Disclosures on Risk Based Capital (Basel III)

Background

BASEL accords are the basis of Capital Adequacy guidelines which provide global regulatory framework focused on the management of risk and capital. These are the internationally accepted capital adequacy standards issued by Basel Committee on Banking Supervision (BCBS) housed at the Bank for International Settlements (BIS) situated in the BASEL City of Switzerland. Basel III reforms are the response of BCBS to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, and reduce the risk of spillover from financial sector to real economy. Basel III mainly addresses the following areas:

- raise the quality and level of capital to ensure that banks are better able to absorb losses both as a going concern and a gone concern.
- increase the risk coverage of the capital framework.
- introduce leverage ratio to serve as a backstop to the risk-based capital measure.
- raise the standards of supervisory review process (Pillar 2) and public disclosures (Pillar 3) etc.

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 PLC. (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 2023. 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 PLC. (EBL)** on **'Consolidated Basis'** as there were four subsidiaries of the Bank as on the reporting date i.e. 31 December 2023. However, **'Solo Basis'** information has been presented besides 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 were incorporated in Bangladesh except EBL Finance (HK) Limited which was 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) PLC. and Chittagong Stock Exchange (CSE) PLC. 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, Bangladesh.

EBL Investments Ltd: EBL Investments Limited (EBLIL) was incorporated on 30 December 2009. EBLIL obtained license from Bangladesh Securities & Exchange Commission (BSEC) on January 2013 and started full-fledged operations of merchant banking, portfolio management, underwriting services from June 2013. Registered office of EBLIL is located at Bangladesh Shipping Corporation (BSC) Tower 2-3, Rajuk Avenue (4th Floor), Motijheel C/A, Dhaka-1000, Bangladesh.

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. EBLAML obtained license from BSEC on 25 May 2017 to run full-fledged business operations. Registered office of EBLAML is located at Bangladesh Shipping Corporation (BSC) Tower, 2-3 Rajuk Avenue (4th Floor), Motijheel C/A, Dhaka - 1000, Bangladesh.

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 in 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.

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(s) 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 is known as gone concern capital.

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

Quantitative Disclosures

BDT in million

Particulars	**As on 31-12-23**	
	Solo	**Consolidated**
Common Equity Tier-1 (CET-1) Capital	37,706	38,261
Regulatory adjustments	3,690	3,761
Total Common Equity Tier -1 Capital	**34,015**	**34,499**
Additional Tier 1 Capital	-	-
Tier-2 Capital	**12,874**	**12,874**
Total Regulatory Capital	**46,890**	**47,374**

C. Capital Adequacy

Qualitative Disclosures

(a) A summary discussion of the bank's approach in 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 instead of 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 subordinated debt and 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 above regulatory requirements during 2023 (14% plus). The surplus capital maintained by EBL will act as a 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), takes active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to.

Quantitative Disclosures

BDT in million

Particulars	As on 31-12-23	
	Solo	**Consolidated**
Capital requirement for Credit Risk	26,635	26,869
Capital requirement for Market Risk	1,423	1,973
Capital requirement for Operational Risk	3,127	3,215
Minimum capital requirement (MCR)	**31,185**	**32,057**
Total regulatory capital	**46,890**	**47,374**
Risk weighted assets	**311,849**	**320,571**
Capital to Risk Weighted Asset Ratio (CRAR)	**15.04%**	**14.78%**
Common Equity Tier-1 (CET-1) Capital Ratio	10.91%	10.76%
Tier-2 Capital Ratio	4.13%	4.02%
Capital Conservation Buffer (2.50% of RWA)	7,796	8,014
Capital Conservation Buffer (%) maintained	5.04%	4.78%
Available Capital under Pillar II requirement*	7,909	7,302

*Total regulatory capital less MCR less CCB

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 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 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. Accordingly, any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date. Any Demand Loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date. Whereas, 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 installments (s) will be treated as past due/overdue after six months of the expiry date. The summary of objective criteria for loan classification and provisioning requirement is as below:

