Annex-G

STATE BANK OF INDIA
BANGLADESH OPERATIONS
Disclosures on risk based capital under Pillar - III of Basel III
for the year ended 31 December 2016

1 Scope of Application

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.

2 Disclosure framework

The following detailed qualitative and quantitative disclosures are provided in accordance with Bangladesh Bank rules and regulations on capital adequacy under Basel III issued through BRPD Circular no. 18 (21 December 2014).

3.1 <u>Capital Structure</u>

<u>Qualitative Disclosure</u>

SBI Bangladesh's capital structure consists of Tier I and Tier II capital which is aligned with regulatory capital structure. Tier I capital is further categorised as Common Equity Tier 1 (CET1) and Additional Tier 1 capital. The computation of the amount of Common Equity Tier I, Additional Tier I and Tier II capital shall be subject to the following conditions:

- The Bank has to maintain at least 4.50% of total Risk Weighted Assets (RWA) as Common Equity Tier I capital.
- Tier I capital will be at least 5.50% of the total RWA.
- Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10% of the total RWA.
- Additional Tier I capital can be maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher.
- Tier II capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher.
- In addition to minimum CRAR, Capital Conservation Buffer (CCB) @ 0.625% of the total RWA will be maintained in the form of CET1 in a phased manner from 2016 to 2019.

Tier I 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 ref no.BRPD (BFIS)661/14B(P)/2015-18014 dated 24 December 2015, 5% of deferred tax recognised on specific provision shall be allowable as CET 1 capital whilst all other deferred tax assets created on other items shall be deducted from the retained earnings when calculating the capital adequacy ratio.

Tier II capital consists of general provision and revaluation reserve for Held to Maturity (HTM) and Held for Trading (HFT) securities. General provision for inclusion in Tier II capital is limited to a maximum 1.25% of Credit RWA calculated under the standardised approach. Revaluation reserve for securities shown as Tier II capital as on 31 December 2014 will be nullified in a phased manner at the rate of 20% starting from 2015 and will be fully adjusted by 2019.

<u>Quantitative Disclosure</u>

a.	**Capital Adequacy Ratio - As per BASEL-III**		
	Tier - I (Core Capital)		
	Fund deposited with Bangladesh Bank	6,915,097,378	7,213,626,369
	Statutory reserve	-	-
	Acturial Gain / loss	-	-
	Surplus in profit & loss accounts / Retained Earnings	555,987,013	808,672,796
	Non- repartriable interest free fund	-	-
		7,471,084,391	**8,022,299,165**
	Amount deductable from CET 1 Capital (Regulatory Adjustments)		
	Goodwill	-	
	Shortfall	-	
	Deferred Tax assets	7,762,117	7,762,117
	Others		
		7,762,117	**7,762,117**
	Total eligible Tier - 1 Capital	**7,463,322,274**	**8,014,537,048**
b.	**Tier - II (Supplementary Capital)**		
	General Provision	333,993,866	301,530,941
	Asset revaluation reserve	13,511,599	16,889,499
	Total eligible Tier - 2 Capital (a)	**347,505,465**	**318,420,441**
	Total Capital	**7,810,827,739**	**8,332,957,489**

3.2 Capital Adequacy

Qualitative Disclosure

The Bank has adopted the Standardised 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 78.79% as against the minimum regulatory requirement of 10%. Tier I capital adequacy ratio is 75.78% against the minimum regulatory requirement of 5.50%. 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 by the ALCO and reported to head office. The composition of capital in terms of Tier I and II are also analysed to ensure capital stability and to reduce volatility in the capital structure. The Bank has a profit remittance policy to ensure that the Bank has enough 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.

