DECEMBER 2014

1 Scope of Application

The 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 and Basel II is applied at the Bank level only.

2 Disclosure framework

The following components set out in tabular form are the disclosure requirements;

3.1 Capital Structure

Qualititive Disclosure

SBI Bangladesh capital structure consists of Tier I capital and Tier II capital. The regulatory capital is broadly classified into three categories-Tier I, Tier II and Tier III. The computation of the amount of core (Tier I) and supplementary (Tier II and Tier III) capitals shall be subject to the following conditions:
Eligible Tier II plus Tier III capital shall not exceed total Tier I capital.
Fifty percent (50%) of Asset Revaluation Reserves shall be eligible for Tier II i.e. supplementary capital.
A minimum of about 20% of market risk needs to be supported by Tier I capital. Supporting of Market Risk from Tier III capital shall be limited up to a maximum of 250% of a Bank's Tier I capital that is available after meeting credit risk capital requirement.

Up to 50% of Revaluation Reserves for Securities shall be eligible for supplementary capital.

Quantitative Disclosure

a. Capital Adequacy Ratio - As per BASEL-II

Tier - I (Core Capital)		
Fund deposited with Bangladesh Bank	6,462,789,044	4,556,354,048
Surplus in profit & loss accounts	774,263,045	2,136,779,545
Statutory reserve	-	-
Non-repayable share premium account	-	-
General reserve	-	-
Retained Earnings	-	-
Minority interest in subsidiaries	-	-
Share money deposit	-	-
Non-cumulative irredeemable preference shares	-	-
Dividend equalization accounts	-	-
Sub-total	**7,237,052,089**	**6,693,133,593**
Deductable from Tier - I (Core Capital)		
Book value of Goodwill	-	-
Shortfall in provision required against classified assets	-	-
Deficit on account of revaluation of investment in AFS category	-	-
Any increase in equity capital resulting from a securitization	-	-
Deferred tax income arising from "Loan loss provision"	-	-
Investment in subsidiary	-	-
Other if any		
Sub-total	**-**	**-**
Total eligible Tier - 1 Capital	**7,237,052,089**	**6,693,133,593**

b. Tier - II (Supplementary Capital)

General Provision	253,890,393	147,541,482
Asset revaluation reserve	21,111,874	41,203,022
Preference Share	-	-
Perpetual Subordinated debt	-	-

Exchange Equalization Fund	-	-
Sub-total	**275,002,266**	**188,744,504**
Deduction (Investment in subsidiary)	-	-
Total eligible Tier - 2 Capital (a)	**275,002,266**	**188,744,504**
Tier-3 (eligible for market risk only)		
Short term sub-ordinated debt (b)	-	-
Total Supplementary Capital	-	-
Total Capital	**7,512,054,356**	**6,881,878,098**
Total Risk Weighted Assets (Details in Annexure- G)	9,590,436,369	14,311,195,142
Required capital based on Risk Weighted Assets (10.00%)	959,043,637	1,431,119,514
Surplus/ (Deficiency)	6,553,010,719	5,450,758,583
Capital Adequacy Ratio:		
On actual capital (against standard of minimum 10.00%)	**78.33**	**48.09**

3.2 **Capital Adequacy**

Qualititive Disclosure

The Bank has adopted standardized Approach (SA) for computation of capital charge for credit risk market risk, and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank.

The Bank has capital adequacy ratio of 25% as against the minimum regulatory requirement of 10% . Tier I capital adequacy ratio is 26% against the minimum regulatory requirement of 5%. The Bank's policy is to manage and maintain its capital with the objective of maintaining 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 the 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 by the ALCO and reported to head office. The composition of capital in terms of Tier I, II and III are also analysed to ensure capital stability and to reduce volatility in the capital structure.

