STATE BANK OF INDIA
BANGLADESH OPERATIONS
Disclosures on Risk Based Capital (Basel III)
for the year ended December 2022

Disclosure Framework

The following detailed qualitative and quantitative disclosures are provided in accordance with Bangladesh Bank rules and regulations on risk-based capital adequacy under Basel III issued through BRPD Circular No. 18 Dated December 21, 2014. The purpose is to comply with the requirement for having adequate capital and ensuring Supervisory Review Process under Pillar II. These disclosures are intended to assess information about Bank's exposure to various risks.

State Bank of India Bangladesh Operations (SBI) has migrated to Basel III framework from January 2015 as per Bangladesh Bank guidelines where "Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel II)" issued vide BRPD Circular No. 35/2010 has been replaced with the "Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)" issued vide BRPD Circular no. 18/2014 with subsequent supplements/revisions.

Capital Management

The objective of managing capital is to safeguard the Bank's ability to run its business as a going concern so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. SBI's policy is to maintain a strong capital base as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of level of capital on shareholder's return is also recognized where Bank distinguishes the need to maintain a balance between the higher returns, which should be possible with greater gearing, advantages and security afforded by a sound capital position.

The bank manages its capital to attain the following objectives & goals:

- An appropriately capitalized status, as defined by Banking regulations by the central bank;
- Acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- Cover all risks underlying business activities; and
- To retain flexibility to harness future investment opportunities, build and expand even in stressed times.

Risk Management

The variety of business activities undertaken by the Bank requires effective identification, measurement, monitoring, integration and management of different financial and non-financial risks that are constantly evolving as business activities change in response to concurrent internal and external developments. The Board Risk Management Committee (BRMC) is appointed and authorized by the Board of Directors (BoD) to assist in designing, regular evaluation and timely updating the risk management framework of the Bank. SBI has further authorized committees such as Country Office Management Committee (COMC), Risk Committee (RCOM), Foreign Office Credit Committee (FOCC), Assets & Liabilities Committee (ALCO), Central Compliance Committee (CCC), and

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Information Technology Steering Committee (ITSC) to supervise risk management activities within their respective scope.

The risk management framework endeavors to be comprehensive and evolving guidelines to cater to changing business dynamics. The framework includes:

- Clearly defined risk management policies and procedures
- Well constituted organizational structure in the form of a separate risk management department, which ensures that individuals responsible for risk approval are independent from risk taking units i.e. Business Units
- Mechanism for ongoing review of credit policies, procedures and risk exposures

The primary objective of the above is to inculcate risk management into the organization flows to ensure that risks are accurately identified, assessed, properly documented, approved and adequately monitored & managed in order to enhance long term earnings and to protect the interests of the Bank's depositors and shareholders.

SBI's risk management framework has a well-defined organizational structure for effective management of credit risk, market risk, liquidity risk, operational risk, information security risk, trade pricing, environmental & social risk.

In terms of Guidelines on RBCA, SBI has adopted the Standardized Approach (SA) for Credit Risk & Market Risk while Basic Indicator Approach (BIA) for Operational Risk. In addition to regulatory capital requirement of computation as per Pillar I, the Bank also assesses Interest Rate Risk, Equity Risk, and Foreign Exchange Risk on a regular basis to assess adequacy of the capital available as a cushion to withstand shocks from business environment adversities.

a. Scope of Application

Qualitative Disclosure

Risk based capital adequacy framework applies to State Bank of India, Bangladesh Operations, on "Solo Basis" as the Bank has no subsidiaries or significant investments rather operating as a foreign Branch of State Bank of India, incorporated in India. This disclosure comprises the operations of both the Domestic Banking Unit (DBU) and the Off-shore Banking Unit (OBU) of SBI Bangladesh Operations.

Quantitative Disclosure

Not applicable.

b. Capital Structure

Qualitative Disclosure

Capital structure of State Bank of India, Bangladesh (SBI) consists of Tier 1 and Tier 2 capital which is aligned with regulatory capital structure. Tier I capital is further categorized as Common Equity Tier 1 (CET1) and Additional Tier 1 capital. CET1 capital includes funds from head office for capital adequacy purpose & retained earnings after regulatory adjustments for deferred tax assets. SBI does not have any Additional Tier 1 capital. Tier 2 capital includes general provisions and revaluation reserve for government securities, which was subject to phase in deductions as per audited revaluation reserve for securities amount as on December 2014 by 20% every year from 2015 till the time it fully phased out in 2019, hence, general provisions remains as the only item as Tier 2 Capital.

The computation of the amount of Common Equity Tier-1, Additional Tier 1 and Tier 2 capital shall be subject to the following conditions:

- The Bank has to maintain at least 4.50% of total Risk Weighted Assets (RWA) as CET1 capital
- Tier 1 capital will be at least 6.0% of the total RWA
- Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10.0% of the total RWA
- Additional Tier 1 capital can be maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher
- Tier 2 capital can be maximum up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher
- In addition to minimum CRAR, Capital Conservation Buffer (CCB) @ 2.50% of the total RWA to be maintained in the form of CET1

Tier 1 capital of the Bank includes funds deposited with Bangladesh Bank, actuarial gain/ (loss) and retained earnings. Tier 1 capital is also called "Core Capital" of the Bank. According to BRPD letter no. BRPD (BFIS)661/14B(P)/2015-18014 dated December 24, 2015, 5% of deferred tax recognized on specific provision shall be allowable as CET1 capital whilst all other deferred tax assets created on other items shall be deducted from the retained earnings when calculating the capital adequacy ratio.

