Market Discipline
Disclosures on Risk Based Capital (Pillar III of Basel-II)
For the year ended 31 December 2013

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 2013 are as under:

A) Scope of Application
B) Capital Structure
C) Capital Adequacy
D) Credit Risk
E) Equities: Disclosures for Banking Book Positions
F) Interest Rate Risk in the Banking Book (IRRBB)
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 guideline applies.	**Bangladesh Commerce Bank Limited.(BCBL)**

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).	BCBL has only one subsidiary as on the reporting date namely; Bangladesh Commerce Bank Securities and Investment Limited. A brief description of the Bank and its subsidiaries are given below: **Bangladesh Commerce Bank Limited.** Bangladesh Commerce Bank Limited (BCBL) was incorporated as a public limited company in Bangladesh under Companies Act, 1994. It commenced its banking business on June 01, 1998 under the license issued by Bangladesh Bank. Presently the Bank has 42 (Forty Two) branches. The Bank has only one subsidiary namely; Bangladesh Commerce Bank Securities and Investment Limited. **Commerce Bank Securities and Investment Limited (CBSIL)** Commerce Bank Securities and Investment Limited (CBSIL) emerged as a fully owned subsidiary of Bangladesh Commerce Bank Limited (BCB) after it had obtained its certificate of incorporation on the 20th September, 2010. On the 21st April, 2011, the Stock Broker and Stock Dealer license was transferred in favour of CBSIL and after the completion of necessary formalities; the company started its formal operation on the 1st June, 2011. Commerce Bank Securities and Investment Limited having its legal status as a Public Limited Company was registered with the Registrar of Joint Stock Companies and Firms in Dhaka with an Authorized Capital and Paid up Capital of Tk. 100.00 crore and Tk. 20.00 crore respectively. The company is being operated in accordance with its Memorandum of Association (MA) and Articles of Association (AA), rules and regulations of Bangladesh Securities and Exchange Commission (BSEC) and Dhaka Stock Exchange (DSE) and other applicable laws and guidelines of appropriate regulatory bodies in Bangladesh. Commerce Bank Securities and Investment Limited started its journey with mission of "To provide world class investment services that adds value to all out stakeholders".

		CBSIL is running their operation to be one of the top performers in the sector through achieving the following: • Sound and prudent portfolio management to earn maximum return on investment • Transparency and accountability in service delivery • Establishing and maintaining effective customer relationship • Minimizing loan defaults within the customer portfolio through optimal loan utilization • To earn high return on equity • To comply with international best practice in business dealings
C)	Any restrictions or other major impediments, funds regulatory capital within the group.	Not applicable

Quantitative Disclosure:

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 Tk. 130.83 crore capital deficiency in the financial year 2013 in Solo basis and Tk. 128.31crore in 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). **a)** 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) General Reserve v) Share Capital BCI and vi) Right Share Application Money. **b)** 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 BCBL consists of i) General provision ii) Revaluation reserve for HTM Securities **c)** 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 BCBL had no Tier III element in its capital structure. Bangladesh Commerce Bank Ltd's capital is segmented into Tier-I & Tier-II capital. Tier-I capital is 95.54% of total capital and comprises of 89% paid up capital & 6% statutory reserve. Tier-II capital is 5% of total capital and comprises of general provision, revaluation reserve of Securities. Tier-II capital is 5% of Tier-I capital. **Right Share Issuance of Bangladesh Commerce Bank Ltd. (BCBL)** BCBL was able to raise the paid up capital by TK 106.87 Crore through issuance of 'Right Share' in 31st December, 2010 & 91.36 crore in the name of right share application money at the end of 31st December, 2013.

