Export Import Bank of Bangladesh Ltd.
Disclosures under Risk Based Capital (Basel II)
For the year ended 31 December 2012

Background: These disclosures under Pillar III of Basel II are made according to revised 'Guidelines on Risk Based Capital Adequacy (RBCA)' for banks issued by Bangladesh Bank (Central Bank of Bangladesh) in December 2010. These quantitative and qualitative disclosures are intended to complement the Minimum Capital Requirement (MCR) under Pillar I and the Supervisory Review Process (SRP) under Pillar II of Basel II.

The purpose of market discipline in the Revised Capital Adequacy Framework is 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 2012 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:		
a)	The name of the top corporate entity in the group to which this guidelines applies.	**Export Import Bank of Bangladesh Ltd.**

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 (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	EXIM Bank has 4 (Four) subsidiaries as on the reporting date namely; EXIM Exchange Company (UK) Limited, EXIM Exchange Company (Canada) Limited, EXIM (USA) Inc. and EXIM Islami Investment Limited. A brief description of the Bank and its subsidiaries are given below: **Export Import Bank of Bangladesh Ltd** Export Import Bank of Bangladesh Ltd. (EXIM Bank) was incorporated as a public limited company in Bangladesh under Companies Act, 1994. It commenced its banking business on August 03, 1999 under the license issued by Bangladesh Bank. Presently the Bank has 72 (Seventy two) branches. The Bank has 2 (Two) Off-shore Banking Units (OBU). 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. There are 4 (Four) Subsidiaries of EXIM Bank which are as under: i) EXIM Exchange Company (UK) Ltd., a subsidiary company of EXIM Bank was incorporated in U.K. and commenced its remittance business from June 30, 2009. The Paid up Capital of the company is GBP 0.40 million against Authorized Capital for GBP 1.00 Million. The principal activity of the company is that of the provision of money remittance services and advising on letters of credit. ii) EXIM Exchange Company (Canada) Ltd., a subsidiary company of EXIM Bank was incorporated in Canada and commenced its remittance business from January 23, 2010. The Paid up capital of the company is CAD 0.60 million against Authorized Capital for CAD 1.00 Million. The principal activity of the company is money service business. iii) EXIM (USA) Inc., a subsidiary company of EXIM Bank was incorporated in USA and commenced its remittance business from November 17, 2012. The Paid up Capital of the company is USD 0.86 million and the company is primarily engaged in the business of conducting money transmitter transactions.

		iv) EXIM Islami Investment Limited is a subsidiary company of EXIM Bank incorporated as a public limited company and started its operation on December 01, 2010. The Paid up Capital of the company is BDT 100.00 Crore against Authorized Capital for BDT 500.00 Crore. The main object of the company is to act as a full-fledged merchant banker. The company is also authorized to buy, sell, hold or otherwise acquire or invest the capital of Company in shares, stocks and other shariah based securities. All the subsidiaries were consolidated.
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	There is no capital deficiency in the financial year 2012 in solo or consolidated basis.

B) Capital Structure

<table>
<tr><th colspan="3">Qualitative Disclosures:</th></tr>
<tr><td>a)</td><td>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 Tier 2.</td><td>Regulatory capital, as stipulated by the revised RBCA guidelines by Bangladesh Bank, is categorized into three tiers according to the order of quality of capital (Tier I, II & III).

i) Tier-I capital called ‘Core Capital’ comprises of highest quality of capital elements that consists of paid up capital, statutory reserves, general 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 etc.
iii) Tier-III capital called ‘Additional Supplementary Capital’, consists of short-term subordinated debt, which would be solely for the purpose of meeting a proportion of the capital requirements for market risk.
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:

1) Requirements: The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
Status of Compliance: Complied
2) Requirements: 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital.
Status of Compliance: There was no revaluation reserve for fixed assets and securities as on the reporting date.
3) Requirements: 10% of revaluation reserves for equity instruments eligible for Tier 2 capital.
Status of Compliance: There was no revaluation reserve from quoted equities as on the reporting date.
4) Requirements: Subordinated debt shall be limited to a maximum of 30% of the amount of Tier-I capital.
Status of Compliance: As on the reporting date there was no subordinated debt in the capital structure of EXIM Bank.</td></tr>
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		5) **Requirements:** 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. **Status of Compliance:** As on the reporting date there were no Tier 3 components in the capital structure of EXIM Bank.

