60
7	<b>Total CAR</b>	<b>10.88%</b>	<b>10.89%</b>
8	Tier-1 CAR	9.78%	9.79%
9	Tier-2 CAR	1.10%	1.10%

## D) Credit Risk

### Qualitative Disclosures:

#### a) The general qualitative disclosures:

#### \*\* Definitions of past due and impaired:

An investment payment that has not been made as of its due date is called past due/overdue. Failure to repay an investment on time could have negative implications for the borrower's credit status or cause the investment terms to be permanently adjusted. In case of past due investment, the bank may charge compensation which is not come under bank's income rather the charges use for benevolent purpose.

An investment is impaired when it is not likely the lender will collect the full value of the investment because the creditworthiness of a borrower has fallen. The lender will pursue either restructuring or foreclosure as a result of the impaired status of the debt. Further, the lender must report the debt as impaired on any of its financial statements and CIB of Bangladesh bank.

**Description of approaches followed for specific and general allowances and statistical methods:**

We follow the following approach for specific and general allowances and statistical method:

Particulars		Short Term Agriculture credit and micro credit	Consumer Financing			Small Enterprise Financing	Loans to BHs/MBs/S Ds against Shares etc.	All other credit
			Other than HF & LP	HF	LP			
Unclassified	Standard	5%	5%	2%	2%	1%	2%	1%
	SMA	5%	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 = Outstanding- (eligible security+ profit suspense)

**\*\* Discussion of the bank's investment (credit) risk management policy.**

Risk is inherent in all aspects of a commercial operation; however for Banks and financial institutions, investment (credit) risk is an essential factor that needs to be managed. Investment (credit) risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Investment (Credit) risk, therefore, arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. To manage investment (credit) risk EXIM bank follows "Bangladesh bank's Circulated CREDIT RISK MANAGEMENT guidelines".

**Quantitative Disclosures:****b) Total Gross credit risk exposures broken down by major types of credit exposures:**

**Amount in crore taka**

<b>Exposure Type (Funded)</b>	<b>Exposure</b>
Claims on Banks and NBFIs	921.23
Claims on Corporate	7374.04
Claims under Credit Risk Mitigation	607.21
Claims categorized as retail portfolio & SME (excluding consumer loan)	556.45
Consumer finance	35.83
Claims fully secured by residential property	105.81
Claims fully secured by commercial real estate	468.38
Past Due Claims	301.29
Capital Market Exposures	115.44
Staff loan/Investment	89.45
Other assets	133.10

Amount in crore taka

Exposure Type (Non-Funded)	Exposure
Claims on Public Sector Entities (other than Government) in Bangladesh	0.31
Claims on Banks and other NBFIs:	0.88
Claims on Corporate	3287.30
Claims against retail portfolio & SME (excluding consumer loan)	29.04
Claims fully secured by commercial real estate	0.67

Amount in crore taka

SL	Mode-wise Investment	Outstanding as on 31.12.2011
1	Bai Muazzal	3 699.13
2	Bai Murabaha	1 878.51
3	Muntahia bittamlik	.00
4	Musharaka muntanakasa / Diminishing Musharaka	.00
5	Mudaraba	.00
6	Bai Salam	303.32
7	Izara Bil Baia (Com)	3 682.57
8	Izara Bil Baia (Staff)	89.45
9	Quard	20.95
10	LDBP	237.45
11	FDBP	44.95
12	Credit Card	13.63
	<b>Total</b>	<b>9 969.96</b>

**c) Geographical distribution of credit Exposures**

Amount in crore taka

SL	Division-wise investment	Outstanding as on 31.12.2011
1	Dhaka	7,419.65
2	Sylhet	139.74
3	Rajshahi	246.89
4	Chittagong	1,963.18
5	Barisal	11.60
6	Khulna	112.99
7	Rangpur	75.91
	<b>Total</b>	<b>9 969.96</b>

**d) Industry or counter party distribution of credit Exposures**

Amount in crore taka

<b>Sl</b>	<b>Industry-wise Investments</b>	<b>Outstanding as on 31.12.2011</b>
1	Garments	1 121.29
2	Textile	694.77
3	Agrobased Industry	325.56
4	Other Industry	753.87
5	Trading and Others	7 074.47
	<b>Total</b>	<b>9 969.96</b>