Quantitative Disclosures: As on the reporting date, the Bank had a consolidated capital of BDT 269.40 crore comprising Tier-I capital of BDT 254.22 Crore (including 71.28 crore adjustment) and Tier-II capital of BDT 15.18 crore (BCBL had no Tier III elements in its capital structure). Following table presents component wise details of capital as on reporting date i.e. 31 December 2013:

Sl. No	Particulars	Solo Tk. (in crore)	Consolidated Tk. (in crore)
1.	**Tier-I capital**		
	Fully Paid-up Capital	198.87	198.87
	Statutory Reserve	19.48	19.48
	Other Reserve	0.89	0.89
	Retained Earnings	10.75	11.00
	Share capital BCI	3.90	3.90
	Right Share Application Money	91.36	91.36
	Total Tier-I capital	**325.25**	**325.50**
	Less : Other deductions from capital	**71.28**	**71.28**
	Provision Shortfall	71.28	71.28
	Adjusted Tier-I capital (A)	**253.97**	**254.22**
2.	**Tier-II capital**		
	General Provision	12.08	12.08
	Provision for Off Balance Sheet Exposure	2.09	2.09
	Revaluation Reserve for HTM & HFT Securities (50%)	1.03	1.03
	Non-convertible Subordinated Bond		
	Exchange Equalization Account		
	Total Tier – II capital (B)	**15.20**	**15.20**
	Total Eligible Capital (A+B)	**269.17**	**269.40**

C) Capital Adequacy

Qualitative Disclosures:		
a)	A Summary of discussion of the bank's approach to assess the adequacy 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 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. BCBL 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'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 14.28% on consolidated basis against the regulatory minimum level of 10.00%. 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 Disclosure:

Sl. No.	Particulars	Solo Tk. (crore)	Consolidated Tk. (crore)
1			
	Capital requirement for Credit Risk:		
	❖ On – Balance sheet	1488.51	1573.39
	❖ Off – Balance sheet	145.35	145.35
	Capital requirement for Market Risk	129.07	129.07
	Capital requirement for Operational Risk	121.45	121.45
	Total RWA (Risk Weighted Asset)	**1884.37**	**1969.26**
2	**Capital Adequacy Ratio (CAR)** [Minimum 10% of RWA or Tk. 400 crore whichever is higher]	**14.28%**	**13.68%**
	Core Capital to RWA	**13.48%**	**12.90%**

D) Credit Risk :

a)	The general qualitative disclosures:	
	*** Definitions of past due and impaired:**	A loan repayment that has not been made as of its due date is called past due/overdue. Failure o repay a loan on time could have negative implications for the customer's credit worthiness or cause the loan terms to be permanently adjusted. In case of past due loan, the bank may charge compensation which does not come under bank's income rather the charges use for benevolent purpose. A loan is impaired when it is not likely the bank will collect the full value of the loan 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 loan. Further, the bank must report the loan as impaired on any of its financial statements and CIB of Bangladesh bank. With a view to strengthening loan 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 loans are grouped into four categories for the purpose of classification, namely (i) Continuous Loan, (ii) Demand Loan, (iii) Fixed Term Loan and (iv) Short- term Agricultural and Micro Loan. The above loans are classified as follows: **Continuous & Demand Loan 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 Loan (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 classified as"Bad/Loss".

Fixed Term Loan (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 Loan 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)".

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		LP	Small Enterprise Financing	Investments to BHs/MBS/SDs	All other credit
			Other than HF & LP	HF				
Unclassified	STD	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 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 BCBL bank follows "Bangladesh bank's Circulated CREDIT RISK MANAGEMENT guidelines".

