Market Disclosures under Risk Based Capital Adequacy

To comply with international best practices and to make the bank's capital more risk-sensitivities as well as to build the banking industry more shock absorbent and stable, Bangladesh Bank provided revised regulatory capital framework "Risk Based Capital Adequacy for Banks" which is effective from January 2010. 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 overall position of the bank. The disclosures under Pillar-III of the framework of the bank as on 31 December 2010 are as under:

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.

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 2010 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: Not applicable.

B) Capital Structure

Qualitative Disclosures:

Capital adequacy norms classify capital funds into Tier-I, Tier-II and Tier-III capital respectively, 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. 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. The required conditions for maintaining regulatory capital as stipulated in the revised RBCA guidelines by Bangladesh Bank are:

a) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
b) 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital.
c) 10% of revaluation reserves for equity instruments eligible for Tier 2 capital.
d) Subordinated debt (definition and qualification in) shall be limited to a maximum of 30% of the amount of Tier-I capital.
e) 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:

Amount in crore taka

The total amount of Tier-I Capital	**1244.59**
Paid up capital	683.23
Statutory Reserve	315.48
Non-repayable Share premium account	-
General Reserve	-
Retained Earnings	239.59
Minority interest in Subsidiaries	0.01
Non-Cumulative irredeemable Preferences shares	-
Dividend Equalization Account	6.28
Other (if any item approved by Bangladesh Bank)	-
The total amount of Tier-II and Tier-III capital	**148.25**
Other deductions from capital	**-**
Total eligible capital	**1392.84**

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 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 9.00% with regards to credit risk, market risk and operational risk. Subsequently this minimum CAR has been changed by Bangladesh Bank vide BRPD Circular No. 10 dated 10 March 10 as follows:

Period	CAR %
01 January 2010 to 30 June 2010	8%
01 July 2010 to 30 June 2011	9%
01 July 2011 to onwards	10%

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 will have an impact of reducing RWA. The bank is able to maintain capital adequacy ratio (CAR) at 9.80% on consolidated basis against the regulatory minimum level of 9.00%(with Tier-I at a minimum of 4.5%). Excess capital (Taka 114.32 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.

Quantitative Disclosures:

Amount in crore taka

Capital Requirement for Credit Risk	1145.03
Capital Requirement for Market Risk	52.08
Capital Requirement for Operational Risk	81.41
Total and Tier 1 Capital Ratio:	8.76%
For the Consolidated Group	9.80%
For Stand Alone	-

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:

Sl.	Nature of loan	Rate of allowances
1	UC	1% on outstanding amount
2	SMA	05% on base for provision
3	SS	20% on base for provision
4	DF	50% on base for provision
5	BL	100% on base for provision

*** 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

Sl.	Mode-wise Investment	Outstanding as on 31.12.2010
1	Bai Muazzal	3468.94
2	Bai Murabaha	1872.99
3	Muntahia bittamlik	0.00
4	Musharaka muntanakasa / Diminishing Musharaka	0.00
5	Mudaraba	0.00
6	Bai Salam	263.81
7	Izara Bil Baia (Com)	3242.29
8	Izara Bil Baia (Staff)	57.72
9	Quard	38.36
10	LDBP	307.41
11	FDBP	67.06
12	Credit Card	11.09
	Total	**9329.66**

c) Geographical distribution of credit Exposures

Amount in crore taka

Sl.	Division-wise investment	Outstanding as on 31.12.2010
1	Dhaka	6,921.76
2	Sylhet	128.77
3	Rajshahi	209.18
4	Chittagong	1,898.36
5	Barisal	4.48
6	Khulna	121.64
7	Rangpur	45.47
	Total	**9,329.66**

d) Industry or counter party distribution of credit Exposures

Amount in crore taka

Sl.	Industry-wise Investments	Outstanding as on 31.12.2010
1	Garments	1034.91
2	Textile	452.71
3	Agro-based Industry	330.23
4	Other Industry	920.27
5	Trading and Others	6591.54
	Total	**9329.66**

e) Residual contractual maturity Breakdown of the whole portfolio

Amount in crore taka

Sl.	Item	Outstanding as on 31.12.10
1	On demand	245.32
2	Less than 3 months	1777.94
3	More than 3 months but less than 1 year	3976.43
4	More than 1year but less than 5 years	1320.47
5	More than 5 years	2009.50
	Total	**9329.66**

