Market Discipline
Disclosures on Risk Based Capital (Pillar III of Basel Framework)
For the year ended 31 December 2014

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, risk exposures, risk assessment processes 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 2014 are as under:

A) Scope of Application
B) Capital Structure
C) Capital Adequacy
D) Investment (Credit) Risk
E) Equities: Disclosures for Banking Book Positions
F) Profit Rate Risk in the 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	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:

	(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).	**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 87 (Eighty Seven) 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. on February 10, 2009 and commenced its remittance business on June 30, 2009. The Paid up Capital of the company is GBP 0.45 million against Authorized Capital for GBP 1.00 Million. The principal activity of the company is that of the provision of money transfer services and advising on letters of credit. ii) EXIM Exchange Company (Canada) Ltd., a subsidiary company of EXIM Bank, was incorporated in Canada on September 24, 2009 and commenced its remittance business on January 23, 2010. The Paid up capital of the company is CAD 0.60 million against Authorized Capital for CAD 1.00 million. The company is engaged with money transfer 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 2014 in solo or consolidated basis.

B) 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.	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 and as per the guidelines of Bangladesh Bank, Tier I capital of EXIM bank consists of i) Paid up capital ii) Statutory Reserve iii) Retained Earnings iv) Minority interest in Subsidiaries and v) Dividend Equalization Account. 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 as per the guidelines of Bangladesh Bank, Tier II capital of EXIM bank consists of 1) General provision 2) Revaluation reserve for fixed assets. 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 and EXIM Bank had no Tier III element in its capital structure. 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) The amount of Tier 2 capital will be limited to 100% of the

		amount of Tier 1 capital. **Status of Compliance:** Complied 2) 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital. **Status of Compliance:** Complied 3) 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) 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. 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. **Status of Compliance:** As on the reporting date there were no Tier 3 components in the capital structure of EXIM Bank.

b) Quantitative Disclosures:

As on the reporting date, the Bank had a consolidated capital of BDT 2,338.59 Crore comprising Tier-I capital of BDT 2,052.70 Crore and Tier-II capital of BDT 285.89 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 2014:

BDT In crore

Sl. No.	Particulars	Consolidated
	Elements of Tier-I Capital	
1	Paid up capital	1,283.86
2	Statutory Reserve	611.83
3	Non-repayable Share premium account	0.00
4	General Reserve	0.00
5	Retained Earnings	188.40
6	Minority interest in Subsidiaries	0.01
7	Non-Cumulative Irredeemable Preferences shares	0.00
8	Dividend Equalization Account	6.28
9	Other (if any item approved by Bangladesh Bank)	0.00
10	**Sub Total(1+2+----------+9)**	**2,090.38**
11	Deductions from Tier-1 Capital	37.68
12	**Total eligible Tier -1 Capital (Core Capital) (10-11)**	**2,052.70**
13	**Total amount of Tier-II Capital**	**285.89**
14	**Total amount of Tier-III Capital**	
15	Other deductions from Capital	-
	Total Eligible Capital (12 + 13 + 14 - 15)	**2,338.59**

C) Capital Adequacy

Qualitative Disclosures:

a)	A summary discussion of the bank's approach to assess the adequacy of its capital to support current and future activities.	In terms of RBCA guidelines on Basel-II framework issued by Bangladesh Bank, the bank has adopted a) Standardized Approach for Credit Risk; b) Standardized (rule based) approach for Market Risk and c) 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, transfer to statutory reserve) to support the incremental growth of Risk Weighted Assets (RWA). In addition to that the Bank is in the final stage of issuance of BDT 250.00 Crore Mudaraba Subordinated Tier II Bond to strengthen its capital base. The Bank's policy is to manage and maintain strong Capital Adequacy Ratio through investing on those who are high grade rated investment customer and those who are low risk weight bearing customer. The bank is able to maintain capital adequacy ratio (CAR) at 11.70% on consolidated basis against the regulatory minimum level of 10.00%. Capital for BDT 339.56 crore well above the regulatory minimum is 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 and also can be considered as sufficient for Pillar II requirement and ultimately can be treated as adequate capital. 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.

b. Quantitative Disclosures:

Sl. No.	Particulars	Solo	Consolidated
1	Capital Requirement for Credit Risk	1,747.32	1,746.61
2	Capital Requirement for Market Risk	111.13	116.61
3	Capital Requirement for Operational Risk	135.32	135.81
4	Tier 1 Capital To Total Capital Ratio:	87.80 %	87.78 %
5	Minimum Capital Requirement	1,993.77	1,999.03
6	Total Risk Weighted Assets (RWA)	19,937.65	19,990.27
7	**Total CAR**	**11.80%**	**11.70 %**
8	Tier-I CAR	10.44%	10.27 %
9	Tier-II CAR	1.43%	1.43 %

<table>
<tr><td colspan="3">D) Investment (Credit) Risk</td></tr>
<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 use 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 Tk. 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 installment (s) due within 9 (nine) months, the entire investments are classified as "Bad/Loss".</td></tr>
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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/Loss".

