

**STATE BANK OF INDIA**  
**BANGLADESH OPERATIONS**  
**Disclosures on risk based capital under Pillar - III of Basel III**  
**for the year ended 31 December 2017**

**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 Capital Structure****Qualitative Disclosure**

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.

**Quantitative Disclosure****a. Capital Adequacy Ratio - As per BASEL-III****Tier - I (Core Capital)**

Fund deposited with Bangladesh Bank	6,603,730,068	6,915,097,378
Statutory reserve	-	-
Acturial Gain / loss	-	-
Surplus in profit & loss accounts / Retained Earnings	1,986,645,373	555,987,013
Non- repatriable interest free fund	-	-
	<b>8,590,375,442</b>	<b>7,471,084,391</b>

Amount deductible from CET 1 Capital ( Regulatory Adjustments)

Goodwill	-	
Shortfall	-	
Deferred Tax assets	2,310,276	5,293,975
Others		
	<b>2,310,276</b>	<b>5,293,975</b>
<b>Total eligible Tier - 1 Capital</b>	<b>8,588,065,166</b>	<b>7,465,790,417</b>

**b. Tier - II (Supplementary Capital)**

General Provision	409,737,124	333,993,866
Asset revaluation reserve	12,667,124	13,511,599
<b>Total eligible Tier - 2 Capital (a)</b>	<b>422,404,247</b>	<b>347,505,465</b>
<b>Total Capital</b>	<b>9,010,469,413</b>	<b>7,813,295,881</b>



### 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 85.98% as against the minimum regulatory requirement of 10%. Tier I capital adequacy ratio is 81.95% 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:

	<b>Total Exposure</b>	<b>Risk Weighted Assets</b>
On balance sheet items	27,592,540,798	3,188,612,856
Off balance sheet items	976,09,76,075	5,022,173,500
<b>Total B/S Exposure /Total credit risk</b>		<b>8,210,786,356</b>
Market risk		77,148,002
Operational risk		2,191,886,753
<b>Total risk weighted assets</b>		<b>10,479,821,110</b>
<b><u>Detail of capital adequacy</u></b>		
Capital requirement for credit risk		821,078,635
Capital requirement for Market risk		77,148,000
Capital requirement for Operational risk		2,191,886,76
<b>Total required capital(10% of RWA)</b>		<b>1,047,982,111</b>
Total Tier I capital		8,588,065,166
Total Tier II capital		422,404,247
Total regulatory capital		<b>9,010,469,413</b>
<b>Surplus</b>		<b>5,010,469,413</b>
% of capital adequacy required		
Common EquityTier		4.50%
I Tier I		5.50%
Total (I & II)		10%
<b>% of capital adequacy maintained</b>		
Common EquityTier		81.95%
I Tier I		81.95%
Total (including Tier II)		85.98%

### 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	4,054,259,478	1,972,989,000
Nonbanking financial institutions guarantee	261,565,129	129,273,498
Local banks/Foreign banks guarantee	11,988,858,902	9,621,239,966
Export documents	4,813,843	1,723,815
Cash and quasi cash	261,565,128	130,653,234
Personal guarantee	604,666,645	307,127,280
Other securities	829,127,714	373,416,939
<b>Total</b>	<b>18,004,856,839</b>	<b>12,536,423,732</b>

#### **ii. Major types of Loans & advances:**

Overdrafts	336,880,843	635,887,914
Demand loans	2,463,145,350	708,345
Cash credit	2,184,820,696	1,550,943,809
House building loan	47,506,672	77,644,360
Transport loan	412,593,053	124,004,746
Term loans	563,651,350	585,873,492
Loan against trust receipts	321,975,144	46,645,604
Agricultural loan	150,000,000	101,836,065
Telecommunication	-	-
Staff loans	53,741,241	52,390,195
Off-shore Banking Unit	1,101,779,587	1,181,625,000
	<b>7,636,093,934</b>	<b>4,357,559,530</b>
Bills purchased & discounted (DBU)	4,813,844	1,723,815
Off-shore Banking Unit	10,363,949,060	8,177,140,387
	<b>10,368,762,904</b>	<b>8,178,864,202</b>
	<b>18,004,856,838</b>	<b>12,536,423,732</b>

#### **iii. Significant Concentration Wise**

##### **Grouping a. Staff:**

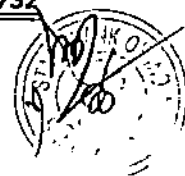
Managing Director & CEO	-	-
Senior Executives	6,448,949	8,052,687
Others	47,292,292	44,337,508
	<b>53,741,241</b>	<b>52,390,195</b>