**e) Residual contractual maturity Breakdown of the whole portfolio**

Amount in crore taka

<b>Sl</b>	<b>Item</b>	<b>Outstanding as on 31.12.11</b>
1	On demand	117.49
2	Less than 3 months	1628.21
3	More than 3 months but less than 1 year	4407.72
4	More than 1year but less than 5 year	1270.03
5	More than 5 years	2546.51
	<b>Total</b>	<b>9969.96</b>

**f) By major industry or counterparty type**

**Amount of impaired loans**

<b>Economic Sector</b>	<b>Total Advances</b>	<b>Past Due/ Impaired loans</b>
<b>Agriculture</b>	<b>35.79</b>	<b>0.01</b>
a) Crop financing	4.93	0.00
b) Plantation	0.00	0.00
c) Fishing/Pisciculture	0.25	0.00
d) Others	30.61	0.01
<b>Industry(Other than working capital)</b>	<b>2134.21</b>	<b>95.98</b>
a) Large & Medium scall Industries	1826.06	82.49
b) Small Scale & Cottage Industries	308.15	13.49
c) Others	0.00	0.00
<b>Working Capital</b>	<b>752.88</b>	<b>14.37</b>
a) Jute Industries	29.68	0.00
b) Garments	289.10	2.00
c) Leather Industries	3.65	0.00
d) Others	430.45	12.37
<b>Export financing</b>	<b>1332.18</b>	<b>74.24</b>
a) Readymate Garments	1185.80	65.82
b) Jute	3.22	0.00
c) Jute Goods	0.00	0.00
d) Leather	0.44	0.00
e) Others	142.72	8.42
<b>Import financing</b>	<b>1942.66</b>	<b>81.79</b>
a) Food Stuffs	373.72	16.10
b) Textile & Textile Products	238.92	6.47
c) Chemical (Except Medicine)	180.26	3.68
d) Others	1149.76	55.54
<b>Transport and Communications</b>	<b>185.27</b>	<b>9.10</b>
a) Trnsport & Communication	160.51	3.27
b) Others	24.76	5.83
<b>Internal Trade Financing</b>	<b>1559.59</b>	<b>61.70</b>
a) Whole sale Trading	1035.21	56.39
b) Retail Trading	262.14	4.26
c) Others	262.24	1.05
<b>Housing</b>	<b>1173.25</b>	<b>29.60</b>
a) Housing Companies/Societies	661.79	8.28
b) Urban	290.47	13.44
c) Rural	9.51	0.22
d) Others	211.48	7.66
<b>Special Programme</b>	<b>28.62</b>	<b>0.01</b>
a) Small & Cottage	0.00	0.00
b) Others *	28.62	0.01
<b>Others</b>	<b>825.51</b>	<b>10.21</b>
Others	825.51	10.21
<b>Total</b>	<b>9969.96</b>	<b>377.01</b>



- **Specific and general provisions**

Amount in crore taka

<b>Provision required:</b>	<b>Provisions as on 31.12.2011</b>
Unclassified Investments	97.11
Special mention accounts (SMA)	8.71
Agriculture (short Term Agri)	1.79
<b>Sub total</b>	<b>107.61</b>
Substandard	.99
Doubtful	12.04
Bad/Loss	26.91
Sub total	<b>39.94</b>
<b>Total</b>	<b>147.55</b>

**\*\*\* Provision for off-balance sheet item- Tk. 54.93 crore**

- **Charges for specific allowances and charges-offs during the period:**

**\*\*\* Charges for specific allowances-Tk. 39.94 crore**

**\*\*\* Charge-offs on loans during the period Tk. 153.82 crore**

**g) NPAs**

Fig. in Crore

<b>***Gross Non Performing Assets(NPAs)</b>	162.65
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<b>***Non Performing Assets (NPAs) to Outstanding Loans &amp; Advances</b>	1.63%
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**\*\*\*Movement of Non Performing Assets(NPAs)**

Fig. in Crore

<b>Opening Balance</b>	<b>Tk. 185.52</b>
<b>Additions</b>	<b>Tk. 59.24</b>
<b>Reductions</b>	<b>Tk. 82.11</b>
<b>Closing Balance as on 31.12.2011</b>	<b>Tk. 162.65</b>