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, Demand or Term Investment which will remain over due for a period of 60 days or more, are treated as "Special Mention Account (SMA)".

****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	Investments to BHs/MBS/SDs	All other credit
			Other than HF & LP	HF	LP			
Unclassified	STD	2.5%	5%	2%	2%	0.25%	2%	1%
	SMA	n/a	5%	2%	2%	0.25%	2%	1%
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) or 15% of outstanding whichever is higher.

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

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

	policy.	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	680.33	166.98
Claims on Corporate	10,695.22	9,172.43
Claims under Credit Risk Mitigation	1,033.60	496.56
Claims categorized as retail portfolio & SME(excluding consumer loan)	4,015.79	3,374.14
Consumer finance	37.98	37.98
Claims fully secured by residential property	190.59	95.30
Claims fully secured by commercial real estate	713.80	713.80
Past Due Claims (Net of Specific Provision, when applicable)	377.15	486.54
Capital Market Exposures	122.87	153.59
Investments in premises, plant and equipment and all other fixed assets	331.17	331.17
Staff loan/Investment	191.23	38.25
Others	3978.36	133.28
Total	**22368.09**	**15200.02**

BDT in crore

Exposure Type (Non-Funded)	**Exposure**	RWA
Claims on Public Sector Entities	0.47	0.24
Claims on Banks and other NBFIs:	5.86	1.17
Claims on Corporate	2752.53	1949.36
Claims against retail portfolio & SME (excluding consumer loan)	396.24	315.27
Total	3155.10	2266.04

BDT in crore

Sl.	**Mode-wise Investment**	**Exposure**
1	Bai Muazzal	7124.01
2	Bai Murabaha	2236.59
3	Bai Salam	456.83
4	Istisna	0.00
5	Izara Bil Baia (Com)	7056.46
6	Izara Bil Baia (Staff)	191.28
7	Hire Purchase Under Shirkatul Melk	0.00
8	Quard	34.51
9	LDBP	1.35
10	Bai As Sarf	46.30
11	Musharaka	197.06
12	Exim Islami Investment Card	22.55
13	Murabaha Import Bill	86.65
	Total	**17453.59**

c) Geographical distribution of credit Exposures

BDT in crore

Sl.	**Division-wise investment**	**Exposure**
1	Dhaka	12088.57
2	Chittagong	4304.99
3	Khulna	205.00
4	Rajshahi	544.92
5	Barisal	29.71
6	Sylhet	164.01
7	Rangpur	116.39
	Total	**17453.59**

d) Industry or counter party distribution of credit Exposures **BDT in crore**

Sl.	Industry-wise investment	Exposure
1	Garments	1661.62
2	Textile	1064.89
3	Agro-based Industry	1263.88
4	Other Industry	1642.01
5	Trading and Others	11821.19
	Total	**17453.59**

e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure

BDT in crore

Sl.	Item	Exposure
1	On demand	867.92
2	Less than 3 months	1327.68
3	More than 3 months but less than 1 year	8269.65
4	More than 1year but less than 5 yaer	4364.46
5	More than 5 years	2623.88
	Total	**17453.59**

f) By major industry or counterparty type

(BDT in Crore)

Economic Sector	Total Investment	Past Due/ Impaired Investment
Agriculture	***271.13***	***4.35***
a) Crop financing	*54.88*	*0.31*
b)Plantation	*4.84*	*0.01*
c) Fishing/Pisciculture	*46.29*	*0.84*
d) Others	*165.12*	*3.19*
Industry(Other than working capital)	***3915.11***	***168.38***
a) Large & Medium scall Industries	*3631.14*	*140.42*
b) Small Scale & Cottage Industries	*283.97*	*27.96*
c) Others	*0.00*	***0.00***
Working Capital	***1717.29***	***110.58***
a) Jute Industries	*44.63*	*0.00*
b) Garments	*503.59*	*19.84*
c) Leather Industries	*6.47*	*0.00*
d) Others	*1162.60*	*90.74*

