Disclosures on Risk Based Capital (Basel III)

Background

Basel III reforms are the response of Basel Committee on Banking Supervision (BCBS) to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. Basel III mainly addresses the following areas:

- raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis
- 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 for the 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 Limited (EBL) has also adopted Basel III framework as part of its capital management strategy in line with the revised guideline. These Market discipline disclosures under Basel III are made following the same guidelines in order to complement the minimum capital requirements and the supervisory review process. Establishing a transparent and disciplined financial market through providing accurate and timely information related to liquidity, solvency, performance and risk profile of a bank is another important objective of this disclosure.

Consistency and validation

The quantitative disclosures are made on the basis of consolidated audited financial statements of EBL and its subsidiaries as at and for the year ended 31 December 2020. Those are prepared under relevant International Accounting and Financial Reporting Standards and related circulars/instructions issued by Bangladesh Bank from time to time. The assets, liabilities, revenues and expenses of the subsidiaries are combined with those of the parent company (EBL), eliminating intercompany transactions. Assets of the subsidiaries are risk weighted and equities of subsidiaries are crossed out with the investment of EBL while consolidating. So, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated and separate audited financial statements of EBL (Group and Bank) available on the website of the Bank (www.ebl.com.bd). The report is prepared once a year and is available in the website.

A. Scope of application

Qualitative disclosures

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

The framework applies to **Eastern Bank Limited (EBL)** on 'Consolidated Basis' as there were four subsidiaries of the Bank as on the reporting date i.e. 31 December 2020. However, 'Solo Basis' information has been presented beside those of 'Consolidated Basis' to facilitate comparison.

(b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated; that are given a deduction treatment; and (ii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).

Entities within the group: The Bank has four fully owned subsidiaries as on the reporting date. These are EBL Securities Limited, EBL Investments Limited, EBL Finance (HK) Limited and EBL Asset Management Limited. All subsidiaries of the Bank have been incorporated in Bangladesh except for EBL Finance (HK) Limited which is incorporated in Hong Kong.

EBL Securities Ltd.: EBL Securities Limited (EBLSL), a securities brokerage firm acquired in two phases, is a public limited company having TRECs (Trading Right Entitlement Certificate) and ordinary shares of both the bourses i.e., Dhaka Stock Exchange (DSE) Limited and Chittagong Stock Exchange (CSE) Limited. 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, etc. from June 2013. Registered office of EBLIL is located at Jiban Bima Bhaban, 10 Dilkusha CA, 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 during 2013 after obtaining all the required licenses from Bangladesh and HK authority. Registered office of EBL Finance (HK) Limited is Unit 1201, 12th Floor, Albion Plaza, 2-6 Granville Road, Tsimshatsui, Hong Kong.

EBL Asset Management Ltd.: EBL Asset Management Limited (EBLAML) was incorporated on 9 January 2011 to carry out asset management business, capital market operation, equity investment etc. EBLAML obtained license from Bangladesh Securities & Exchange Commission (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.

The financials are fully consolidated and all intercompany transactions and balances are eliminated.

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

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

Quantitative disclosures

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

Not Applicable.

B. Capital structure

Qualitative disclosures+

(a) Summary information on the terms and conditions of the main features of all capital instruments, especially in case of capital instruments eligible for inclusion in Common Equity Tier-1, Additional Tier 1 or Tier 2.

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

- Common Equity Tier-1 (CET1) capital of EBL consists of Fully Paid-up Capital, Statutory 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	Solo (Bank)	Consolidated
Common Equity Tier-1 (CET-1) Capital	25,779	26,165
Regulatory adjustments	(2,313)	(2,395)
Total Common Equity Tier -1 Capital	**23,466**	**23,769**
Additional Tier 1 Capital	-	-
Tier-2 Capital	**9,678**	**9,678**
Total Regulatory Capital	**33,144**	**33,447**

C. Capital adequacy

Qualitative disclosures

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

Assessing regulatory capital in relation to overall risk exposures of a bank is an integrated and comprehensive process. EBL follows the 'asset based' rather than 'capital based' approach in assessing the adequacy of capital to support current and projected business activities. The Bank focuses on strengthening risk management and control environment rather than increasing capital to cover up weak risk management and control practices. EBL has been generating most of its incremental capital from retained profit (stock dividend and statutory reserve transfer etc.) and occasional issue of 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 within regulatory limit during 2020 (14% plus). The surplus capital maintained by EBL will act as buffer to absorb all material risks and to support the future activities. To ensure the adequacy of capital to support the future activities, the bank assesses capital requirements periodically considering future business growth. Risk Management Division (RMD) under guidance of the SRP team/ ERMC (Executive Risk Management Committee), is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to.