##### **b. Industries:**

i) Agricultural and Jute	150,000,000	101,836,065
ii) Readymade garments	76,824,523	116,112,346
iii) Textile	12,387,371	12,480,994
iv) Food & allied	8,439,584	80,122,689
v) Chemical	30,622,139	-
vi) Cement	-	50,633,612
vii) Printing Publishing & allied Industries	16,308,117	-



viii) Metal Products & Steel	879,947,447	-
ix) Petroleum & Coal Products	88,054,424	-
x) Leather & Leather Products	494,583,540	-
xi) Other	1,475,781,433	678,276,191
	<b>3,232,948,579</b>	<b>1,039,461,897</b>
<b>c. Infrastructural:</b>		
i) Power	3,611,519	3,621,009
ii) Telecom	-	-
iii) Construction	15,497,201	223,802,231
iv) Transport	412,593,05	751,602,633
v) Feed	702,152,578	-
v) Others	193,827,563	272,019,154
	<b>1,327,681,914</b>	<b>1,251,045,027</b>
<b>d. Consumers</b>		
i) Commercial lending	-	10,725,230
ii) Export financing	-	-
iii) House building loan	47,506,672	77,644,360
iv) Small and medium enterprise	642,800,392	622,833,899
v) Staff Loan	-	-
vi) Non-banking financial institutions	77,047,738	77,314,536.12
vii) Others	1,100,000,000	46,243,202
	<b>1,867,354,802</b>	<b>834,761,227</b>
Off-shore banking unit	11,465,728,647	9,358,765,387
	<b>17,947,455,183</b>	<b>12,536,423,732</b>
<b>iv. Grouping as per classification rules</b>		
<b>Unclassified</b>		
Domestic Banking Unit		
Standard including staff loan	6,298,342,259	2,594,971,562
Special Mention Account (SMA)	87,793,804	13,803,410
Offshore Banking Unit	11,465,728,647	9,358,765,387
	<b>17,851,864,710</b>	<b>11,967,540,359</b>
<b>Classified</b>		
Sub standard	15,961,817	45,622,692
Doubtful	-	79,827,100
Bad / Loss	137,030,311	443,433,581
	<b>152,992,128</b>	<b>568,883,373</b>
	<b>18,004,856,838</b>	<b>12,536,423,732</b>
<b>v. Loan type wise Classified Loan</b>		
Overdraft	3,133,994,490	695,657,621
Demand Loan	1,926,268,986	708,345
Term Loan	1,070,313,004	828,512,506
Cash Credit	408,551,711	1,652,779,873
Off-shore banking unit	11,465,728,647	9,358,765,387
	<b>18,004,856,838</b>	<b>12,536,423,732</b>
<b>vi. Sector-wise allocation of loans and advances</b>		
<b>Government</b>		
<b>Private:</b>		
Agriculture, fishing, forestry and dairy firm	150,000,000	101,836,065
Industry (jute, textile, garments, chemicals, cements etc.)	3,082,948,579	937,625,832
Working capital financing	2,100,302,584	1,020,632,084
Export credit	-	-
Commercial credit	-	10,725,229
Small and cottage industries	697,853,185	622,833,899
Miscellaneous	508,023,842	484,005,236
Off-shore banking unit	11,465,728,647	9,358,765,387
	<b>18,004,856,838</b>	<b>12,536,423,732</b>
<b>vii. Geographical location wise portfolio grouping Inside Bangladesh</b>		
Dhaka Division	4,905,775,205	2,261,856,026
Chittagong Division	1,581,593,549	792,271,307
Sylhet Division	-	99,140,201
Khulna Division	51,759,436	24,390,812
Rajshahi Division	-	-
	<b>6,539,128,191</b>	<b>3,177,658,346</b>
Off-shore banking unit	11,465,728,647	9,358,765,387
	<b>18,004,856,838</b>	<b>12,536,423,732</b>



### 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

### Specific provision

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	240,406,213	243,596,507
Add: Provision made during the year	54,673,624	(3,190,295)
Less: Recoveries and provision no longer required	-	-
<b>Balance at the end of the year</b>	<b>295,079,837</b>	<b>240,406,213</b>

#### b. Specific

Balance at the beginning of the year	328,808,165	428,516,473
Add: Provision made during the year	(3,225,036)	292,882,351
Less: Recoveries and provision no longer required	12,790,057	-
Less: Interest waiver during the year	-	-
Less: Write off during the year	244,437,826	392,590,660
Balance at the end of the year	68,355,245	328,808,165
<b>Total Domestic Banking unit</b>	<b>363,435,083</b>	<b>569,214,378</b>

