

## DISCLOSURES ON RISK BASED CAPITAL (BASEL II)

**Background:** These disclosures under Pillar III of Basel II are made following 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 Supervisory Review Process (SRP) under Pillar II of Basel II.

The purpose of these disclosures is to present relevant information on adequacy of capital in relation to overall risk exposures of the Bank so that the market participants can assess the position and direction of the Bank in making economic decisions.

### SCOPE OF APPLICATION

**Scope of Application:** The Risk Based Capital Adequacy framework applies to Eastern Bank Limited (EBL) on 'Consolidated Basis' as there were two subsidiaries of the Bank as on the reporting date i.e. 31 December 2010. EBL acquired 60% shares of a brokerage house namely 'EBL Securities Ltd.' in 2010 and established an investment company namely 'EBL Investments Ltd.' with 99.99% shares (Company formed in December 2009 and applied to SEC for Merchant Banking License).

**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 2010 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. So, 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 2010 of EBL and its Subsidiaries along with separate audited financial statements 2010 of the Bank available on the website of the Bank ([www.ebl.com.bd](http://www.ebl.com.bd)).

**Restriction on movements of funds:** 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. Currently the BRPD circular 05 dated 09 April 2005 is being applied by the Bank in determining maximum amount of finance to the subsidiaries of the Bank. As on year end 2010, EBL had a credit line to 'EBL Securities Ltd.', a 60% owned subsidiary of the Bank, of BDT 600 million and a Guarantee of BDT 250 million (against clearing settlements with DSE).

### CAPITAL STRUCTURE

**Capital Structure of EBL:** Regulatory capital, as stipulated by the revised RBCA guidelines by BB, is categorized into three tiers according to the order of quality of capital (Tier I, II & III). Tier I or Core Capital comprises the highest quality capital components, Tier II or Supplementary Capital comprises capital elements that fall short of some of the characteristics of core capital but contribute to overall strength of the Bank and Tier III or Additional Supplementary Capital comprises short term subordinated debt with maturity of two to five years.

The Bank complied with all the required conditions for maintaining regulatory capital as stipulated in the revised RBCA guidelines by Bangladesh Bank as per following details:

- The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital:  
✓ *Status of Compliance:* Complied.
- 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital:  
✓ *Status of Compliance:* Complied.
- 10% of revaluation reserves for equity instruments eligible for Tier 2 capital:  
✓ *Status of Compliance:* Unrealized gain from quoted equities has not been accounted for and so nothing added to tier ii capital on this.
- Subordinated debt shall be limited to a maximum of 30% of the amount of Tier 1 capital:  
✓ *Status of Compliance:* As on the reporting date there was no subordinated debt in the capital structure of EBL.
- Limitation of Tier 3: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank's Tier 1 capital that is available after meeting credit risk capital requirement.  
✓ *Status of compliance:* Capital required for meeting credit risks was BDT 7,737.13 million and so the tier i capital after meeting credit risk was BDT 811.13 million (BDT 8,548.26 million minus BDT 7,737.13 million). Capital required for meeting 28.5% of market risks was BDT 267.45 million (BDT 938.43

X 28.5%) million as on the reporting date. So, this condition is met.

- There are certain deductions from tier i capital which are noted with the status of compliance in the respective table presented below.

**Quantitative Disclosures:** As on the reporting date (31 December 2010), the Bank had a consolidated capital

of BDT 11,460.16 million comprising tier i capital of BDT 8,548.26 million and tier ii capital of BDT 2,911.90 million (EBL had no tier iii element in its capital structure) as on the reporting date. Following table presents component wise details of capital (Tier I & II) as on reporting date i.e. December 31, 2010:

*(Figures are in million BDT)*

1.0	Tier - 1 ( Core Capital)	Amount
1.1	Fully Paid-up Capital	2,920.81
1.2	Statutory Reserve	2,725.52
1.3	Non- repayable Share premium account	-
1.4	General Reserve	725.62
1.5	Retained Earnings	1,669.29
1.6	Minority interest in Subsidiaries	150.97
1.7	Non- Cumulative irredeemable Preference shares	-
1.8	Dividend Equalization Account	356.04
1.9	Other (if any item approved by Bangladesh Bank)	-
1.10	Sub-Total: (1.1 to 1.9)	8,548.26
<b>Deductions from Tier-1 (Core Capital)</b>		
1.11	Book value of Goodwill and value of any contingent assets which are shown as assets	-
1.12	Shortfall in provisions required against classified assets	-
1.13	Shortfall in provisions required against investment in shares	-
1.14	Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities.	-
1.15	Any investment exceeding the approved limit under section 26 (2) of Bank Company Act, 1991.	-
1.16	Investment in subsidiaries which are not consolidated	-
1.17	Other if any	-
1.18	Sub total (1.11 to 1.17)	-
1.19	<b>Total eligible Tier -1 capital (1.10 - 1.18)</b>	<b>8,548.26</b>
<b>2. Tier -2 (Supplementary Capital): Maximum 100% of Tier I Capital</b>		<b>Amount</b>
2.1	General Provision (Unclassified loans + SMA+ off balance sheet exposure)	1,057.54
2.2	Assets Revaluation Reserves up to 50%	1,442.73
2.3	Revaluation Reserve for Securities up to 50%	411.63
2.4	Revaluation Reserve for equity instruments up to 10%	-
2.5	All other preferences shares	-
2.6	Subordinated debt	-
2.7	Other (if any item approved by Bangladesh Bank)	-
2.8	Sub total (2.1 to 2.7)	2,911.90
2.9	Deductions if any	-
2.10	<b>Total Eligible Tier -2 Capital (2.8-2.9)</b>	<b>2,911.90</b>
<b>3. Tier -3 (Additional Supplementary Capital)</b>		
3.1	Short term subordinated debt	-
4.0	<b>Total supplementary capital (2.10 + 3.1)</b>	<b>2,911.90</b>
5.0	<b>Total eligible capital (1.19 + 4.0)</b>	<b>11,460.16</b>