**\*\*\* Movement of specific provisions for NPAs**

Fig. in Crore

<b>Opening Balance</b>	<b>Tk. 53.92</b>
<b>Provisions made during the period</b>	<b>Tk. 5.43</b>
<b>Write-Off</b>	<b>Tk.19.41</b>
<b>Write-Back of excess provisions</b>	<b>Nil</b>
<b>Closing Balance 31.12.2010</b>	<b>Tk. 39.94</b>

## **E) Equities: Disclosures for Banking Book Positions**

### **Qualitative Disclosures:**

Investment of EXIM Bank in equities is divided in to two categories:

- 1) **Quoted Securities:** Quoted securities are shares, mutual fund etc. that are traded in the secondary market (trading book assets).
- 2) **Unquoted Securities:** Unquoted securities are categorized as banking book equity exposures which are further subdivided into two groups:
  - a) Unquoted Securities that are invested without any expectation that will be quoted in the near future (held to maturity).
  - b) Securities that are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Usually these securities are held for trading or investment for capital gain.

#### **A. Investment Held to Maturity:**

Investment in Bangladesh Government Islamic Investment Bond (BGIIB) is intended to hold to maturity is recorded at cost.

#### **B. Investment Held for trading:**

Investment primarily held for selling or trading is classified in this category. After initial recognition investments are mark to market daily.

##### **i) Investment in listed securities:**

These securities are brought and held primarily for the purpose of selling them in future or held for dividend income. These are reported at cost. Unrealized gains are not recognized in the profit and loss account

##### **ii) Investment in unlisted securities:**

Investment in unlisted securities is reported at cost under cost method.

#### **C. Investment held for strategic reason:**

##### **i) Investment in subsidiaries:**

Investment in subsidiaries is held for strategic purpose and is accounted for under the cost method of accounting in the Bank's financial statements in accordance with the IAS. EXIM Bank has three subsidiary companies namely; EXIM Exchange Company (UK) Limited, EXIM Exchange Company (Canada) Limited and EXIM Islami Investment Limited are held for strategic business reason.

**Quantitative Disclosures:**

Amount in crore taka

Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a <b>comparison</b> to publicly quoted share values where the share price is materially different from fair value.	<b>See: Table 1</b> (Market Value of Investment)
The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	(16.16)
• Total unrealized gains (losses)	(37.50)
• Total latent revaluation gains (losses)	-
• Any amounts of the above included in Tier 2 capital.	-
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.	
a) Specific Risk - Market value of investment in equities Tk. 323.60 Crore. Capital Charge at 10% result amount 32.36 Crore of Capital Charge.	32.36
b) General Market Risk -Market value of investment in equities Tk. 323.60 Crore. Capital Charge at 10% result amount of Tk.32.36 Crore of Capital Charge	32.36

**Table 1: Market Value of Investment**

Investment in Shares & Securities	Holding Share	Face Value	Purchase price	Market Value at 31 Dec'2011	Remarks
a) Government securities:					
Bangladesh Govt. Islamic Investment Bond (BGIB)			2,750,000,000	2,750,000,000	Unquoted
Central Depository Bangladesh Limited	1370833	10	13,708,330	13,708,330	Unquoted
			<u>2,763,708,330</u>	<u>2,763,708,330</u>	
b) Investment in Subsidiary Companies					
EXIM Exchange Company (UK) Limited			37,194,195	37,194,195	Unquoted
EXIM Exchange Company (Canada) Limited			40,053,870	40,053,870	Unquoted
EXIM Islami Investment Limited (EIL)			999,900,000	999,900,000	Unquoted
			<u>1,077,148,065</u>	<u>1,077,148,065</u>	
c) EXIM Bank 1st Mutual Fund			200,000,000	200,000,000	Unquoted
d) Others					
Southeast Bank Ltd.	2 38 16 500	10	735,522,003	716,876,650	Quoted
Social Islami Bank Ltd.	1 33 79 000	10	380,341,472	350,529,800	Quoted
Jamuna Bank Limited	80 00 000	10	322,431,918	276,000,000	Quoted

Market Disclosures under Risk Based Capital Adequacy.....