	Loans Classification		
Type of Facility	**Sub Standard (Overdue Period)**	**Doubtful (Overdue Period)**	**Bad & Loss (Overdue Period)**
Continuous Loan & Demand Loan	**Other than CMS*** 3 months or more but less than 9 months.	**Other than CMS** 9 months or more but less than 12 months.	**Other than CMS** 12 months or more.
	CMS 6 months or more but less than 18 months.	**CMS** 18 months or more but less than 30 months.	**CMS** 30 months or more.
Fixed Term Loan [1]	**Other than CMS** 3 months or more but less than 9 months.	**Other than CMS** 9 months or more but less than 12 months.	**Other than CMS** 12 months or more

	Loans Classification		
Type of Facility	**Sub Standard (Overdue Period)**	**Doubtful (Overdue Period)**	**Bad & Loss (Overdue Period)**
	CMS 6 months or more but less than 18 months.	**CMS** 18 months or more but less than 30 months.	**CMS** 30 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

* **CMS means Cottage, Micro and Small credits defined in SMESPD Circular No. 02 dated 05 September 2019.*

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:

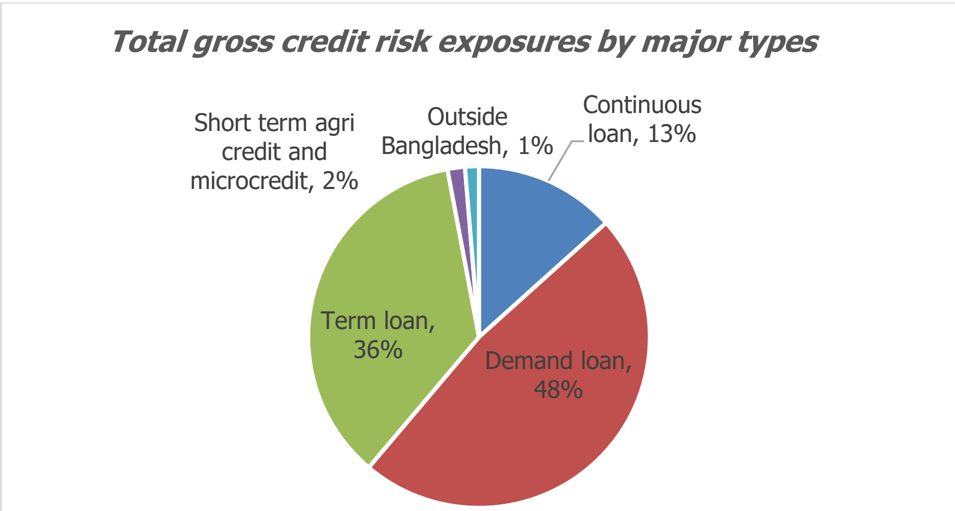
Heads	**Rates of provision**
General provision on:	
Unclassified (including SMA) small and medium enterprise	0.25%
Unclassified (including SMA) Loans to BHs/MBs/SDs against shares etc.	2%
Unclassified (including SMA) loans for housing finance	1%
Unclassified consumer financing including credit card (other than housing finance)	2%
Unclassified (including SMA) other loans and advances	1%
Short term agri credit and micro credit	1%
Special General Provision: Covid-19	1%-2%
Off-balance sheet exposures (excluding Bills for collection)	0%-1%
Specific provision on:	
Substandard loans other than short term agri credit, micro credit and CMSME	20%
Doubtful loans other than short term agri credit, micro credit and CMSME	50%
Substandard & doubtful loans short term agri credit and micro credit	5%
Substandard loans CMSME	5%
Doubtful loans CMSME	20%
Bad/Loss loans and advances	100%

Quantitative Disclosures

(b) Total gross credit risk exposures (by major types) of 31-12-23:

BDT in million

Particulars	**Amount**
Inside Bangladesh	
Continuous loan (CL-2)	
Consumer Financing (CF)	10,286
Small & Medium Enterprise (SME)	4,528
Loans to BHs/MBs/SDs against Shares	1,061
Other than SMEF, CF, BHs/MBs/SDs	31,297
	47,173
Demand loan (CL-3)	
Small & Medium Enterprise (SME)	2,960
Other than SMEF, CF, BHs/MBs/SDs	166,020
	168,981
Term loan (CL-4)	
Consumer Financing (including staff, other than HF)	18,855
Housing Financing (HF)	8,723
Small & Medium Enterprise	22,263
Other than SMEF, CF, BHs/MBs/SDs	76,901
	126,741
Short term agri credit and microcredit (CL-5)	
Short term agri credit	5,810
	5,810
Outside Bangladesh	
Loans, cash credits, overdrafts etc.	4,652
Total	**353,357**



(C) Geographical distribution of exposures:

BDT in million

Division	2023	2022
Dhaka Division	274,716	238,756
Chattogram Division	60,104	50,517
Sylhet Division	2,838	2,654
Rajshahi Division	4,175	4,376
Khulna Division	5,059	5,186
Rangpur Division	705	603
Barishal Division	467	489
Mymensingh Division	640	612
Outside Bangladesh	4,652	5,723
Total	**353,357**	**308,916**

(d) Sector wise exposure of Total loan:

BDT in million

Particulars	2023	2022
Agri and micro credit through NGO	15,917	21,434
Commercial and trading	47,312	38,619
Construction	17,242	9,902
Cement and ceramic industries	7,321	5,507
Chemical and fertilizer	5,826	4,548
Crops, fisheries and livestock	1,319	629
Electronics and electrical goods	7,614	6,049
Food and allied industries	17,768	23,444
Consumer finance	37,864	32,897
Metal and steel products	26,819	22,285
Pharmaceutical industries	9,478	6,276
Power and fuel	18,658	14,293
Rubber and plastic industries	4,488	4,780
Readymade garments industry	40,470	38,855
Ship building & breaking industry	3,713	3,640
Sugar and edible oil refinery	13,693	10,401
Transport and e-communication	8,457	6,506
Textile mills	19,951	14,792
Other manufacturing or extractive industries	30,126	23,234
Others	19,321	20,825
Total	**353,357**	**308,916**

(e) Residual contractual maturity of credit exposure (31-12-23):

BDT in million

Particulars	Amount
On demand	21,671
In not more than one month	21,031
In more than one month but not more than three months	54,824
In more than three months but not more than one year	141,718
In more than one year but not more than five years	84,324
In more than five years	29,789
Total	**353,357**

(f) Sector wise exposure of classified loans:

BDT in million

Particulars	2023	2022
Commercial and trading	4,469	3,691
Sugar, edible oil refinery & food processing	59	55
Crops, fisheries & livestock	-	3
Electronics & electrical goods	925	929
Individuals	22	89
Readymade garments industry	1,919	1,759
Ship breaking industry	1,172	1,172
Metal & steel products	341	146
Transport & e-communication	26	32
Textile mills	1,207	14
Others	801	688
Total	**10,941**	**8,579**

(g) Gross Non-Performing Assets (classified loan)

On the reporting date i.e. 31 December 2023, Gross Non-Performing Assets/classified loans stood at BDT 10,941.13 million.

Non-Performing Assets (classified loans) to Outstanding Loans & advances

On the reporting date i.e. 31 December 2023, Non-Performing Assets (classified loans) to outstanding loans & advances was 3.10%.