Economic Sector	Total Investment	Past Due/ Impaired Investment
a) Readymade Garments	*823.93*	*53.71*
b) Jute	*3.06*	*0.00*
c) Jute Goods	*0.11*	*0.00*
d) Leather	*2.31*	*0.00*
e) Others	*107.14*	*25.18*
Import financing	***2077.49***	***219.77***
a) Food Stuffs	*1089.45*	*104.24*
b)Textile & Textile Products	*236.29*	*12.04*
c)Chemical (Except Medicine)	*161.34*	*55.99*
d) Others	*590.41*	*47.50*
Transport and Communications	***311.86***	***10.88***
a) Trsnsport & Communication	*278.11*	*6.41*
b) Others	*33.75*	*4.47*
Internal Trade Financing	***5135.57***	***354.40***
a) Whole sale Trading	*4537.74*	*334.57*
b) Retail Trading	*357.11*	*19.04*
c) Others	*240.72*	*0.79*
Housing	***2237.69***	***25.97***
a) Housing Companies/Societies	*1195.82*	*5.99*
b) Urban	*295.16*	*5.86*
c) Rural	*22.10*	*1.83*
d) Others	*724.61*	*12.29*
Special Programme	***0.00***	***0.00***
a) Small & Cottage	*0.00*	*0.00*
*b) Others **	*0.00*	*0.00*
Others	***850.90***	***5.66***
Others	*850.90*	*5.66*
Total	***17453.59***	***978.88***

- **Specific and general provisions**

BDT in Crore

Provision required:	Provisions as on 31.12.2014
Unclassified Investments	176.46
Special mention accounts (SMA)	5.75
Sub total	**182.21**
Substandard	8.50
Doubtful	7.74
Bad/Loss	209.50
Sub total	**225.74**
Excess Provision held (as per requirement of Bangladesh Bank)	**2.94**
Total	**410.89**

*** Provision for off-balance sheet item- BDT 65.62 crore
*** Provision for Offshore Banking Unit (OBU)- BDT 3.40 crore

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

Charges for specific allowances-BDT 225.74 crore
Charge-offs on loans during the period BDT (43.18) crore

NPAs

BDT in crore

***Gross Non Performing Assets (NPAs) as on 31.12.2014	653.32

***Non Performing Assets (NPAs) to Outstanding Loans & Advances as on 31.12.2014	3.74%

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

BDT in crore

Particulars	As on December 31,2014
Opening Balance	528.00
Additions	1101.10
Reductions	975.78
Closing Balance as on 31.12.2014	**653.32**

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

BDT in crore

Particulars	As on December 31,2014
Opening Balance	275.54
Provisions made during the period	47.39
Write-Off	97.19
Write-Back of excess provisions	0.00
Closing Balance 31.12.2014	**225.74**

E) Equities: Disclosures for Banking Book Positions

Qualitative Disclosures:		
a)	**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 04 (Four) subsidiary companies namely; i) EXIM Exchange Company (UK) Limited, ii) EXIM Exchange Company (Canada) Limited, iii) EXIM (USA) Inc iv) EXIM Islami Investment Limited, which are held for strategic business reason. The banking book securities are shown at cost price and market value determined by netting off the impairment loss 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 2014) period.	One of the subsidiaries of the bank named EXIM Exchange (Australia) PTY ltd. has closed its operation during the year 2014. Cumulative realized loss against which is Tk. 1.90 Crore
d)	• Total unrealized gains (losses)	There are no unrealized gains (losses) against banking 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 13.63 crore, calculated by giving 125% risk weight

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

Fig. in BDT

Sl	**Equities in Banking Book**	**Purchase price**	**Market Value at 31 Dec'2014**	**Remarks**
1.	Central Depository Bangladesh Limited	14,051,038	14,051,038	Unquoted
2.	EXIM Exchange Company (UK) Limited	52,098,416	52,098,416	Unquoted
3.	EXIM Exchange Company (Canada) Limited	40,053,870	40,053,870	Unquoted
4.	EXIM (USA) Inc.	75,382,117	75,382,117	Unquoted
5.	EXIM Islami Investment Limited (EIIL)	906,822,375	906,822,375	Unquoted
6.	SWIFT	2,259,065	2,259,065	Unquoted
	Total	**1,090,666,881**	**1,090,666,881**	

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 can be measured as impact on Economic Value of Equity (EVE) since the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments changes because the present value of future cash flows (and in some cases, the cash flows themselves) change when profit rates change. 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 Gap analysis for assessing impact on profit perspective (earnings perspective) and Duration 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 (%) 11.90*****

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	-48.87	-97.74	-146.60
Capital after-shock	2324.54	2275.67	2226.81
CAR after-shock (%)	**11.66**	**11.41**	**11.17**
Change in CAR after-shock (%)	**-0.25**	**-0.49**	**-0.74**

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 11.22% from 11.90% and 2% increase in profit rate cause CAR fall to 10.48%, finally a major shock of 3% increase in profit rate cause CAR fall to 9.74%.