Capital Adequacy

Quantitative Disclosure

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

	Total Exposure	Risk Weighted Assets
On balance sheet items	6,667,937,332	666,793,733
Off balance sheet items	5,388,563,566	538,856,357
Total B/S Exposure /Total credit risk	**12,056,500,897**	**1,205,650,090**
Market risk		578,273,307
Operational risk		2,100,607,997
Total risk weighted assets		**3,884,531,393**
Detail of capital adequacy		
Capital requirement for credit risk		1,205,650,090
Capital requirement for Market risk		578,273,307
Capital requirement for Operational risk		2,100,607,997
Total required capital(10% of RWA)		**3,884,531,393**
Total Tier I capital		7,463,322,274
Total Tier II capital		347,505,465
Total regulatory capital		**7,810,827,739**
Surplus		**3,810,827,739**
% of capital adequacy required		
Common EquityTier I		4.50%
Tier I		5.50%
Total (I & II)		10%
% of capital adequacy maintained		
Common EquityTier I		19.21%
Tier I		19.21%
Total (including Tier II)		20.11%

3.3 Credit Risk

Qualitative Disclosure

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.

The standardised 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 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 mitigant 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. The Risk department also monitors various credit concentration limits. The Bank has in place a risk grading system for analysing 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

i. Gross Credit Risk Exposure

Collateral of moveable/immoveable assets	1,972,989,000	2,737,802,547
Nonbanking financial institutions guarantee	129,273,498	179,385,343
Local banks/Foreign banks guarantee	9,621,239,966	6,157,664,149
Export documents	1,723,815	5,373,762
Cash and quisi cash	130,653,234	181,299,925
Personal guarantee	307,127,280	426,182,736
Other securities	373,416,939	515,187,332
Total	**12,536,423,732**	**10,202,895,793**

ii. Major types of Loans & advances:

Overdrafts	635,887,914	664,427,598
Demand loans	708,345	661,560
Cash credit	1,550,943,809	1,569,206,923
House building loan	77,644,360	107,840,199
Transport loan	124,004,746	856,524,409
Term loans	585,873,492	73,769,963
Loan against trust receipts	46,645,604	-
Agricultural loan	101,836,065	100,000,000
Telecommunication	-	1,000,000,000
Staff loans	52,390,195	31,648,000
Off-shore Banking Unit	1,181,625,000	362,342,267
	4,357,559,530	**4,766,420,918**
Bills purchased & discounted (DBU)	1,723,815	5,373,762
Off-shore Banking Unit	8,177,140,387	5,431,101,113
	8,178,864,202	5,436,474,875
	12,536,423,732	**10,202,895,793**

iii. Significant Concentration Wise Grouping

a. Staff:

Managing Director & CEO	-	-
Senior Executives	8,052,687	9,494,400
Others	44,337,508	22,153,600
	52,390,195	**31,648,000**

b. Industries:

i) Agricultural and Jute	101,836,065	127,268,584
ii) Readymade garments	116,112,346	160,909,489
iii) Textile	12,480,994	13,015,022
iv) Food & allied	80,122,689	-
v) Chemical	-	-
vi) Cement	50,633,612	82,337,049
vii) Printing Publishing & allied Industries	-	16,128,781