## CAPITAL ADEQUACY

**Capital Adequacy:** EBL focuses on strengthening and enhancing its risk management culture and internal 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, right share issue and statutory reserve transfer etc.) to support incremental growth of Risk Weighted Assets (RWA). Therefore, the Bank's Capital Adequacy Ratio (CAR) remains consistently within the comfort zone since the parallel run from 1 January, 2009. During the year 2010, the CAR ranges from 9.93% to 10.92% against minimum requirement of 8% of RWA (January to June 2010) and 9% (July to December 2010).

The above CAR has been maintained applying 125% risk weight (under 'Unrated' category) to the exposures of most of the Bank's 'Corporate' customers who are yet to do credit rating of their entities by Bangladesh Bank approved ECAs. Once the customers, especially those having superior credit worthiness, do their credit rating, EBL's RWA will get down due to lower RW percentage. Since volume of

'Unrated' loans in EBL book occupies most part of the Bank's total loan portfolio, required minimum capital of EBL will decrease once rating is done by the corporate customers of EBL having good repute.

Assessing regulatory capital in relation to overall risk exposures of a bank is an integrated and comprehensive process. EBL, through its 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. Assessment of Regulatory Capital will be in alignment with the findings of these exercises.

**Quantitative Disclosures:** Following table shows component wise allocation of capital to meet three risks and an amount of additional capital maintained over MCR i.e. 9% of Risk Weighted Assets (RWA). As on the reporting date i.e. December 31, 2010, EBL maintained a Capital Adequacy Ratio (CAR) of 10.92% on 'Consolidated Basis' and 10.81% on 'Solo Basis' against required minimum of 9%. We had an excess capital of BDT 2,012.17 million (Consolidated) after meeting all three risks as on the reporting date as shown in the following table:

(Figures are in million BDT)

Capital Adequacy	Consolidated	Bank (Solo)
A. Amount of Regulatory Capital to meet unforeseen loss:		
Amount to meet Credit Risk	7,737.13	7,695.73
Amount to meet Market Risk	938.43	938.43
Amount to meet Operational Risk	772.43	765.40
<b>Capital maintained to meet credit, market and operations risks</b>	<b>9,447.99</b>	<b>9,399.56</b>
B. Some additional capital over MCR maintained by the banks	2,012.17	1,887.18
<b>Total Capital maintained</b>	<b>11,460.16</b>	<b>11,286.73</b>

Following table summarizes the capital adequacy status of EBL (Consolidated & Solo bases) as on the reporting date i.e. December 31, 2010:

(Figures are in million BDT)

Particulars	Consolidated	Bank (Solo)
A. Eligible Capital		
1. Tier-1 Capital	8,548.26	8,374.83
2. Tier-2 Capital	2,911.90	2,911.90
3. Tier-3 Capital	-	-
<b>4. Total Eligible Capital (1+2+3)</b>	<b>11,460.16</b>	<b>11,286.73</b>
<b>B. Total Risk Weighted Assets (RWA)</b>	<b>104,977.72</b>	<b>104,439.53</b>
<b>C. Capital Adequacy Ratio (CAR) (A4/B)*100</b>	<b>10.92%</b>	<b>10.81%</b>
D. Core Capital to RWA (A1/B)*100	8.14%	8.02%
E. Supplementary Capital to RWA (A2/ B)*100	2.77%	2.79%
<b>F. Minimum Capital Requirement (MCR): 9% of RWA</b>	<b>9,447.99</b>	<b>9,399.56</b>

## CREDIT RISK

### Qualitative Disclosures:

**Definition of Credit Risk:** Credit risk is the risk of loss that may occur from the failure of any counterparty to make required payments in accordance with agreed terms and conditions and/or deterioration of credit worthiness. Credit risk may arise from both the banking book and trading book. Credit risk is managed through a framework set by policies and procedures established by the Board. The responsibility is clearly segregated between originator of business transaction and approver in the risk function.