Quantitative Disclosures: As on the reporting date, the Bank had a consolidated capital of BDT 1810.49 Crore comprising Tier-I capital of BDT 1653.25 Crore and Tier-II capital of BDT 157.24 Crore (EXIM Bank had no Tier III element in its capital structure). Following table presents component wise details of capital as on reporting date i.e. 31 December 2012:

BDT in Crore

Sl No.	Particulars	Consolidated
1	**Elements of Tier-I Capital**	
2	Paid up capital	1051.49
3	Statutory Reserve	458.75
4	Non-repayable Share premium account	
5	General Reserve	
6	Retained Earnings	136.73
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	**Sub Total(1+2+----------+10)**	**1653.25**
12	**Deductions from Tier-1 Capital**	**-**
13	**Total eligible Tier -1 Capital (Core Capital) (11-12)**	**1653.25**
14	**Total amount of Tier-II Capital**	157.24
15	**Total amount of Tier-III Capital**	-
16	**Other deductions from Capital**	-
17	**Total Eligible Capital (13+14+15-16)**	**1810.49**

C) Capital Adequacy

<table>
<tr><th colspan="3">Qualitative Disclosures:</th></tr>
<tr><td>a)</td><td>A summary discussion of the bank's approach to assess the adequacy of its capital to support current and future activities.</td><td>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. 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 focuses on strengthening and enhancing its risk management culture and internal control processes rather than increasing capital to cover up weak risk management and control practices. The bank has been generating most of its incremental capital from retained profit (stock dividend and statutory reserve transfer 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 10.87% on consolidated basis against the regulatory minimum level of 10.00%. Excess capital (BDT 144.18 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 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.</td></tr>
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b. Quantitative Disclosures:

BDT In Crore

Sl No.	Particulars	Solo	Consolidated
1	Capital Requirement for Credit Risk	1421.22	1418.53
2	Capital Requirement for Market Risk	131.12	133.72
3	Capital Requirement for Operational Risk	112.98	114.06
4	Total and Tier 1 Capital Ratio:	91.37 %	91.32 %
5	Minimum Capital Requirement	1665.32	1666.31
6	Total Risk Weighted Assets (RWA)	16653.16	16663.05
7	**Total CAR**	**10.94 %**	**10.87 %**
8	Tier-I CAR	10.00 %	9.93 %
9	Tier-II CAR	0.94 %	0.94 %

D) Investment (Credit) Risk

<table>
<tr><td colspan="3">Qualitative Disclosures:</td></tr>
<tr><td>a)</td><td colspan="2">The general qualitative disclosures:</td></tr>
<tr><td></td><td>* Definitions of past due and impaired:</td><td>
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 customer's credit worthiness or cause the investment terms to be permanently adjusted. In case of past due investment, the bank may charge compensation which does not come under bank's income rather the charges are used for benevolent purpose.
An investment is impaired when it is not likely the bank will collect the full value of the investment because the creditworthiness of a customer has fallen. The bank will pursue either restructuring or foreclosure as a result of the impaired status of the investment. Further, the bank must report the investment as impaired on any of its financial statements and CIB of Bangladesh bank.
With a view to strengthening investment discipline and bring classification and provisioning regulation in the line with international standard, a phase wise program for classification and provisioning was undertaken by the Bank as per Bangladesh Bank circulars issued from time to time. In this regard, all the investments are grouped into four categories for the purpose of classification, namely (i) Continuous Investment, (ii) Demand Investment, (iii) Fixed Term Investment and (iv) Short-term Agricultural and Micro Investment. The above investments are classified as follows:
Continuous & Demand Investment are classified as under:

Sub-standard- if it is past due/overdue for 3 months or beyond but less than 6 months
Doubtful- if it is past due/overdue for 6 months or beyond but less Than 9 months
Bad/Loss- if it is past due/overdue for 9 months or beyond

Fixed Term Investment (More than BDT 10.00 Lac) is classified as

Sub-standard- if the defaulted installment is equal to or more than the amount of installment (s) due within 3 (three) months, the entire investments are classified as "Sub-standard"
Doubtful- if the defaulted installment is equal to or more than the amount of installment (s) due within 6 (six) months, the entire investments are classified as "Doubtful.
Bad/Loss- if the defaulted installment is equal to or more than the amount of

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installment (s) due within 9 (nine) months, the entire investments are classified as “Bad/Loss”.