viii) Metal Products & Steel	-	-
ix) Petroleum & Coal Products	-	-
x) Leather & Leather Products	-	69,916,493
xi) Other	678,276,191	1,026,669,948
	1,039,461,897	**1,496,245,365**
c. Infrastructural:		
i) Power	3,621,009	-
ii) Telecom	-	-
iii) Construction	223,802,231	120,870,813
iv) Transport	751,602,633	856,524,409
v) Feed	-	-
v) Others	272,019,154	580,752,668
	1,251,045,027	**1,558,147,889**
d. Consumers		
i) Commercial lending	10,725,230	-
ii) Export financing	-	-
iii) House building loan	77,644,360	107,840,199
iv) Small and medium enterprise	622,833,899	745,089,136
v) Staff Loan	-	-
vi) Non-banking financial institutions	77,314,536.12	-
vii) Others	46,243,202	470,481,823
	834,761,227	**1,323,411,158**
Off-shore banking unit	9,358,765,387	5,793,443,380
	12,536,423,732	**10,202,895,793**
iv. Grouping as per classification rules		
Unclassified		
Domestic Banking Unit		
Standard including staff loan	2,594,971,562	3,832,356,004
Special Mention Account (SMA)	13,803,410	5,630,000
Offshore Banking Unit	9,358,765,387	5,793,443,380
	11,967,540,359	**9,631,429,384**
Classified		
Sub standard	45,622,692	5,952,388
Doubtful	79,827,100	-
Bad / Loss	443,433,581	565,514,021
	568,883,373	**571,466,409**
	12,536,423,732	**10,202,895,793**
v. Loan type wise Classified Loan		
Overdraft	695,657,621	669,801,360
Demand Loan	708,345	661,560
Term Loan	828,512,506	1,038,134,570
Cash Credit	1,652,779,873	2,700,854,923
Off-shore banking unit	9,358,765,387	5,793,443,380
	12,536,423,732	**10,202,895,793**
vi. Sector-wise allocation of loans and advances		
Government		
Private:		
Agriculture, fishing, forestry and dairy firm	101,836,065	127,268,584
Industry (jute, textile, garments, chemicals, cements etc.)	937,625,832	1,368,976,781
Working capital financing	1,020,632,084	1,416,272,021
Export credit	-	-
Commercial credit	10,725,229	-
Small and cottage industries	622,833,899	745,089,136
Miscellaneous	484,005,236	751,845,891
Off-shore banking unit	9,358,765,387	5,793,443,380
	12,536,423,732	**10,202,895,793**
vii. Geographical location wise portfolio grouping		
Inside Bangladesh		
Dhaka Division	2,261,856,026	3,306,460,018
Chittagong Division	792,271,307	957,667,250
Sylhet Division	99,140,201	113,568,008
Khulna Division	24,390,812	24,290,659
Rajshahi Division	-	7,466,478
	3,177,658,346	**4,409,452,413**
Off-shore banking unit	9,358,765,387	5,793,443,380
	12,536,423,732	**10,202,895,793**

Specific Provision

The Bank 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 and advances which may result in a change in the provision required in accordance with BRPD circular no.14 (23 September 2012) as amended by BRPD circular no. 19 (27 December 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

<u>Specific provision</u>

Specific provision on substandard loans and advances/investments other than agricultural loans 20%
Specific provision on doubtful loans and advances/investment other than agricultural loans 50%
Specific provision on substandard and doubtful agricultural loans 5%
Specific provision on bad / loss and advances/investments 100%

BRPD circular no.14 (23 September 2012) as amended by BRPD circular no. 19 (27 December 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.

a. General		
Balance at the beginning of the year	243,596,507	205,069,855
Add: Provision made during the year	(3,190,295)	38,526,652
Less: Recoveries and provision no longer required	-	-
Balance at the end of the year	**240,406,213**	**243,596,507**
b. Specific		
Balance at the beginning of the year	428,516,473	646,773,046
Add: Provision made during the year	292,882,351	22,048,839
Less: Recoveries and provision no longer required	-	-
Less: Interest waiver during the year	-	-
Less: Write off during the year	392,590,660	240,305,412
Balance at the end of the year	328,808,165	428,516,473
Total Domestic Banking unit	**569,214,378**	**672,112,981**
c. Off-shore Banking unit	93,587,653	57,934,434
Net actual provision at the end of year (a+b)	**662,802,031**	**730,047,415**

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	206,725,295	174,330,574
Less: Provision adjusted during the year	2,527,386	32,394,721
Balance at the end of the year	**209,252,681**	**206,725,295**

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	41,841,539	98,673,668
Add: Provision made during the year	32,096,303	-
	73,937,842	**98,673,668**
Less: Amount of interest suspense recovered	5,650,809	6,043,381
Less: Write off during the year	33,703,489	50,788,748
Less: Interest waiver during the year	-	-
Balance at the end of the year	**34,583,544**	**41,841,539**

3.4 Assets

Qualitative Disclosure

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.