Investment in Shares & Securities	Holding Share	Face Value	Purchase price	Market Value at 31 Dec'2011	Remarks
Bank Asia Ltd.	60 00 000	10	282,116,513	229,200,000	Quoted
Islami Bank Bangladesh Ltd.	46 17 500	10	263,087,175	251,653,750	Quoted
NCC Bank Ltd.	51 32 000	10	193,237,026	156,012,800	Quoted
Mercantile Bank Ltd	56 33 430	10	187,596,178	196,043,364	Quoted
Dutch Bangla Bank Ltd.	9 32 000	10	135,004,752	150,331,600	Quoted
AB Bank Ltd.	11 50 000	10	112,058,020	78,545,000	Quoted
One Bank Ltd.	15 50 000	10	91,802,208	73,935,000	Quoted
City Bank Ltd.	13 00 000	10	72,816,436	68,380,000	Quoted
Premier Bank Ltd.	13 10 000	10	66,441,209	40,348,000	Quoted
Prime Bank Ltd.	12 51 000	10	58,963,706	55,669,500	Quoted
Dhaka Bank Ltd.	2 80 687	10	11,965,706	12,490,572	Quoted
Standard Bank Ltd.	3 30 000	10	9,969,710	9,966,000	Quoted
Al-Arafah Islami Bank Ltd.	3 44 250	10	11,906,653	13,012,650	Quoted
Shahjalal Islami Bank Ltd.	4 87 200	10	15,984,845	15,834,000	Quoted
First Security Islami Bank Ltd.	1 99 125	10	3,092,805	5,236,988	Quoted
Beximco Pharmaceuticals Ltd.	25 21 303	10	255,646,383	235,993,961	Quoted
Titas Gas	15 00 000	10	126,938,142	101,400,000	Quoted
Lafarge Surma Cement Ltd.	23 54 500	10	91,414,008	62,629,700	Quoted
Shinepukur Ceramics	1 32 250	10	9,559,308	5,409,025	Quoted
Prime Islami Life Insurance	6 600	10	1,485,195	1,402,500	Quoted
LINDE Bangladesh Ltd.	800	10	511,750	489,760	Quoted
EBL NRB MF	50 00 000	10	50,000,000	52,500,000	Quoted
EBL 1STMF	10 00 000	10	16,364,727	10,200,000	Quoted
ICBEPMF 1S1	10 00 000	10	15,592,734	8,600,000	Quoted
TRUSTB 1STMF	10 00 000	10	15,405,030	8,900,000	Quoted
DBH 1STMF	10 00 000	10	14,946,229	8,300,000	Quoted
IFIC 1STMF	10 00 000	10	14,942,065	8,000,000	Quoted
PRIME IICBA	10 00 000	10	13,505,254	8,900,000	Quoted
PHPMF1	10 00 000	10	10,000,000	6,800,000	Quoted
POPULAR1MF	10 00 000	10	10,000,000	6,900,000	Quoted
MBL 1STMF	10 00 000	10	10,000,000	9,200,000	Quoted
SWIFT	13	173,774	2,259,065	2,259,065	Unquoted
			<b>3,612,908,225</b>	<b>3,237,949,685</b>	
<b>Grand total (a+b+c+d)</b>			<b>7,653,764,620</b>	<b>7,278,806,080</b>	

**Maturity grouping of investment (shares and bonds)**

	2011	2010
i) Repayable on Demand	3,610,649,160	1,543,777,504
With a residual maturity of		
ii) Not more than 3 months	250,000,000	-
iii) Over 3 months but not more than 1 year	2,500,000,000	20,000,000
iv) Over 1 year but not more than 5 years	-	2,930,000,000
v) More than 5 years	1,293,115,460	1,098,512,135
	<b>7,653,764,620</b>	<b>5,592,289,639</b>

**Consolidated Investment in Shares & Securities**

i) Government securities:		
Export Import Bank of Bangladesh Limited	2,763,708,330	2,756,000,000

Market Disclosures under Risk Based Capital Adequacy.....

**Investment in Shares & Securities**

	<b>Holding Share</b>	<b>Face Value</b>	<b>Purchase price</b>	<b>Market Value at 31 Dec'2011</b>	<b>Remarks</b>
Add: EXIM Bank's Subsidiaries			-	-	
Sub total			<u>2,763,708,330</u>	<u>2,756,000,000</u>	
ii) Others					
Export Import Bank of Bangladesh Limited			4,890,056,290	2,836,289,639	
Add: EXIM Islami Investemnt Limited (EIL)			157,412,214	-	
Less: Bank's subsidiaries			<u>(1,077,148,065)</u>	<u>(1,070,253,070)</u>	
Sub total			<u>3,970,320,439</u>	<u>1,766,036,569</u>	
<b>Grand Total (i+ii)</b>			<b><u>6,734,028,769</u></b>	<b><u>4,522,036,569</u></b>	