Fixed Term Investment (Up to BDT 10.00 Lac) is classified as

- Sub-standard- if the defaulted installment is equal to or more than the amount of installment (s) due within 6 (six) months, the entire investments are classified as “Sub-standard”.
- Doubtful- if the defaulted installment is equal to or more than the amount of installment (s) due within 9 (nine) months, the entire investments are classified as “Doubtful
- Bad/Loss- if the defaulted installment is equal to or more than the amount of installment (s) due within 12 (twelve) months, the entire investments are classified as “Bad/Los”.

Short-term Agricultural and Micro Credit are classified as

- Sub-standard- if the irregular status continue after a period of 12 (twelve) months, the investments are classified as “Sub-standard”
- Doubtful- if the irregular status continue after a period of 36 (thirty six) months, the investment are classified as “Doubtful”
- Bad/Loss- if the irregular status continue after a period of 60 (sixty) months, the investment are classified as “Bad/Loss”.

** A Continuous investment, Demand investment or Term Investment which will remain overdue for a period of 60 days or more, are treated as “Special Mention Account (SMA)”

Past due for more than 90 days have been considered for the purpose of calculation of risk weighted asset as per guidelines of Bangladesh Bank.

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

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

Particulars		Short Term Agriculture credit and micro credit	Consumer Financing			Small Enterprise Financing	Investments to BHs/MBS/ SDs	All other credit
			Other than HF & LP	HF	LP			
Unclassified	Standard	5%	5%	2%	2%	0.25%	2%	1%
	SMA	n/a	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%

	****Discussion of the bank's investment (credit) risk management policy.**	*** Base for provision = Outstanding- (eligible security+ profit suspense) or 15% outstanding whichever is higher. 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:

BDT in crore

Exposure Type (Funded)	**Exposure**	**RWA**
Claims on Banks and NBFIs	1224.16	410.64
Claims on Corporate	8816.57	8534.23
Claims under Credit Risk Mitigation	731.89	201.09
Claims categorized as retail portfolio & SME(excluding consumer loan)	502.14	376.60
Consumer finance	29.43	29.43
Claims fully secured by residential property	127.83	63.91
Claims fully secured by commercial real estate	673.43	673.43
Past Due Claims (Net of Specific Provision, when applicable)	359.19	476.27
Capital Market Exposures	114.01	142.51
Staff loan/Investment	106.61	21.32
Other assets	3180.39	216.35
Total	**15865.65**	**11145.78**

BDT in crore

Exposure Type (Non-Funded)	Exposure	RWA
Claims on Banks and other NBFIs:	2.03	1.95
Claims on Corporate	3860.83	3019.39
Claims against retail portfolio & SME (excluding consumer loan)	24.23	18.18
Total	**3887.08**	**3039.52**

BDT in crore

		Exposure
Sl.	**Mode-wise Investment**	
1	Bai Muazzal	4686.96
2	Bai Murabaha	2173.65
3	Bai Salam	336.82
4	Istisna	0.00
5	Izara Bil Baia (Com)	4300.70
6	Izara Bil Baia (Staff)	106.61
7	Hire Purchase Under Shirkatul Melk	0.00
8	Quard	38.30
9	LDBP	1.35
10	Bai As Sarf	36.98
11	Musharaka	46.98
12	Credit Card	16.97
	Total	**11745.33**

c) Geographical distribution of credit Exposures

BDT in crore

Sl.	Division-wise investment	Exposure
1	Dhaka	8614.06
2	Chittagong	2435.60
3	Khulna	116.26
4	Rajshahi	314.38
5	Barisal	19.94
6	Sylhet	147.85
7	Rangpur	97.23
	Total	**11745.33**

d) Industry or counter party distribution of credit Exposures

BDT in crore

Sl.	Industry-wise Investments	Exposure
1	Garments	1192.00
2	Textile	662.20
3	Agro-based Industry	571.05
4	Other Industry	957.68
5	Trading and Others	8362.40
	Total	**11745.33**

e) Residual contractual maturity Breakdown of the whole portfolio

BDT in crore

Sl.	Item	Exposure
1	On demand	515.08
2	Less than 3 months	1080.13
3	More than 3 months but less than 1 yaer	6084.37
4	More than 1year but less than 5 yaer	2569.77
5	More than 5 years	1495.99
	Total	**11745.33**

f) By major industry or counterparty type

(BDT in Crore)