Quantitative Disclosure:

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

(Figure in Crore)

Exposure Type (Funded)	**Solo**		**Consolidated**	
	Exposure	**RWA**	**Exposure**	**RWA**
Claims on Banks and NBFIs	427.88	165.68	433.37	168.42
Claims on Corporate	603.23	648.05	603.23	648.05
Claims under Credit Risk Mitigation	117.17	-	117.17	-
Claims categorized as retail portfolio & SME(excluding consumer loan)	363.38	272.54	363.38	272.54
Consumer Finance	4.05	4.05	4.05	4.05
Claims fully secured by residential property	-	-	-	-
Claims fully secured by commercial real estate	37.60	37.60	37.60	37.60
Past Due Claims (Net of Specific Provision, when applicable)	153.77	230.66	153.77	230.66
Capital Market Exposures	37.54	46.93	68.35	85.44
Unlisted Equity Investments	20.75	25.94	20.75	25.94
Investments in premises, plant and equipment and all other fixed assets	18.29	18.29	19.31	19.31
Claims on GoB & BB	50.10	-	50.10	-
Staff loan/Investment	27.17	5.43	27.17	5.43
Other assets	33.35	33.35	75.96	75.96
Total	**2452.42**	**1488.50**	**2538.50**	**1573.39**

(Figure in Crore)

Exposure Type (Non-Funded)	Solo		Consolidated	
	Exposure	RWA	Exposure	RWA
Claims on Public Sector Entities	-	-	-	-
Claims on Banks and other NBFIs:	-	-	-	-
Claims on Corporate	116.28	145.35	116.28	145.35
Claims against retail portfolio & SME (excluding consumer loan)	-	-	-	-
Total	**116.28**	**145.35**	**116.28**	**145.35**

(Figure in Crore)

SL	Mode wise Loan	Exposure
1.	Overdrafts	134.82
2.	General Loan	204.12
3.	Cash Credit	384.38
4.	Transport Loan	4.40
5.	Loan against Trust Receipts	202.76
6.	Payment Against documents	27.18
7.	Consumer Credit	.51
8.	Staff Loan	27.17
9.	Inland Bill Purchased	0.10
10.	Foreign Bill Purchased	0.39
11.	Other Loans	264.53
12.	Loan BCI	56.00
Total		**1306.37**

c) Geographical distribution of credit Exposures

(Figure in Crore)

SL	Division wise Loan	Exposure
1.	Dhaka	769.04
2.	Chittagong	346.38
3.	Rajshahi	40.02
4.	Khulna	80.42
5.	Sylhet	14.50
Total		**1306.37**

d) Industry or counter party distribution of credit Exposures

(Figure in Crore)

SL	Industry wise Loan	Exposure
1.	Agriculture	10.55
2.	Manufacturing Industry	308.10
3.	Construction Company	37.60
4.	Transportation	4.40
5.	Commerce & Trade	587.13
6.	Others	358.57
Total		**1306.37**

e) Maturity Grouping wise credit Exposures

(Figure in Crore)

SL	Item	Exposure
1.	Repayable on Demand	54.21
2.	Less than 03 months	229.94
3.	More than 03 months but less than 1 year	543.26
4.	More than 1 year but less than 5 years	165.16
5.	More than 5 years	313.80
Total		**1306.37**

f) General & Specific Provision

Required Provision

Figure in Crore

Unclassified Loans	10.98
Special Mention Accounts (SMA)	0.22
a) Sub Total	**11.20**
Substandard	9.12
Doubtful	0.86
Bad/Loss	107.26
b) Sub Total	**117.24**
Total (a+b)	**128.44**
****Provision for Off-balance-sheet items-**	**2.08**

g) NPAs

Figure in Crore

****Gross Non Performing Assets(NPAs)**	**191.83**

Figure in Crore

% of Non Performing Assets (NPAs) to Outstanding Loans to Outstanding Loans & Advances	**14.68%**

h) Movement of Nonperforming Assets:

Figure in Crore

Opening Balance	**155.31**
Addition during the year	180.17
Deduction during the year	143.64
Closing Balance 31.12.2013	**191.83**

Movement of Specific Provision of Nonperforming Assets:

Figure in Crore

Opening Balance	43.82
Provisions made during the period	2.50
Write-Off	.38
Write-Back of excess provisions	0.00
Closing Balance 31.12.2013	**45.95**

E) Equities: Disclosures of Banking Book Positions:

	Qualitative Disclosures:	
	The general qualitative disclosures requirement with respect to equity risk, including	
a)	Differentiation between Holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons;	Investment of BCBL 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.
b)	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 baking book securities are shown at cost price and no revaluation reserve has been created against these equities.