Quantitative Disclosure

Details of capital structure are provided as under:

	2022	2021
	Figures in BDT	
Tier 1 Capital (going-concern capital)		
Common Equity Tier 1 (CET1) Capital		
Fund Deposited with BB	6,314,083,718	4,712,633,658
Retained Earnings	8,880,474,085	8,506,367,927
	15,194,557,803	**13,219,001,585**
Regulatory adjustments / Deductions from Capital		
Goodwill and all other Intangible Assets	-	-
Deferred Tax Assets	25,453,829	17,477,968
	25,453,829	**17,477,968**
Total CET1 Capital	**15,169,103,974**	**13,201,523,617**
Additional Tier 1 (AT1) Capital	-	-
Total Tier-1 Capital	**15,169,103,974**	**13,201,523,617**
Tier 2 Capital (gone-concern capital)		
General Provision (Limited to 1.25% of credit RWA)	860,175,859	761,847,908
Revaluation Reserve for Securities (with 20% phase-in deductions)	-	10,681,276
	860,175,859	**772,529,184**
Regulatory adjustments / Deductions from Capital		
Deduction of 20% of revaluation reserve for securities each	-	10,681,276

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year

Total Admissible Tier 2 Capital	**860,175,859**	**761,847,908**
Total Eligible Capital	**16,029,279,833**	**13,963,371,525**

c. Capital Adequacy

Qualitative Disclosure

SBI has adopted the Standardized Approach for computation of the capital charge for credit risk and market risk, and the Basic Indicator Approach for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank.

The Bank has a capital adequacy ratio of 66.04% as against the minimum regulatory requirement of 10.00%. Tier 1 capital adequacy ratio is 62.49% against the minimum regulatory requirement of 6.00%. The Bank's policy is to manage and maintain its capital with the objective of maintaining a strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy external rating agencies and other stakeholders including depositors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.

The Bank has in place a capital adequacy framework by which the Bank's annual budget projections and the capital required to achieve the business objectives are linked in a cohesive way. Capital requirements are assessed for credit, market and operational risks. The Bank's capital adequacy ratio is periodically assessed and reviewed in the RCOM as well as in ALCO and reported to Head Office (IBG). The composition of capital in terms of Tier 1 and Tier 2 are also analyzed to ensure capital stability and to reduce volatility in the capital structure. The Bank has a profit remittance policy to ensure that it has sufficient capital to comply with the regulatory requirement. The Bank's capital plan also ensures that adequate levels of capital are held considering the planned organic growth of the business.

Quantitative Disclosure

	2022	2021
	Figures in BDT	
RWA for on-balance sheet credit risk	10,794,405,050	10,374,145,340
RWA for off-balance sheet credit risk	9,098,422,486	8,348,076,977
Total Credit Risk RWA	**19,892,827,536**	**18,722,222,317**
Market Risk RWA	266,258,204	294,906,880
Operational Risk RWA	4,114,006,882	3,553,600,561
Total Risk Weighted Assets	**24,273,092,622**	**22,570,729,758**
Amount of Regulatory Capital to meet unforeseen loss		
Capital requirement for Credit Risk	1,989,282,754	1,872,222,232
Capital requirement for Market Risk	26,625,820	29,490,688
Capital requirement for Operational Risk	411,400,688	355,360,056
Total Capital requirement	**2,427,309,262**	**2,257,072,976**

Common Equity Tier 1 Capital	15,169,103,974	13,201,523,617
Total Tier 1 Capital	15,169,103,974	13,201,523,617
Total Tier 2 Capital	860,175,859	761,847,908
A. Total Regulatory Capital	**16,029,279,833**	**13,963,371,525**
B. Total Minimum Capital Requirement (MCR) (10% of RWA or BDT 4,000,000,000 whichever is higher)	4,000,000,000	4,000,000,000
Capital Surplus / (Shortfall) [A-B]	**12,029,279,833**	**9,963,371,525**
Capital Conservation Buffer requirement (effective from Jan'16)	606,827,316	564,268,244
Capital Adequacy Ratio		
CET1 Capital to Risk-weighted Asset Ratio	62.49%	58.49%
Tier 1 Capital to Risk-weighted Asset Ratio	62.49%	58.49%
Tier 2 Capital to Risk-weighted Asset Ratio	3.54%	3.38%
Capital to Risk-weighted Asset Ratio (CRAR)	**66.04%**	**61.86%**
Capital Conservation Buffer (CCB)	**56.04%**	**51.86%**
Capital Conservation Buffer maintained	13,601,970,571	11,706,298,549
Available Capital under Pillar 2 Requirement:		
A. Total Eligible Regulatory Capital	16,029,279,833	13,963,371,525
B. Minimum Capital Requirement under Pillar 1	4,000,000,000	4,000,000,000
C. Capital Conservation Buffer (CCB) Requirement	606,827,316	564,268,244
D. Minimum Capital Requirement incl. CCB [B+C]	4,606,827,316	4,564,268,244
E. Available Capital for Pillar 2 [A-D]	11,422,452,517	9,399,103,281

d. Credit Risk

Qualitative Disclosure

Overview of the Bank's Credit Risk Management Policy

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off balance sheet products such as guarantees and credit derivatives, and from the holdings of debt securities. SBI Bangladesh Operations has standards, policies and procedures dedicated to controlling and monitoring risk from all such activities. Among the risks the Bank engages in, credit risk generates the largest regulatory capital requirement.

