

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.

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 2014 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 intercompany transactions. Assets of the subsidiaries were risk weighted and equities of subsidiaries were crossed out with the investment of EBL while consolidating.

So, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements 2014 of EBL and its Subsidiaries along with separate audited financial statements 2014 of the Bank available on the website of the Bank (www.ebl.com.bd).

Scope of Application

Applicable top corporate entity: The Risk Based Capital Adequacy framework applies to **Eastern Bank Limited (EBL)** on 'Consolidated Basis' as there were four subsidiaries of the Bank as on the reporting date i.e. 31 December 2014. However, 'Solo Basis' information has been presented beside those of 'Consolidated Basis' to facilitate comparison.

Entities within the group: The Bank had four subsidiaries, all of them are fully owned, as on the reporting date i.e. 31 December 2014.

EBL Securities Limited: EBL Securities Ltd., a leading brokerage firm of the country, was acquired in two phases and was renamed from 'LRK Securities Limited'. The principal activities of the company are to buy, sell, deal and invest in shares, stocks, debentures and other securities.

The company is the TREC holder (Trading Right Entitlement Certificate) of both Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) bearing certificate no. 026 and 021 dated 03 November 2013 and 28 October 2013 respectively (Previous membership no. 026 and 021 of DSE and CSE respectively).

EBL Investments Ltd.: EBL Investments Limited (EBLIL) was incorporated in Bangladesh on 30 December 2009 as a Private Limited Company under the Companies Act 1994 and obtained required merchant banking license from BSEC on 27 January 2013.

EBL Finance (HK) Limited: The first foreign subsidiary of EBL was incorporated on 28 November 2011 with Hong Kong (HK) authority to act as a routing and discounting intermediary of LCs issued by EBL and to advise other local and foreign banks' LCs. EBL obtained all the required licenses from Bangladesh and HK authority. It is now in full operation.

EBL Asset Management Ltd.: EBL Asset Management Limited (EBLAML) was incorporated in Bangladesh on 9 January 2011 as a Private Limited Company under the Companies Act 1994 and is under process to get license from Bangladesh Securities Exchange Commission (BSEC) for full-fledged asset management operation.

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. Bank is following latest Bangladesh Bank circular in determining maximum amount of finance to the subsidiaries of the Bank. As on year end 2014, EBL had a credit line to 'EBL Securities Ltd.' of BDT 459.20 million and a Guarantee of BDT 150 million (against clearing settlements with DSE).

Aggregate amount of capital deficiencies: As on the reporting date there was no such deficiency.

Capital Structure

Summary information on the terms and conditions of tier 1 & 2 capital instruments: Regulatory capital, as stipulated in the revised RBCA guidelines by BB, is categorized into three tiers according to the order of quality of capital (Tier 1, 2 & 3). Tier 1 or Core Capital comprises the highest quality capital components, Tier 2 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 3 or Additional Supplementary Capital comprises short term subordinated debt with maturity of two to five years. As on year end 2014, there was no tier 3 component of capital at EBL. Component wise details are presented in the quantitative disclosure part that follows:

Conditions for maintaining regulatory capital: 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:** There was no unrealized gain from quoted equities as on the reporting date.
- 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:** Complied. Capital required for meeting credit risk was BDT 10,992.71 million and tier 1 capital maintained was BDT 13,957.76 million. Capital required for meeting 28.5% of market risks was BDT 326.19 million (BDT 1,144.51 X 28.5%) as on the reporting date.

There are certain deductions from tier 1 capital which are noted with the status of compliance in the respective table presented below.

Quantitative Disclosures: As on the reporting date (31 December 2014), the Bank had a consolidated capital of BDT 18,259.58 million comprising tier 1 capital of BDT 14,096.56 million and tier 2 capital of BDT 4,163.02 million. Following table presents component wise details of capital (Tier 1 & 2) as on reporting date i.e. 31 December 2014:

(Figures are in million BDT)