Capital Adequacy

Quantitative Disclosure

Quantitative Disclosure(Provision of various risk weighted assets are presented below:

	Total Exposure	Risk Weighted Assets
On balance sheet items	19,460,156,989	6,707,745,719.65
Off balance sheet items	17,443,489,714	412,640,074.62
Total B/S Exposure /Total credit risk	**36,903,646,703**	**7,120,385,794**
Market risk		12,684,022
Operational risk		2,262,655,347
Total risk weighted assets		**9,395,725,164**

Detail of capital adequacy

Capital requirement for credit risk	712,038,579
Capital requirement for Market risk	1,268,402
Capital requirement for Operational risk	226,265,535
Total required capital(10% of RWA)	**939,572,516**
Total Tier 1 capital	7,237,052,089
Total Tier 2 capital	275,002,266
Total regulatory capital	**7,512,054,356**
Surplus	**3,512,054,356**
% of capital adequacy required	
Tier I	5%
Total (I & II)	10%
% of capital adequacy maintained	
Tier I	75.46%
Total (I & II)	78.33%

3.3 Credit Risk

Qualitative Disclosures:

Definitions of past due and impaired (for accounting purposes)

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 the Bangladesh Bank regulations.

Special Mention Account (SMA)

These assets have potential weaknesses thus deserve management's close attention. If left uncollected, these weaknesses may result in direction of the repayment prospect of the borrower.

Sub-Standard

These are the loans where bank has reason to doubt about the payment of the loan although recovery prospect is encouraging.

Doubtful

If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as "Doubtful".

Bad/ loss

These are the loans that have a bleak recovery possibility.

Unclassified

These are the loans where bank is fully satisfied about its repayment.

Description of approaches followed for specific and general allowances and statistical

As per relevant Bangladesh bank guidelines, 1% to 5% provision is maintained against unclassified loans, 5% provision is maintained against SMA loans, 20% provision is maintained against sub- standard loans, 50% provision is maintained against doubtful loans and 100% provision is maintained against bad/loans after deducting value of eligible security, if any, as per Bangladesh Bank guidelines. All interest is suspended/discontinued if the loan is identified as SMA or classified as sub-standard, doubtful or bad/ loss.

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. State Bank of India Bangladesh has standards, policies and procedures dedicated to controlling and monitoring risk from all such activities. Among the risks the State bank of India Bangladesh engages in, credit risk generates the largest regulatory capital requirement. Credit risk arises mainly from lending, trade finance, leasing and treasury businesses. This can be described as potential loss arising from the failure of a counter party to perform as per contractual agreement with the Bank. The failure may result from unwillingness of the counter party or decline in his/ her financial condition. Therefore, the Bank's credit risk management activities have been designed to address all these issues.
The standardized approach is 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 used all customer ratings where ever available for use based on their entity rating as assigned by the approved ECAIs of Bangladesh Bank.
Credit risk is one of the major risks faced by the Bank. This can be described as the situation when a borrower or counterparty of the Bank will fail to meet its obligations in accordance with agreed terms and conditions. To assess and to mitigate the credit risk, the Bank has implemented risk management manual, which is considered an important tool for retaining the quality and performance of the assets. Accordingly, the Bank's credit risk management functions have been designed to address all these issues including a risk that arises from global changes in banking, finance and related issues.

Bank also has established separate Credit Risk Management Services which looks after 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. Bank has in place a risk grading system for analyzing the risk associated with credit. The parameters, while risk grading the customers, include financial condition and performance, quality of disclosures and management, facility structure, collateral and country risk assessment where necessary. Maximum counterparty/ group exposures are limited to 15% (funded) 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.

The Bank has defined segregation of duties for all credit risk related activities like credit approval, administration, monitoring and recovery functions.
The Bank has set policies and procedures for the controlling and monitoring of credit risks from these activities. A through risk assessment is done before sanction of any credit facility at risk management units. The risk assessment includes borrower risk analysis, financial analysis, industry analysis, historical performance of the customer, security of the credit facility etc.

