DISCLOSURES ON RISK BASED CAPITAL **(BASEL III)**

Background

Use of excessive leverage, gradual erosion of level and quality of capital base, insufficient liquidity buffer, pro-cyclicality and excessive interconnectedness among systematically important institutions are identified as reasons of recent bank failures. Bank for International Settlements (BIS) came up, in response, with new set of capital and liquidity standards in the name of Basel III. In compliance with the 'Revised Guidelines on Risk Based Capital Adequacy (RBCA)' issued by Bangladesh Bank in December 2014, Banks in Bangladesh have formally entered into Basel III regime from 1 January 2015. The new capital and liquidity standards have greater business implications for banks.

Eastern Bank Limited (EBL) has also adopted Basel III framework as part of its capital management strategy in line with the revised guideline. These Market discipline disclosures under Basel III are made following 'Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)' for banks issued by Bangladesh Bank in December 2014.

The purpose of Market discipline is to complement the minimum capital requirements and the supervisory review process. Establishing a transparent and disciplined financial market through providing accurate and timely information related to liquidity, solvency, performance and risk profile of a bank is another important objective of this disclosure.

Consistency and Validation

The quantitative disclosures are made on the basis of consolidated audited financial statements of EBL and its Subsidiaries as at and for the year ended December 31, 2015 prepared under relevant International Accounting and Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and related circulars/instructions issued by Bangladesh Bank from time to time. The assets, liabilities, revenues and expenses of the subsidiaries are combined with those of the parent company (EBL), eliminating inter-company transactions. Assets of the subsidiaries were risk weighted and equities of subsidiaries were crossed out with the investment of EBL while consolidating. So, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements 2015 of EBL and its Subsidiaries along with separate audited financial statements of the Bank available on the website of the Bank (www.ebl.com.bd). The report is prepared once a year and is available in the website.

A. Scope of application

Qualitative Disclosures

(a)The name of the top corporate entity in the group to which this guideline applies:

The framework applies to **Eastern Bank Limited (EBL)** on **'Consolidated Basis'** as there were four subsidiaries of the Bank as on the reporting date i.e. December 31, 2015. However, 'Solo Basis' information has been presented beside those of 'Consolidated Basis' to facilitate comparison.

(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 (i) that are fully consolidated; that are given a deduction treatment; and (ii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).

Entities within the group: The Bank has four fully owned subsidiaries; three of them have been in operations on the reporting date. These are EBL Securities Limited, EBL Investments Limited and EBL Finance (HK) Limited. Although the subscription of another fully owned subsidiary 'EBL Asset Management Limited' is completed, full-fledged operation of this company is yet to start.

EBL Securities Ltd.: EBL Securities Limited (EBLSL), a securities brokerage firm acquired in two phases, has membership of both the bourses i.e. Dhaka Stock Exchange (DSE) Ltd. and Chittagong Stock Exchange (CSE) Ltd. It has been converted to Public Limited Company through increase of paid up capital to Tk. 900 million in 2015. The principal activities of this subsidiary are to buying, selling and settlement of securities on behalf of investors and in its own portfolio. The registered office of EBLSL is located at 59, Motijheel C/A (1st Floor), Dhaka-1000.

EBL Investments Ltd: EBL Investments Limited (EBLIL), another fully owned subsidiary of EBL was incorporated on 30 December 2009. It obtained required license from BSEC in January 2013 and started full- fledged operations of merchant banking, portfolio management, underwriting etc. since June 2013. The registered office of EBLIL is located at 59, Motijheel C/A (1st Floor), Dhaka-1000.

EBL Finance (HK) Ltd.: EBL Finance (HK) Limited, the fully owned first foreign subsidiary of EBL, was incorporated on 28 November 2011 with Hong Kong (HK) authority. This subsidiary started its full-fledged business operations i.e. offshore trade finance, advising, documents collection etc. in Hong Kong during 2013 after obtaining all the required licenses from Bangladesh and HK authority. The registered office of EBL Finance (HK) Limited is Unit 1201, 12th Floor, Albion Plaza, 2-6 Granville Road, Tsimshatsui, Hong Kong.

EBL Asset Management Ltd.: EBL Asset Management Limited (EBL AML) was incorporated on 9 January 2011 to carry out the business of asset management, capital market operation, equity investment etc. The subscription of this company was completed in 2015 but full-fledged business operation will start after getting license from BSEC.