#### c. Off-shore Banking unit

	114,657,286	93,587,653
<b>Net actual provision at the end of year (a+b)</b>	<b>478,092,369</b>	<b>662,802,031</b>

### 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 18 September, 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	206,725,295
Less: Provision adjusted during the year	(3,253,583)	2,527,386
<b>Balance at the end of the year</b>	<b>203,471,712</b>	<b>209,252,681</b>

### 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	34,583,544	41,841,539
Add: Provision made during the year	-	32,096,303
	<b>34,583,544</b>	<b>73,937,842</b>
Less: Amount of interest suspense recovered	-	5,650,809
Less: Write off during the year	9,484,767	33,703,489
Less: Interest waiver during the year	-	-
<b>Balance at the end of the year</b>	<b>25,098,777</b>	<b>34,583,544</b>



### 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 0.85 % of total loans and advances) which are calculated on a formulaic approach as per directive of Bangladesh Bank.

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

Balance with BB (excluding foreign currency)

29,141,378	28,141,867
544,316,984	1,687,111,662
<b>57,34,58,362</b>	<b>1,715,253,529</b>

###### **ii) Money at Call and Short Notice**

1,390,000,000	1,380,000,000
<b>1,390,000,000</b>	<b>1,380,000,000</b>

###### **iii) Investments**

Government Securities

6,628,893,172	7,946,480,102
<b>6,628,893,172</b>	<b>7,946,480,102</b>

###### **iv) Loans & Advance**

**Classified**

Sub standard

Doubtful

Bad / Loss

15,961,817	45,622,692
-	79,827,100
137,030,311	443,433,581
<b>152,992,128</b>	<b>568,883,373</b>

**Unclassified**

Corporate

Individual

17,851,864,710	9,813,383,094
	2,154,157,265
<b>18,004,856,838</b>	<b>11,967,540,359</b>

###### **Risk Weighted Assets**

a) Below 100% RWA

b) 100% RWA

c) Above 100% RWA

	7,519,928,541
	5,936,448,149
	1,279,005,510
<b>10,479,821,110</b>	<b>14,735,382,200</b>

###### **v. Other Assets**

Fixed assets

Other assets

CDBL equity shares

80,862,972	86,087,904
457,166,122	575,411,895
3,138,890	3,138,890
541,167,984	664,638,689
<b>27,138,376,356</b>	<b>24,242,796,052</b>

###### **A.Total Banking Assets (i+ii+iii+iv+v)**

###### **B. Trading Book Assets**

FC held in hand

FC held in BB & Nostro account

Balance with other banks (inside Bangladesh)

###### **B. Total Trading Book Assets**

**Total Assets (A+B)**

2,351,651	2,760,220
438,332,328	1,505,158,656
13,480,463	11,811,434
<b>454,164,442</b>	<b>1,519,730,310</b>
<b>27,592,540,798</b>	<b>25,762,526,361</b>



### 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		-	-
	<u>313889</u>	<u>3,138,890</u>	<u>3,138,890</u>

### 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 is 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, and directing 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 standardised 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

-	-
-	-
-	-
77,148,002	578,273,307
<b>77,148,002</b>	<b>578,273,307</b>

### **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

2,191,886,753	2,100,607,997
<b>2,191,886,753</b>	<b>2,100,607,997</b>

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.

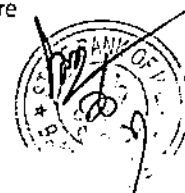
The objective of liquidity framework is to allow the Bank to withstand very severe stresses. It is designed to be adaptable to change the business modes, markets and regulators. The liquidity risk management frameworks requires:

- 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:**

	<u>2017</u>
Liquidity coverage ratio (%)	119.52%
Net Stable Funding Ratio (%)	118.30%
Stock of High quality liquid assets (in Crore)	176.19
Total net cash outflows over the next 30 calendar days (in Crore)	60.94
Available amount of stable funding	1389.42
Required amount of stable funding	1174.52

**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 balance 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:**

	<u>2017</u>
Leverage ratio	22.99%
On balance sheet exposure	27,592,540,798
Off balance sheet exposure	97,609,760,75
	<b>37,353,516,873</b>

**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	02
Remuneration paid to the main body overseeing remuneration during the financial year	NIL
Number of employees having received a variable remuneration award during the financial year	NIL
Guaranteed bonuses awarded during the financial year:	
Number of employee	107
Total amount of guaranteed bonuses	80,40,059.00
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	103,146,468
Variable pay	n/a
Deferred	n/a
Non-deferred	n/a
	<b>103,146,468</b>