Quatitative Disclosure

i. Gross Credit Risk Exposure

Collateral of moveable/immoveable assets	2,672,305,295	3,028,925,150
Non-banking financial institutions guarantee	175,712,001	199,160,815
Local banks/foreign banks guarantee	5,175,542,496	4,301,106,388
Export documents	45,870,184	51,991,572
Cash and quisi cash	165,601,697	187,701,288
Personal guarantee	389,280,825	441,230,455
Other securities	274,959,936	311,653,413
Total	**8,899,272,434**	**8,521,769,079**

ii. Major types of Loans & advances:

Overdrafts	678,473,521	798,027,383
Demand loans	788,850	877,380
Cash credit	1,306,625,950	1,741,916,384
House building loan	144,475,421	158,723,452

Transport loan	705,973,651	414,500,000
Term loans	980,103,340	905,510,616
Loan against trust receipts	33,930,424	346,649,639
Agricultural loan	102,906,000	108,415,018
Staff loans	35,540,001	38,530,529
	3,988,817,159	4,513,150,401
Off-shore Banking Unit	4,841,047,695	3,910,405,223
	8,829,864,854	**8,423,555,623**
Bills purchased & discounted	38,833,728	51,991,572
Off-shore Banking Unit	30,573,852	46,221,884
	69,407,580	98,213,456
	8,899,272,434	**8,521,769,079**

iii. Significant Concentration Wise Grouping

a. Staff:

Managing Director & CEO	-	-
Senior Executives	10,662,325	11,559,159
Others	24,877,676	26,971,370
	35,540,001	**38,530,529**

b. Industries:

i) Agricultural and Jute	102,906,000	108,415,018
ii) Readymade garments	139,105,479	270,000,000
iii) Textile	128,014,902	234,200,000
iv) Food & allied	7,648,689	187,200,000
v) Chemical	79,400,000	96,900,038
vi) Cement	88,700,000	82,378,512
vii) Printing Publishing & allied Industries	18,100,000	3,915,600
viii) Metal Products & Steel	114,400,000	291,943,276
ix) Petroleum & Coal Products	547,597	252,765,422
x) Leather & Leather Products	-	79,200,000
xi) Other	161,106,035	226,399,962
	839,928,703	**1,833,317,828**

c. Infrastructural:

i) Power	10,076,667	63,142,764
ii) Telecom	-	-
iii) Construction	315,140,105	183,405,322
iv) Transport	705,973,651	414,500,000
v) Feed	38,622,429	45,599,948
v) Others	466,937,777	602,234,659
	1,536,750,630	**1,308,882,693**

d. Consumers

i) Commercial lending	35,369,000	65,934,012
ii) Export financing	33,930,424	174,500,000
iii) House building loan	144,475,421	158,723,452
iv) Small and medium enterprise	797,031,000	256,800,000
v) Staff Loan	35,540,001	38530529
vi) Non-banking financial institutions	76,197,911	104,376,911

vii) Others	528,427,796	624,076,548
	1,650,971,554	**1,422,941,452**
Off-shore banking unit	4,871,621,547	3,956,627,107
	8,899,272,434	**8,521,769,079**

iv. Grouping as per classification rules

Unclassified		
Domestic Banking Unit		
Standard including staff loan	3,013,950,741	3,380,998,500
Special Mention Account (SMA)	-	26,593,512
	5,957,567,636	3,407,592,012
Offshore Banking Unit	4,871,621,547	3,956,627,107
	7,885,572,288	**7,364,219,118**
Classified		
Sub standard	179,039,848	171,842,790
Doubtful	-	415,083,534
Bad / Loss	834,660,297	570,623,637
	1,013,700,146	**1,157,549,961**

v. Loan type wise Classified Loan

Overdraft	678,473,521	843,826,948
Demand Loan	788,850	877,380
Term Loan	1,263,024,762	1,587,149,086
Cash Credit	2,085,363,753	2,133,288,559
Off-shore banking unit	4,871,621,547	3,956,627,107
	8,899,272,434	**8,521,769,079**

vi. Sector-wise allocation of loans and advances

Government		
Private:		
Agriculture, fishing, forestry and dairy firm	102,906,000	108,415,018
Industry (jute, textile, garments, chemicals, cements etc.)	737,022,703	1,724,902,810
Working capital financing	1,411,537,748	1,599,907,838
Export credit	33,930,424	174,500,000
Commercial credit	35,369,000	65,934,012
Small and cottage industries	797,031,000	256,800,000
Miscellaneous	909,854,011	634,682,295
Off-shore banking unit	4,871,621,547	3,956,627,107
	8,899,272,434	**8,521,769,079**

vii. Specific Provision

a) Loans and advances are stated in the balance sheet on gross value. Loans and advances are initially measured at fair value, and subsequently measured at amortised cost.