**Credit policies and procedures:** The Credit Policy Manual contains the core principles for identifying, measuring, approving, and managing credit risk in the bank. These policies are established by the Board of Directors, and are designed to meet the organizational requirements that exist today, and to provide flexibility for future. These policies represent the minimum standards for credit extension by the bank, and are not a substitute for experience and good judgment. The policy covers corporate, small and medium enterprise, retail exposures. Policies and procedures together have structured and standardized credit risk management process both in obligor and portfolio level. There is a comprehensive credit appraisal procedure that covers Industry/Business risk, management risk, financial risk, facility structure risk, security risk, environmental risk, reputational risk, and account performance risk. Credit risk management function is Independent of business originating functions to establish better internal control and check, and to reduce conflict of interest. The Head of Credit Risk Management (HoCRM) has clear responsibility for management of credit risk.

**Credit Rating and measurement:** Risk measurement plays a central role along with judgment and experience in informed risk taking decisions, and portfolio management. For the purpose of risk measurement we use a numerical grading system associated with a borrower. Though this rating system, 'Credit Risk Grading Matrix' (CRGM), is not a lending decision making tool but used as a general indicator to compare one set of customers with another set of customers, and its weighted average value indicated movement of portfolio risk. CRGM analyzes a borrower against a range of quantitative and qualitative measures. Quantitative measurements scale has numeric grades from 1 to 11. Lower numbers are indicative of lower likelihood of default, while 9 to 11 grades are assigned to default borrowers. However, we are yet to assign Probability of Default (PD) corresponding to each grade and to cap exposure both at borrower and portfolio

level against each risk grade. No score card or rating model for retail and SME (small) borrowers) are currently in practice; rather borrowers are assessed against some pre approved criteria outlined in Product Program Guidelines (PPG), which are approved by the Board of Directors.

**Credit concentration:** Credit concentration risk is managed within concentration caps set by counterparty or associated groups, by Industry/Business sector, and by Products to some extent. Credit concentrations are monitored by Credit Risk Management Division and BRMC at least quarterly. It is Eastern Banks current policy not to take more than 20% exposure in any single industry or business segment.

**Credit monitoring:** We, at least quarterly, monitor credit exposures and portfolio performance. Corporate and medium enterprise accounts are continuously monitored under a clearly set out 'Early Alert' policy. Sign of deteriorations are well defined and broad guidelines are given in that policy for business origination units. Early Alerts are raised for financial deterioration, management weakness, irregular repayments, breach of covenants, eroding position in the industry, etc. If early alerts are raised, account plans are then reevaluated; remedial actions are agreed and monitored. Remedial actions include. But not limited to exposure reduction, security enhancement, exiting the relationship or immediate movement of our Special Asset Management Division (SAMD) – our dedicated loan recovery unit.

**Credit risk mitigation:** Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. Collateral is valued by independent third party surveyor in accordance to our credit policy and procedures.

**Credit approval:** Board of the Director has the sole authority to approve any credit exposure and to sub delegate to such authority to the Managing Director and CEO with or without authority for further sub delegation. We have adopted individual authority based approval structure to ensure better accountability. Currently, MD & CEO's lending authority is further sub

delegation. We have adopted individual authority based approval structure to ensure better accountability. Currently, MD & CEO's lending authority is further sub delegated to Head of Credit Risk Management Division and Departmental Heads.

**Problem Credit Management:** Eastern Bank Limited has Special Asset Management Division (SMAD), dedicated for management of problem credits. Major responsibility of this department is to formulate

strategy and action plans for minimization of risk, prevention of loss, maximization of recoveries, and restructuring, direct recovery, and/or legal actions.

We follow central bank guidelines as our asset impairment policy. The central bank set loan impairment/classification criteria and provisioning policies vide BRPD Circular No. 5 dated June 05, 2006. The summary of quantitative loan classification criteria and provisioning requirement are as below:

Type of Facility	Loan Classification							
	SMA		Sub Standard		Doubtful		Bad & Loss	
	Overdue Period	Provision (%)	Overdue Period	Provision (%)	Overdue Period	Provision (%)	Overdue Period	Provision (%)
Continuous Loan	90 days or more	5%	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%
Demand Loan	90 days or more	5%	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%
Term Loan up to 5 years	90 days or more	5%	6 months or more but less than 12 months	20%	12 months or more but less than 18 months	50%	18 months or more	100%
Term Loan over 5 years	90 days or more	5%	12 months or more but less than 18 months	20%	18 months or more but less than 24 months	50%	24 months or more	100%
Short Term Agricultural & Micro Credit	90 days or more	5%	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%

- Provision requirement is 5% for unclassified consumer loans other than housing finance (HF) and loans to professionals (LP), 2% for unclassified HF & LP under consumer finance, 2% for unclassified loans to Brokerage House/Merchant Banks/Stock Dealers for shares and 1% for unclassified loans in rest of the cases.
- Provision for contingent items (non funded facilities) is 1.00%.
- Provisions for SMA portfolio is maintained netting of interest suspense; and for classified portfolio both interest suspense and 50% of eligible securities are netted off.

- Bank may also classify its assets based on qualitative judgment as stringent measures. Major qualitative issues includes but not exhaustive of –
  - uncertainty or doubt in respect of recovery of loan,
  - impairment of capital of the borrower,
  - significant decrease in value of collateral,
  - Illogical or repeated rescheduling, etc.