Economic Sector	Total Advances	Past Due/ Impaired loans
Agriculture	**121.14**	**0.37**
a) Crop financing	16.90	0.00
b)Plantation	0.26	0.00
c) Fishing/Pisciculture	19.05	0.00
d) Others	84.93	0.37
Industry(Other than working capital)	**2424.60**	**135.79**
a) Large & Medium scale Industries	2071.70	132.33
b) Small Scale & Cottage Industries	352.90	3.46
c) Others	0.00	**0.00**
Working Capital	**958.33**	**14.82**
a) Jute Industries	37.52	0.00
b) Garments	379.41	1.65
c) Leather Industries	4.46	0.00
d) Others	536.94	13.17
Export financing	**1261.82**	**133.69**
a) Readymate Garments	904.93	117.69

b) Jute	0.25	0.00
c) Jute Goods	1.51	0.00
d) Leather	1.31	0.00
e) Others	353.82	16.00
Import financing	**1968.35**	**77.17**
a) Food Stuffs	538.14	7.63
b)Textile & Textile Products	196.20	0.00
c)Chemical (Except Medicine)	132.55	36.03
d) Others	1101.46	33.51
Transport and Communications	**280.92**	**15.75**
a) Transport & Communication	229.85	3.35
b) Others	51.07	12.40
Internal Trade Financing	**2760.70**	**90.52**
a) Whole sale Trading	2014.10	82.30
b) Retail Trading	492.08	4.47
c) Others	254.52	3.75
Housing	**1590.22**	**33.94**
a) Housing Companies/Societies	935.36	0.00
b) Urban	446.38	19.11
c) Rural	10.06	0.60
d) Others	198.42	14.23
Special Programme	**0.00**	**0.00**
a) Small & Cottage	0.00	0.00
b) Others *	0.00	0.00
Others	**379.25**	**3.12**
Others	**379.25**	**3.12**
Total	**11745.33**	**505.18**

- **Specific and general provisions**

BDT in crore

Provision required:	Provisions as on 31.12.2012
Unclassified Investments	73.84
Special mention accounts (SMA)	12.60
Agriculture (Short Term Agri)	6.04
Sub total	**92.48**
Substandard	18.95
Doubtful	18.80
Bad/Loss	108.28
Sub total	**146.03**
Total	**238.51**

***** Provision for off-balance sheet item- BDT 63.95 crore**

***** Provision for Offshore Banking Unit (OBU)- BDT 0.81 crore**

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

***** Charges for specific allowances-BDT 146.03 crore**
***** Charge-offs on loans during the period BDT 287.51 crore**

g) NPAs

BDT in crore

*****Gross Non Performing Assets(NPAs)**	505.18

*****Non Performing Assets (NPAs) to Outstanding Loans & Advances**	4.30%

*****Movement of Non- Performing Assets(NPAs)**

BDT in crore

Opening Balance	162.65
Additions	406.67
Reductions	64.15
Closing Balance as on 31.12.2012	505.18

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

BDT in crore

Opening Balance	39.94
Provisions made during the period	106.09
Write-Off	0
Write-Back of excess provisions	0
Closing Balance 31.12.2012	146.03

E) Equities: Disclosures for Banking Book Positions

a)	**Qualitative Disclosures:**	
	The general qualitative disclosures requirement with respect to equity risk, including	
	Differentiation between Holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons;	Investment of EXIM Bank in equities is divided into two categories: quoted equities (which are traded in the secondary market) and unquoted equities (which are not traded in the secondary market). Since the intent of holding unquoted equities is not trading, the same are considered as banking book equity exposure.
	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	The banking book equity exposure is mainly held for strategic purpose. EXIM Bank has four subsidiary companies namely; EXIM Exchange Company (UK) Limited, EXIM Exchange Company (Canada) Limited, EXIM (USA) Inc. and EXIM Islami Investment Limited, which are held for strategic business reason. The baking book securities are shown in cost price and no revaluation reserve has been created against these equities.