Quantitative Disclosure:

Figure in Crore

a)	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.	Total Market value of BCBL portfolio share is Tk.20.32 crore whereas Cost price is Tk. 37.55 crore
b)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting (31 December 2013) period.	Total cumulative realized gain is BDT 0.75 crore on trading book equities
c)	• Total unrealized gains (losses)	Unrealized loss on BCBL Portfolio Share as on 31st Decmber,2013 is BDT 17.21 crore on trading book equities
	• Total latent revaluation gains (losses)	-
	• Any amounts of the above included in Tier 2 capital.	-
d)	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 provision regarding regulatory capital requirements.	Capital charge on banking book equities has been BDT 15.09 crore, calculated by giving 125% risk weight

F) Interest Rate Risk in Banking Book (IRRBB)

Qualitative Disclosure:		
a)	The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	Interest rate risk is the exposure of a bank's financial condition to adverse movements in profit rates. The process of Interest 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. 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, traditional approach to interest 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 Interest 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 interest rates change. An effective risk management process that maintains interest 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 interest rate shock up from 100 bps to 300 bps under stress test practice at the bank.

Quantitative Disclosure:

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

CAR before-shock (%) 17.13

(Figure in Crore)

Interest Rate Stress	Minor	Moderate	Major
Assumed Change in Interest Rate	1%	2%	3%
<12 Months	2.95	5.91	8.86
Capital After Shock	319.84	316.88	313.93
CAR after-shock (%)	16.97	16.82	16.66
Change in CAR after- shock (%)	0.16	0.31	0.47

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 to 16.97% from 17.13% and 2% increase in interest rate cause CAR to 16.82%, finally a major shock of 3% increase in interest rate cause CAR to 16.66%.

(Figure in Crore)

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%
Duration Gap (Year)	1.26	1.26	1.26
Fall in MVE (on balance sheet)	28.03	56.06	84.09
Revised Capital	294.76	266.73	238.69
Revised RWA	1884.40	1884.40	1884.40
Revised CAR (%)	15.64	14.15	12.67
Net Investment Income Impact (<12Month)	2.95	5.91	8.86

*Stress Testing was conducted considering CAR of 17.13%.

G) Market Risk :

Qualitative Disclosure:	
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 trading intent or in order to hedge other element of the trading book. The portfolio of investment of BCBL includes Bangladesh Government with Bangladesh Government Treasury 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.
Method 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 Administration 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 & processes To mitigate 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.

Quantitative Disclosure:

Figure in Crore

	Total Capital Charge
Interest Rate Related Instruments	**-**
Equities a) Specific Risk - Market value of investment in equities BDT 37.55 Crore. Capital Charge at 10% of market value amounting BDT 3.76 Crore . b) General Market Risk -Market value of investment in equities BDT 37.55 Crore.Capital Charge at 10% of market value amounting BDT 3.76 Crore .	7.51
Foreign Exchange Position (Sum of Net Long Position BDT 7.06 Crore. Capital Charge at 10% on Sum of Net Long Position amounting BDT .76 Crore)	0.76
Total	**8.27**

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 2013, 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. In 2013, the bank increases the overall remuneration packages to make it very attractive to motivate and retain performers. 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 capita 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) $\alpha = 15$ 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.

Quantitative Disclosure:

Figure in Crore

The capital requirements for operational risk	**12.15**

Capital Charge for Operational Risk-Basic Indicator Approach:

Figure in Crore

Year	Gross Income (GI)	Average Gross Income (AGI)	Capital Charge = 15% of AGI
2011	99.89	**80.97**	**12.15**
2012	71.28		
2013	71.73		