Quantitative Disclosure

A. i. Banking book assets		
A. Cash in hand:		
Local currency	28,141,867	29,929,941
Balance with BB (excluding foreign currency)	1,687,111,662	478,163,869
	1,715,253,529	**508,093,810**
ii) Money at Call and Short Notice	1,380,000,000	1,810,000,000
	1,380,000,000	**1,810,000,000**
iii) Investments		
Government Securities	7,946,480,102	8,292,387,541
	7,946,480,102	**8,292,387,541**
iv) Loans & Advance		
Classified		
Sub standard	45,622,692	5,952,388
Doubtful	79,827,100	-
Bad / Loss	443,433,581	565,514,021
	568,883,373	**571,466,409**
Unclassified		
Corporate	9,813,383,094	7,704,372,993
Individual	2,154,157,265	1,927,056,391
	11,967,540,359	**9,631,429,384**
Risk Weighted Assets		
a) Below 100% RWA	7,519,928,541	328,278,859
b) 100% RWA	5,936,448,149	5,653,673,696
c) Above 100% RWA	1,279,005,510	4,594,676,034
	14,735,382,200	**10,576,628,590**
v. Other Assets		
Fixed assets	86,087,904	84,231,987
Other assets	575,411,895	956,223,934
CDBL equity shares	3,138,890	3,138,890
	664,638,689	1,043,594,811
A.Total Banking Assets (i+ii+iii+iv+v)	**24,242,796,052**	**21,856,971,956**
B. Trading Book Assets		
FC held in hand	2,760,220	3,948,287
FC held in BB & Nostro account	1,505,158,656	361,759,186
Balance with other banks (inside Bangladesh)	11,811,434	28,755,594
B. Total Trading Book Assets	**1,519,730,310**	**394,463,067**
Total Assets (A+B)	**25,762,526,361**	**22,251,435,023**

3.5 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.

Qualitative Disclosure

Details of Unquoted Investments

Particulars	No of Shares		
Initial Investment @ Tk.10	200000	2,000,000	2,000,000
Purchasing 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 from 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 on 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, anddirecting the investment activities of the bank. The ALCO decides on the fixation of interest rates on both assets and liabilities after considering the macro economic outlook 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 Disclosure

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,

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 Commodity risk	578,273,307	33,770,179
	578,273,307	**33,770,179**

3.8 Operational Risk
Qualitative Disclosure

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.

3.8 Operational Risk
Quantitative Disclosure

The capital requirements for :		
Operational Risk	2,100,607,997	2,064,070,948
	2,100,607,997	**2,064,070,948**

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

3.9 Liquidity Ratio
Qualitative disclosures:

Liquidity Risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at excessive cost. The risk arises from mismatch in the timing of cash flows.

The objective of liquidity framework is to allow the Bank to withstand very severe stresses. It is designed to be adaptable to change the business modes, markets and regulators. The liquidity risk management frameworks requires:

- liquidity to managed by Bank on stand-alone basis with no reliance on the Bangladesh Bank;
- to comply with all regulatory limits;
- to maintain positive stressed cash flow;
- monitoring the contingent funding commitments;
- monitoring the structural term mismatch between maturing assets and liabilities;
- maintenance of robust and practical liquidity contingency plan;
- maintain diverse sources of funding and adequate back up lines.

Liquidity management of the Bank is centered on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) based on BASEL III. The Bank has Asset Liability Management (ALM) desk to manage this risk with active monitoring and management from Global Markets Department.

The Bank has adopted Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) for liquidity risk management. LCR ensures that banks maintain enough high quality unencumbered liquid assets to meet its liquidity needs for 30 calendar time-line whereas NSFR ensures availability of stable funding is greater than required funding over 1 year period.

Bank has Asset Liability Management Committee (ALCO) to monitor the liquidity risk on a monthly basis. Based on the detail recommendation from ALM desk, ALCO take appropriate action to manage the liquidity risk. To have more conservative approach towards liquidity risk measurement, the Bank has set internal LCR and NSFR limits which are more stringent and set higher than the regulatory limit of 100%. These ratios are regularly monitored at ALCO. Also Bank has internal risk control framework which outlines clear and consistent policies and principles for liquidity risk management.