Quantitative disclosures

BDT in million

Particulars	Solo (Bank)	Consolidated
Capital requirement for Credit Risk	18,613	18,732
Capital requirement for Market Risk	911	1,209
Capital requirement for Operational Risk	2,241	2,312
Minimum capital requirement (MCR)	**21,765**	**22,254**
Total regulatory capital	**33,144**	**33,447**
Risk weighted assets	217,654	222,540
Capital to Risk Weighted Assets Ratio	**15.23%**	**15.03%**
Common Equity Tier-1 (CET-1) Capital Ratio	10.78%	10.68%
Tier-2 Capital Ratio	4.45%	4.35%
Capital Conservation Buffer (CCB): 2.50% of RWA	5,441	5,564
Capital Conservation Buffer (%) maintained	4.78%	4.68%
Available Capital under Pillar II requirement*	5,937	5,629

**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 credit risk exposures within acceptable limit.

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

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

Definitions of past due and impaired credit

To define past due and impairment through classification and provisioning, the bank follows Bangladesh Bank Circulars and Guidelines. 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 installments (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:

Type of Facility	Loans Classification		
	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
	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:

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 (on PBD facilitated accounts)	1%
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 31-12-20:

BDT in million

Particulars	Amount
Inside Bangladesh	
Continuous loan (CL-2)	
Consumer Financing (CF)	5,693
Small & Medium Enterprise (SME)	6,615
Loans to BHs/MBs/SDs against Shares	1,300
Other than SMEF, CF, BHs/MBs/SDs	20,482
	34,090
Demand loan (CL-3)	
Small & Medium Enterprise (SME)	7,512
Other than SMEF, CF, BHs/MBs/SDs	81,775
	89,287
Term loan (CL-4)	
Consumer Financing (including staff, other than HF)	11,928
Housing Financing (HF)	3,680
Small & Medium Enterprise	17,979
Other than SMEF, CF, BHs/MBs/SDs	65,554
	99,141
Short term agri credit and microcredit (CL-5)	
Short term agri credit	2,440
	2,440

BDT in million

Particulars	Amount
Outside Bangladesh	
Loans, cash credits, overdrafts etc.	3,986
Total	**228,944**

(C) Geographical distribution of exposures (31-12-20):

BDT in million

Division	Total
Inside Bangladesh	
Dhaka Division	163,883
Chattogram Division	50,343
Sylhet Division	1,607
Rajshahi Division	3,575
Khulna Division	3,939
Rangpur Division	729
Barishal Division	390
Mymensingh Division	492
	224,958
Outside Bangladesh	
Bills financed & UPAS (by EBL Finance HK Ltd)	3,986
Total	**228,944**

(d) Sector wise exposure of Total loan (31-12-20):

BDT in million

Particulars	31-12-2020	Mix (%)
Agri and micro credit through NGO	14,219	6.21%
Commercial and trading	30,670	13.40%
Construction	8,789	3.84%
Cement and ceramic industries	3,667	1.60%
Chemical and fertilizer	3,825	1.67%
Crops, fisheries and livestock	1,224	0.53%
Electronics and electrical goods	3,757	1.64%
Food and allied industries	10,873	4.75%
Consumer finance	29,629	12.94%
Metal and steel products	17,487	7.64%
Pharmaceutical industries	2,704	1.18%
Power and fuel	8,058	3.52%
Rubber and plastic industries	2,799	1.22%
Readymade garments industry	33,141	14.48%
Ship building & breaking industry	6,710	2.93%
Sugar and edible oil refinery	4,873	2.13%
Transport and e-communication	5,559	2.43%
Textile mills	11,713	5.12%
Other manufacturing or extractive industries	12,778	5.58%
Others	16,468	7.19%
Total	**228,944**	**100.00%**

(e) Residual contractual maturity of credit exposure (31-12-20):

BDT in million

Particulars	Amount
On demand	17,895
In not more than one month	8,440
In more than one month but not more than three months	30,284
In more than three months but not more than one year	85,402
In more than one year but not more than five years	70,885
In more than five years	16,038
Total	**228,944**