#### Quantitative Disclosures:

**Total Gross asset portfolio by major types:** Bangladesh Bank guidelines on Basel II, stipulated to segregate bank's asset portfolio into different categories, and the below table shows our gross exposure in each asset category.



(Figures are in million BDT)

SL.	Exposure type	Exposure	Risk weighted asset
a)	Cash	725.18	-
b)	Claims on Bangladesh Government (Other than PSEs) and BB (denominated in domestic and foreign currency)	2,959.25	-
c)	Claims on other Sovereigns & Central Banks	-	-
d)	Claims on Bank for International Settlements, International Monetary Fund and European Central Bank	-	-
e)	Claims on Multilateral Development Banks (MDBs):		
	i) IBRD , IFC, ADB, AfDB, EBRD, IADB, EIB, EIF, NIB, CDB, IDB, CEDB	-	-
	ii) Other MDBs	-	-
f)	Claims on Public Sector Entities (excluding equity exposure)	1,591.60	795.80
g)	Claims on Banks and NBFIs (denominated in domestic as well as foreign currency)		
	i) Original maturity over 3 months	880.00	440.00
	Different risk weight	710.00	710.00
	ii) Original maturity less than 3 months	4,289.30	857.86
h)	Claims on Corporate (excluding equity exposures)	989.35	197.87
	Different risk weights	2,223.24	1,111.62
		950.70	950.70
		39,410.48	49,263.10
i)	Claims under Credit Risk Mitigation	-	-
j)	Claims categorized as retail portfolio & Small Enterprise (excluding consumer finance and staff loans)	1,935.52	1,451.64
k)	Consumer finance	4,349.29	4,349.29
l)	Claims fully secured by residential property (excluding staff loan)	535.65	267.83
m)	Claims fully secured by commercial real estate	-	-
n)	1. Past Due Claims (Risk weights are to be assigned net of specific provision):		
	Where specific provisions are less than 20 per cent of the outstanding amount of the past due claim	1,116.26	1,674.39
	Where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim	124.24	124.24
	Where specific provisions are more than 50 per cent of the outstanding amount of the past due claim	91.98	45.99
	2. Claims fully secured against residential property that are past due for more than 90 days and/or impaired and specific provision held there-against is less than 20% of outstanding amount.	-	-
	3. Loans and claims fully secured against residential property that are past due for more than 90 days and /or impaired and specific provision held there-against is more than 20% of outstanding amount.	-	-
o)	Capital market exposures	582.93	728.66
p)	Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book.	421.73	527.17
q)	Investments in venture capital	-	-
r)	Investments in premises, plant and equipment and all other fixed assets	3,626.10	3,626.10
s)	Claims on all fixed assets under operating lease	-	-
t)	All other assets:		
	i) Claims on GoB & BB (e.g. Coupon Receivable from Govt T Bonds & reimbursable from BB on PSP, Shadharan shanchay patra, etc.)	217.18	-
	ii) Staff loan/investment	603.94	120.79
	iii) Cash items in process of collection	-	-
	iv) Claims on Off-shore Banking Unit (OBU)	-	-
v)	Other assets (net of specific provision, if any)	1,098.39	1,098.39
	<b>Total</b>	<b>69,432.33</b>	<b>68,341.43</b>

**Credit Exposure by Risk Weight:** Risk weights on each category of assets as described in above table are given by Bangladesh Bank. Bank needs more capital for assets in higher risk band and the below table shows our assets under three main risk weight bands.

*(Figures are in million BDT)*

Particulars	Fund based	Non Fund Based	Total
Less than 100% risk weight	5,289.39	1,348.30	6,637.69
100% risk weight	10,858.72	1,587.71	12,446.44
More than 100% risk weight	52,193.32	14,690.70	66,884.02
<b>Total</b>	<b>68,341.43</b>	<b>17,626.72</b>	<b>85,968.15</b>

**Geographical distribution of Credit Risk Exposure:** Our business is concentrated in two major cities – Dhaka and Chittagong as country's business activities are concentrated in these two locations. Below table shows our credit exposure in different divisions:

*(Figures are in million BDT)*

Sl	Divisions	Corporate	SME	Consumer	Total
1	Dhaka	29,006.83	3,984.88	4,823.91	37,815.62
2	Chittagong	15,685.39	1,428.88	2,103.37	19,217.64
3	Khulna	-	315.21	162.34	477.55
4	Rajshahi	216.32	383.54	208.65	808.52
5	Sylhet	-	157.88	129.87	287.75
	<b>Total</b>	<b>44,908.53</b>	<b>6,270.40</b>	<b>7,428.15</b>	<b>58,607.08</b>

**Credit exposure by major industry or business segment:** Major industry wise credit exposure as on 31 December, 2010 was as below, and the numbers remained within the appetite of the bank as approved by the Board of Directors.

