

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 banks are identified as reasons of bank failures. Bank for International Settlements (BIS) came up, in response, with a 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 the same guidelines in order 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 31 December 2019. Those are prepared under relevant International Accounting and Financial Reporting Standards 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 intercompany transactions. Assets of the subsidiaries are risk weighted and equities of subsidiaries are 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 and separate audited financial statements of EBL (Group and 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. 31 December 2019. 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 as on the reporting date. These are EBL Securities Limited, EBL Investments Limited, EBL Finance (HK) Limited and EBL Asset Management Limited. All subsidiaries of the Bank have been incorporated in Bangladesh except EBL Finance (HK) Limited which is incorporated in Hong Kong.

EBL Securities Ltd.: EBL Securities Limited (EBLSL), a securities brokerage firm acquired in two phases, is a public limited company having TRECs (Trading Right Entitlement Certificate) and ordinary shares of both the bourses i.e. Dhaka Stock Exchange (DSE) Ltd. and Chittagong Stock Exchange (CSE) Ltd. The principal activities of this subsidiary are buying, selling and settling of securities on behalf of investors and its own portfolio. Registered office of EBLSL is located at Jiban Bima Bhaban, 10 Dilkusha CA, Dhaka-1000.

EBL Investments Ltd.: EBL Investments Limited (EBLIL) 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. from June 2013. Registered office of EBLIL is located at Jiban Bima Bhaban, 10 Dilkusha CA, Dhaka-1000.

EBL Finance (HK) Ltd.: EBL Finance (HK) Limited, the 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. 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 (EBLAML) was incorporated on 9 January 2011 to carry out asset management business, capital market operation, equity investment etc. It has been registered under BSEC on 25 May 2017 to run full-fledged business operations. Registered office of EBLAML is located at 10 Dilkusha C/A, Dhaka-1000.

The financials are fully consolidated and all intercompany 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

(d) 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 case of capital instruments eligible for inclusion in Common Equity Tier-1, Additional Tier 1 or Tier 2.

Regulatory capital base is quite different from accounting capital. As per Basel III guidelines, regulatory capital consists of Tier-1 (Common Equity Tier 1 and Additional Tier 1) and Tier 2 capital. Tier I Capital is known as going concern capital and Tier II Capital also known as gone concern capital.

- Common Equity Tier-1 (CET1) capital of EBL consists of Fully Paid-up Capital, Statutory Reserves, General Reserve, Retained Earnings and Dividend Equalization Fund.
- Tier-2 capital of EBL consists of general provision, applicable percentage of revaluation reserves and subordinated debt.
- At present, EBL doesn't hold any Additional Tier 1 (AT1) Capital.

Quantitative disclosures

BDT in million

Particulars	Solo (Bank)	Consolidated
Common Equity Tier-1 (CET-1) Capital	22,893	23,198
Regulatory adjustments	(2,174)	(2,253)
Total Common Equity Tier -1 Capital	20,719	20,946
Additional Tier 1 Capital	-	-
Tier-2 Capital	12,097	12,097
Regulatory adjustments	(2,247)	(2,247)
Total Tier-2 Capital	9,850	9,850
Total Regulatory Capital	30,569	30,795

C. Capital adequacy

Qualitative disclosures

(a) A summary discussion of the bank's approach to 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 Assets Ratio (CRAR) remains consistently within regulatory limit during 2019 (12% 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 assesses capital requirements periodically considering future business growth. Risk Management Division (RMD) under guidance of the SRP team/ERMC (Executive 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	17,740	17,799
Capital requirement for Market Risk	866	1,153
Capital requirement for Operational Risk	2,137	2,211
Minimum capital requirement (MCR)	20,744	21,162
Total regulatory capital	30,569	30,795
Risk Weighted Assets	207,437	211,624
Capital to Risk Weighted Asset Ratio	14.74%	14.55%
Common Equity Tier-1 (CET-1) Capital Ratio	9.99%	9.90%
Tier-2 Capital Ratio	4.75%	4.65%
Capital Conservation Buffer (2.50% of RWA)	3.99%	3.90%
Available Capital under Pillar II requirement	4,639	4,342

D. Credit risk

Qualitative disclosures

(a) General disclosure

Credit risk is defined as the probability of failure of counterparty 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 negative impact through adopting proper mitigates and to limit credit risk exposures within acceptable limit.