A	Tier – 1 (Core Capital)	Consolidated	Solo (Bank)
1	Fully Paid-up Capital	6,111.80	6,111.80
2	Statutory Reserve	6,111.80	6,111.80
3	Non- repayable Share premium account	-	-
4	General Reserve	130.00	130.00
5	Retained Earnings	1,386.92	1,248.12
6	Minority interest in Subsidiaries	-	-
7	Non- Cumulative irredeemable Preference shares	-	-
8	Dividend Equalization Account	356.04	356.04
9	Other (if any item approved by Bangladesh Bank)	-	-
10	Sub-Total: (1 to 9)	14,096.56	13,957.76
B	Tier -2 (Supplementary Capital)		
1	General Provision (Unclassified loans + SMA+ off balance sheet exposure)	1,915.66	1,915.67
2	Assets Revaluation Reserves up to 50%	1,844.75	1,844.75
3	Revaluation Reserve for Securities up to 50%	402.60	402.60
4	Revaluation Reserve for equity instruments up to 10%	-	-
5	All other preferences shares	-	-
6	Subordinated debt	-	-
7	Other (if any item approved by Bangladesh Bank)	-	-
8	Sub total (1 to 7)	4,163.02	4,163.02
9	Deductions from tier i and ii capital (if any)	-	-
C	Total Eligible Capital (A+B)	18,259.58	18,120.78

Capital Adequacy

Assessment of the adequacy of capital: Assessing regulatory capital in relation to overall risk exposures of a bank is an integrated and comprehensive process. EBL follows the 'asset based' rather than 'capital based' approach in assessing the adequacy of capital to support current and projected business activities.

The Bank focuses on strengthening risk management and control environment rather than increasing capital to cover up weak risk management and control practices. EBL has been generating most of its incremental capital from retained profit (stock dividend and statutory reserve transfer etc.) and occasional issue of right shares to support incremental growth of Risk Weighted Assets (RWA). Besides meeting regulatory capital requirement, the Bank maintains adequate capital to absorb material risks foreseen. Therefore, the Bank's Capital Adequacy Ratio (CAR) remains consistently within the comfort zone since

the parallel run from 1 January 2009. During the year 2014, the CAR ranges from 12.26 % to 13.18 % on consolidated basis and from 12.27% to 13.22% on solo basis against minimum requirement of 10% of RWA.

Risk Management Unit (RMU) under guidance of the SRP team/BRMC (Bank Risk Management Committee), is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to.

Quantitative Disclosures: Following table shows component wise allocation of capital to meet three risks and an amount of additional capital maintained over MCR i.e. 10% of RWA. As on the reporting date i.e. 31 December 2014, EBL maintained a Capital Adequacy Ratio (CAR) of 13.18% on 'Consolidated Basis' and 13.22% on 'Solo Basis' against required minimum of 10%. We had an excess capital of BDT 4,404.91 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	Solo (Bank)
Capital requirement for Credit Risk	11,079.10	10,992.72
Capital requirement for Market Risk	1,189.71	1,144.51
Capital requirement for Operational Risk	1,585.86	1,566.52
Minimum capital requirement (MCR)	13,854.67	13,703.75
Additional capital maintained over MCR	4,404.91	4,417.03
Total capital maintained	18,259.58	18,120.78
Risk weighted assets	138,546.71	137,037.47
Total capital ratio (CAR)	13.18 %	13.22 %
Tier 1 capital ratio	10.17 %	10.19 %

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 and is managed through a framework set by policies and procedures established by the Board of Directors. The responsibility is clearly segregated between originator of business transaction and approver in the risk function.

Credit approval: Board of Directors of EBL has the sole authority to approve any credit exposure subject to maintaining Single Borrower Exposure limit and to delegate such authority to the Managing Director & 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 delegated to DMD & CRO and to Head of Credit Risk Management Division and to Departmental Heads.

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.

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 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 risk grading and measurement: Risk measurement along with judgment and experience play a central role in informed risk taking decisions, and portfolio management. For the purpose of risk measurement we use a numerical grading system 'Credit Risk Grading Matrix' (CRGM) associated with a borrower. This CRGM is not a lending decision making tool but used as a general indicator to compare one set of customers with another set, and its weighted average value indicate 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. 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 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 with our credit policy and procedures.

Credit monitoring: Credit exposures and portfolio performance are monitored on regular basis. 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 the credit policy to be followed by 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 to our Special Asset Management Division (SAMD) – the dedicated loan recovery unit of the Bank.