*(Figures are in million BDT)*

Industry/ Sector	31-12-2010	%	31-12-2009	%
Commercial and Trading	7,745.25	13.22%	4,765.77	10.00%
Importer of Commodity	2,762.98	4.71%	1,942.93	4.08%
Construction	608.44	1.04%	689.85	1.45%
Edible Oil Refinery Industry	2,072.27	3.54%	2,213.10	4.64%
Electronics Goods	1,948.54	3.32%	1,175.08	2.47%
Individuals	7,428.15	12.67%	5,705.65	11.97%
Pharmaceuticals Industries	1,434.23	2.45%	1,752.57	3.68%
Readymade Garments Industry	7,765.29	13.25%	6,002.00	12.59%
Ship Breaking Industry	2,365.71	4.04%	4,693.89	9.85%
Industries for Steel products	3,610.44	6.16%	2,540.58	5.33%
Telecommunication Sector	698.08	1.19%	2,068.21	4.34%
Textile Mills	5,813.81	9.92%	4,925.58	10.33%
Power Sector	2,088.92	3.56%	-	0.00%
Others	12,264.99	20.93%	9,192.79	19.29%
	<b>58,607.08</b>	<b>100.00%</b>	<b>47,667.99</b>	<b>100.00%</b>

**Residual contractual maturity of credit exposure:** Residual maturity of credit exposure in our major business (counterparty type) as on 31 December 2010 was as below:

*(Figures are in million BDT)*

Business Segments	0-90 Days	3-6 Months	6-12 Months	1-5 Years	More than 5 Years	Total
Consumer	2,284.86	64.87	132.45	3,984.85	961.12	7,428.15
Corporate	21,007.23	9,798.48	4,158.67	7,952.86	2,007.55	44,924.79
SME	2,757.22	228.14	206.49	3,045.29	17.00	6,254.15
<b>Total</b>	<b>26,049.31</b>	<b>10,091.48</b>	<b>4,497.62</b>	<b>14,983.01</b>	<b>2,985.67</b>	<b>58,607.08</b>

**Special Mention Accounts (SMA) and Classified Loans:** As on 31 December 2010:

*(Figures are in million BDT)*

Business Type	SMA	Sub Standard (SS)	Doubtful (DF)	Bad & Loss	Total Classified Loans
Corporate	410.5	170.22	-	465.19	635.41
SME (small)	240.73	79.80	87.54	34.16	201.50
SME (medium)	40.67	13.75	-	97.39	111.14
Consumer	117.77	65.85	58.91	95.93	220.69
<b>Total</b>	<b>809.67</b>	<b>329.62</b>	<b>146.45</b>	<b>692.67</b>	<b>1,168.74</b>

**Movement of Classified Loans and Advances:** The year opening and closing volume of classified loans remains almost at same level. Movement of classified loans during the year is presented in the following table:

*(Figures are in million BDT)*

Particulars	31 December 2010
Opening Balance as on 01 January 2010	1,171.68
Additions during the year	619.46
Reductions during the year	622.39
<b>Closing Balance as on 31 December 2010</b>	<b>1,168.74</b>

**Movement of Specific Provisions (provisions for classified loans) is presented in following table:**

*(Figures are in million BDT)*

Particulars	31 December 2010	31 December 2009
Opening balance of provision held	756.41	692.37
New provisions	132.17	130.96
Provisions no longer required (written off loans)	(277.90)	(66.93)
<b>Closing balance of provision held</b>	<b>610.68</b>	<b>756.41</b>

**Movement of Written off Loans is presented below:**

*(Figures are in million BDT)*

Particulars	31 December 2010	31 December 2009
Opening balance of written of loans	900.25	802.79
New write offs	380.90	97.47
<b>Closing balance of written off loans</b>	<b>1,281.15</b>	<b>900.25</b>



**STRESS TESTING:** We do periodic stress testing for credit risk and market risk in accordance with DOS (Department of Offsite Supervision) circular of Bangladesh Bank issued in April 2010. Theoretically, losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. In such case stress testing complements VaR calculation. Credit VaR modeling is not yet practiced by the local commercial banks and there is no regulation

also from the central bank. Following table shows a very basic simulation for credit risk stress based on movements in Non Performing Loans (NPL), downward shift of NPL from SS (sub standard) to DF (doubtful), and DF to BL (Bad & Loss), fall of collateral value held against NPL, increase of NPL in business segments where the bank has concentration, and increase of NPL in portfolio exposed to top 10 borrowers. Result of stress testing based on 31/12/2010 as reported to BB is produced below:

**Stress Testing**  
**Eastern Bank Limited**

For the half year ended on 31/12/2010

(Figures are in million BDT)