Movement of Non-Performing Assets (classified loans):

BDT in million

Particulars	**2023**	**2022**
Opening balance	8,579	9,979
Additions during the year	3,552	2,939
Reductions during the year	(1,190)	(4,339)
Closing balance	**10,941**	**8,579**

Movement of Specific Provisions for NPAs (Provisions for classified loans)

BDT in million

Particulars	**2023**	**2022**
Opening balance	**8,583**	**8,562**
On fully provided debt written off during the year	(357)	(2,292)
On recovery from loans written off earlier	473	793
Change in SP of OBU due to exchange rate difference	105	241
Specific provision charged (net of recovery) for the year	491	1,278
Provision held at the end of the year	**9,296**	**8,583**

E. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

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

Investment in equity securities by EBL is broadly categorized into two 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.

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 or (higher of market value or 85% of NAV)	Provision for unrealized loss (net) to profit and loss account but no unrealized gain booking.
Unit fund (open-end)*	Cost	Lower of cost or 85% of NAV	Provision for unrealized loss (net) to profit and loss account but no unrealized gain booking.
Prize bonds	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) & unit funds (open-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	2023	
	Solo	Consolidated
The cumulative realized gains (losses) arising from sale and liquidation in the reporting period/Net gain/(loss) on sale of quoted securities	10	83
Total unrealized gains (losses)/ Provision for loss on revaluation of shares (net)	756	1163
Total latent revaluation gains (losses)	-	-
Any amount of the above included in Tier 2 capital	-	-
Capital charge required for quoted securities:	1,036	1,587
Specific risk	518	793
General market risk	518	793

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 change 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 bank's interest rate risk management process encompasses defining business objectives, forecasting future macroeconomic variables, and comprehending the money markets and debt markets in which it operates. Additionally, it involves assessing the bank's comfort level with market risk and quantifying its appetite accordingly.

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 allocation 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 up to 3 months using historical repayment behavior and stable portion is bucketed in 6-12 months. For liabilities, volatile portion is bucketed up to 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 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, it doesn't.
- 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 encashment 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 do.
- 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, 2023:

Particulars	3 months	6 months
For 1% increase/decrease in interest rate, impact on NII	BDT ± 30.12 Million	BDT ± 115.31 Million
For 2% increase/decrease in interest rate, impact on NII	BDT ± 60.25 Million	BDT ± 230.63 Million

Duration GAP Analysis:

Duration GAP Analysis primarily aims to assess a bank's vulnerability to interest rate fluctuations by measuring the sensitivity of its Market Value of Equity (MVE). It evaluates how changes in interest rates affect the MVE and can be utilized to gauge the impact on the bank's equity value across various interest rate scenarios. ALCO regularly monitors the Leveraged Liability Duration and overall duration gap of the bank's balance sheet on a quarterly basis to evaluate the repercussions of parallel shifts in the assumed yield curve.

Particulars	Dec-31, 2023	Dec-31, 2022
Duration of Asset	1.64	1.95
Duration of Liabilities	1.36	1.54
Duration Gap	0.28	0.41

Changes in Market value of Equity due to an increase in interest rate as of 31 December, 2023		
1%	**2%**	**3%**
BDT 1,841.74 million	BDT 3,683.48 million	BDT 5,525.21 million

G. Market Risk

Qualitative Disclosures

Market Risk: Market Risk refers to potential loss that can occur as a result of fluctuations in market conditions. It encompasses the risk of adverse impacts on the value of both on and off-balance sheet positions due to changes in equity prices, interest rates, and currency exchange rates. Our aim with respect to market risk is to strike a balance between risks and return that is optimal, while also fulfilling the needs of our customers, through our policies and procedures.

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: The ALCO regularly monitors a number of ratios to manage the interest rate risk, with key ratios such as Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Maximum Cumulative Outflow (MCO), Liquid asset to total assets, Volatile liability dependency ratio, Snap liquidity ratio and Short term borrowing to Liquid assets ratio. Additionally, the ALCO also regularly tracks the interest rate sensitive gap and duration gap of the 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. FX VaR of 31 December 2023 is as follows:

Value-at-Risk (Loss in percent of present value)					
Confidence level	Time horizon				
	1 day	2 days	3 days	4 days	5 days
90%	2,101,692	3,152,688	10,662,701	14,101,225	14,483,479
95%	3,918,544	14,116,011	14,300,213	15,111,700	18,580,160
99%	28,961,555	28,961,555	28,966,311	30,081,438	30,081,438

The Investment Committee of the bank takes prudent decisions to manage equity risk, in accordance with the bank's investment policy and the capital market investment limits set by Bangladesh Bank.