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 (%)	9.42	9.42	9.42
Total Assets (market value)	23415.72	23415.72	23415.72
Duration GAP (year)	0.69	0.69	0.69
Changes in Market Value of Equity (on-balance sheet)	-147.48	-294.95	-442.43
Regulatory Capital (after shock)	2225.93	2078.46	1930.98
Risk Weighted Asset (after shock)	19830.80	19830.80	19830.80
CAR (after shock) (%)	11.22	10.48	9.74

*The stress testing was conducted considering CAR of 11.90% (Solo basis) before finalizing the Financial Statement 2014.

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 profit 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. The Board of Director approves all necessary policies related to market risk and review them on regular basis.
Methods used to measure Market risk:	There are several methods use to measure market risk and the bank uses those methods which deem fit for a particular scenario. For measuring profit risk from earnings perspective, the bank uses maturity gap analysis, Duration Gap analysis, and mark to market method and for measuring foreign exchange risk, the bank uses VaR analysis. The Bank uses standardized method for calculating capital charge against market risks for minimum capital requirement of the Bank under Basel-II.
Market Risk Management system:	The Treasury & Financial Institution Division manage market risk covering Liquidity, profit rate and foreign exchange risk with oversight from Assets Liability Management Committee (ALCO) comprising Senior Executives of the Bank. ALCO is chaired by the Managing Director & CEO of the Bank. ALCO meets at least once in a month.
Policies and processes for mitigating market risk:	The bank has put its Asset Liability Management policy by setting 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. 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 Liquidity Contingency 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/indicators. 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. Various limits are set to monitor and mitigate the Foreign Exchange risk such as, Net Open Position (NOP) limits (Day limit / Overnight limit), deal-wise cut-loss limits, Stop-loss limit, Profit / Loss in respect of cross currency trading etc. and exception reporting is regularly carried out. 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 settlement of those transactions after verifying of the deals and passing for those 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 & CEO 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

The Capital Requirements for:	Total Capital Charge
Interest Rate Related Instruments	-
Equities a) Specific Risk - Market value of investment in equities BDT 446.38 Crore. Capital Charge at 10% of market value amounting BDT 44.64 Crore . b) General Market Risk -Market value of investment in equities BDT 446.38 Crore. Capital Charge at 10% of market value amounting BDT 44.64 Crore .	**89.28**
Foreign Exchange Position (Sum of Net Long Position BDT 273.34 Crore. Capital Charge at 10% on Sum of Net Long Position amounting BDT 27.33 Crore)	**27.33**
Total	**116.61**

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 through need based training by assessing the various needs of the employees. Bank maintains a decent work environment where employees can work with dignity, can participate in the decision making process, and receive equal treatment and opportunity that affect their performance. The bank is relentlessly pursuing its vision to transform the human resources into human capital. The bank also encourages practicing ethical behavior by following standard code of conduct. To reduce knowledge gap and assist in the development of our personnel, user friendly Operations Manual have been developed and enclosed with functional processes for all employees who are the end users of these processes. The bank ensures timely compensation claims of the employee; preserve the employee health and safety rules and avoid the discriminatory activities. Strong brand image of the bank plays an important role in employees' motivation. During the year 2014, the bank significantly reviewed few existing policies for providing more benefit to employees with a view to introducing superior level of job satisfaction. Earlier the bank 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. It is the policy of the bank that various cash and non-cash benefits for the employees are reviewed time to time based on bank's performance and rationality. Bank introduces 'Employee Turnover Risk' as a requirement of the Supervisory Review Process (SRP) under Pillar II of Basel II which becomes a constant monitoring tool to measure the employee turnover of the bank.

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 mis-performance, 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 'Risk Management Division' under 'Chief Risk Officer' to review and update operational risks along with all other core risks on systematic basis as essential ensuring that adequate controls exist and that the related returns reflect these risks and the capital allocated to support them. The bank already developed the information systems/MIS inflow and data management capabilities to support the risk management functions of the bank. 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: $K = [(GI\ 1 + GI\ 2 + GI\ 3) \times \alpha]/n$ 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	**135.81**

Capital Charge for Operational Risk- Basic Indicator Approach

BDT in Crore

Year	Gross Income (GI)	Average Gross Income (AGI)	Capital Charge = 15% of AGI
2012	816.73	**905.39**	**135.81**
2013	836.24		
2014	1063.21		