f) By major industry or counterparty type

- **Amount of impaired loans**

Amount in crore taka

Economic Sector	Classified	Classified	Classified	Total	Unclassified	Total	Past Due/
Agriculture	**0.00**	**0.00**	**0.00**	**0.00**	**35.96**	**35.96**	**0.01**
a) Crop financing	0.00	0.00	0.00	0.00	17.50	17.50	0.08
b)Plantation	0.00	0.00	0.00	0.00	0.06	0.06	0.00
c) Fishing/Pisciculture	0.00	0.00	0.00	0.00	0.26	0.26	0.00
d) Others	0.00	0.00	0.00	0.00	18.14	18.14	0.30
Industry(Other than working capital)	**1.02**	**8.16**	**24.48**	**33.66**	**1805.52**	**1839.18**	**82.55**
a) Large & Medium scale Industries	0.66	8.16	23.99	32.81	1628.88	1661.69	80.04
b) Small Scale & Cottage Industries	0.36	0.00	0.49	0.85	176.64	177.49	2.50
c) Others	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Working Capital	1.61	0.06	9.52	11.18	786.12	797.30	15.53
a) Jute Industries	0.00	0.00	0.00	0.00	28.69	28.69	0.00
b) Garments	0.00	0.00	0.95	0.95	334.07	335.02	1.50
c) Leather Industries	0.00	0.00	0.00	0.00	2.77	2.77	0.00
d) Others	1.61	0.06	8.57	10.23	420.59	430.82	14.03
Export financing	**0.03**	**22.80**	**10.09**	**32.92**	**1661.11**	**1694.02**	**90.97**
a) Readymade Garments	0.03	22.80	8.74	31.57	1477.28	1508.85	60.15
b) Jute	0.00	0.00	0.00	0.00	5.52	5.52	0.00

c) Jute Goods	0.00	0.00	0.00	0.00	0.90	0.90	0.00
d) Leather	0.00	0.00	0.00	0.00	1.68	1.68	0.00
e) Others	0.00	0.00	1.35	1.35	175.72	177.07	30.82
Import financing	**8.76**	**0.31**	**31.39**	**40.46**	**2136.85**	**2177.31**	**48.99**
a) Food Stuffs	4.87	0.00	1.93	6.80	411.04	417.84	12.65
b)Textile & Textile Products	0.00	0.00	0.00	0.00	221.16	221.16	0.03
c)Chemical (Except Medicine)	0.61	0.00	3.27	3.88	69.93	73.81	3.00
d) Others	3.28	0.31	26.19	29.78	1434.71	1464.49	33.31
Transport and Communications	**0.43**	**0.17**	**1.29**	**1.89**	**174.13**	**176.02**	**6.76**
a) Transport & Communication	0.43	0.17	1.29	1.89	141.21	143.10	5.18
b) Others	0.00	0.00	0.00	0.00	32.91	32.91	1.58
Internal Trade Financing	**3.57**	**4.75**	**55.22**	**63.53**	**1263.54**	**1327.08**	**80.74**
a) Whole sale Trading	2.61	4.75	52.29	59.65	857.12	916.78	72.48
b) Retail Trading	0.95	0.00	2.78	3.73	212.93	216.66	6.64
c) Others	0.00	0.00	0.15	0.15	193.49	193.64	1.62
Housing	**0.73**	**0.26**	**0.66**	**1.65**	**841.04**	**842.69**	**10.61**
a) Housing Companies/Societies	0.00	0.00	0.00	0.00	353.71	353.71	1.75
b) Urban	0.73	0.26	0.21	1.20	301.83	303.03	6.01
c) Rural	0.00	0.00	0.00	0.00	8.46	8.46	0.47
d) Others	0.00	0.00	0.45	0.45	177.04	177.49	2.39
Special Programme	**0.00**	**0.00**	**0.00**	**0.00**	**25.76**	**25.76**	**0.04**
a) Small & Cottage	0.00	0.00	0.00	0.00	0.14	0.14	0.00
b) Others *	0.00	0.00	0.00	0.00	25.61	25.61	0.04
Others	**0.13**	**0.00**	**0.10**	**0.23**	**414.11**	**414.34**	**6.06**
Others	0.13	0.00	0.10	0.23	414.11	414.34	6.06
Total	**16.27**	**36.50**	**132.75**	**185.52**	**9144.13**	**9329.66**	**342.26**

- **Specific and general provisions**

Amount in crore taka

Provision required:	**Provisions as on 31.12.2010**
Unclassified Investments	89.99
Special mention accounts (SMA)	2.48
Agriculture (short Term Agri)	1.80
Sub total	94.27
Substandard	2.16
Doubtful	8.46
Bad/Loss	43.30
Sub total	53.92
Total	148.19

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

***** Charges for specific allowances-Tk. 18.83 crore**

***** Charge-offs on loans during the period Tk. 132.75 crore**

g) **Non Performing Assets (NPAs)**

Amount in crore taka

***Gross Non Performing Assets(NPAs)	185.52

***Non Performing Assets(NPAs) to Outstanding Loans & Advances	1.99%

***Movement of Non Performing Assets(NPAs)

Amount in crore taka

Opening Balance	183.97
Additions	90.14
Reductions	88.59
Closing Balance	185.52

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

Amount in crore taka

Opening Balance	52.24
Provisions made during the period	2.05
Write-Off	(0.37)
Write-Back of excess provisions	0.00
Closing Balance 31.12.2010	53.92

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 comparison to publicly quoted share values where the share price is materially different from fair value.	See: Table 1 (Market Value of Investment)
The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	129.21
• Total unrealized gains (losses)	30.00
• 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. 186.38 Crore. Capital Charge at 9% result amount 16.77 Crore of Capital Charge.	16.77
b) General Market Risk -Market value of investment in equities Tk. 186.38 Crore. Capital Charge at 9% result amount of Tk.16.77 Crore of Capital Charge	16.77