The aims of credit risk management, underpinning sustainably profitable business, are principally

- to maintain a strong culture of responsible lending, supported by a robust risk policy and control framework
- to both partner and challenge business originators effectively in defining and implementing risk appetite, and its re-evaluation under actual and scenario conditions; and
- to ensure independent, expert scrutiny and approval of credit risks, their costs and their mitigation.

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The standardized approach is being applied for risk weighting of exposure as per directive of Bangladesh Bank. It requires banks to use risk assessments prepared by External Credit Assessment Institutions (ECAIs) to determine the risk weightings applied to rated counterparties. The Bank has applied some customer ratings based on their entity rating as assigned by the approved ECAIs of Bangladesh Bank.

It is SBI's policy to establish that loans are within the customer's capacity to repay, rather than to rely excessively on security. Depending on the customer's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigate of credit risk.

The Bank has guidelines on the acceptability of specific classes of collateral or credit risk mitigation and determines suitable valuation parameters. Such parameters are expected to be conservative, reviewed regularly and supported by empirical evidence. Security structures and legal covenants are required to be subject to regular review to ensure that they continue to fulfill their intended purpose and remain in line with local market practice.

The Bank also has established a separate Risk and Credit Control Department which looks after the loan review mechanism and also helps in ensuring credit compliance with the post-sanction processes / procedures laid down by the Bank from time to time. This involves taking up independent account-specific reviews of individual credit exposures as per the approved lending guideline. Risk Management Division also monitors various credit concentration limits. The Bank has in place a risk grading system for analyzing the risk associated with credit. The parameters for risk grading customers include financial condition and performance, quality of disclosures and management, facility structure, collateral and country risk assessment where necessary. Maximum funded counterparty / group exposures are limited to 15% of the Bank's capital base as stipulated by Bangladesh Bank. Where a higher limit is required for projects of national importance prior approval of Bangladesh Bank is obtained.

Past dues and impaired exposures are defined in accordance with the relevant Bangladesh Bank regulations.

Specific and general provisions are computed periodically in accordance with Bangladesh Bank regulations.

Quantitative Disclosure

Total Exposures of Credit Risk	**2022**	**2021**
	Figures in BDT	
1. Funded	**55,484,424,450**	**56,794,476,716**
a) Domestic	55,484,424,450	56,794,476,716
b) Overseas	-	-
2. Non-Funded	**18,154,688,686**	**16,639,804,663**
a) Domestic	18,154,688,686	16,639,804,663
b) Overseas	-	-
3. Distribution of Risk Exposure by Claims		
Cash & Cash Equivalents	41,017,662	25,365,949
Claims on Sovereigns and Central Banks	13,336,193,397	11,673,454,720

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Claims on Banks and Securities Firms	30,062,747,798	36,753,100,425
Claims on Corporate (excl. Medium Enterprise loan)	9,568,271,967	6,231,244,398
Claims on the Retail & Small Enterprises	773,691,351	911,361,542
Investments in premises, plant, equipment and all other fixed assets	100,319,675	145,133,443
All other assets	1,512,976,778	959,379,956
Other Categories:	18,205,574,577	16,640,797,425
Past due Loans / NPL	50,885,892	992,761
Off-Balance Sheet Items	18,154,688,686	16,639,804,663

4. Credit Risk Mitigation

Claims Secured by Financial Collateral	38,319,932	94,443,523
Net Exposure after the Application of Haircuts.	10,508,962,791	11,416,944,513
Claims Secured by Eligible Guarantee	-	-

Maturity-wise grouping of Loans & advances :

Repayable on Demand	4,109,490,530	3,381,171,461
Not more than 3 months	2,235,121,821	1,821,175,439
Over 3 months but not more than 1 year	24,144,258,898	30,744,884,052
Over 1 year but not more than 5 years	372,359,109	357,477,730
Over 5 years	65,767,323	64,573,997
	30,926,997,681	**36,369,282,678**

Country-wise Classification of Loans and advances:

Inside Bangladesh

Term Loans	285,471,016	449,737,268
Cash Credits	3,705,504,534	2,475,719,167
Overdrafts & Demand Loan & Agriculture Loan	5,651,341,272	4,314,297,346
Staff Loan	29,348,347	33,791,303
Bills purchase & discount	-	-
	9,671,665,169	**7,273,545,085**

Outside Bangladesh

	-	-
Term Loans	-	-
Cash Credits	-	-
Overdrafts	-	-
	-	-
	9,671,665,169	**7,273,545,085**

Off-Shore Banking Unit :

Overdraft / Term Loan	735,215,283	124,968,227
Bill purchase & discount	20,520,117,228	28,970,769,366
	21,255,332,511	**29,095,737,593**
	30,926,997,681	**36,369,282,678**

Geographical location-wise distribution of Loans & advances:

Dhaka Division	7,202,428,103	5,760,388,199
Chattogram Division	2,450,123,163	1,489,432,876
Khulna Division	19,113,904	23,724,010
Rajshahi Division	-	-

Barisal Division	-	-
Sylhet Division	-	-
Rangpur Division	-	-
	9,671,665,169	**7,273,545,085**
Off-Shore Banking Unit	21,255,332,511	29,095,737,593
	30,926,997,681	**36,369,282,678**

Maturity-wise grouping of Bills Purchased and discounted:

Payable within 1 month	10,181,523,495	5,322,541,339
Over 1 month but less than 3 months	8,529,764,937	12,083,079,522
Over 3 months but less than 6 months	1,583,522,272	7,751,658,867
6 months or more	225,306,525	3,813,489,638
	20,520,117,228	**28,970,769,366**

Industry-wise classification of Loans & Advances:

Agriculture, fishing, forestry and dairy firm	286,413,619	286,403,695
Industry (jute, textile, garments, chemicals, cements etc.)	312,286,361	110,526,085
Transport Operator Loan	294,936,967	456,642,533
Working capital financing	8,019,212,094	6,224,324,342
Export credit	-	-
Commercial credit	-	-
Small and cottage industries	614,179,343	33,639,725
Miscellaneous	144,636,786	162,008,705
	9,671,665,169	**7,273,545,085**
Add: Off-Shore Banking Unit		
Overdraft / Term Loan	735,215,283	124,968,227
Bill purchase & discount	20,520,117,228	28,970,769,366
	21,255,332,511	**29,095,737,593**
	30,926,997,681	**36,369,282,678**

Grouping of Loans and advances as per Classification Rules of Bangladesh Bank:

Unclassified:		
Standard including staff loan	9,521,333,664	7,145,872,538
Special Mention Account (SMA)	40,112,296	-
	9,561,445,960	**7,145,872,538**
Off-Shore Banking Unit (UC)	21,255,332,511	29,095,737,593
	30,816,778,472	**36,241,610,131**
Classified:		
Substandard	-	-
Doubtful	-	-
Bad or loss	110,219,209	127,672,547
	110,219,209	**127,672,547**
Total	**30,926,997,681**	**36,369,282,678**

Maintenance of Specific Provision

SBI follows Bangladesh Bank guidelines regarding loan classifications, provisioning and any other issues related to Non-Performing Loan (NPL). The Bank's internal credit guidelines also give direction on the management of non-performing loans, the procedure for reviewing loan provisioning, debt write off, facility grading, reporting requirements and interest recognition.

Throughout the year the Bank reviews loans and advances to assess whether objective evidence has arisen of impairment of a loan or portfolio that warrants a change in the classification of loans & advances which may result in a change in the provision required in accordance with BRPD Circular No. 14 "Master Circular: Loan Classification and Provisioning" dated September 23, 2012 as amended by BRPD circular no. 19 (December 27, 2012). The guidance in the circulars follows a formulaic approach whereby specified rates are applied to the various categories of loans as defined in the circulars. The provisioning rates are as follows

Particulars	Rate (%)
Substandard (Agri. & Micro credit)	5%
Doubtful (Agri. & Micro credit)	5%
Substandard	20%
Doubtful	50%
Bad & Loss	100%

BRPD circular No. 14 (September 23, 2012) as amended by BRPD circular No. 19 (December 27, 2012) also provides scope for further provisioning based on qualitative judgments. In these circumstances, impairment losses are calculated on individual loans considered individually significant based on which specific provisions are raised. If the specific provisions assessed under the qualitative methodology are higher than the specific provisions assessed under the formulaic approach above, the higher of the two is recognised in liabilities under "Provisions for loans and advances" with any movement in the provision charged/released in the profit and loss account. As of December 31, 2022, the Bank has provided BDT 0.71 crore for specific provisions.

	2022	2021
	Figures in BDT	
A. Gross Non Performing Assets (NPAs)	110,219,209	127,672,547
Non Performing Assets (NPAs) to Outstanding Loans & Advances	0.36%	0.35%
B. Movement of Non Performing Assets (NPAs)		
Opening Balance	127,672,547	127,727,961
Additions	-	4,145,386
Reductions	17,453,337	4,200,800
Write-off	-	-
Closing Balance	**110,219,209**	**127,672,547**
C. Movement of Specific Provisions for NPAs		
Opening Balance	160,763,480	90,932,341
Provisions made during the period	-	69,831,139

Recoveries and provision no longer required	17,370,923	-
Write off during the year	15,484,576	-
Closing Balance	**127,907,980**	**160,763,480**

e. Equities: Disclosures for Banking Book Positions
Qualitative Disclosure

The bank has no investment in quoted shares. The bank has only equity investments in Central Depository Bangladesh Limited (CDBL) shares as unquoted investment.

Quantitative Disclosure

		2022	2021
		Figures in BDT	
Quoted		-	-
Unquoted: Shares of CDBL		3,138,890	3,138,890
		3,138,890	**3,138,890**
Particulars	**No. of Shares**		
Initial investment @ Tk. 10	200,000	2,000,000	2,000,000
Purchase of Right share @ Tk. 10	113,889	1,138,890	1,138,890
Bonus share @ Tk. 10	-	-	-
	1,142,361	**3,138,890**	**3,138,890**

f. Interest Rate Risk in the Banking Book (IRRBB)
Qualitative Disclosure

Interest rate risk in the banking book arises from the differential in the proportion and tenor of fixed rate contracts between the assets and liabilities. Banking book interest rate risk measurements thus should start with a look at the mismatches or gaps between interest bearing assets and liabilities. These are expressed in terms of re-pricing and maturity intervals or as "duration", i.e. a refined measure of effective average maturity which captures the interest rate sensitivity of fixed rate contracts. Hence, interest rate risk is the possibility that changes in the prevailing market interest rate levels produce an adverse impact on net income and on the value of assets and liabilities and consequentially on the economic value of equity.

Interest rate risk in the banking book refers to the earnings and asset value exposures as they relate to assets and liabilities from traditional lending and deposit taking, as opposed to debt securities and other loan claims held for trading purposes.

SBI is exposed to interest rate risk primarily as a result of mismatches in the amounts of assets, liabilities and off-balance sheet interest sensitive instruments within a certain range of maturity or re-pricing (whichever is earlier). It has approved category-wise G. Sec portfolio level PV01 (price value per basis point) limits to manage interest rate risk within the approved risk appetite. Treasury is primarily responsible for management of interest rate risk on a daily basis, and the Asset and Liability Committee (ALCO) oversees the interest rate risk. Risk Management Division independently monitors, analyses and reports various limits including management action point limits and re-pricing of the assets and liabilities on a regular basis.