Quantitative Disclosures:

BDT in crore

b)	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.	See: Table **1**
c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting (31 December 2012) period.	No banking book asset has been sold/ liquidated during 2012. However, cumulative realized gain is BDT 5.15 crore on trading book equities

d)	• Total unrealized gains (losses)	There are no unrealized gains (losses) against banking book equities. However, unrealized loss is BDT 121.70 crore on trading book equities
	• Total latent revaluation gains (losses)	-
	• Any amounts of the above included in Tier 2 capital.	-
e)	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	Capital charge on banking book equities has been BDT 17.08 crore, calculated by giving 125% risk weight

Table 1: The list of banking book equities held by the Bank is given below:

Equities in Banking Book		Purchase price	Market Value at 31 Dec'2012	Remarks
1.	Central Depository Bangladesh Limited	13,708,330	13,708,330	Unquoted
2.	EXIM Exchange Company (UK) Limited	46,115,648	46,115,648	Unquoted
3.	EXIM Exchange Company (Canada) Limited	40,053,870	40,053,870	Unquoted
4.	EXIM Exchange Company (NY) Limited	64,575,259	64,575,259	Unquoted
5.	EXIM Islami Investment Limited (EIIL)	999,900,000	999,900,000	Unquoted
6.	EXIM Bank 1st Mutual Fund	200,000,000	200,000,000	Unquoted
7.	SWIFT	2,259,065	2,259,065	Unquoted
	Total	**1,366,612,172**	**1,366,612,172**	

F) Profit Rate Risk in Banking Book (PRRBB)

Qualitative Disclosure:		
a)	The general qualitative disclosure requirement including the nature of PRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of PRRBB measurement.	Profit rate risk is the exposure of a bank's financial condition to adverse movements in profit rates. 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, traditional approach to profit rate risk assessment taken by many banks) as well as the net worth of the Bank (economic value perspective). The risk from earnings perspective measured as impact on the Net Investment Income (NII). Similarly, the risk from economic value perspective which affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when profit rates change can be measured in the Economic Value of Equity (EVE). Accordingly, an effective risk management process that maintains profit rate risk within prudent levels is essential to the safety and soundness of banks. The Bank adopted traditional (earnings perspective) Duration Gap Analysis for assessing the impact on the Economic Value of Equity (Economic Value Perspective) by applying a notional Profit rate shock up from 100 bps to 300 bps under stress test practice at the bank.

Quantitative Disclosures:

The risk from earnings perspective can be measured as impact in the Net Investment Income (NII) due to changes in Profit rate.

CAR before-shock (%) 11.05

BDT in crore (Where Applicable)

Profit Rate Stress	**Minor**	**Moderate**	**Major**
Assumed change in Profit Rate	1%	2%	3%
Net investment income impact			
<12 months	-28.62	-57.24	-85.85
Capital after-shock	1790.39	1761.77	1733.16
CAR after-shock (%)	**10.88**	**10.70**	**10.53**
Change in CAR after-shock (%)	**-0.17**	**-0.35**	**-0.52**

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 10.53% from 11.05% and 2% increase in profit rate cause CAR fall to 9.90%, finally a major shock of 3% increase in profit rate cause CAR fall to 9.27%.

BDT in crore (Where applicable)

Profit Rate Risk- Increase in Profit Rate	**Minor Level of Shock**	**Moderate Level of Shock**	**Major Level of Shock**
Magnitude of Shock	1%	2%	3%
Weighted Average Yield on Asset (%)	12.18	12.18	12.18
Total Assets (market value)	16336.18	16336.18	16336.18
Duration GAP (year)	0.71	0.71	0.71
Fall in MVE (on-balance sheet)	103.16	206.31	309.47
Revised Capital	1715.85	1612.70	1509.54
Revised RWA	16292.74	16292.74	16292.74
Revised CAR (%)	10.53	9.90	9.27
Net Investment Income Impact (<12 Month)	-7.85	-15.70	-23.55

*The stress testing was conducted considering CAR of 11.05% before finalizing the Financial Statement 2012.