Credit risk management has been independent of origination of business functions to establish better control and to reduce conflicts of interest. The Head of Credit Risk Management (HoCRM) has well-defined 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 of Directors (BoD) sets 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 is 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 @ 0.5% to 1% on certain off balance-sheet exposures, and specific provisions @ 20%, 50% & 100% on classified (substandard/doubtful/bad-loss) and some rescheduled loans are made on the basis of quarter

end review by the management and in compliance with BRPD Circular no. 14 dated 23 September 2012, BRPD circular no 8 dated 2 August 2015, BRPD circular no 12 dated 20 August 2017, BRPD circular no 15 dated 27 September 2017, BRPD circular letter no 1 dated 03 January 2018 and BRPD circular no 01 dated 20 February 2018, BRPD circular no 07 dated 21 June 2018, BRPD circular no 13 dated 18 October 2018 and BRPD Circular no. 03 dated 21 April 2019. Provisions and interest suspense are separately shown under other liabilities as per First Schedule of Bank Companies Act 1991 (amendment up to 2013), instead of netting off with loans. The summary of some objective criteria for loan classification and provisioning requirement is as below:

Loans classification			
Type of facility	Substandard (Overdue period)	Doubtful (Overdue period)	Bad & Loss (Overdue period)
Continuous Loan & Demand Loan	3 months or more but less than 9 months	9 months or more but less than 12 months	12 months or more
Fixed Term Loan*	3 months or more but less than 9 months	9 months or more but less than 12 months	12 months or more
Short Term Agricultural & Micro Credit	12 months or more but less than 36 months	36 months or more but less than 60 months	60 months or more

*In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) is treated as past due/overdue after six months of the expiry date.

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:

Heads	Rates of provision
General provision on:	
Unclassified (including SMA) small and medium enterprise	0.25%
Unclassified (including SMA) loans to BHs/MBs/SDs against shares etc.	2%
Unclassified (including SMA) loans for housing finance	1%
Unclassified consumer financing other than housing finance, credit card and loans for professionals	5%
Unclassified (including SMA) loans for credit card and loans for professionals	2%
Unclassified (including SMA) other loans and advances	1%
Short term agri credit and micro credit	1%
Off-balance sheet exposures (excluding Bills for collection)	0.5%-1%
Specific provision on:	
Substandard loans and advances other than short term agri credit and micro credit	20%
Doubtful loans and advances other than short term agri credit and micro credit	50%
Bad/Loss loans and advances	100%
Substandard & Doubtful short term agri credit and micro credit	5%
Bad/Loss short term agri credit and micro credit	100%

Quantitative disclosures

(b) Total gross credit risk exposures (by major types) of 31-12-19:

BDT in million

Particulars	Amount
Continuous loan (CL-2)	
Consumer Financing (CF)	5,844
Small & Medium Enterprise (SME)	3,056
Loans to BHs/MBs/SDs against Shares	1,551
Other than SMEF, CF, BHs/MBs/SDs	12,994
	23,445
Demand loan (CL-3)	-
Small & Medium Enterprise (SME)	7,963
Other than SMEF, CF, BHs/MBs/SDs	101,861
	109,824
Term loan (CL-4)	-
Consumer Financing (including staff, other than HF)	11,310
Housing Financing (HF)	2,246
Small & Medium Enterprise	16,699
Other than SMEF, CF, BHs/MBs/SDs	64,575
	94,830
Short term agri credit and microcredit (CL-5)	-
Short term agri credit	3,951
	3,951
Total	232,051

(c) Geographical distribution of exposures (31-12-19):

BDT in million

Division	Total
Dhaka Division	177,227
Chattogram Division	43,960
Sylhet Division	1,981
Rajshahi Division	3,746
Khulna Division	3,656
Rangpur Division	642
Barisal Division	349
Mymensingh Division	489
Total	232,051

(d) Sector wise exposure of total loan (31-12-19):

BDT in million

Particulars	31-12-2019	Mix (%)
Agri and micro credit through NGO	15,353	6.62%
Commercial and trading	26,299	11.33%
Construction	9,270	3.99%
Cement and ceramic industries	5,839	2.52%
Chemical and fertilizer	2,911	1.25%
Crops, fisheries and livestock	2,302	0.99%
Electronics and electrical goods	6,669	2.87%
Food and allied industries	11,277	4.86%
Individuals	28,099	12.11%
Metal and steel products	14,348	6.18%
Pharmaceutical industries	3,076	1.33%
Power and fuel	13,110	5.65%
Rubber and plastic industries	3,695	1.59%