For estimating the IRRBB both changes in Net Interest Income (ΔNII) assuming a constant balance sheet and changes in Economic Value of Equity (ΔEVE) assuming a run-off balance sheet. For this purpose cash flows are slotted among 19 time buckets for the common products with behavioural optionalities and interest rate shocks are applied based on six standardized shock scenarios i.e., Parallel shock up; Parallel shock down; Steepener shock (short rates down and long rates up); Flattener shock (short rates up and long rates down); Short rates shock up; and Short rates shock down.

Quantitative Disclosure

Interest rate risk in banking book as of Dec 31, 2022 is calculated as change in Market Value of Equity (MVE) in following manner –

		2020 Figures in BDT Crore	2019
Market Value of Assets		5,330.82	5,586.84
Market Value of Liabilities		3,798.82	4,262.79
Weighted Average Duration of Assets (in years)		1.50	1.61
Weighted Average Duration of Liabilities (in years)		0.26	0.29
Duration Gap (in years)		1.31	1.33
Yield to Maturity (YTM) for Assets		4.72%	6.66%
Yield to Maturity (YTM) for Liabilities		1.67%	3.03%
Fall in Market Value of Equity		47.60	5.21
Changes in Market Value of Equity due to an increase in Interest Rate by Interest Rate Change	1%	(0.65)	(0.63)
	2%	(1.30)	(1.08)
	3%	(1.94)	(1.87)
Regulatory capital (after shock)	Major	1,474.01	1,607.74
RWA (after shock)	Major	2,327.75	2,471.38
CAR (after shock)	Major	63.32%	65.05%

The above result implies that bank may lose more value in its interest rate sensitive assets than its liabilities and thus an increase in interest rate may cause a decline in the economic value of bank's capital.

Under the sensitivity analysis the impact on change in interest rate on the economic value of equity and net interest income is applied through six shock scenarios. The average re-pricing maturity of NonMaturity Deposits (NMDs) has been assigned at 0.87 years.

Fig in BDT Crore

Shock Scenarios	**Δ EVE**	**Δ NII**
Parallel up	1.15	(113.07)
Parallel Down	(1.15)	113.07
Steepener	(2.41)	
Flattener	(2.41)	
Short rate up	0.66	
Short rate down	(0.66)	
Maximum	(2.41)	
Tier 1 capital	1,582.51	

The above result implies that bank may lose more value in its interest rate sensitive assets than its liabilities and thus an increase in interest rate may cause a decline in the economic value of bank's capital.

g. Market Risk

Qualitative Disclosures

Market Risk is the risk to the bank's earnings and capital due to changes in the market interest rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes.

Views of BOD on trading/investment activities

To manage and control market risk, a comprehensive Head Office approved Market Risk Management Policy is in place. The policy outlines a well-defined risk control structure, responsibilities of relevant stakeholders with respect to market risk management and methods to measure and control market risk carried out at a portfolio level. Moreover, it also includes controls which are applied, where necessary, to individual risk types, to particular books and to specific exposures. These controls include limits on exposure to individual market risk variables as well as limits on concentrations of tenors and issuers. This structure is reviewed, adjusted and approved periodically.

Trading book consists of positions in financial instruments held with trading intent. A capital charge is applicable for financial instruments which are free from any restrictive covenants on tradability in line with Basel III guidelines issued by Bangladesh Bank. Generally, investments in 'Held for Trading' portfolio are focal parts of the Trading Book.

The Bank's Asset and Liability Committee (ALCO) is primarily responsible for the oversight of the market risk, supported by the RMD. SBI has a comprehensive Investment Policy which, inter alia, covers assessment, monitoring and management of all the above market risks.

Methods used to measure Market risk

The Bank defines market risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market prices. Under market risk management, interest rate risk, equity price risk and foreign exchange risk are monitored. SBI follows the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel III. Furthermore, the Bank carries out risk assessment via diversified tools including Value at Risk (VaR), PV01 (price value per basis point) and Duration on a regular basis. It also ascertains the impact of market risk on relevant factors through stress testing and Internal Capital Adequacy Assessment Process.

Interest Rate Risk

The possibility of reduction in the value of a security (especially T-Bills& T-Bonds) resulting from a rise in interest rates. This risk can be reduced by diversifying the durations of the fixed-income investments, which are held at a given time.

Foreign Exchange Risk

Foreign exchange (FX) risk arises from the fluctuation in the value of financial instruments due to the changes in foreign exchange rates. FX risk is mainly managed through matched positions.

FX risk is being managed by setting and monitoring net overnight open position limit. The currency risk is regulated and monitored against the regulatory/statutory limits enforced by the Bangladesh Bank. The foreign exchange exposure limits in respective currencies are managed against the prescribed limits. Risk Assessment with respect to FX risk is also conducted on a regular basis through VaR analysis.

Market Risk Management system

SBI has well defined Market Risk Management Policy which covers important areas of market risk management. The bank has set risk appetites for market risk factors keeping its balance sheet size, profitability under consideration. The management also has set market risk management action triggers which is monitored by the RMD and presented to the RCOM on regular basis.

Policies and Processes for Mitigating Market Risk

ALCO is primarily responsible for the oversight of the market risk, supported by RMD. SBI has developed various tools for market risk measurement and its mitigation thereof i.e. Value at Risk (VaR), Duration, Price Value of a Basis Point (PVBP), Re-pricing Gaps, etc. It carries out stress tests, using both internal and regulatory scenarios. Moreover, it has a comprehensive risk control limit framework, which defines exposure limits (on a portfolio/tenor/), PVBP limits, NOOP limits, stop loss limits, tolerance limits, counterparty limits etc.