Quantitative Disclosures:

Capital charge required (Solo basis) for market risk on the reporting date 31-12-23:

BDT in million

	Particulars	Amount
a	Interest rate risk	77
b	Equities	1,036
c	Foreign exchange risk	309
d	Commodity risk	-
	Total	**1,423**

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 financial 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), Monitoring department (ICCD) and Risk Management Division (RMD) regularly review different aspects of operational risks and escalate the findings to appropriate authority while internal audit suggests 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) is 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, awareness programs and time to time communications from senior management 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 attracting 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:

Capital charge required for operation risk on the reporting date 31-12-23:

BDT in million

Particulars	Solo (Bank)	Consolidated
Capital charge for operational risk	3,127	3,215

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 incurring excessive cost while mobilizing fund due to scarcity of cash fund at a certain period of time. The risk arises from mismatch in the expected level of cash flows from maturing assets and liabilities. 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 sets 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)
- Advance 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 has constructed Contingency Funding Plan (CFP) to manage liquidity in both normal and stressed conditions. CFP includes 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 is an extension of ongoing liquidity management while ensuring:

- 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, 8 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.

<u>Quantitative Disclosures:</u>

Liquidity Coverage Ratio and Net Stable Funding Ratio as on 31 December 2023 are given below:

BDT in million

Particulars	Amount
Stock of High quality liquid assets	91,619
Total net cash outflows over the next 30 calendar days	87,556
Liquidity Coverage Ratio (%)	**104.64%**
Available amount of stable funding	378,846
Required amount of stable funding	352,070
Net Stable Funding Ratio (%)	**107.61%**

J) Leverage Ratio

<u>Qualitative Disclosures</u>

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 RBCA guideline of Basel III issued by BRPD of Bangladesh Bank is followed by EBL while managing excessive on and off-balance sheet leverage of the bank. As per RBCA guideline, leverage ratio indicates 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 2023 is given below:

BDT in million

Particulars	**Amount**
On balance sheet exposure (A)	499,258
Off balance sheet exposure (B)	108,910
Regulatory Adjustments (C)	3,690
Total exposure (A+B-C)	**604,478**
Leverage Ratio	**5.63%**

K. Remuneration

Qualitative Disclosures

EBL strives to pay people according to market and merit. The focus remains on to attract, retain and motivate top talents to grow sustainably. EBL emphasizes on understanding the trends that are affecting the job market to remain the employer of choice. 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. Our employee value proposition consists of healthcare, retirement and wellbeing benefits. Additionally, our compensation practices are also fair and equitable, and our compensation structure is designed based on pay-for-performance culture. Salary Survey is also conducted on every two years to adjust the industry pay scales by appointing independent consultant. 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 own policies.

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 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 Managing Director 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 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, critical allowance support, 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 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)
  f. Regulatory and other changes affecting the industry

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 deems appropriate to allow for adjustment 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.

EBL has remained consistent in the measures through which remuneration package is designed. There has not been any deviation as compared to last year.

(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
- Operational and compliance objective
- Behavioral competency

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

Overall performance is evaluated as per above mentioned parameters and individuals are rated accordingly from 1 (highest) to 6 (lowest). Increment is linked with the rating employees receive during the performance evaluation process. Increments are only applicable for ratings which are linked with growth i.e. 1-4 rating.

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 seeks 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 consists of base salary and different benefit packages mentioned earlier. Therefore, EBL does not use any form of variable remuneration in its remuneration process.

<u>Quantitative Disclosures:</u>

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 Board of Directors (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:

All employees are entitled to 02 (two) basics as two festival bonuses.

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 2023, 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.