Regulatory Capital (solo basis)	11,286.73	11,286.73	11,286.73
RWA (solo basis)	104,439.53	104,439.53	104,439.53
CAR (%)	10.81%	10.81%	10.81%
	<b>Scenario -1</b>	<b>Scenario - 2</b>	<b>Scenario -3</b>
<b>1. Interest Risk - Increase in Interest Rate</b>			
<b>Magnitude of Shock</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>
Weighted Average yield on assets (%)	9.29%	9.29%	9.29%
Total Assets	78,728.51	78,728.51	78,728.51
Duration Gap	1.035	1.035	1.035
Fall in MVE (Market Value of Equity), on balance sheet	745.58	1,491.15	2,236.73
Fall in MVE (Market Value of Equity), off balance sheet	-	-	-
Net fall in MVE (on & off balance sheet)	745.58	1,491.15	2,236.73
Tax Adjusted Loss	428.71	857.41	1,286.12
Revised Capital	10,858.02	10,429.32	10,000.61
Revised RWA	104,010.82	103,582.12	103,153.41
Revised CAR (%)	10.44%	10.07%	9.69%
<b>2. Exchange Rate Risk - Adverse Movement in Exchange Rate</b>			
<b>Magnitude of Shock</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>
Net exposure in FX	44.35	44.35	44.35
Loss on Exchange Rate Change	2.22	4.44	6.65
Tax Adjusted Loss	1.28	2.55	3.83
Revised Capital	11,285.45	11,284.18	11,282.90
Revised RWA	104,438.25	104,436.98	104,435.70
Revised CAR (%)	10.81%	10.80%	10.80%
<b>3. Credit Risk - Increase in NPLs</b>			
<b>Magnitude of Shock</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>
Total Loan	58,607.08	58,607.08	58,607.08
Total Performing Loan	57,438.34	57,438.34	57,438.34
Total NPLs	1,168.74	1,168.74	1,168.74
NPL to Loans (%)	1.99%	1.99%	1.99%
Increase in NPLs	574.38	1,148.77	1,723.15
Increase in Provisions (100% of increased NPL)	574.38	1,148.77	1,723.15
Tax adjusted provision	574.38	1,148.77	1,723.15
Revised Capital	10,712.35	10,137.96	9,563.58
Revised RWA	103,865.15	103,290.76	102,716.38
Revised CAR (%)	10.31%	9.81%	9.31%
Revised NPLs	1,743.13	2,317.52	2,891.90
Revised NPLs to Loans (%)	2.97%	3.95%	4.93%

(Figures are in million BDT)

<b>4. Credit Risk - Downward shift in NPLs Categories</b>			
<b>Magnitude of Shock</b>	<b>50%</b>	<b>80%</b>	<b>100%</b>
Weighted amount of provision	645.93	645.93	645.93
Provision after shift in categories	745.49	829.15	884.92
Increase in provision	99.56	183.22	238.99
Tax adjusted provision	99.56	183.22	238.99
Revised Capital	11,187.17	11,103.51	11,047.74
Revised RWA	104,339.97	104,256.31	104,200.54
<b>Revised CAR (%)</b>	<b>10.72%</b>	<b>10.65%</b>	<b>10.60%</b>
<b>5. Credit Risk - Fall in FSV of Mortgaged Collateral</b>			
<b>Magnitude of Shock</b>	<b>10%</b>	<b>20%</b>	<b>40%</b>
Weighted Forced Sale Value of Collateral	266.25	266.25	266.25
Increase in Provision	26.62	53.25	106.50
Tax Adjusted provision	26.62	53.25	106.50
Revised Capital	11,260.11	11,233.48	11,180.23
Revised RWA	104,412.91	104,386.28	104,333.03
<b>Revised CAR (%)</b>	<b>10.78%</b>	<b>10.76%</b>	<b>10.72%</b>
<b>6. Credit Risk - Increase in NPLs under B/L category in RMG &amp; Textile Sector</b>			
<b>Magnitude of Shock</b>	<b>5%</b>	<b>7.5%</b>	<b>10%</b>
Loan to RMG & Textile Sectors	10,048.47	10,048.47	10,048.47
Increase in NPLs	502.42	753.64	1,004.85
Increase in Provision (100%)	502.42	753.64	1,004.85
Tax adjusted provision	502.42	753.64	1,004.85
Revised Capital	10,784.31	10,533.09	10,281.88
Revised RWA	103,937.11	103,685.89	103,434.68
<b>Revised CAR (%)</b>	<b>10.38%</b>	<b>10.16%</b>	<b>9.94%</b>
<b>7. Credit Risk - Increase in NPLs in portfolio with top 10 large borrowers</b>			
<b>Magnitude of Shock</b>	<b>5%</b>	<b>7.5%</b>	<b>10%</b>
Loan to top 10 large borrowers	5,861.61	5,861.61	5,861.61
Increase in NPLs	293.08	439.62	586.16
Increase in Provision (100%)	293.08	439.62	586.16
Tax adjusted provision	293.08	439.62	586.16
Revised Capital	10,993.65	10,847.11	10,700.57
Revised RWA	104,146.45	103,999.91	103,853.37
<b>Revised CAR (%)</b>	<b>10.56%</b>	<b>10.43%</b>	<b>10.30%</b>
<b>8. Equity Price Risk - Fall in stock prices</b>			
<b>Magnitude of Shock</b>	<b>10%</b>	<b>20%</b>	<b>40%</b>
Total exposure in stock market	2,206.32	2,206.32	2,206.32
Fall in stock prices	220.63	441.26	882.53
Tax adjusted loss	126.86	253.73	507.45
Revised Capital	11,159.87	11,033.00	10,779.28
Revised RWA	104,312.67	104,185.80	103,932.08
<b>Revised CAR (%)</b>	<b>10.70%</b>	<b>10.59%</b>	<b>10.37%</b>
<b>A. Capital after cumulative impact of Credit Shock (aggregate of 5 types of credit shock)</b>	<b>1,496.07</b>	<b>2,578.49</b>	<b>3,659.65</b>
Tax adjusted provision	1,496.07	2,578.49	3,659.65
Revised Capital	9,790.66	8,708.24	7,627.08
Revised RWA	102,943.46	101,861.04	100,779.88
<b>Revised CAR (%)</b>	<b>9.51%</b>	<b>8.55%</b>	<b>7.57%</b>
<b>B. Capital after cumulative impact of all shock (Credit, Interest Rate, FE, and Equity Prices)</b>	<b>2,052.92</b>	<b>3,692.18</b>	<b>5,457.04</b>
Tax adjusted Provision/Loss	2,052.92	3,692.18	5,457.04
Revised Capital	9,233.81	7,594.55	5,829.69
Revised RWA	102,386.61	100,747.35	98,982.49
<b>Revised CAR (%)</b>	<b>9.02%</b>	<b>7.54%</b>	<b>5.89%</b>