Table 1: Market Value of Investment

Investment in Shares & Securities	Holding Share	Face Value	Purchase price	Market Value at 31 Dec'2010	Remarks
a) Government securities:					
Mudaraba Islamic Investment Bond	4	2,750,000,000	2,750,000,000	2,750,000,000	Unquoted
Central Depository Bangladesh Limited	600,000	10	6,000,000	6,000,000	Unquoted
			2,756,000,000	2,756,000,000	
b) Investment in Subsidiary Companies					
EXIM Exchange Company (UK) Limited			30,299,200	30,299,200	Unquoted
EXIM Exchange Company (Canada) Limited			40,053,870	40,053,870	Unquoted
EXIM Islami Investment Limited (EIIL)			1,420,466,247	1,420,466,247	Unquoted
			1,490,819,317	1,490,819,317	
c) EXIM Bank 1st Mutual Fund			200,000,000	200,000,000	Unquoted
d) Others					
Dhaka Bank Limited	41,250	10	1,161,910	3,147,375	Quoted
Southeast Bank Limited	1,000,000	100	307,992,508	600,250,000	Quoted
United Commercial Bank Limited	1,200,000	10	238,984,757	272,040,000	Quoted
Premier Bank Limited	1,000,000	10	66,131,227	64,400,000	Quoted
Beximco Pharmaceuticals Limited	2,101,086	10	255,226,166	283,856,718	Quoted
Lafarge Surma Cement Limited	100,000	100	69,662,280	56,375,000	Quoted
Shinepukur Ceramics	115,000	10	9,542,058	12,592,500	Quoted
Grameen Phone	500,000	10	182,948,346	122,900,000	Quoted
Islami Bank Bangladesh Limited	300,000	100	232,894,749	240,150,000	Quoted
Social Islami Bank Limited	1,000,000	10	55,296,839	52,800,000	Quoted
Mercantile Bank Limited	53,150	100	33,180,627	30,853,575	Quoted
DBH 1stMF	1,000,000	10	14,946,229	16,100,000	Quoted
EBL 1stMF	1,000,000	10	16,364,727	18,400,000	Quoted
ICBEP 1stMF	1,000,000	10	15,592,734	17,300,000	Quoted
IFIC 1stMF	1,000,000	10	14,942,065	16,100,000	Quoted
Prime 1ICBA	1,000,000	10	13,505,253	15,700,000	Quoted
Trustbank 1stMF	1,000,000	10	15,405,029	17,400,000	Quoted
PHPF1	1,000,000	10	10,000,000	11,600,000	Quoted
Popular 1sMF	1,000,000	10	10,000,000	11,900,000	Quoted
SWIFT	13	173,774	2,259,065	2,259,065	
Unquoted			1,566,036,569	1,866,124,233	
Grand total (a + b + c + d)			6,012,855,886	6,312,943,550	

F) Interest Rate Risk in Banking Book (IRRBB)

Qualitative Disclosure:

Interest Rate Risk is the risk, which affects the Bank's financial condition due to changes in the market interest rates. Changes in interest 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 Interest Income (NII) or Net Interest Margin (NIM). Similarly, the risk from economic value perspective can be measured in the Economic Value of Equity (EVE). The Bank adopted Duration Gap Analysis for assessing the impact on the Economic Value of Equity (Economic Value Perspective) by applying a notional interest rate shock upto 100 bps under stress test practice at EXIM Bank.

Quantitative Disclosures:

Impact of fluctuation in the interest 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 interest rate risk 3 scenarios are tested, in minor level of shock of 1% increase in interest rate cause CAR decline to 9.63% from 9.87 % and 2% increase in interest rate cause CAR fall to 9.39 %, finally a major shock of 3% increase in interest rate cause CAR fall to 9.15%.

Amount in crore taka

Interest Rate Risk- Increase in Interest Rate	Minor Level of Shock	Moderate Level of Shock	Major Level of Shock
Magnitude of Shock	1%	2%	3%
Weighted Average Yield on Asset (%)	13.00	13.00	13.00
Total Assets (market value)	11751.97	11751.97	11751.97
Duration GAP (year)	0.62	0.62	0.62
Fall in MVE (on-balance sheet)	64.64	129.28	193.92
Tax Adjusted Loss	37.17	74.34	111.51
Revised Capital	1364.63	1327.46	1290.29
Revised RWA	14168.58	14131.41	14094.25
Revised CAR (%)	9.63	9.39	9.15

*The stress testing was conducted considering CAR of 9.87% before finalizing the Financial Statement 2010.

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 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 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.

QuantitativeDisclosures:

Amount in crore taka

	Total Capital Charge
Interest Rate Related Instruments	-
Equities	33.54
Foreign Exchange Position	18.54
Commodities	-
Total	**52.08**

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 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	81.41

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
2008	361.90		
2009	463.77	542.77	81.41
2010	802.63		