Quantitative disclosures:

	2016
Liquidity coverage ratio (%)	100.21%
Net Stable Funding Ratio (%)	115.10%
Stock of High quality liquid assets (in Crore)	341.24
Total net cash outflows over the next 30 calendar days (in Crore)	3.40
Available amount of stable funding	1,506.00
Required amount of stable funding	1,308.43

3.10 Leverage Ratio

Qualitative disclosures:

Leverage ratio is the ratio of tier 1 capital to total on and off-balance sheet exposures. The leverage ratio was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements.

In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced by the Bangladesh Bank. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives:

-constrain the build-up of leverage in the banking sector which can damage the broader financial

- reinforce the risk based requirements with an easy to understand and a non-risk based measure.

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 the Bangladesh Bank. The exposure measure generally follows the accounting value, adjusted as follows:

- on-balance sheet, non derivative exposures are included in the exposure measure net of specific provision;
- physical or financial collateral is not considered to reduce on-balance sheet exposure;
- loans are not netted with deposits;
- off ba items are converted into credit exposure equivalents through the use of 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;
- item deducted from Tier I capital such as deferred tax assets is excluded.

Quantitative disclosures:

	2016
Leverage ratio	27.52%
On balance sheet exposure	6,667,937,332
Off balance sheet exposure	5,388,563,566
	12,056,500,897

3.11 Remuneration

Qualitative disclosures:

The Bank has a Group specified remuneration policy which is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people who are committed to maintaining a long-term career with SBI and performing their role in the long-term interests of shareholders. The Group Remuneration Committee oversees the remuneration policy and are responsible for setting the overarching principles, parameters and governance framework of the remuneration policy. The Committee periodically reviews the adequacy and effectiveness of the Group's remuneration policy and ensures that the policy meets the commercial requirement to remain competitive, is affordable, allows flexibility in response to prevailing circumstances and is consistent with effective risk management.

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

Fixed Pay:

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

Benefits:

SBI provides benefits in accordance with local and international market practice. This includes but is not limited to the provision of pensions, medical insurance, life insurance, and relocation allowances etc.

Annual Incentive:
SBI provides annual incentive to drive and reward performance based on annual financial and non-financial measures consistent with the medium to long-term strategy, shareholder interests and adherence to SBI values. Awards can be in the form of cash and shares. A portion of the annual incentive award is deferred and vests over a period of 3 years. The Bank pays the incentive in the form of cash. Key features of SBI's remuneration framework include:

- assessment of performance with reference to clear and relevant objectives set within a performance scorecard framework;
- a focus on total compensation (fixed plus variable pay) with variable pay (namely annual incentive and the value of long term incentives) differentiated by performance and adherence to SBI values;
- the use of discretion to assess the extent to which performance has been achieved; and
- deferral of a significant proportion of variable pay into SBI shares to tie recipients to the future performance of the Group and align the relationship between risk and reward.

Quantitative disclosures:

Number of meetings held by the main body overseeing remuneration during the financial year	n/a
Remuneration paid to the main body overseeing remuneration during the financial year	n/a
Number of employees having received a variable remuneration award during the financial year	n/a
Guaranteed bonuses awarded during the financial year:	
Number of employee	111
Total amount of guaranteed bonuses	8,292,268.00
Sign-on awards made during the financial year:	
Number of employee	n/a
Total amount of sign-on awards	n/a
Severance payments made during the financial year:	
Number of employee	n/a
Total amount of severance payments	n/a
Total amount of outstanding deferred remuneration (in cash)	n/a
Total amount of deferred remuneration paid out in the financial year	n/a
Breakdown of amount of remuneration awards for the financial year:	
Fixed and variable	107,697,679
Variable pay	n/a
Deferred	n/a
Non-deferred	n/a
	107,697,679