(f) Sector wise exposure of classified loans (31-12-20):

BDT in million

Particulars	31-12-2020	
	Amount	Mix (%)
Commercial and trading	2,683	43.09%
Crops, fisheries & livestock	5	0.07%
Electronics & electrical goods	21	0.33%
Individuals	418	6.71%
Metal & steel products	153	2.46%
Readymade garments industry	328	5.27%
Ship breaking industry	1,856	29.81%
Sugar, edible oil refinery & food processing	102	1.63%
Transport & e-communication	96	1.54%
Textile mills	1	0.02%
Others	564	9.06%
Total	**6,226**	**100.00%**

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

On the reporting date i.e. 31 December 2020, Gross Non-Performing Assets/classified loans stood at BDT 6,226 million.

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

On the reporting date i.e. 31 December 2020, Non-Performing Assets (classified loans) to outstanding loans & advances was 2.72%.

Movement of Non-Performing Assets (classified loans)

BDT in million

Particulars	2020	2019
Opening balance	7,771	4,926
Additions during the year	29	4,139
Reductions during the year	(1,575)	(1,294)
Closing balance	**6,226**	**7,771**

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

BDT in million

Particulars	2020	2019
Opening balance	6,009	4,118
On fully provided debt written off during the year	-	-
On recovery from loans written off earlier	726	636
Specific provision charged (net of recovery) for the year	765	1,255
Provision held at the end of the year	**7,499**	**6,009**

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 and (higher of market value and 85% of NAV)	Provision for unrealized loss (net) to profit and loss account but no unrealized gain booking.
Prize bond	Cost	Cost	None

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

Quantitative disclosures

Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities

BDT in million

Particulars	Solo (Bank)	Consolidated
The cumulative realized gains (losses) arising from sale and liquidation in the reporting period/Net gain/(loss) on sale of quoted securities	39	77
Total unrealized gains (losses)/ Provision for revaluation of shares (net)	687	843
Total latent revaluation gains (losses)	-	-
Any amount of the above included in Tier 2 capital	-	-
Capital charge required for quoted securities:	548	846
Specific risk	274	423
General market risk	274	423

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

Qualitative disclosures

(a) General Disclosure

IInterest 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 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 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 till 3 months using historical repayment behavior and stable portion is bucketed in 6-12 months bucket. For liabilities, volatile portion is bucketed till 1 year using historical withdrawal behavior and stable portion is bucketed in over 1 year segment.
- Deposits that are already matured but not withdrawn yet are considered to be fall under overnight bucket.

Also, following assumptions are met:

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

Quantitative disclosures:

Funding Gap Analysis:

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

Result of Funding Gap analysis as on December 31, 2020:

Particulars	3 months	6 months
For 1% increase/decrease in interest rate, impact on NII	BDT ± 13.00 Million	BDT ± 43.80 Million
For 2% increase/decrease in interest rate, impact on NII	BDT ± 26.00 Million	BDT ± 87.70 Million

Duration GAP Analysis:

The focus of the Duration GAP 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, 2020	Dec-31, 2019
Duration of Asset	1.71	1.25
Duration of Liabilities	1.56	1.37
Duration Gap	0.30	-0.00349

Changes in Market value of Equity due to an increase in interest Rates as of 31st December, 2020		
1%	2%	3%
BDT 912.94 Million	BDT 1,825.89 Million	BDT 2,738.83 Million

G. Market risk

Qualitative Disclosures

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

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

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

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

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

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

Market Risk Management System: To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Of the ratios, the key ratios that ALCO regularly monitors are Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and Maximum Cumulative Outflow (MCO), Liquid asset to total assets, Volatile liability dependency ratio, Snap liquidity ratio and Short term borrowing to Liquid assets ratio. ALCO also regularly monitors the interest rate sensitive gap and duration gap of total portfolio.