The financials are fully consolidated and all inter company transactions and balances are eliminated.

(c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

The rules and regulations of BRPD of Bangladesh Bank that govern 'Single Borrower Exposure Limit' for the customers are equally applicable for the Bank in financing its own subsidiaries. Bank is following latest Bangladesh Bank circular in determining maximum amount of finance to the subsidiaries of the Bank.

Quantitative Disclosures

The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.

Not Applicable

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 Common Equity Tier-1, Additional Tier 1 or Tier 2.

As per Basel III guideline, regulatory capital consists of Tier-1 (Tier 1 capital has been divided into two parts: Common Equity Tier 1 and Additional Tier 1) and Tier 2 capital.

Conditions for maintaining regulatory capital: The Bank complied with all the required conditions for maintaining regulatory capital as stipulated in the Basel III guidelines as per following details:

Particulars	Status of Compliance
The bank has to maintain at least 4.50% of total Risk Weighted Assets (RWA) as Common Equity Tier 1 capital.	Complied
Tier 1 capital will be at least 5.50% of the total RWA.	Complied
Minimum capital to Risk Weighted Asset Ratio (CRAR) will be 10% of the total RWA	Complied
Maximum limit of tier-2 capital: Tier 2 capital can be maximum up to 4% of the total RWA or 88.89% of CET-1, whichever is higher	Complied

Quantitative Disclosures

BDT in Million

Particulars	Solo (Bank)	Consolidated
Common Equity Tier-1 (CET-1) Capital	15,823	16,023
Regulatory adjustments	(1,135)	(1,136)
Total Common Equity Tier -1 Capital	**14,688**	**14,887**
Additional Tier 1 Capital	-	-
Tier-2 Capital	6,225	6,274
Regulatory adjustments	(449)	(449)
Total Tier-2 Capital	**5,776**	**5,824**
Total Regulatory Capital	**20,463**	**20,711**

C. Capital Adequacy

Qualitative Disclosures

(a) A summary discussion of the bank's approach assessing the adequacy of its capital to support current and future activities.

Assessing regulatory capital in relation to overall risk exposures of a bank is an integrated and comprehensive process. EBL follows the 'asset based' rather than 'capital based' approach in assessing the adequacy of capital to support current and projected business activities. The Bank focuses on strengthening risk management and control environment rather than increasing capital to cover up weak risk management and control practices. EBL has been generating most of its incremental capital from retained profit (stock dividend and statutory reserve transfer etc.) and occasional issue of right shares to support incremental growth of Risk Weighted Assets (RWA). Besides meeting regulatory capital requirement, the Bank maintains adequate capital to absorb material risks foreseen. Therefore, the Bank's Capital to Risk Weighted Asset Ratio (CRAR) remains consistently within the comfort zone during 2015 (13% plus).The surplus capital maintained by EBL will act as buffer to absorb all material risks and to support the future activities. To ensure the adequacy of capital to support the future activities, the bank draws assessment of capital requirements periodically considering future business growth. Risk Management Unit (RMU) under guidance of the SRP team/BRMC (Bank Risk Management Committee), is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to.

Quantitative Disclosures

BDT in Million

Particulars	Solo (Bank)	Consolidated
Capital requirement for Credit Risk	11,822	12,210
Capital requirement for Market Risk	919	1,008
Capital requirement for Operational Risk	1,629	1,659
Minimum capital requirement (MCR)	**14,371**	**14,878**
Additional capital maintained over MCR	6,093	5,834
Total capital maintained	**20,463**	**20,711**
Risk weighted assets	143,707	148,776
Capital to Risk Weighted Asset Ratio	**14.24%**	**13.92%**
Common Equity Tier-1 (CET-1) Capital Ratio	10.22%	10.01%
Tier-2 Capital Ratio	4.02%	3.91%
Capital Conservation Buffer	Not Required	Not Required
Available Capital under Pillar 2 Requirement	Not Decided Yet	Not Decided Yet

D. Credit Risk

Qualitative Disclosures

(a) General Disclosure

Credit risk is defined as the probability of failure of counter-party to meet its obligation as per agreed terms. Banks are very much prone to credit risk due to its core activities i.e. lending to corporate, Consumer, SME, another bank/FI. The main objective of credit risk management is to minimize the negative impact through adopting proper mitigates and also limiting credit risk exposures within acceptable limit.