(Figures are in million BDT)

9. Liquidity Shock - fall in liquid liabilities Magnitude of Shock	10%	20%	30%
Liquid Assets	11,823.14	11,823.14	11,823.14
Liquid Liabilities	57,692.98	57,692.98	57,692.98
Liquidity Ratio (%)	20.49%	20.49%	20.49%
Fall in liquid liabilities	5,769.30	11,538.60	17,307.89
Revised liquid liabilities	51,923.68	46,154.38	40,385.08
Revised liquid assets	6,053.84	284.54	(5,484.76)
Liquidity Ratio after shock (%)	11.66%	0.62%	-13.58%

## EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

**Equities:** Investment of EBL in equity securities is broadly categorized into two parts: securities (shares-common or preference, Mutual Fund) that are traded in the secondary market (trading book assets) and Un-quoted securities. Unquoted securities are categorized as banking book equity 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.

**Valuation methodology:** Unquoted HTM securities are recorded at purchase price including transactions costs,

if any and are not marked to market. No fair value adjustments are given. Dividends received from these securities are accounted for as and when received.

**Quantitative Disclosures:** As on the reporting date i.e. 31 December 2010, EBL had a balance of un-quoted equity investment of BDT 421.73 million which includes BDT 280 million invested in three Mutual Funds.

**Gain from trading securities:** During the year 2010 an amount of BDT 1,225.64 million has been booked as 'Gain from securities traded in the secondary market'. On the other hand, an amount of BDT 1,652.89 million stood as unrealized gain as on the reporting date which was not booked in the Financial Statements. However, an amount of BDT 27.02 million was recorded as 'Provision for loss on revaluation of shares' as on 31 December 2010. Following table presents details of unrealized gain as on year end 2010:

(Figures are in million BDT)

Investment portfolio (Quoted Shares)	Costs	Market value	Unrealized Gain
AB Bank Limited	109.10	142.25	33.14
Active Fine Chemicals	2.50	29.83	27.33
Brac Bank Limited	28.82	42.81	13.99
BIFC	2.45	2.51	0.06
BSRM Steels Ltd	3.48	4.24	0.76
Confidence Cement	41.04	56.04	15.00
DESCO Limited	181.84	264.10	82.26
Dhaka Bank Limited	42.76	62.26	19.51
EBL First Mutual Fund	200.00	368.00	168.00
EXIM Bank Limited	47.98	67.14	19.16
First Security Islami Bank Ltd	10.44	11.14	0.69
Grameen Phone Limited	26.17	89.52	63.35
IDLC Finance Limited	125.28	929.50	804.22
Investment Corporation of Bangladesh (ICB)	0.00	0.07	0.07
International Leasing and Financial Services Limited	93.44	127.20	33.76
Islami Bank Bangladesh Limited	51.29	72.05	20.76
Jamuna Bank Ltd	1.21	1.83	0.62
Mutual Trust Bank Limited	32.76	56.66	23.90
National Life Insurance Co Ltd	0.80	0.83	0.03
Peoples Leasing and Financial Services Limited	10.00	22.12	12.12
Power Grid Company	171.27	210.62	39.35
Prime Bank Limited	65.32	116.20	50.89
Prime Finance & Investment Ltd	3.25	3.26	0.01
Pubali Bank Ltd	111.14	161.10	49.96
Square Pharmaceuticals Limited	153.94	225.41	71.47
Standard Bank Limited	33.59	54.91	21.32
Summit Power	177.29	210.02	32.72
RAK Ceramics (BD) Ltd	0.01	0.02	0.01
Trust Bank Ltd	29.94	45.20	15.25
Uttara Bank Ltd	43.57	66.43	22.86
Green Delta 1st Mutual Fund	10.00	13.60	3.60
PHP 1st Mutual Fund	30.01	34.81	4.80
Popular Life 1st Mutual Fund	10.00	11.90	1.90
<b>Total</b>	<b>1,850.67</b>	<b>3,503.56</b>	<b>1,652.89</b>

## INTEREST RATE RISK IN THE BANKING BOOK

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 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:

- The approach is the Traditional Gap analysis of on-balance sheet Asset Liability Management (ALM). This involves careful

balancing/rebalancing of assets and liabilities based on the interest rate view of the bank. This is achieved through an exercise towards minimizing exposure to risks by holding the appropriate combination (type and maturity) of assets and liabilities so as to meet certain objectives of the bank (such as achieving targeted earnings while simultaneously minimizing risk).