b) Provision for loans and advances is made on the basis of periodical review by the management and instructions contained in Bangladesh Bank BRPD Circular No. 14 of 23 September 2012, SRI'!) Circular No. 19 of 27 December 2012 and BRPD Circular No. 5 of 29 May 2013. The guidance in thc circular follows a formulaic approach whereby specified rates are applied to the various categories of loans as defined in the circular. These circulars also provides scope for further provisioning based on qualitative judgments. The rates of provision for different classifications are given below:

General provision on:	Rate 2014	Rate 2013
All unclassified loans and advances except the following:	1.00%	1.00%
Small and medium enterprise financing	0.25%	0.25%
Consumer financing	5%	5%
Housing finance and loans for professionals to set up business under consumer financing scheme	2%	2%
Special Mention Account (SMA)*	-	-

In accordance with BRPD circular No. 05 (29 May 2013) the rate of provision on the outstanding amount of loans kept in the 'Special Mention Account' will be the same as the rates stated above i.e. 0.25% against all unclassified loans of Small and Medium Enterprise (SME), 5% on the unclassified amount for Consumer Financing, 2% on the unclassified amount for Housing Finance and 1% against all other unclassified loans.

Specific provision on:		
Substandard loans and advances	20%	20%
Doubtful loans and advances	50%	50%
Bad/loss loans and advances	100%	100%
Provisions for short term agricultural and micro-credits		
All credits except 'bad/loss' (i.e. Doubtful, Substandard, irregular and regular credit)	5%	5%
Bad/Loss	100%	100%

Loans and advances are written off in accordance with BRPD circular no. 02 dated 13 January 2003 and BRPD circular no. 13 datcd 07 November 2013 to the extent that:

i) there is no realistic prospect of recovery, and

ii) against which legal cases are filed and classified as bad/loss as per guidelines of Bangladesh Bank.

	2014	2013
a. General		
Balance at the beginning of the year	107,975,211	138,779,840
Add: Provision made during the year	97,094,644	-
Less: Recoveries and provision no longer required		30,804,629
Balance at the end of the year	**205,069,855**	**107,975,211**
b. Specific		
Balance at the beginning of the year	638,908,577	178,971,113
Add: Provision made during the year	146,261,210	421,645,526
Add: Provision transfer from Interest Income	-	38,291,938
Less: Recoveries and provision no longer required	19,200,000	-
Less: Interest waiver during the year	-	-
Less: Write off during the year	119,196,741	-
Balance at the end of the year	646,773,046	638,908,577
Total Domestic Banking unit	**851,842,901**	**746,883,788**
c. Off-shore Banking unit	48,820,538	39,566,271
Net actual provision at the end of year (a+b+c)	**900,663,440**	**786,450,059**

Provisions for off balance sheet items

Provision for off balance sheet items is made as per BRPD circular No. 8 of 7th August 2007 and 10 of September 18, 2007 for covering the bank for possible losses on off balance sheet items in the future. Provision amount is included in the General Provision for Standard Assets. Details movement of Provision for Off Balance Sheet items is as follows:

Balance at the beginning of the year	75,059,970	64,395,259
Less: Provision adjusted during the year	99,272,488	10,664,711
Balance at the end of the year	**174,332,458**	**75,059,970**

Interest suspense

Classified loans and advances of the banks are categorised as sub-standard, doubtful and bad/loss as per guidelines of the Bangladesh Bank. Interest accrued on Special Mentioned Account (SMA), Sub-Standard (SS), doubtful and bad/loss loans is recorded as 'interest suspense' and not taken to income. This interest is recognized as income as and when it is realized in cash by the bank.

Balance at the beginning of the year	135,636,098	27,523,878
Add: Amount transferred during the year	-	108,112,220
	135,636,098	**135,636,098**
Less: Amount of interest suspense recovered	19,261,030	-
Less: Write off during the year	17,701,400	-
Less: Interest waiver during the year	-	-
Balance at the end of the year	**98,673,668**	**135,636,098**

3.4 i) Assets

<u>Qualitative Disclosure</u>

In broader categories assets composition of State Bank of India(SBI), Bangladesh mainly attributes to the following:

- Banking book assets
- Trading book assets

Generally, investments in ‘Held for Trading’ portfolios are focal parts of the trading book. All others assets of the balance sheet are lying with banking book.