Our credit risk management function has been kept independent of business origination functions to establish better internal control and to reduce conflict of interest. The Head of Credit Risk Management (HoCRM) has clear responsibility for management of credit risk. Final authority and responsibility for all activities that expose the bank to credit risk rests with the Board of Directors. The Board, however, delegated authority to the Managing Director and CEO or other officers of the credit risk management division.

The Board also set credit policies and delegates authority to the management for setting procedures, which together has structured the credit risk management framework in the bank. The Credit Policy Manual contains the core principles for identifying, measuring, approving, and managing credit risk in the bank and designed to meet the organizational requirements that exist today as well as to provide flexibility for future. These policies represent the minimum standards for credit extension by the bank, and are not a substitute of experience and good judgment.

Definitions of past due and impaired credit

To define past due and impairment through classification and provisioning, the bank follows Bangladesh Bank Circulars and Guidelines. General provisions @ 0.25% to 5% under different categories on unclassified loans (standard/SMA) and @ 1% on off balance-sheet exposures, and specific provisions @ 20%, 50% and 100% on classified (substandard/doubtful/bad-loss) loans are made on the basis of quarter end review by the management and instructions contained in BRPD Circular. Provisions and interest suspense are separately shown under other liabilities as per first schedule of Bank Company Act 1991 (amendment upto 2013), instead of netting off with loans. The summary of some objective criteria for loan classification and provisioning requirement is as below:

Type of Facility	Loans Classification					
	Sub Standard Overdue Period	Provision (%)	Doubtful Overdue Period	Provision (%)	Bad & Loss Overdue Period	Provision (%)
Continuous Loan & Demand Loan	3 months or more but less than 6 months	20%	6 months or more but less than 9 months	50%	9 months or more	100%
Fixed Term Loan more than Tk. 10 lac	3 months or more but less than 6 months	20%	6 months or more but less than 9 months	50%	9 months or more	100%
Fixed Term Loan up to Tk. 10 lac	6 months or more but less than 9 months	20%	9 months or more but less than 12 months	50%	12 months or more	100%
Short Term Agricultural & Micro Credit	12 months or more but less than 36 months	5%	36 months or more but less than 60 months	5%	60 months or more	100%

Specific provisions for classified loans and general provisions for unclassified loans and advances and contingent assets are measured following BB prescribed provisioning rates as mentioned below:

General provision on:	Rate
Unclassified (including SMA) general loans and advances	1.00%
Unclassified (including SMA) small and medium enterprise	0.25%
Unclassified (including SMA) Loans to BHs/MBs/SDs against shares etc.	2.00%
Unclassified (including SMA) loans for housing finance and on loans for professionals	2.00%
Unclassified consumer financing other than housing finance and loans for professionals	5.00%
Short term agri credit and micro credit	2.50%
Off balance sheet exposures	1.00%
Specific provision on:	
Substandard loans and advances other than short term agri credit and micro credit	20.00%
Doubtful loans and advances other than short term agri credit and micro credit	50.00%
Bad & loss loans and advances	100.00%
Substandard & Doubtful short term agri credit and micro credit	5.00%
Doubtful short term agri credit and micro credit	5.00%
Bad & Loss short term agri credit and micro credit	100.00%

Quantitative Disclosures

(b) Total gross credit risk exposures(by major types) of 31-12-15

BDT in Million

Particulars	Amount
Continuous loan (CL-2)	
Consumer Finance	4,300
Small & Medium Enterprise (SME)	4,357
Loans to BHs/MBs/SDs against Shares	-
Other Corporate Loans	5,272
	13,930
Demand loan (CL-3)	
Small & Medium Enterprise	4,372
Corporate Loans	63,784
	68,156
Term loan (CL-4)	
Consumer Finance (including staff, other than HF)	6,705
Housing Finance (HF)	1,124
Small & Medium Enterprise (SME)	10,580
Corporate Loans	27,982
	46,392
Short term agri credit and microcredit (CL-5)	
Short term agri credit	1,748
	1,748
Total	**130,226**