Techniques and assumptions: The Bank regularly monitors the Duration Gap of balance sheet and also the duration of investment portfolio. These parameters are reviewed by the ALCO on a monthly basis. The Bucket wise Interest Rate sensitive gap is also reviewed by ALCO on a monthly basis.

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.

While preparing the Interest Rate Sensitive Gap analysis, Bank takes into account the following matters:

- Volatile and Core portions of Savings Deposits
- Repricing character of CC and OD accounts.
- Prepayment option of loan products.

#### Quantitative Disclosure:

ALCO, on monthly basis, monitors the impact of interest rate movement on Net Interest Income.

Particulars	1 month	3 months	12 months
For a 100 basis point assumed increase in interest rates, the impact on NII	0.63 Crore	-1.53 Crore	-11.80 Crore
For a 100 basis point assumed decrease in interest rates, the impact on NII	-0.63 Crore	1.53 Crore	11.80 Crore

#### Leveraged Liability Duration and Duration Gap:

Date	Asset Duration	Liability Duration	Leveraged Liability Duration	Duration Gap
As on 30-Jun -2010	1.25	0.38	0.34	0.91
As on 31-Dec -2010	1.42	0.45	0.38	1.03

### MARKET RISK

#### Qualitative Disclosures:

**Market Risk:** Market risk is recognized as loss resulting from changes in market prices and rates. Our exposure to market risk arises principally from customer-driven transactions. 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.

Commodity price risk: arising from changes in commodity prices and implied volatilities on commodity options, covering energy, precious metals, base metals and agriculture. Currently we do not have any exposure in commodity financing.

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

**Market Risk Governance:** To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Among the ratios, the key ratios that ALCO regularly monitors are Liquid asset to total assets, Volatile liability dependency ratio, 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 exchange rate risk, bank always keep its net open position within the limit set by central bank. Also to manage exchange rate risk in cross currency, bank always square its position in cross currency or convert its exposure to USD.

Recently, bank has taken some exposure in capital markets, and total investment in capital markets was 3.15% of total assets as on the closing date of 2010. Investment decisions in equity are taken by Investment Committee. We are also working to finalize our Investment Policy. The trading book is defined as per Bangladesh Bank guidelines.

#### Quantitative Disclosures:

##### Market Risk Regulatory Capital:

(Figures are in million BDT)

Particulars	Amount
Capital required for:	
- Interest Rate related instruments	244.52
- Equities	689.79
- Foreign Exchange position	4.11
- Commodity Risk	-
<b>Total</b>	<b>938.43</b>



## OPERATIONAL RISK

### Qualitative Disclosures:

**Operational Risk:** Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. We seek to minimize exposure to operational risk, subject to cost trade-offs. We started capturing some pre identified risk events associated with all functional departments of the bank through

### Quantitative Disclosures

#### Operational Risk Regulatory Capital:

(Figures are in million BDT)

Particulars	Amount
Last 3 years average annual Gross Income	5,149.55
15% of Gross Income	772.43

**Liquidity Risk:** Liquidity risk is the risk that we either do not have sufficient financial resources available to meet all our obligations and commitments as they fall due, or can only access these financial resources at excessive cost. It is our policy to maintain adequate liquidity at all times, and to leverage the negative correlation between liquidity and profitability without taking any excessive risk. In the short-term, our focus is on ensuring that the cash flow demands can be met through asset maturities and customer deposits. In the medium-term, the focus is

on ensuring the balance sheet remains structurally sound. The ALCO is the responsible governing body that approves our liquidity management policies.

**Liquidity Ratio:** This is the ratio of liquid assets to liquid liabilities. Liquid assets include all assets with maturity of one year or less, and liquid liabilities define all liabilities with maturity of one year or less. The ratio tells how much taka is available to meet one taka liability in short term (one year):

(Figures are in million BDT)

31 <sup>st</sup> December	2010	2009
Liquid Assets	52,345.73	45,182.33
Liquid Liabilities	60,496.60	53,851.10
Liquidity Ratio (%)	86.53	83.90

**Legal Risk:** Legal risk includes the risk of loss arising from a failure to comply with the laws, regulations or codes applicable to the financial services industry. The legal risk functions are responsibility of bank's Internal Control & Compliance Division (ICCD). This unit is responsible for developing and maintaining an appropriate framework of regulatory compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all employees and is monitored by ICCD.

**Reputational Risk:** Reputational risk is that we fail to meet the standards of performance or behaviors mandated by our Board and expected by our

stakeholders in the way in which business is conducted. It is our policy that protecting our reputation should at all time take priority over all other activities, including revenue generation. All employees are responsible for day to day identification and management of reputational risk. The Board set following statements to protect our reputation and brand value:

- Under no circumstance bank's reputation to be compromised by revenue generating activities.
- EBL shall always avoid potential brand damaging issue.
- EBL shall avoid anti environment and anti social elements in its business.