**F) Profit Rate Risk in Banking Book (PRRBB)****Qualitative Disclosure:**

The process of Profit rate risk management by the bank involves determination of the business objectives, expectation about future macro variables and understanding the money markets and debt market in which it operates. Profit Rate Risk is the risk, which affects the Bank's financial condition due to changes in the market Profit rates. Changes in Profit rates affect both the current earnings (earnings perspective) as well as the net worth of the Bank (economic value perspective). The risk from earnings perspective can be measured as impact in the Net Investment Income (NII) or Net Investment Margin (NIM). Similarly, the risk from economic value perspective can be measured in the Economic Value of Equity (EVE). The Bank adopted traditional Duration Gap Analysis for assessing the impact on the Economic Value of Equity (Economic Value Perspective) by applying a notional Profit rate shock up to 100 bps under stress test practice at the bank.

**Quantitative Disclosures:**

Impact of fluctuation in the Profit rates on economic value of a financial institution is tested in the stress test. Economic value is affected both by changes in future cash flows and discount rate used for determining present value. To determine the impact of increase in Profit rate risk 3 scenarios are tested, in minor level of shock of 1% increase in Profit rate cause CAR decline to 10.46% from 10.92 % and 2% increase in Profit rate cause CAR fall to 9.77%, finally a major shock of 3% increase in Profit rate cause CAR fall to 9.09%.

Amount in crore taka (Where applicable)

<b>Profit Rate Risk- Increase in Profit Rate</b>	<b>Minor Level of Shock</b>	<b>Moderate Level of Shock</b>	<b>Major Level of Shock</b>
Magnitude of Shock	1%	2%	3%
Weighted Average Yield on Asset (%)	13.09	13.09	13.09
Total Assets (market value)	12600.91	12600.91	12600.91
Duration GAP (year)	0.89	0.89	0.89
Fall in MVE (on-balance sheet)	99.27	198.55	297.82
Revised Capital	1518.44	1419.16	1319.89
Revised RWA	14518.63	14518.63	14518.63
Revised CAR (%)	10.46	9.77	9.09
Net Investment Income Impact (<12 Month)	-7.85	-15.70	-23.55

\*The stress testing was conducted considering CAR of 10.92% before finalizing the Financial Statement 2011.

## **G) Market Risk**

### **Qualitative Disclosures:**

#### **a) Views of Board of Directors on trading/investment activities:**

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The exposure of the bank to market risk arises principally from customer-driven transactions. The market risk positions subject to this requirement are:

- i) The risks pertaining to interest rate related instruments and equities in the trading book.
- ii) Foreign exchange risk and commodities risk throughout the bank (both in the banking and in the trading book).

Trading book comprises position in financial instruments held with trading intent or in order to hedge other element of the trading book. The portfolio of investment of EXIM Bank includes Bangladesh Government Islami Investment Bond, Share of listed public limited companies etc. The bank has always put impetus on investment of funds in high yield areas and also has ensured maintenance of statutory liquidity requirement as set by Bangladesh Bank.

#### **b) Methods used to measure Market risk:**

Market risk is the possibility of losing assets in balance sheet and off-balance sheet positions due to volatility in the market variable viz. interest rate, foreign exchange rate, reinvestment and price, the bank measures impact on profitability and impact on asset price under market risk through Gap Analysis, Sensitivity Analysis, mark to market and Value-at-Risk (VaR) method.

#### **c) Market Risk Management system:**

The Bank has its own market risk management system, which includes Assets Liability Management (ALM), Foreign Exchange Risk Management under core risk management guidelines.

#### **d) Policies and processes for mitigating market risk:**

The bank has put in Asset Liability Management policy for effective management of market risk in the bank. The policies set various risk limits for effective management of market risk and ensuring that the operations are in line with bank's expectation of return to market risk through proper Asset Liability Management. The policies also deal with the reporting framework for effective monitoring of market risk.

The ALM Policy specifically deals with liquidity risk management and interest rate risk management framework. As envisaged in the policy, liquidity risk is managed through Gap & Duration analysis, based on residual maturity/behavioral pattern of assets and liabilities, as prescribed by the Bangladesh Bank. The Bank has put in place mechanism of Contingent Funding Plan. Prudential (Tolerance) limits are prescribed for different residual maturity

Market Disclosures under Risk Based Capital Adequacy.....

time buckets for efficient Asset Liability Management. Liquidity profile of the Bank is evaluated through various liquidity ratios.