The following are the components of the earning assets and non-earning assets of SBI Bangladesh

Assets are monitored on a regular basis to cope with unexpected risk. Assets Liability Committee (ALCO) monitors and reviews the behavior patterns of the assets. Assets are classified as per directive of the Bangladesh Bank.

Classified assets are mainly a portion of loans and advances (Presently 11.31 % of total loans and advances) which are calculated on a formulaic approach as per directive of Bangladesh Bank. Classified assets has decreased by 12.43% compared to that on 31 December 2013. The main drivers of this situation are continued efficient recovery effort and strong control over the loan book.

The ALCO regularly reviews the Bank’s overall assets and liability position, overall economic services, the Bank’s liquidity position, capital adequacy, balance sheet risk , interest risk and makes necessary changes in its mix as and when required. The bank has a Risk Management Committee (RMC) comprising all the members of the ALCO to manage various risks within bank including credit risk. As per the Bangladesh Bank guidelines, implementation of core risk management guidelines is in place.

<u>Quantitative Disclosure</u>

A. i. Banking book assets

A. Cash in hand:

Local currency	23,904,999	29,715,570
Balance with Bangladesh Bank excluding foreign currency	551,103,167	522,004,138
	575,008,166	**551,719,708**

ii) Money at Call and Short Notice	1,390,000,000	1,120,000,000
	1,390,000,000	**1,120,000,000**
iii) Investments		
Government Securities	7,780,160,662	7,289,417,795
	7,780,160,662	**7,289,417,795**
iv) Loans & Advance		
Classified		
Sub standard	179,039,848	158,972,704
Doubtful	-	381,419,477
Bad / Loss	834,660,297	540,908,361
	1,013,700,146	**1,081,300,542**
Unclassified		
Corporate	6,308,457,831	6,031,182,314
Individual	1,577,114,458	1,333,036,805
	7,885,572,288.17	**7,364,219,119**
Risk Weighted Assets		
a) Below 100% RWA	2,605,512,041	4,753,910,524
b) 100% RWA	5,151,295,006	7,232,300,918
c) Above 100% RWA	1,638,918,116	3,321,161,480
	9,395,725,164	**15,307,372,922**
v. Other Assets		
Fixed assets	71,926,740	80,778,772
Other assets	384,186,091	474,194,175
CDBL equity shares	3,138,890	3,138,890
	459,251,720	558,111,837
A.Total Banking Assets (i+ii+iii+iv+v)	**19,103,692,983**	**17,964,769,001**
B. Trading Book Assets		
FC held in hand	8,185,354	5,120,959
FC held in BB	103,143,778	42,761,234
Balance with other banks	245,134,875	346,237,019
B. Total Trading Book Assets	**356,464,006**	**394,119,212**
Total Assets (A+B)	**19,460,156,989**	**18,358,888,213**

3.5 Equities: Disclosures for Banking Book Positions

Qualitative Disclosure

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

Quantitative Disclosures Details of Unquoted Investments

Particulars	**No of Shares**		
Initial investment @ Tk.10	200000	2,000,000	2,000,000
Purchase of Right share @ Tk.10	113889	1,138,890	1,138,890
Bonus share @ Tk.10	828472	-	-
	1142361	**3,138,890**	**3,138,890**

3.6 Interest rate risk in the banking book (IRRBB)

Qualitative Disclosure

Interest rate risk refers to fluctuations in Bank's Net Interest Income and the value of its Assets and Liabilities arising fr om internal and external factors.

Internal factors include the composition of the Bank's assets and liabilities, quality, maturity, interest rate and re-pricing period of deposits, borrowings, loans and investments.

External factors cover general economic conditions.

Rising or falling interest rates impact the Bank depending on Balance Sheet positioning. Interest rate risk in prevalent o n both the assets as well as the liability sides of the Bank's Balance Sheet.