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. The summary of some objective criteria for loan classification and provisioning requirement as stipulated by the central bank BRPD circular no. 14 dated 23 September 2012 and BRPD circular no.16 dated 18 November 2014 are as below:

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

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

General provision on: (For both Standard and Special mention account)	Rate
Unclassified general loans and advances	1%
Unclassified small and medium enterprise	0.25%
Loans to BHs/MBs/SDs against shares etc.	2%
Unclassified loans for housing finance and on loans for professionals	2%
Unclassified consumer financing other than housing financing and loans for professionals	5%
Short term agri credit and micro credit	2.5%
Off balance sheet exposures	1%
Specific provision on:	
Substandard loans and advances other than short term agri credit and micro credit	20%
Doubtful loans and advances other than short term agri credit and micro credit	50%
Bad/loss loans and advances	100%
Substandard short term agri credit and micro credit	5%
Doubtful short term agri credit and micro credit	5%

Problem Credit Management: The Bank has a Special Asset Management Division (SAMD), dedicated for management, settlement and recovery 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 pursuing legal actions.

Quantitative Disclosures:

Total gross credit risk exposures 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	Exposures	
		Consolidated	Solo (Bank)
a)	Cash	1,707.01	1,706.94
b)	Claims on Bangladesh Government (Other than PSEs) and BB (denominated in domestic and foreign currency)	18,586.78	18,586.78
c)	Claims on Public Sector Entities		
	Different Risk Weights	930.77	930.77
	Unrated	24.71	24.71
d)	Claims on Banks and NBFIs (denominated in domestic as well as foreign currency)		
	i) Original maturity over 3 months:		
	Different Risk Weights	2,587.54	2,587.54
	Unrated	1,569.48	1,569.48
	ii) Original maturity less than 3 months	5,588.58	5,012.28
e)	Claims on Corporate (excluding equity exposures):		
	Different Risk Weights	58,507.18	58,507.18
	Unrated	13,345.90	13,345.9
f)	Claims on SME		
	Rated	1,040.22	1,040.22
	Unrated	15,703.99	15,703.99
g)	Claims under Credit Risk Mitigation (Corporate)	788.26	788.26
h)	Claims categorized as retail portfolio & Small Enterprise (excluding consumer finance and staff loans)	2,242.79	2,242.79
	Claims Under Credit Risk Mitigation (Consumer)	2,849.11	2,849.11
	Claims categorized as retail portfolio (excluding consumer finance, small enterprise and staff loans) up to 1 Crore	21.21	21.21
i)	Consumer finance	8,214.18	8214.18
j)	Claims fully secured by residential property (excluding staff loan)	908.70	908.70
k)	1. Past Due Claims (Risk weights are to be assigned net of specific provision):		
	Where specific provisions are less than 20 percent of the outstanding amount of the past due claim	1,513.82	1,513.82
	Where specific provisions are no less than 20 percent of the outstanding amount of the past due claim	1,053.55	1,053.55
	Where specific provisions are more than 50 percent of the outstanding amount of the past due claim	364.02	364.02
	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.	12.21	12.21
	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.	0.38	0.38
l)	Capital market exposures	1,414.02	459.20
m)	Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book.	1,265.42	1,263.98
n)	Investments in venture capital	20.00	-
o)	Investments in premises, plant and equipment and all other fixed assets	7,096.63	7,086.87
p)	All other assets:		
	i) Claims on GoB & BB (e.g. Coupon Receivable from Govt. T Bonds & reimbursable from BB on PSP, Shadharan shanchaypatra, etc.)	939.08	939.08
	ii) Staff loan/investment	1,549.74	1,549.74
v)	Other assets (net of specific provision, if any)	1,616.77	2,103.34
	Total:	151,462.05	150,386.23

Geographical distribution of exposures: 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 as at year end 2014 in different divisions:

(Figures are in million BDT)

Division	Corp	SME	CNB including staff	Total
Dhaka	61,468.10	11,608.88	10,677.61	83,754.58
Chittagong	24,313.08	4,666.19	2,389.97	31,369.24
Sylhet	-	318.93	287.02	605.95
Rajshahi	240.03	722.92	242.89	1,205.83
Khulna	-	832.44	343.47	1,175.91
Rangpur	-	125.83	43.90	169.73
Barishal	-	4.27	5.83	10.10
Total	86,021.21	18,279.45	13,990.69	118,291.35