Foreign Exchange risk is the risk or chance of loss due to unexpected movement of market price of the currencies of different countries or the price of the assets denominated by foreign currencies. For effective and efficient management of Foreign Exchange Risk, the Bank has a well developed and well structured Foreign Exchange Risk Manual and an international standard Dealing Room Manual.

The treasury of the Bank is mainly divided into three departments namely Front Office, Mid Office and Back Office. With the help of these three departments, the treasury carries out the whole procedure of Foreign Exchange. The Front Office independently conducts the transactions and the Back Office is responsible for verification of the deals and passing of their entries in the books of account. The Mid Office plays a vital role in the process by checking the Foreign Exchange procedure perform by Front and Back Office and by reporting it directly to the Managing Director of the Bank.

All foreign exchange transactions are revaluated at Mark to Market rate as determined by inter-bank. All nostro accounts are reconciled on monthly basis and outstanding entries reviewed by the management for their settlement.

**Quantitative Disclosures:**

	Amount in crore taka
	<b>Total Capital Charge</b>
Interest Rate Related Instruments	-
Equities	67.86
Foreign Exchange Position	0.91
Commodities	-
<b>Total</b>	<b>68.77</b>



## **H) Operational risk**

### **Qualitative Disclosures:**

#### **a) Views of Board of Directors on system to reduce Operational Risk**

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all of the Bank's activities. Operational risks are monitored and, to the extent possible, controlled and mitigated. The Bank's approach to operational risk is not designed to eliminate risk altogether but rather, to contain risks within levels deemed acceptable by senior management. All functions, whether business, control or logistics functions, must manage the operational risks that arise from their activities. The Bank has therefore established a cross-functional body to actively manage operational risk as part of its governance structure. The foundation of the operational risk framework is that all functions have adequately defined their roles and responsibilities. The functions can then collectively ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability.

#### **b) Performance gap of executives and staffs:**

EXIM Bank always try to minimize the performance gap of its employees by providing appropriate training; encourages practicing ethical behavior by following standard code of conduct. High compensation also ensures best workplace safety for the banks' employees to keep away from incompatible employment practices.

#### **c) Potential external events:**

The potential external events that may pose the bank into operational risks are as follows.

1. External Fraud
2. Taxation Risk
3. Legal Risk
4. War/flood/fire
5. Collapse of Market
6. Reputation Risk
7. Relationship Risk

#### **d) Policies and processes for mitigating operational risk**

The Bank has taken the following Policies and processes for mitigating operational risk:

1. Loss prevention: Training, development and review of employees.
2. Loss control: Planning, organizing, back up of computer system etc.

The Bank has already taken initiatives for protecting the information from unauthorized access, modification, disclosure and destruction to protect its' customers' interest. The Bank has already developed its own ICT policies for various operation and services, which are closely in line with the ICT guidelines of Bangladesh Bank. The Bank has developed a critical human resource fault tolerance plan with detail job description, segregation of duties for every tasks and system support in respect of severity. Training is a key component of

Market Disclosures under Risk Based Capital Adequacy.....

operational risk management. The Bank has been continuously conducting training sessions (i.e. operational procedure, Business Continuity Planning, Disaster Recovery Planning etc.) for relevant employees. The Bank has been maintaining separate insurance coverage for its critical assets. The Bank management has been putting efforts to improve Operation Management, Problem Management, Change Management, Asset Management and Request Management to maintain maximum uptime of automated banking business. The bank conducts routine audit (both internal and external) and internal ICT audit to all its' branches and Head Office divisions.

e) **Approach for calculating capital charge for operational risk:**

The bank follows Basic Indicator Approach (BIA) for measuring operational risk. Under the Basic Indicator Approach (BIA), the capital charge for operational risk is a fixed percentage (denoted by alpha) of average positive annual gross income of the bank over the past three years.

**Quantitative Disclosures:**

Amount in crore taka

The capital requirements for operational risk	96.26
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**Capital Charge for Operational Risk- Basic Indicator Approach**

Amount in Crore Taka

Year	Gross Income (GI)	Average Gross Income (AGI)	Capital Charge = 15% of AGI
2009	463.77	641.70	96.26
2010	790.56		
2011	670.78		