(C) Geographical distribution of exposures of 31-12-15

BDT in Million

Division	Amount
Dhaka Division	92,874
Chittagong Division	33,887
Sylhet Division	665
Rajshahi Division	1,327
Khulna Division	1,213
Rangpur Division	207
Barisal Division	54
Total	**130,226**

(d) Sector wise exposure of Total loan

BDT in Million

Particulars	2015	
	Amount	Mix (%)
Commercial and Trading	27,318	20.98%
Construction	1,600	1.23%
Sugar & Edible Oil Refinery	3,147	2.42%
Crops, fisheries & livestocks	2,181	1.67%
Electronics Goods	1,495	1.15%
Individuals	16,814	12.91%
Pharmaceuticals Industries	1,974	1.52%
Readymade Garments Industry	14,383	11.04%
Ship Breaking Industry	3,009	2.31%
Metal & Steel Products	9,977	7.66%
Transport & e-communication	8,156	6.26%
Textile Mills	10,816	8.31%
Power & Fuel	2,347	1.80%
Rubber & Plastic Industries	3,657	2.81%
Agri & Micro credit through NGO	4,437	3.41%
Others	18,918	14.53%
Total	**130,226**	**100.00%**

(e) Residual contractual maturity of credit exposure of 31-12-15

BDT in Million

Particulars	Amount
On demand	5,612
In not more than one month	9,638
In more than one month but not more than three months	26,668
In more than three months but not more than one year	48,132
In more than one year but not more than five years	34,705
In more than five years	5,471
Total	**130,226**

(f) Sector wise exposure of classified loans

BDT in Million

Particulars	2015	
	Amount	Mix (%)
Commercial and Trading	1,906	44.71%
Sugar & Edible Oil Refinery	1	0.02%
Crops, fisheries &livestocks	1	0.02%
Electronics Goods	10	0.23%
Individuals	360	8.43%
Ready made Garments Industry	95	2.22%
Ship Breaking Industry	701	16.43%
Metal & Steel Products	206	4.83%
Power & Fuel	143	3.35%
Transport & e-communication	250	5.87%
Textile Mills	187	4.39%
Agri & Micro credit through NGO	18	0.43%
Others	387	9.07%
Total	**4,263**	**100.00%**

(g) Gross Non-Performing Assets (NPAs)

As on the reporting date i.e. December 31, 2015 Gross Non-Performing Assets amount BDT 4,263 million.

Non-Performing Assets (NPAs) to Outstanding Loans & advances

As on the reporting date i.e. 31 December 2015, Non-Performing Assets (NPAs) to Outstanding Loans & advances was 3.27%.

Movement of Non-Performing Assets (NPAs)

BDT in Million

Particulars	2015	2014
Opening balance	5,157	3,697
Additions during the year	2,380	3,267
Reductions during the year	(3,274)	(1,807)
Closing balance	**4,263**	**5,157**

Movement of Specific Provisions for NPAs (Provisions for classified loans) is presented in following table

BDT in Million

Particulars	2015	2014
Opening balance	2,409	1,929
Fully provided debt written off during the year	(1,891)	(1,166)
Recoveries of amounts previously written off	282	106
Specific provision for the year	2,021	1,540
Provision held at the end of the year	**2,821**	**2,409**

E. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons

Investment in equity securities by EBL is broadly categorized into two parts: Quoted securities (Ordinary shares, Mutual Fund) and Un-quoted securities (including preference share and subscription for private placement). Unquoted securities are categorized as banking book exposures which are further subdivided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future (i.e. held to maturity) and 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 making capital gains.

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.

Investment class	Initial recognition	Measurement after initial recognition	Recording of changes
Shares (Quoted)*	Cost	Lower of cost or market value (overall portfolio)	Loss (net off gain) to profit and loss account but no unrealized gain booking.
Shares (Unquoted)*	Cost	Lower of cost or Net Asset Value (NAV)	Loss to profit and loss account but no unrealized gain booking.
Mutual fund (Closed-end)*	Cost	Lower of cost and (higher of market value and 85% of NAV)	Loss (net) to profit and loss account but no unrealized gain booking.

*Provision for shares against unrealized loss (gain net off) has been made according to DOS circular no. 4 dated 24 November 2011 and for mutual funds (closed-end) as per DOS circular letter no. 3 dated 12 March 2015 of Bangladesh Bank.