Particulars	31-12-2019	Mix (%)
Readymade garments industry	31,241	13.46%
Ship building & breaking industry	6,004	2.59%
Sugar and edible oil refinery	5,360	2.31%
Transport and e-communication	7,218	3.11%
Textile mills	11,557	4.98%
Other manufacturing or extractive industries	13,323	5.74%
Others	15,099	6.51%
Total	232,051	100.00%

(e) Residual contractual maturity of credit exposure (31-12-19):

BDT in million

Particulars	Amount
On demand	6,442
In not more than one month	18,006
In more than one month but not more than three months	38,476
In more than three months but not more than one year	82,728
In more than one year but not more than five years	73,701
In more than five years	12,698
Total	232,051

(f) Sector wise exposure of classified loans (31-12-19):

BDT in million

Particulars	31-12-2019	
	Amount	Mix (%)
Commercial and trading	2,642	34.00%
Crops, fisheries & livestock	6	0.08%
Electronics & electrical goods	21	0.27%
Individuals	546	7.02%
Metal & steel products	153	1.97%
Power & fuel	-	0.00%
Readymade garments industry	342	4.40%
Ship breaking industry	2,064	26.55%
Sugar, edible oil refinery & food processing	94	1.21%
Transport & e-communication	102	1.31%
Textile mills	1,245	16.02%
Others	556	7.16%
Total	7,771	100.00%

(g) Gross non-performing assets (classified loan)

On the reporting date i.e. 31 December 2019, Gross Non-performing assets / classified loan stood at BDT 7,771 million.

Non-performing assets (classified loan) to outstanding loans & advances

On the reporting date i.e. 31 December 2019, Non-Performing Assets (classified loan) to outstanding loans & advances was 3.35%.

Movement of non-performing assets (classified loan)

BDT in million

Particulars	2019	2018
Opening balance	4,926	4,600
Additions during the year	4,139	3,358
Reductions during the year	(1,294)	(3,032)
Closing balance	7,771	4,926

Movement of specific provisions for NPAs (Provisions for classified loans)
BDT in million

Particulars	2019	2018
Opening balance	4,118	4,379
On fully provided debt written off during the year	-	(2,544)
On recovery from loans written off earlier	636	423
Specific provision charged (net of recovery) for the year	1,255	1,861
Provision held at the end of the year	6,009	4,118

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.

Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.

Investment class	Initial recognition	Measurement after initial recognition	Recording of changes
Govt. T-bills/bonds - Held For Trading (HFT)	Cost	Fair value	Revaluation loss to profit and loss account, but gain to revaluation reserve account.
Govt. T-bills/T-bonds - Held To Maturity (HTM)	Cost	Amortized cost	Increase in value of securities is booked to equity as amortization gain, but decrease to profit and loss account.
Debenture/bond	Cost	Cost	At realizable value. Unrealized loss to profit and loss account.
Shares (quoted) *	Cost	Lower of cost or market value (portfolio basis)	Provision for revaluation loss (net off gain) is charged to profit and loss account but no unrealized gain booking.
Shares (unquoted)*	Cost	Lower of cost or Net Asset Value (NAV)	Provision for unrealized 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)	Provision for unrealized loss (net) to profit and loss account but no unrealized gain booking.
Prize bond	Cost	Cost	None

*Provision for shares against unrealized loss (gain net off) has been made as per 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

BDT in million

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	52	49
Total unrealized gains (losses) / Provision for revaluation of shares (net)	901	1,068
Total latent revaluation gains (losses)	-	-
Any amount of the above included in Tier 2 capital	-	-
Capital charge required for quoted securities:	558	844
Specific risk	279	422
General market risk	279	422

Investment in equity securities by EBL is broadly categorized into two types: Quoted securities (Ordinary shares, Mutual Funds) 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.

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

Qualitative disclosures

(a) General disclosure

Interest Rate Risk is the risk which affects the Bank's financial condition due to changes of market interest rates. Changes in interest rates affect both the current earnings (earnings perspective) and also the net worth of the Bank (economic value perspective). Bank assesses the interest rate risk both in earning and economic value perspective.

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.

Disclosures on Risk Based Capital (Basel III)

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 re-pricing/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 assets, 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.
- Deposits that are already matured but not withdrawn yet are considered to be fall under overnight bucket.