Industry wise distribution of exposures: Major industry wise credit exposure of the bank (not group) as on 31 December 2014 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	2014	Mix	2013	Mix
Commercial and Trading	18,929.35	16.00%	18,768.87	18.24%
Construction	1,234.95	1.04%	1,606.80	1.56%
Sugar & Edible Oil Refinery	4,664.24	3.94%	2,997.69	2.91%
Crops, fisheries & live stocks	3,179.60	2.69%	1,593.56	1.55%
Electronics & Electrical Goods	2,119.65	1.79%	2,951.15	2.87%
Individuals	13,991.04	11.83%	12,344.81	12.00%
Pharmaceuticals Industries	3,709.26	3.14%	4,034.23	3.92%
Readymade Garments Industry	13,263.03	11.21%	10,700.66	10.40%
Ship Breaking Industry	2,994.67	2.53%	3,196.89	3.11%
Metal & Steel Products	7,155.73	6.05%	7,867.56	7.65%
Transport & E-communication	7,869.59	6.65%	6,015.25	5.85%
Textile Mills	11,057.55	9.35%	9,771.75	9.50%
Rubber & Plastic Industries	3,005.13	2.54%	2,448.02	2.38%
Power & Fuel	5,199.78	4.40%	2,539.08	2.47%
Agri & Micro credit through NGO	4,375.67	3.70%	2,734.82	2.66%
Others	15,542.11	13.14%	13,339.07	12.96%
Total	118,291.35	100.00%	102,910.22	100.00%

Residual contractual maturity of credit exposure: Residual maturity of credit exposure as on 31 December 2014 was as below:

(Figures are in million BDT)

Particulars	Amount
On demand	5,177.28
In not more than one month	9,740.63
In more than one month but not more than three months	23,439.10
In more than three months but not more than one year	45,271.88
In more than one year but not more than five years	30,526.64
In more than five years	4,135.82
Total	118,291.35

Business segment wise impaired or non performing loans: as on 31 December 2014:

(Figures are in million BDT)

Business type	SS	DF	BL	Total Classified Loans
Corp	565.70	219.72	2,403.77	3,189.19
SME (small)	86.19	77.22	315.90	479.31
SME (medium)	146.52	446.47	426.61	1,019.60
Consumer	87.55	68.84	312.58	468.97
Total	885.96	812.25	3,458.86	5,157.07

Gross Non Performing Assets (NPAs): As on the reporting date i.e. 31 December 2014, NPA ratio was 4.36%.

Movement of NPAs: Movement of classified loans during the year is presented in the following table:

(Figures are in million BDT)

Particulars	2014	2013
Opening Balance as on 01 January	3,697.23	3,070.77
Additions during the year	3,267.09	3,998.58
Reductions during the year	1,807.26	3,372.13
Closing Balance as on 31 December	5,157.07	3,697.23

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

(Figures are in million BDT)

Particulars	2014	2013
Opening balance of provision held	1,929.24	1387.32
New provisions during the year	1,645.93	816.70
Provisions no longer required (written off loans)	(1,166.09)	(274.78)
Closing balance of provision held	2,409.08	1,929.24

Equities: Disclosures for banking book positions

Nature and purpose of Equity investment: Investment of EBL in equity securities is broadly categorized into two parts: securities (Ordinary shares, Mutual Fund) that are traded in the secondary market (trading book assets) and Un-quoted securities (including preference share and subscription for private placement). 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.

Policies for valuation and accounting of equity holdings: For valuation of Unquoted HTM and quoted HFT equity securities, relevant BFRS and Bangladesh Bank circulars are followed respectively. Unquoted HTM securities are recorded at purchase price including transactions costs, if any and are impairment tested whereas quoted HFT securities are marked to market quarterly. Revaluation loss (if any) is booked accordingly calculated on portfolio basis (gain net off). No unrealized gain is booked against HFT equity securities as per Bank policy. Dividends received from these securities are accounted for as and when received.

Quantitative Disclosures: As EBL Securities Ltd and EBL Investment maintain an insignificant portfolio of proprietary equity investment, comparison between consolidated and solo (bank) positions showed almost identical balance as on the reporting date i.e. 31 December 2014. For unquoted equities (including private placement), market value has been assumed identical to cost in the following table only to facilitate calculation of unrealized losses.

(Figures are in million BDT)

Particulars	Cost		Market Value	
	Consolidated	Solo (Bank)	Consolidated	Solo (Bank)
Quoted shares and Mutual Funds	3,347.42	3,103.83	2,469.18	2,243.17
Unquoted shares and Mutual Funds:	51.80	31.80	51.80	31.80
Unquoted (HTM)	6.30	6.30	6.30	6.30
Private placement	45.50	25.50	45.50	25.50
Total	3,399.22	3,135.63	2,520.98	2,274.97

Other information related to equity investments including capital requirement for the year has been presented as follows:

(Figures are in million BDT)