Detailed policies are Investment Management, Asset Liability Management and Market Risk Management, which deal in the various strategies and processes for monitoring Market Risk. In order to evaluate market risk issues, Bank has in place a "Investment Policy" and "Market Risk Management Policy". These policies provide details on various tools and guidelines for market risk identification, market risk measurement and risk mitigation. The Bank has constituted ALCO and RCOM to oversee the Risk Management and ALM functions to monitor the progress in its implementation.

Besides, following tools are also used for market risk management / mitigation:

i. Delegation of Powers- Bank has well-defined discretionary powers for different level of authorities for taking investment decisions.
ii. Prudential Limits - Various limits e.g., exposure limit, stop loss limits, duration etc. have been fixed.
iii. Asset & Liability Committee (ALCO) - Under Risk Management architecture of Bank, ALCO of executives is constituted, which monitors liquidity management and interest rate risk on regular basis. Support group of executives / officers has also been constituted to help ALCO.

Quantitative Disclosure

	2022	2021
	Figures in BDT	
Capital Requirements for -		
Interest Rate Risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	26,625,820	29,490,688
Commodity Risk	-	-
	26,625,820	**29,490,688**

h. Operational Risk

Qualitative Disclosures

Operational Risk is the risk of loss resulting from inadequate internal processes, people and systems, or from external events, including legal risk. This excludes strategic and reputational risk.

Views of BoD on system to reduce Operational Risk

The Operational Risk Management Policy of the Bank is duly approved by the Head Office. This covers the processes, structure and functions of operational risk management and provides

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guidelines to identify, assess, monitor, control and report operational risk in a consistent and transparent manner across the Bank. RMD engages with bank's business / support units and regularly collaborates in determining and reviewing the risks, and suggests controls on need basis. Additionally, all the policies, procedures and systems of the Bank are reviewed from the operational risk perspective, and the recommendations are taken into consideration before the approval. The Operational Loss Database and KRIs systems are in place and the reports are submitted to the RCOM as well as Risk Management - Head Office.

Performance Gap of Executives and Staffs

The bank's management has set policies in providing a competitive packages vis-à-vis strong corporate culture couples with suitable working environment so that quality people can be retained. Excellent working environment has been playing a very important role in motivating the employees. Hence, no considerable performance gap was evident.

Potential External Events

SBI has not exposed to any kind of significant operational risk which is attributable to potential external events. The group maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that any SBI office is affected by a business disruption event in the operational recovery from those circumstances. Plans have been prepared for the continued operation of the Group's business with reduced staffing levels. Besides, the bank also have set out Information Security Policy & Standards under which the IT Division conducts awareness programs on IT security risks which may emanate from unauthorized use, loss, damage, password leakage, cyber threats through phishing etc. that may expose the bank into operational risk.

Policies and Processes for Mitigating Operational Risk

The Bank's Operational Risk Framework duly approved by the Head Office addresses all the significant areas of Operational Risk Management within the Bank, including Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Operational Loss Data Management, and Operational Risk Reporting. The Bank is using Risk and Control Self -Assessment, KRIs, capturing operational incidents as tools for identification, monitoring, measuring and management of operational risk. Key Risk Indicators and operational loss incidents are captured in our Operation Loss Data Base and Key Risk Indicators (KRI) systems. New products, systems, activities and processes are subject to comprehensive operational risk assessments before implementation.

Approach for Calculating Capital Charge for Operational Risk

SBI adopted Basic Indicator Approach (BIA) for calculating operational risk, which is based on 15% of the average positive gross income from last three years.

Quantitative Disclosures

	2022	**2021**
	Figures in BDT	
Capital Requirements for Operational Risk	411,400,688	355,360,056

i. Liquidity Ratio

Qualitative Disclosures

Liquidity is a financial institution's capacity to meet its obligations as they fall due without incurring losses. Liquidity risk is the risk to an institution's earnings, capital and reputation arising from its inability (real or perceived) to meet its contractual obligations in a timely manner without incurring unacceptable losses when they come due.

Views of BoD on system to reduce liquidity Risk

The Bank manages and controls liquidity risk through a detailed risk management framework, which includes Head Office approved policy and Asset & Liability Committee (ALCO) level guidelines. Under this framework, various liquidity metrics are implemented and monitored on a regular basis.

At SBI, Head Office approves the Market Risk Management Policy is in place. Further, Head office also approves the overall liquidity risk appetite and broad liquidity risk strategy through Annual Business Plan. The Bank's ALCO is primarily responsible for the implementation of BoD's strategy through oversight of the asset liability function including liquidity management. Treasury Front Office manages the Bank's liquidity on day to day basis being the first line of defense against liquidity risk. RMD is responsible for independent monitoring of the overall liquidity risk in line with regulatory requirements and bank's own risk appetite.

Methods used to measure Liquidity risk

The Bank's overall funding strategy is based on the principles of diversification and stability. SBI has a diverse funding base, which includes stable funding in the form of equity, retail, small business and corporate deposits and non-stable funding in form of large depositors. The Bank has in place internally approved limits to monitor and manage risk emanating from volatile funding concentration. Moreover, the Bank is fully compliant with Basel III LCR and NSFR which are calculated on a monthly and quarterly basis respectively, which ensure sufficient stock of high-quality liquidity assets in relation to its liability profile. These two minimum standards aim to achieve two separate but complementary objectives. The objective of LCR is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have an adequate stock of unencumbered high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for 30 calendar days. The objective of second liquidity standard, i.e. NSFR is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding on an ongoing basis.