The Assets - Liability Management Committee (ALCO) periodically monitors and controls the risks and returns, funding and deployment,setting Bank's lending and deposit rates, and directing the investment activities of the Bank. T he ALCO decides on the fixation of interestrates on both assets and liabilities after considering the macro economic out look - both global and domestic, as also the macro aspects like cost benefit, financial inclusion and host of other factors.

Quantitative Disclosure

The capital requirements for :

Interest Rate risk	-	-
	-	-

3.7 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.

The bank uses the standardized (market risk) approach to calculate market risk for trading book exposures. Trading book consists of positions in financial instruments held with trading intent or in order to hedge other elements of the trading book. A capital charge will be applicable for financial instruments which are free from any restrictive covenants on tradability, or are able to be hedged completely. Generally, investments in 'Held for Trading' portfolios are focal parts of the trading book.

Capital charge means an amount of regulatory capital which the bank is required to hold for an exposure to a relevant risk which, if multiplied by 10, becomes the risk – weighted amount of that exposure for that risk.

The Bank has a comprehensive Treasury Risk Policy which inter alia covers assessment, monitoring and management of all the above market risks. The Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of BASEL II.

Details of various market risks faced by the Bank are set out below:

i. **Interest rate exposures**

The Bank adopts 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 standarised approach using the maturity method and in accordance with the guideline issued by Bangladesh Bank.

ii. **Interest rate exposures in the banking book**

Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. The immediate impact of changes in interest rates is on the Net Interest Income (NII). A long term impact of changing interest rates is on the Bank's net worth since the economic value of a bank's assets, liabilities and off- balance sheet positions get affected due to variation in market interest rates. The responsibility of interest rate risk management rests with the Bank's Asset and liability Management Committee (ALCO). The Bank periodically computes the interest rate risk on the banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. For the purpose of monitoring such interest rate risk, the Bank has in place a system that tracks the re-pricing mismatches in interest bearing assets and liabilities. For computation of the interest rate mismatches the guidelines of Bangladesh Bank are followed.Details relating to re-pricing mismatches and the interest rate risk thereon are placed before the ALCO regularly. In addition, scenario analysis assuming a 100 basis point parallel shift in interest rates and their impact on the interest income and net profit of the Bank are assessed on a quarterly basis and placed before ALCO with proposals for corrective action, if necessary.

iii. **Foreign Exchange Risk**

Foreign Exchange Risk may be defined as the risk that a bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency. The responsibility of management of foreign exchange risk rests with the Global Markets Department of the bank. The Bank has set up internal limit to monitor foreign exchange open positions. Foreign exchange risk is computed on the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

iv. **Equity Position Risk**

The Bank does not hold trading position in equities.

The capital charge for various components of market risk is presented below:

v. Market risk on Trading Book

Quantitative Disclosure

The capital requirements for :		
Interest rate risk	-	-
Equity position risk	-	-
Foreign exchange risk and	1,268,402	29,500,000
Commodity risk	**1,268,402**	**29,500,000**

3.8 Operational Risk

Qualitative Disclosures:

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. The SBI group manages this risk through a control based environment in which processes are documented , authorization is independent programme of periodic reviews undertaken by internal audit and by monitoring external operational risk events, which ensure that the group stays in line with industry best practices and takes account of lessons learned from publicized operational failures within the financial services industry.

- Operational risk management responsibility is assigned to senior management within the business operation;
- Information system are used to record the identification and assessment of operational risks and to generate appropriate regular management reporting;
- Assessments are undertaken of the operational risks facing each business and the risks inherent in its process, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;
- Operational risk loss data is collected and reported to senior management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Group's Audit Committee; and
- Risk mitigation, including insurance, is considered where this is cost- effective.

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. The Bank uses the Basic Indicator Approach to calculate its operational risk.

Operational Risk

Quantitative Disclosure :

The capital requirements for :		
Operational Risk	2,044,726,478	2,007,015,911
	2,044,726,478	**2,007,015,911**

Capital charge means an amount of regulatory capital which the bank is required to hold for an exposure to a relevant risk which, if multiplied by 10% becomes the risk-weighted amount of that exposure for that risk