Also, following assumptions are met:

- The main assumption of gap analysis is that interest rate moves on a parallel fashion. In reality however, interest rate does not move on parallel fashion.
- Contractual repayment schedule is met.
- Re-pricing of assets and liabilities takes place in the midpoint of time bucket.
- The expectation that loan payment will occur in schedule.
- No early encash is considered in term and recurring deposit.
- Non maturity deposit withdrawal is considered based on past withdrawal behavior.
- Interest paid on liabilities tend to move faster than interest rates earned on assets.
- Interest rate attached to bank assets and liabilities do not move at the same speed as market interest rates.
- Point at which some assets and liabilities are re-priced is not easy to identify

Quantitative disclosures:

Funding gap analysis:

Funding GAP Analysis attempts to determine the potential impact on net interest income (NII) due to changes in interest rate.

Result of Funding Gap analysis as on December 31, 2019:

BDT in million

Particulars	3 months	6 months
For 1% increase/decrease in interest rate, impact on NII	BDT ± 18.40 million	BDT ± 78.90 million
For 2% increase/decrease in interest rate, impact on NII	BDT ± 36.80 million	BDT ± 157.80 million

Duration gap 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, 2019	Dec-31, 2018
Duration of Asset	1.25	1.37
Duration of Liabilities	1.37	1.49
Duration Gap	-0.12	-0.11

Changes in market value of equity due to an increase in interest rates as of 31st December, 2019

	1%	2%	3%
	BDT 9.93 million	BDT 19.87 million	BDT 29.80 million

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 a comprehensive Treasury Trading Policy, Asset-Liability Management Policy, Investment Policy approved by the BoD to assess, monitor and manage all the above market risks. Various internal limits have been set to monitor market risk and capital requirement is assessed as per standardized approach of Basel III.

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 liquidity coverage ratio (LCR), net stable funding ratio (NSFR), and maximum

cumulative outflow (MCO), liquid asset to total assets, volatile liability dependency 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 set 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.

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

Figure in BDT

Confidence level	Time horizon				
	1 day	2 days	3 days	4 days	5 days
90%	181,982	231,964	292,291	332,107	385,168
95%	232,490	289,830	343,396	445,159	485,485
99%	734,047	803,253	748,357	733,599	661,694

To manage equity risk, the Investment Committee of the bank takes prudent decisions complying sectorial preferences as per investment policy of the bank and capital market investment limit set by BB.

Quantitative disclosures

Capital charge required (Solo basis) for market risk on the reporting date 31-12-19:

BDT in million

	Particulars	Amount
a	Interest rate risk	45
b	Equities	558
c	Foreign exchange risk	264
d	Commodity risk	-
	Total	866

H. Operational 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.

Views of Board on system to reduce operational risk: The policy for measuring and managing operational risks is approved by the Board in line with the relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance Division to protect against all operational risks. As a part of continued surveillance, the management committee (MANCOM), Executive Risk Management Committee (ERMC) and Risk Management Division (RMD) regularly review different aspects of operational risks and escalate the findings to appropriate authority while internal audit suggest formulating

appropriate policies, tools & techniques for mitigation of operational risk of the bank.

Policies and processes to mitigate operational risk: The bank captures some identified risk events associated with all functional departments of the bank through standard reporting format, Departmental Control Function Check List (DCFCL), Quarterly Operation Report (QOR), Key Risk Indicator (KRI), internal audit, monitoring, and system check etc. Internal Control and Compliance Division (ICCD) detecting 'High' Risk areas and finding mitigation of those risks. ERMC also oversees the operational risk issues. ERMC analyzes 'high' and 'moderate' risk indicators and sets responsibility for specific people to resolve the issues.

Performance gap of executives and staffs: EBL is an equal opportunity employer. It recognizes 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 improvement 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.

Our learning and development strategy puts special focus on continuous professional development to strengthen individuals' skill set by removing weaknesses to perform the assigned job with perfection. We have a wide range of internal and external training programs to enhance capabilities as well as minimize performance gap that will contribute more to bottom line.

Peoples' performance is assessed on the bases of performance objectives and key performance indicators (KPI) set at the beginning of each year. Decisions related to rewards and recognitions for the

employees are taken on the bases of how well the assigned KPIs are met by the employee.