Quantitative Disclosures

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.

BDT in Million

Particulars	Solo (Bank)		Consolidated	
	At Cost	At Market Value	At Cost	At Market Value
Value of Quoted shares and Mutual Funds	2,721	1,972	3,205	2,419
Value of Unquoted shares and Mutual Funds	32		52	

Particulars	Solo (Bank)	Consolidated
The cumulative realized gains (losses) arising from sales and liquidations in the reporting period / Net Gain/(Loss) on sale of quoted securities	(278)	(239)
Total unrealized gains (losses) / Provision for revaluation of shares (net)	369	405
Total latent revaluation gains (losses)	-	-
Any amount of the above included in Tier 2 capital	-	-
Capital charge required for quoted securities:	394	484
Specific risk	197	242
General market risk	197	242

F. Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures

Interest rate risk is the risk that a bank will experience deterioration in its financial position as interest rates move over time. Interest rate risk is typically divided into two parts:

- Traded interest rate risk
- Non-traded interest rate risk (balance sheet)

Interest rate risk in the banking book (IRRBB) arises from a bank's core banking activities. It arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among yield curves that affect bank activities (basis risk); from changing rate relationships across the range of maturities (yield curve risk); and from interest-rate-related options embedded in bank products (option risk).

The process of interest rate risk management by the bank involves determination of the business objectives, expectation about future macro-economic variables and understanding the money markets and debt market in which it operates. Interest rate risk management also includes quantifying the appetite for market risk to which bank is comfortable.

The Bank uses the following approach to manage interest rate risks inherent in the Balance sheet:

Simple Gap Analysis: Traditional Gap analysis of on-balance sheet Asset Liability Management (ALM) involves careful allocations of assets and liabilities according to repricing/maturity buckets. This approach quantifies the potential change in net interest income using a specified shift in interest rates, e.g. 100 or 200 basis points, or a simulated future path of interest rates.

Assumptions: For Gap analysis, bank considers the following:

- For fixed-rate contract, remaining maturity is considered
- For contracts with provision of re-pricing, time remaining for next re-pricing is considered.
- For assets and liabilities which lack definitive re-pricing interval or for which there is no stated maturity, bank determines the core and volatile portion. For asset, volatile portion is bucketed till 3 months using historical repayment behavior and stable portion is bucketed in 6-12 months bucket. For liabilities, volatile portion is bucketed till 1 year using historical withdrawal behavior and stable portion is bucketed in over 1 year segment.

Also, following assumptions are met:

- The main assumption of gap analysis is that interest rate moves on parallel fashion. In reality however, interest rate does not move upward.
- Contractual repayment schedule is met.
- Re-pricing of assets and liabilities takes place in the midpoint of time bucket.
- The expectation is that loan payment will occur in schedule.
- Optionally embedded in different products is not considered.

Quantitative Disclosures

Gap Analysis

Result of Gap analysis as on December 31, 2015:

Particulars	3 months	6 months
For 100 basis point increase/decrease in Interest rate, Impact on NII	BDT ± 30.70 Million	BDT ± 52.70 Million
For 200 basis point increase/decrease in Interest rate, Impact on NII	BDT± 60.40 Million	BDT ± 105.40 Million

Duration Analysis:

The focus of the Duration Analysis is to measure the level of a bank's exposure to interest rate risk in terms of sensitivity of Market Value of its Equity (MVE) to interest rate movements. Duration Gap can be used to evaluate the impact on the Market Value of Equity of the bank under different interest rate scenarios. ALCO monitors the Leveraged Liability Duration and duration gap of the total bank balance sheet on a quarterly basis to assess the impact of parallel shift of the assumed yield curve.

Particulars	Dec-31, 2014	Dec-31, 2015
Duration of Asset	1.18	1.48
Duration of Liabilities	0.41	0.84
Leveraged Liability Duration	0.82	0.73
Duration Gap	0.36	0.75

G. Market Risk

Qualitative Disclosures

Market Risk: Market Risk is defined as the possibility of loss due to changes in the market variables. It is the risk that the value of on/off-balance sheet positions will be adversely affected by movements in equity price, interest rate and currency exchange rates. The objective of our market risk policies and processes is to obtain the best balance of risk and return whilst meeting customers' requirements. The primary categories of market risk for the bank are:

Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options.

Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options.

Equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Bank has comprehensive Treasury Trading Policy, Asset-Liability Management Policy, Investment Policy approved by Board of Directors to assess, monitor and manage all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel III. Moreover, Bank has already taken initiatives to incorporate BASEL III guidelines in its ALM policy. As soon as Bangladesh Bank publishes the finalized ALM guideline, bank will incorporate changes and place the ALM policy to board for approval.

Methods used to measure Market Risk: Bank applies maturity method in measuring interest rate risk in respect of securities in trading book. The capital charge for entire market risk exposure is computed under the standardized approach using the maturity method and in accordance with the guideline issued by Bangladesh Bank.

Market Risk Management System: To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Of the ratios, the key ratios that ALCO regularly monitors are Liquid asset to total assets, Volatile liability dependency ratio, and medium term funding ratio, Snap liquidity ratio and Short term borrowing to Liquid assets ratio. ALCO also regularly monitors the interest rate sensitive gap and duration gap of total portfolio.

To manage foreign exchange risk of the bank, the Bank has adopted the limit by central bank to monitor foreign exchange open positions. Foreign exchange risk is computed on the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

Bank is using Value at Risk (VaR) analysis based on historical method to assess the minimum level of loss on foreign currency holding that is likely to be exceeded at certain level of probability (5% probability) in 1 day. Also, based on VaR, bank has set Management Trigger Point at BDT 10.00 million for aggregate currency exposure, based on 1 day VaR at 95% level of confidence.

Value-at-Risk estimates (Loss in domestic currency) presented below:

Particulars	Time horizon				
Confidence level	1 day	2 days	3 days	4 days	5 days
90%	906,694	1,689,473	2,623,467	3,419,797	4,274,386
95%	1,242,254	2,486,815	3,538,621	4,549,525	5,533,622
99%	1,623,511	2,862,315	4,124,439	5,151,926	6,735,972

To manage equity risk, the Investment Committee of the bank ensures taking prudent investment decisions complying sectoral preference as per investment policy of the bank and capital market exposure limit set by BB.

Quantitative Disclosures

Capital required (Solo basis) for market risk as on the reporting date 31-12-15:

BDT in Million

	Particulars	Amount
a	Interest rate risk	386
b	Equities	394
c	Foreign exchange risk	139
d	Commodity risk	-
	Total	**919**

H. Operation Risk

Qualitative Disclosures

Operational Risk: Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide spectrum of issues. We seek to minimize exposure to operational risk, subject to cost benefit trade-offs. The bank captures some pre identified risk events associated with all functional departments of the bank through standard reporting format.

Policies and processes for mitigating operational risk: Operational Risk Management Unit is primarily responsible for risk identification, measurement, monitoring, control, and reporting of operational risk. This unit presently reports to Head of ICCD (Internal Control and Compliance Division). Besides, there is a committee called 'Bank Risk Management Committee' (BRMC) that also oversees the operational risk issues of the bank. Operational risks are analyzed primarily through review of Departmental Control Function Check List (DCFCL). This is a self-assessment process for detecting HIGH risk areas and finding mitigation of those risks. These DCFCLs are then discussed in monthly meeting of BRMC. The committee analyze HIGH and MODERATE risk indicators and set responsibility for specific people to resolve the issue.

Performance gap of executives and staffs: EBL is an equal opportunity employer. At EBL we recognize the importance of having the right people at right positions to achieve organizational goals. Our recruitment and selection is governed by the philosophy of fairness, transparency and diversity. Understanding what is working well and what requires further support is essential to our performance management system. The performance management process aims to clarify what is expected from employees as well as how it is to be achieved.

At the beginning of a year we adequately communicate to our direct reports what are expected from him/her during ensuing period. A half yearly and yearly performance appraisal practices are in place to review achievements based on which rewards and recognition decisions are made. Internal control & compliance (ICC) is continuously monitoring to minimize any potential brand damaging performance gap by employees especially fraud-forgery, misuse of power of attorney, weak customer services, weak internal and regulatory compliance etc.

However, our learning and development strategy puts special focus on continuous professional development to strengthen individual's skill level by removing the weakness to perform the assigned job with perfection. We have a wide range of internal & external training programs to enhance capabilities as well as minimize performance gap that will contribute more to bottom line.