Liquidity risk management system

Contingency Funding Plan (CFP) is also in place to address liquidity issues in times of stress/crisis situations. The plan covers triggers (systematic and bank specific) and action plans along with roles and responsibilities in the event of liquidity crisis. Treasury prepares the CFPs on annual basis for identifying the stress scenarios and the funding plan for such scenarios along with early warning indicators. These plans are reviewed by the RMD, and are approved by the ALCO annually.

Policies and processes for mitigating liquidity risk

RMD performs independent monitoring and reporting of the overall liquidity position in line with regulatory requirements and the Bank's own risk appetite at the bank level and operations level. The Bank is fully compliant with Basel III liquidity standards, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), with a considerable cushion over regulatory requirement. Hence, SBI always focuses on keeping LCR & NSFR over and above regulatory threshold level. To maintain sufficient liquidity, the bank has set a strategy to keep margin of excess liquidity in terms of LCR & NSFR over regulatory requirement where liquidity needs should be estimated in variety of scenarios in the CFP.

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Quantitative Disclosures

	2022	2021
	Figures in BDT	
Liquidity Coverage Ratio (LCR)	298.78%	244.81%
Net Stable Funding Ratio (NSFR)	109.20%	115.03%
Stock of high-quality liquid assets	7,856,536,992	6,851,804,959
Total net cash outflows over the next 30 calendar days	2,629,539,123	2,798,825,603
Available amount of stable funding (ASF)	25,636,115,805	21,611,123,710
Required amount of stable funding (RSF)	23,475,785,148	18,786,969,820

j. Leverage Ratio

Qualitative Disclosures

Leverage ratio is defined as ratio of eligible Tier 1 Capital to Total Exposure (after related deductions) of the Bank (not risk-weighted), which has been set at minimum 3%. The leverage ratio was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements.

Views of BOD on system to reduce excessive leverage

Building up excessive on & off-balance sheet leverage in the banking system was widely believed to have contributed to the global financial crisis in 2008. With a view to address this, international community has proposed the adoption of a non-risk-based capital measure i.e., the leverage ratio, as an additional prudential tool to complement minimum capital adequacy requirements. Hence, leverage ratio had been introduced under Basel III. BoD always puts special emphasis on the bank's capital strength and asset quality so that the core capital has the capacity to withstand the excessive shock arising out of leverage. For that matter the bank's BoD always remains cautious in maintaining sufficient level of core capital (Tier 1) and focused on growing On-and Off Balance Sheet Exposures at desired level.

Under Basel III, a simple, transparent and non-risk based regulatory leverage ratio has been introduced to achieve the following objectives:

- Constrain leverage in the banking sector, thus helping to mitigate the risk of the destabilizing deleveraging processes, which can damage the financial system and the economy
- Introduce additional safeguards against model risk and measurement error by supplementing the risk-based measure with a simple, transparent and independent measure of risk

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

RMD regularly reviews the leverage ratio and advice the management to strictly monitor the same in addition to the Pillar 1 Minimum Capital Requirement.

The bank reviews its leverage position as per the Guidelines on Risk Based Capital Adequacy (revised regulatory capital framework for banks in line with Basel III). In addition, the bank has Risk Appetite as per Credit Risk Management Policy and Risk Appetite Framework of the Bank. It also employs annual budget plan and capital growth plan for managing excessive on and off-balance sheet leverage.

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Approach for calculating exposure

The bank calculates the exposure under standardized approach as per Basel III guidelines. The capital measure for the leverage ratio is based on the new definition of Tier 1 capital with relevant deductions of items, which do not contribute to leverage. The exposure measures the leverage ratio will generally follow the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following are applied by the bank:

- On balance sheet, non-derivative exposures will be net of specific provisions & valuation adjustments
- Items deducted from Tier 1 capital also applies here (e.g. DTA)
- Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure
- Netting of loans & deposits is not allowed
- Off balance sheet items are converted into credit exposure equivalents through credit conversion factors (CCFs). Depending on the risk category of the exposure a CCF of 20%, 50% or 100% is applied. Commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is applied

Quantitative Disclosures

	2022	2021
	Figures in BDT	
Tier 1 capital (considering all regulatory adjustments)	15,169,103,974	13,201,523,617
On-balance sheet exposure	55,455,962,084	56,667,796,930
Off-balance sheet exposure	18,154,688,686	16,639,804,663
Regulatory adjustments made to Tier 1 capital	25,453,829	17,477,968
Total Exposure	73,585,196,940	73,290,123,625
Leverage Ratio	**20.61%**	**18.01%**

k. Remuneration

Qualitative Disclosures

Information relating to the bodies that oversee remuneration

Bank has a group specified remuneration policy, which is designed to positively reward the achievement of long-term sustainable performance to keep the quality resources motivated. SBI remains committed to its assigned role towards achieving organizational goals and meeting all stakeholders' expectations; as well as to attract the best of quality resources from the market, whenever required. Bank has a dedicated Human Resources Management Committee (HRMC) consisting of 11 Members (including the of the bank. The committee periodically reviews competitiveness of bank's remuneration, compensation & benefits package in line with industry and initiates systematic measures to bring necessary changes in the remuneration policy to ensure fairness and competitiveness in rewarding, motivating and retaining Bank's valued resources. The proposals of committee, therefore, get reviewed and approved by the COMC / IBG based on the delegation of financial power approved by authority.