Potential external events: The overall environment within which a bank operates creates certain externalities which could affect business performance directly such as:

Fraud Risk is the risk of incurring losses as a result of an intentional act or omission by a third party involving dishonesty, for personal and/or business gain, to avoid personal and/or business loss, or to conceal improper or unauthorized activity. This includes facilitation, misrepresentation, money laundering, terrorist financing, theft, forgery and cyber-crime.

Business Continuity Risk is the risk of incurring losses resulting from the interruption of normal business activities, i.e. interruptions to our infrastructure as well as to the infrastructure that supports our businesses.

Information Security Risk is the risk of an event which could result in the compromise of organizational assets, including, but not limited to, unauthorized use, loss, damage, disclosure or modification of organization assets. It includes the risk of cyber threats on the organization.

Regulatory Compliance Risk is the risk of incurring regulatory sanctions (including restrictions on business activities, fines or enhanced reporting requirements), financial and/or reputational damage arising from our failure to comply with applicable laws, rules and regulations.

Vendor Risk arises from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor itself.

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 '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 classified loans (SS, DF, BL).

Quantitative disclosures:

BDT in million

Particulars	Solo (Bank)	Consolidated
Capital charge for operational risk	2,137	2,211

I) Liquidity ratio

Qualitative disclosures

Views of BoD on system to reduce liquidity risk

Liquidity Risk is the risk of bank's inability to repay its obligations as

they fall due or will have to do so at excessive cost due to scarcity of cash fund at a certain period of time. 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 methods in measuring, monitoring and controlling liquidity risk is critical to sustainability of the bank. Therefore, The Board of Directors of the bank set policy, different liquidity ratio limits, and risk appetite for liquidity risk management.

Methods used to measure liquidity risk

The tools and procedures deployed by EBL to manage liquidity risk are comprehensive. The measurement tools used to assess liquidity risks are:

- Statutory Liquidity Requirement (SLR)
- Cash Reserve Ratio (CRR)
- Asset to Deposit Ratio (ADR)
- Structural Liquidity Profile (SLP)
- Maximum Cumulative Outflow (MCO)
- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- Volatile Liability Dependency Ratio
- Liquid Asset to Total Deposit Ratio
- Liquid Asset to Short Term Liabilities

Liquidity risk management system

Responsibility of managing liquidity lies with Asset Liability Committee (ALCO) of the bank 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 proper coordination of funding activities. 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:

- Reasonable liquid assets are maintained;
- Measurement and projection of funding requirements in different scenarios; and
- Management of access to funding sources.

Maturity bucket of cash inflows and outflows is an effective tool to determine bank's 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 31 December 2019 are given below

BDT in million

Particulars	Amount
Stock of High quality liquid assets	52,124
Total net cash outflows over the next 30 calendar days	15,411
Liquidity Coverage Ratio (%)	338.22%
Available amount of stable funding	252,065
Required amount of stable funding	220,244
Net Stable Funding Ratio (%)	114.45%

J) Leverage Ratio

Qualitative Disclosures

Views of BoD on System to reduce excessive leverage

Leverage ratio is the ratio of Tier 1 capital to total on and off-balance sheet exposures. It was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. EBL has embraced this ratio along with Basel III guideline as a credible supplementary measure to risk based capital requirement and assess the ratio periodically.

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

Revised guideline of RBCA based on Basel III as provided by BRPD of Bangladesh Bank is followed by EBL while managing excessive on and off-balance sheet leverage of the bank. As per RBCA leverage ratio shall be Tier I Capital divided by Total Exposure after related deductions.

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 Bangladesh Bank.

Quantitative Disclosure:

Leverage Ratio (Solo Basis) on 31 December 2019 is given below:

BDT in million

Particulars	Amount
On balance sheet exposure (A)	329,155
Off balance sheet exposure (B)	65,581
Regulatory Adjustments (C)	2,174
Total exposure (A+B-C)	392,562
Leverage Ratio	5.28%

K. Remuneration

Qualitative Disclosures

EBL wants to attract, retain and motivate top talents to meet its sustainable growth. The bank offers a competitive pay and benefits package to create an exemplary team for this sustainable growth. 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.

Name, composition and mandate of the main body overseeing remuneration.

EBL has a Board-approved People Management Policy that outlines the rules relating to compensation structure and the benefits package for its people and gives detailed procedures for exercising those.

External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.

Presently EBL does not have any separate body or external party to oversee remuneration.

A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.

The said policy applies to all the employees of the bank. Local and foreign subsidiaries of EBL are governed by their policies. If they don't have such policies, EBL policy will be applicable.