G) Market Risk

a) Qualitative Disclosures:	
Views of Board of Directors on trading/ investment activities:	Market risk is defined as the possibility 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 (BGIIB), 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.
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. profit 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 valuation and Value-at-Risk (VaR) method.
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.
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 profit 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 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. 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 are reviewed by the management for their settlement.

b) Quantitative Disclosures:

BDT in crore

	Total Capital Charge
Interest Rate Related Instruments	-
Equities a) Specific Risk - Market value of investment in equities BDT 561.09 Crore. Capital Charge at 10% of market value amounting BDT 56.11 Crore . b) b) General Market Risk -Market value of investment in equities BDT 561.09 Crore. Capital Charge at 10% of market value amounting BDT 56.11 Crore .	112.22
Foreign Exchange Position	21.50
Commodities	-
Total	**133.72**

H) Operational Risk

a) Qualitative Disclosures:	
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. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risks events, which ensure that the group stays in line which industry best practice and takes account or lessons from publicized operational failures within the financial services industry.
Performance gap of executives and staffs:	The difference between the standard/intended and the actual/current performance is known as the performance gap. EXIM Bank always tries to minimize the performance gap of its employees by providing appropriate training. The bank also encourages practicing ethical behavior by following standard code of conduct. The bank ensures timely compensation claims of the employee; preserve the employee health and safety rules and avoid the discriminatory activities. During the year 2012, the bank significantly reviewed few existing policies for providing more benefit to employees with a view to introducing superior level of job satisfaction. It also formed "Female Employees' Interest Protection Cell" to ensure Equal Employment Opportunity. Competitive compensation also ensures best workplace safety for the banks' employees to keep away from incompatible employment practices and unhealthy employee turnover.
Potential external events:	The potential external events that may pose the bank into operational risks are as follows. 1. **External Fraud**: Acts by a third party, of a type intended to defraud, misappropriate property or circumvent the law. Examples include robbery, forgery, and damage from computer hacking. 2. **Taxation Risk:** Sudden changes in tax laws and regulation that hamper the profitability of a bank. 3. **Legal Risk**: Legal risk is the risk of the Bank's losses in cases of i) incompliance of the Bank with the requirements of the legal regulations ii) making legal mistakes in carrying out activities iii) Imperfection of the legal system iv) Violation of legal regulations, terms and conditions of concluded agreements by the counterparties. 4. **Damage of physical asset**: Loss or damage to physical assets from natural disaster or other events. Example includes terrorism, vandalism, earthquakes, fires, floods etc.

	5. **Business disruption and system failures**: Disruption of business or system failures. Examples include telecommunication problems, utility outages etc. 6. **Execution, delivery and process management:** Failed transaction processing or process management, and relations with trade counterparties and vendors. Examples include, non-client counterparty misperformance, vendor disputes etc.
Policies and processes for mitigating operational risk:	The Bank has taken the following policies and processes for mitigating operational risk: 1. Loss prevention: We focus on employee development through training and development programs and review the performance of employees to prevent loss. 2. Loss control: We have in detail planning and defined process in place like back up of computer system controlling the loss. The Bank has formed a separate 'Risk Management Unit' to review and update operation risks along with all other core risks on systematic basis as necessary ensuring that adequate controls exist and that the related returns reflect these risks and the capital allocated to support them. The Bank has 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. Training is a key component of 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 conducts routine audit (both internal and external) and internal ICT audit to all its' branches and Head Office divisions.
Approach for calculating capital charge for operational risk:	The Banks operating in Bangladesh have been computing 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: $K = [(GI\ 1 + GI2 + GI3) \times \alpha]/n$

	Where- K = the capital charge under the Basic Indicator Approach GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded) α = 15 percent n = number of the previous three years for which gross income is positive. Gross Income (GI) is defined as "Net Investment Income" plus "Net non-Investment Income". It is intended that this measure should: i). be gross of any provisions; ii). be gross of operating expenses, including fees paid to outsourcing service providers iii). exclude realized profits/losses from the sale of securities held to maturity in the banking book; iv). exclude extraordinary or irregular items; v). exclude income derived from insurance.

b) **Quantitative Disclosures:**

BDT in crore

The capital requirements for operational risk	**114.06**

Capital Charge for Operational Risk- Basic Indicator Approach

BDT in Crore

Year	Gross Income (GI)	Average Gross Income (AGI)	Capital Charge = 15% of AGI
2010	790.56	**760.40**	**114.06**
2011	670.76		
2012	819.87		