The operation of the bank in Bangladesh is managed mainly by the Country Office Management Committee (COMC), which is chaired by Country Head of Bangladesh. The COMC operates under a

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controlled function and requires Head Office approval for taking significant risk exposure in excess of their respective functional limit. Thus, there is no significant risk taker in the bank that can cause inflated material effect. The COMC consists of 7 Senior Management staff comprise of Country Head, Head of IT/ Head of HR, Head of Credit, Head of Risk (CRO), Head of Operations, Head of Central Compliance Unit and Deputy Head of HR.

Information relating to the design and structure of remuneration processes.

Bank maintains a well-designed and competitive remuneration and compensation plan as an integral part of its organization strategy to ensure that employees remain focused and motivated toward achievement of organization goals. SBI, in order to succeed in this increasingly competitive banking industry, stress to ensure a well-designed compensation plan for its staff ensuring internal & external equity to keep them motivated on long term basis. At the same time, bank also ensures that remuneration cost remain aligned with forecasted return thus mitigating the associated managerial, financial and regulatory risks. Bank is not in practice of following any separate remuneration and compensation structure for senior executives of the bank. Moreover, the remuneration of IBO's (India Based Officer's) comes from Home Office through inward remittance. The remuneration structure of bank's is given below:

Financial Compensation

The major portion of the direct financial compensation components are governed by the monthly remuneration paid to each staff member based on their Job Description, Job Role Evaluation, and contribution towards the overall goals. Other components are either fixed or variable or incidental in nature and different loan facilities granted to staff. The major components of the Direct Financial Benefits are:

Period	Nature	Particulars
Monthly	Fixed	• Basic Salary • House Rent • Conveyance • Car Facility (including Fuel, Driver Salary & Maintenance) • Other Allowances
	Variable	• As per HR Policy

All components of financial compensations are reviewed at individual / organizational level on periodic basis to remain aligned with market practices, ensure internal and external equity, cost of living adjustment, job-role change, merit increase and promotion to higher responsibility.

There is no Corporate Incentive Plan or equity Program in vogue for the India Based Officers (IBO's) in Bangladesh Operations.

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

The remuneration / compensation plan initiates with identification of individual goals / objectives on 5 major broad performance areas in line with the organization's overall goals / objective. The approach is to tie compensation components with performance ensuring internal and external equity. The 5 major broad performance areas are as below:

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- Financial Objective
- Managing for Values (both in term of business initiative and Operations Objectives)
- Audit, Compliance and Control
- Personal Development and
- People Development

While assigning individual goals / objectives, adequate measures are ensured to cover all material risk factors under 5 broad categories and recorded in terms of goals and objectives for the year. Failure to mitigate said risks during the year effects appraisal, which has direct link with the yearly remuneration revision and award of performance bonuses for the year under question. Thus, by linking risk factors with performance measurement / evaluation vis-à-vis remuneration fixation criterion; risk mitigation measures by senior management gets ensured / covered.

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

The major portion of senior management remuneration is governed by the fixed portion of the total compensation package. The absence of intense variable salary components constitutes overall low risk factor since fixation of performance bonus and remuneration revision falls beyond the scope of controlled function of senior management.

The Compensation and reward plan of SBI is governed by the compensation philosophy to remain aligned & competitive with the market and reward performance appropriately. The basic philosophy of this plan is to retain and motivate its core staff on long term basis to perform at a desired level and provide reward to the performers. At the same time, it also sets standards for others to have a clear understanding of what to expect from them in order to improve their performance to the desired level.

Depending upon the performance of an individual during a year, each employees gets rated on a scale of AAA to C where AAA is considered as the highest rating. Based on the financial performance of the bank, COMC approves a bonus which in turn gets distributed amongst all employees in the form of performance bonus and increments, depending upon individual and unit / department performance.

Description of ways in which bank seeks to adjust remuneration to take account of longer-term performance.

SBI is currently not offering variable incentive plans to the likes of Corporate Incentive Plan or Equity Participation Program to its senior management staff. This section is, therefore, not applicable to the bank.

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

SBI is currently not offering variable incentive plans to the likes of Corporate Incentive Plan or Equity Participation Program to its senior management staff. This section is, therefore, not applicable to the bank.

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Quantitative Disclosures

	2022	2021
	Figures in BDT	
Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	09 nos. Remuneration amount n/a	01 nos. Remuneration amount n/a
Number of employees having received a variable remuneration award during the financial year.	NIL.	NIL.
Number and total amount of guaranteed bonuses awarded during the financial year.	100 Nos 67,83,350/-	94 Nos. 68,29,120/-
Number and total amount of sign-on awards made during the financial year.	NIL	NIL
Number and total amount of severance payments made during the financial year.	NIL	NIL
Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	N/A	N/A
Total amount of deferred remuneration paid out in the financial year.	N/A	N/A
Breakdown of amount of remuneration awards for the financial year to show:		
- Fixed and variable.	Fixed: 81,187,047.11/- Variable: 12,132,594.00/-	Fixed: 78,083,788.53/- Variable: 28,212,412.47/-
- Deferred and non-deferred.	NIL	NIL
- Different forms used (cash, shares and share linked instruments, other forms).	NIL	NIL
Quantitative information about employees' exposure to implicit (e.g., fluctuations in the value of shares or performance units) and explicit adjustments (e.g., clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:	N/A	N/A
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	N/A	N/A
Total amount of reductions during the financial year due to ex post explicit adjustments.	N/A	N/A
Total amount of reductions during the financial year due to ex post implicit adjustments.	N/A	N/A

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