The reward and recognition policy of the bank is designed to motivate our people to perform better be it business or supporting business. Our strategy of reinforcing people's positive behaviors is based on following premises:

- Understanding the nature what really motivates our people.
- Encourage teamwork, by creating a culture where individual and team success is recognized.
- Regular benchmarking to compare our reward and recognition strategy with similar organizations.

Potential external events: We understand that business operates in an umbrella of inter connected socio-economic and political environment. Few externalities affect business performance directly such as macro-economic conditions, regulatory changes, change in demand, status of infrastructure whereas few factors affect operations of the business directly or indirectly such as force shut down due to political instability, threat of vandalism to the bank's sophisticated physical outlets including IT equipment's etc.

Approach for calculating capital charge for operational risk: The bank applies 'Basic Indicator Approach' of Basel III as prescribed by BB in revised RBCA guidelines. Under this approach, banks have to calculate average annual gross income (GI) of last three years and multiply the result by 15% to determine required capital charge. Gross Income is the sum of 'Net Interest Income' and 'Net non-interest income' of a year or it is 'Total Operating Income' of the bank with some adjustments as noted below. GI shall:

- Be gross of any provision (e.g. for unpaid interest),
- Be gross of operating expenses, including fees paid to outsourcing service providers,
- Include lost interest i.e. interest suspense on SMA and classified loans.

Quantitative Disclosures

BDT in Million

Particulars	Solo (Bank)	Consolidated
Capital charge for operation risk	1,629	1,659

I) Liquidity Ratio

Qualitative Disclosures

Methods used to measure Liquidity risk

Liquidity Risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at excessive cost. The risk arises from mismatch in the timing of cash flows. The intensity and sophistication of liquidity risk management system depends on the nature, size and complexity of a bank's activities. Sound liquidity risk management employed in measuring, monitoring and controlling liquidity risk is critical to the viability of the bank. Liquidity Risk management procedures in EBL are comprehensive and holistic. The measurement tools those are used to assess liquidity risks are:

i. Statutory Liquidity Requirement (SLR)
ii. Cash Reserve Ratio (CRR)
iii. Asset to Deposit Ratio (ADR)
iv. Structural Liquidity Profile (SLP)
v. Maximum Cumulative Outflow (MCO)

vi. Medium Term Funding Ratio (MTF)

vii. Liquidity Coverage Ratio (LCR)

viii. Net Stable Funding Ratio (NSFR)

ix. Volatile Liability Dependency Ratio

x. Liquid Asset to Total Deposit Ratio

xi. Liquid Asset to Short Term Liabilities

Liquidity risk management system

Responsibility of managing and controlling liquidity of EBL lies with Asset Liability Management Committee (ALCO) which meets at least once in every month. Asset and Liability Management (ALM) desk closely monitors and controls liquidity requirements on a daily basis by appropriate coordination of funding activities and they are primarily responsible for management of liquidity in the bank. A monthly projection of fund flows is reviewed in ALCO meeting regularly.

Policies and processes for mitigating liquidity risk

In order to develop comprehensive liquidity risk management framework, EBL implemented Contingency Funding Plan (CFP), which is a set of policies and procedures that serves as a blueprint for the bank to meet its funding needs in a timely manner and at a reasonable cost. CFP also ensures:

a) Reasonable liquid assets being maintained;

b) Measurement and projection of funding requirements during various scenarios; and

c) Management of access to funding sources.

Maturity ladder of cash inflows and outflows is an effective tool to determine banks cash position; that estimates cash inflows and outflows with net deficit or surplus (GAP) both on a day to day basis and over a series of specified time periods. A bucket wise (e.g. call, 2-7 days, 1 month, 1-3 months, 3-12 months, 1-5 years, over 5 years) maturity profile of the assets and liabilities is prepared to understand mismatch in every bucket. A structural maturity ladder or profile is prepared periodically following guidelines of the Bangladesh Bank.