To manage foreign exchange risk of the bank, the bank has adopted the limit set by central bank to monitor foreign exchange open positions. Foreign exchange risk is computed on the sum of net short positions or net long positions, whichever is higher. FX VaR of December 2020 end are as follows:

Figures in BDT

Value-at-Risk (Loss in percent of present value)					
Confidence level	**Time horizon**				
	1 day	2 days	3 days	4 days	5 days
90%	190,211	243,127	352,471	407,976	465,422
95%	236,455	364,589	497,677	577,713	618,186
99%	2,251,125	2,250,996	2,292,337	2,459,908	2,291,734

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

Quantitative disclosures:

Capital charge required (Solo basis) for market risk on the reporting date 31-12-20:

BDT in million

	Particulars	Amount
a	Interest rate risk	317
b	Equities	548
c	Foreign exchange risk	46
d	Commodity risk	
	Total	**911**

H. Operational risk

Qualitative Disclosures

Operational Risk: Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide spectrum of issues. We seek to minimize exposure to operational risk, subject to cost benefit trade-offs.

Views of Board on system to reduce Operational Risk: The policy for measuring and managing operational risks is approved by the Board in line with the relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance Division to protect against all operational risks. As a part of continued surveillance, the management committee (MANCOM), Executive Risk Management Committee (ERMC) and Risk Management Division (RMD) regularly review different aspects of operational risks and escalate the findings to appropriate authority while internal audit 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 in right positions to achieve organizational goals. Our recruitment and selection is governed by the philosophy of fairness, transparency and diversity. Understanding what is working well and what requires further improvement is essential to our performance management system. The performance management process aims to clarify what is expected from employees as well as how it is to be achieved.

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

Peoples' performance is assessed on the bases of performance objectives and key performance indicators (KPI) set at the beginning of each year. Decisions related to rewards and recognitions for the employees are taken on the bases of how well the assigned KPIs are met by the employee.

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

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

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

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

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

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

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

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

Quantitative disclosures:

BDT in million

Particulars	Solo (Bank)	Consolidated
Capital charge for operational risk	2,241	2,312

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

Liquidity risk management system

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

Policies and processes for mitigating liquidity risk

In order to develop comprehensive liquidity risk management framework, EBL 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.

Quantitative disclosures:

Liquidity Coverage Ratio and Net Stable Funding Ratio as on 31 December 2020 are given below:

BDT in million

Particulars	Amount
Stock of High quality liquid assets	66,510.32
Total net cash outflows over the next 30 calendar days	31,535.92
Liquidity Coverage Ratio (%)	**210.90%**
Available amount of stable funding	257,567.16
Required amount of stable funding	244,162.68
Net Stable Funding Ratio (%)	**105.49%**

J. Leverage ratio

Qualitative Disclosures

Views of BoD on System to reduce excessive leverage

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

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

Revised guideline of RBCA based on Basel III as provided by BRPD of Bangladesh Bank is followed by EBL while managing excessive on and off-balance sheet leverage of the bank. As per RBCA 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 2020 is given below:

BDT in million

Particulars	Amount
On balance sheet exposure (A)	329,436
Off balance sheet exposure (B)	65,669
Regulatory Adjustments (C)	2,313
Total exposure (A+B-C)	392,793
Leverage Ratio	**5.97%**

K. Remuneration

Qualitative Disclosures

EBL wants to attract, retain and motivate top talents to meet its sustainable growth. The bank offers a competitive pay and benefits package to create an exemplary team for this sustainable growth. Our compensation and benefits strategy combines the need to maintain a high performance culture along with market competitiveness. A bi-annual benchmarking exercise makes sure that employees' pay is competitive. Moving between pay scales depends on the individuals' performance and we reward employees accordingly.

a) Information relating to the bodies that oversee remuneration.

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

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

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

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

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

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

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

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

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

An overview of the key features and objectives of remuneration policy

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

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

Fixed pay:

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

Benefits:

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

Annual Incentives:

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

Regulations of Pay and Allowances

- Salaries are confidential between the concerned employees and Human Resources Division.
- The grade-wise scale of pay and other allowances of employees are determined by the competent authority from time to time.
- Salary revision is decided by the Managing Director & CEO with the approval of the Board of Directors based on:
  a. Individual Performance
  b. Market movement
  c. The Bank's affordability
  d. Individual's relative position in a particular salary range
  e. COLA (Cost Of Living Adjustment)

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

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

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

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

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

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

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

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

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

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

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

These measures ensure that the remuneration process of EBL is:

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

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

No changes took place.

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

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

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

- Business Objectives
- Personal Development Objective
- Management Objectives
- 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.

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

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

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

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

Not applicable.

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

Not applicable.

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

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

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

Quantitative disclosures:

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

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

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

Not applicable

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

Two basics 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 2020, 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.