Particulars	Consolidated	Solo (Bank)
Cumulative realized gains (losses) arising from sales	78.46	52.83
Total unrealized gains (losses)	(881.85)	(864.26)
Total latent revaluation gains (losses)	-	-
Any amount of the above included in Tier 2 capital	-	-
Capital required for quoted securities:	493.84	448.64
Specific risk	246.92	224.32
General market risk	246.92	224.32

Interest Rate Risk in the Banking Book

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

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

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

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

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

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

Assumptions: For Gap analysis, bank considers the following:

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

Also, following assumptions are met:

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

Quantitative Disclosure: Result of Gap analysis as on December 31, 2014:

Particulars	3 month	6 Months
For 100 basis point increase/decrease in Interest rate, Impact on NII	+9.6 million	+56.30 million
For 200 basis point increase/decrease in Interest rate, Impact on NII	+19.2 million	+112.60 million

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

Particulars	Dec-31, 2013	June-30, 2014	Dec-31, 2014
Duration of Asset	1.04	1.34	1.18
Duration of Liabilities	0.41	0.45	0.41
Leveraged Liability Duration	0.67	0.95	0.82
Duration Gap	0.37	0.39	0.36

Market Risk

Qualitative Disclosures:

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

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

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

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

Bank has comprehensive Treasury Trading Policy, Asset-Liability Management Policy, Investment Policy approved by Board of Directors to assess, monitor and manage all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

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

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

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

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

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

Particulars	Time horizon				
	1 day	2 days	3 days	4 days	5 days
Confidence level					
90%	566,325	859,721	1,063,501	1,360,529	1,709,587
95%	682,379	1,155,317	1,451,986	1,742,814	2,166,067
99%	1,215,409	1,732,829	2,103,788	2,251,198	2,596,646

The Bank has been active in secondary market during the year with 1.82% assets invested in equity securities as on the reporting date. To manage equity risk, the Investment Committee of the bank ensures taking prudent investment decisions complying sectoral preference as per investment policy of the bank and capital market exposure limit set by BB.

Quantitative Disclosures: Capital required (Solo basis) for market risk as on the reporting date follows:

(Figures are in million BDT)

a	Interest rate risk	575.02
b	Equities	448.63
c	Foreign exchange risk	120.86
d	Commodity risk	-
	Total	1,144.51

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 benefit trade-offs.

The bank captures some pre identified risk events associated with all functional departments of the bank through standard reporting format. Bank's Operational Risk Committee (BORC) sits every month with all these reports and decides action plans to resolve risk issues by specific individual and/or group within an agreed timeline. The committee also escalates 'high level risk' issues to MANCOM (Management Committee) and BRMC (Bank Risk Management Committee) based on importance

and urgency of taking effective decisions. BORC is responsible for setting and maintaining standards for operational risk management and measurement, which is separate from the business functions.

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

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

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

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

- Is rooted in an understanding of what really motivates our people.
- Encourage teamwork, by creating a culture where individual and team success is recognized.
- Regular benchmarking to compare our reward and recognition strategy with similar organizations.

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

Policies and processes for mitigating operational risk: As there is no upside of this risk, the objective of the management of operational risk is to minimize the risk in cost effective manner, if elimination is not possible.

Currently bank is not using any model or tool to capture operational loss data for historical analysis rather it is a self assessment process. Bank has a separate Operational Risk Management Unit responsible for risk identification, measurement, monitoring, control, and reporting of operational risk.

Operational risks are analyzed through review of Departmental Control Function Check List (DCFCL). This is a self assessment process for detecting HIGH risk areas and finding mitigation of those risks. These DCFCLs are then discussed in monthly meeting of Bank's Operational Risk Committee (BORC). The committee analyzes HIGH and MODERATE risk indicators and set responsibility for suitable personnel to resolve the issue. If anything remains unresolved or marked HIGH, it is referred to MANCOM.

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

- Be gross of any provision (e.g. for unpaid interest),
- Be gross of operating expenses, including fees paid to outsourcing service providers,
- Exclude realized profits/losses from sale of securities held to maturity in the banking book,
- Exclude extraordinary or irregular items,
- Exclude income derived from insurance and
- Include lost interest i.e. interest suspense on SMA and classified loans.

Quantitative Disclosures: The capital requirement for operational risk is as follows:

(Figures are in million BDT)

Particulars	Consolidated	Solo (Bank)
Last three year's average Gross Income (adjusted)	10,572.43	10,443.47
Capital charge required (15% of GI)	1,585.86	1,566.52