Quantitative Disclosures

Liquidity Coverage Ratio and Net Stable Funding Ratio as on December 31, 2015 are given below:

BDT in Million

Particulars	Amount
Stock of High quality liquid assets	29,962
Total net cash outflows over the next 30 calendar days	25,472
Liquidity Coverage Ratio (%)	**117.63**
Available amount of stable funding	136,520
Required amount of stable funding	131,495
Net Stable Funding Ratio (%)	**103.82**

J) Leverage Ratio

Qualitative Disclosures

Policies and processes for managing excessive on and off-balance sheet leverage

Leverage ratio is the ratio of tier 1 capital to total on and off-balance sheet exposures. The leverage ratio was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced by the Bangladesh Bank. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements.

The leverage ratio is intended to achieve the following objectives:

- Constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and
- Reinforce the risk based requirements with an easy to understand and a non-risk based measure.

Approach for calculating exposure

The Bank has calculated the regulatory leverage ratio as per the guideline of Basel III. The numerator, capital measure is calculated using the new definition of Tier I capital applicable from 01 January 2015. The denominator, exposure measure, is calculated on the basis of the Basel III leverage ratio framework as adopted by the Bangladesh Bank.

Quantitative Disclosure

Leverage Ratio as on 31 December, 2015 is given below:

BDT in Million

Particulars	Amount
On balance sheet exposure (A)	186,743
Off balance sheet exposure (B)	39,942
Regulatory Adjustments (C)	1,135
Total exposure (A+B-C)	225,550
Leverage Ratio	6.51%

k. Remuneration

Qualitative Disclosures

EBL wants to attract, retain and motivate top talents to meet its challenging objectives. The Bank has a competitive pay and benefits package to fulfill the said objective. Our compensation and benefits strategy combines the need to maintain a high performance culture along with market competitiveness. A bi-annual benchmarking exercise makes sure that employees' pay is competitive. Moving between pay scales depends on the individuals' performance and we reward employees accordingly.

(a) Information relating to the bodies that oversee remuneration.

Presently, we do not have any separate body or external party to oversee remuneration.

A description of the types of employees is considered as material risk takers and senior managers, including the number of employees in each group.

All the Management Committee (MANCOM) members numbering 15 at present are considered as material risk taker and are mostly Senior Managers. **MANCOM** is the highest decision and policy making authority of the management comprising the CEO and different business and support unit heads.

(b) Information relating to the design and structure of remuneration processes.

Key features and objectives of remuneration policy

EBL is committed to maintain a performance based reward policy which recognizes the contribution of each of the employees and links to the market competitive pay.

EBL's reward package consists of the following key elements:

Fixed pay:

The purpose of the fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required for the business. This includes salary, fixed pay allowance, and other cash allowances. These payments are fixed and do not vary with performance.

Benefits:

EBL provides benefits in accordance with local market practice. This includes subsidized loans (car, house building), hospital bill reimbursement,TA/DA etc.

Annual Incentives:

EBL provides annual incentive to drive and reward performance based on annual financial and non-financial measures consistent with the medium to long-term strategy, shareholder interest and adherence to EBL values.

Regulations of Pay and Allowances

i. Salaries are confidential between the concerned employees and the Human Resources Division.

ii. The Scale of Pay and other allowances of employees of the Bank shall be as determined by the competent authority from time to time.

iii. The annual salary revision is decided by the Managing Director with the approval of the Board of Directors based on:

   a. Individual Performance

   b. Market movement

   c. The Bank's affordability

   d. Individual's relative position in a particular salary range

   e. COLA (Cost Of Living Adjustment)

Any request for information relating to salary should be directed to the Human Resources Division by appropriate authority.

Salary Structure

EBL's salary package includes the following segments (major):

I. Basic Salary : This is paid at fixed rate for different grades.

II. House Rent Subsidy : This is paid at fixed rate for different grades.

III. Medical Allowance : This is paid at fixed rate for different grades.

IV. Conveyance Facility : This is paid at fixed rate for different grades.

All other components will be included as per the position and negotiation.

(d) An overview of main performance metrics for bank, top-level business lines and individuals

- Increment and promotion is linked with performance. EBL compensation policy is based on performance culture.

Discussion of how much amount of individual remuneration is linked to bank-wide and individual performance.

- As mentioned above that individual remuneration is liked with individual performance parameter.

(f) An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms)

- Only cash

Quantitative Disclosures

Number of employees having received variable remuneration award during the financial year.

- In 2015, total 1,281 number of employees received performance bonus (variable remuneration award).

Number and total amount of guaranteed bonuses awarded during the financial year.

- 2 basic for two festivals