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

All of the Management Committee (MANCOM) members are considered as material risk takers and are mostly Senior Managers. MANCOM is the highest decision and policy making authority of the management comprising of MD & CEO and different business and support unit heads.

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

An overview of the key features and objectives of remuneration policy

Remuneration policy of the bank has been framed to maintain a performance based reward policy which recognizes the contribution of each of the employees of the bank.

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

Fixed pay:

The purpose of fixed pay is to attract and retain employees by paying 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 incentives 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

- Salaries are confidential between the concerned employees and Human Resources Division.
- The grade-wise scale of pay and other allowances of employees are determined by the competent authority from time to time.
- Salary revision is decided by the Managing Director & CEO 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.

Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.

Remuneration structure of the bank is reviewed as and when management deem appropriate to allow for adjustments in the cost of living and market forces pertaining to the banking industry. HR Division initiates the process, makes proposal to Board for approval.

A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

EBL ensures that Risk and Compliance employees are remunerated independently as the remuneration package is set by the management and applicable for all employees irrespective of profession or area.

C) Description of the ways in which current and future risks are taken into account in the remuneration processes.

An overview of the key risks that the bank takes into account when implementing remuneration measures.

In a highly competitive financial sector like banking, remuneration system is mostly dictated by market forces. Demands for efficient and skilled employees tend to increase as disproportionate number of financial institutions chase them. As a result, compensation package for skilled resources is relatively high and salary revision takes place more frequently than other industries. Excessive turnover of human resources, skill shortage, inability to attract and retain good people are some of the risks banks have to consider with. However, EBL designed its remuneration package as per market driven strategy to ensure right package for the right people. On top of it, in designing remuneration package, EBL ensures fair treatment, internal equity and external competitiveness to retain good resources.

An overview of the nature and type of the key measures used to take account of these risks; including risks difficult to measure (values need not be disclosed).

Market survey is conducted periodically to compensate employees for their expertise, time, mental and social engagement with the organization.

A discussion of the ways in which these measures affect remuneration.

These measures ensure that the remuneration process of EBL is:

- Right employees are getting right package as per their performance, quality of experience, training received and special expertise.
- Ensure internal & external equity

A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.

No changes took place.

(d) Description of the ways in which the bank seeks to link performance during a performance measurement period with different levels of remuneration.

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

At EBL, salary increment and promotion is purely linked with performance. As per policy, performance evaluation is done for all permanent employees. In addition to yearly review of performance, a quarterly review is also carried out. Performance evaluation is done on the below parameter:

- Business Objectives
- Personal Development Objective
- Management Objectives

A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.

Overall performance is evaluated as per above mentioned parameter and individuals are rated accordingly from 1 (highest) to 6 (lowest). Increment is linked with the rating employees receive during the performance evaluation process.

A discussion of the measures the bank will, in general, implement to adjust remuneration in the event that performance metrics are weak.

No adjustment took place as EBL maintains a standard performance evaluation process.

(e) Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.

A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.

Not applicable.

A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.

Not applicable.

(f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.

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

EBL recognizes the effort and performance of its employees based on its People Management Policy which consist of base salary and different benefit packages mentioned earlier. Therefore, EBL does not use any form of variable remuneration in its remuneration process. However, EBL practice sales commission based remuneration process for contractual staffs.

Quantitative Disclosures:

Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member:

No such meeting as there is no designated remuneration committee. HR Division is assigned to initiate any change proposal on remuneration as per the People Management Policy of the bank and get necessary approval from BoD.

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

Not applicable

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

Two basics for two festivals.

Number and total amount of sign-on awards made during the financial year. Not applicable

Number and total amount of severance payments made during the financial year. Not applicable

Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. Not applicable

Total amount of deferred remuneration paid out in the financial year. Not applicable.

Breakdown of amount of remuneration awards for the financial year to show:

- Fixed and variable.
- Deferred and non-deferred.
- Different forms used (cash, shares and share linked instruments, other forms).

Not applicable.

Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw-backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:

- Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.
- Total amount of reductions during the financial year due to e post explicit adjustments.
- Total amount of reductions during the financial year due to ex post implicit adjustments.

Not applicable.

Note: Till 2019, People management Policy of EBL does not have provision of any kind of variable remuneration, deferred remuneration, severance payment, sign-on awards or other forms of remuneration as mentioned above for its permanent staff.