Disclosures on Risk Based Capital Requirement under PILLAR-III of BASEL-II

as on 31-12-2012

State Bank of India
BANGLADESH

December 2012

1 Disclosure policy

The following detailed qualitative and quantitative disclosures are furnished in accordance with Bangladesh Bank rules and regulations on risk based capital adequacy under Basel II issued through circular on 31 December 2008. The purpose of these requirements is to complement the capital adequacy requirements and the pillar II – supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market. The Bank has an approved disclosure policy to observe the disclosure requirements set out by the Bangladesh Bank and International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as adopted by the institute of Chartered Accountants of Bangladesh (ICAB) into Bangladesh Financial Reporting Standards (BFRS) and Bangladesh Accounting Standards (BAS) where relevant to the Bank.

The major highlights of the Bangladesh Bank regulations are:

- to maintain capital adequacy ratio (CAR) at a minimum BDT 400 crore or 10% of Risk
- to adopt the standardized approach for credit risk for implementing Basel II , using discretion for:

- adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and banks;
- adopting simple/comprehensive approach for Credit Risk Mitigation (CRM) ; and
- all unrated corporate exposures are risk weighted by assigning 125% of risk weight.

- to adopt standardized approach for market risk and basic indicator approach for operational
- capital adequacy returns must be submitted to Bangladesh Bank on a quarterly basis.

2 Scope of Application

The Bank has no subsidiaries or significant investments and Basel II is applied at the Bank level on

3 Disclosure framework

The following components set out in tabular form are the disclosure requirements;
i. Assets ii. Credit risk in Banking book iii. Market risk in trading book; iv. Operational Risk v. Specific provisions vi. Regulatory capital; vii. Capital Adequacy.

i) Assets
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
Earning assets
- Loans and advances to customer
- Investment in securities

- Money at call & short notice
- Balance with other banks and financial institutions

Non –earning assets

- Balance with Bangladesh Bank for maintaining cash reserve ratio
- Cash
- Fixed assets
- Other assets

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 4.56 % of total loans and advances) which are calculated on a formulaic approach as per directive of Bangladesh Bank. Classified assets has increased by 26% compared to that on 31 December 2011. 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.

A. i. Banking book assets

A. Cash in hand:

Local currency		19,803,897	32,856,883
Balance with Bangladesh Bank excluding fo		564,624,712	791,591,517
		584,428,609	**824,448,400**
ii) Money at Call and Short Notice		2,030,000,000	1,490,000,000
		2,030,000,000	**1,490,000,000**
iii) Investments			
Government Securities	(Note: 6.1)	4,099,844,719	3,870,238,709
		4,099,844,719	**3,870,238,709**
iv) Loans & Advance			
Classified			
Sub standard		25,837,067	65,189,130
Doubtful		85,811,495	-
Bad / Loss		172,691,251	160,971,932
		284,339,813	**226,161,062**

Unclassified		
Corporate	3,574,540,582	4,195,105,510
Individual	2,383,027,054	2,796,737,007
	5,957,567,636	**6,991,842,517**
Risk Weighted Assets		
a) Below 100% RW	768,290,116	2,763,556,708
b) 100% RWA	7,796,262,849	2,395,943,816
c) Above 100% RWA	4,640,763,101	7,341,126,810
	13,205,316,066	**12,500,627,334**
v. Other Assets		
Fixed assets	81,240,101	71,192,145
Other assets	769,726,698	599,450,525
CDBL equity shares	3,138,890	3,138,890
	854,105,689	673,781,560
A.Total Banking Assets (i+ii+iii+iv+v)	**13,810,286,466**	**14,076,472,248**
B. Trading Book A		
FC held in hand	7,284,144	8,871,186
FC held in BB & Nostro account	290,511,098	333,718,993
Balance with other banks	169,417,381	431,053,186
B. Total Trading Book Assets	**467,212,623**	**773,643,365**
Total Assets (A+B)	**14,277,499,089**	**14,850,115,613**

4 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

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.
Discussion of the bank's credit risk management policy
Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and credit derivatives, and from the holdings of debt securities. 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 aims of credit risk management, underpinning sustainably profitable business, are principally:

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.

i. Gross Credit Risk Exposure

Collateral of moveable/immoveable	4,057,239,842	4,691,702,326
Nonbanking financial institutions	199,160,814	260,700,000
Local banks/Foreign banks guarantee	344,479,281	371,940,865
Export documents	215,800,000	168,592,328
Cash and quisi cash	320,445,116	259,086,713
Personal guarantee	749,028,894	866,160,429
Other securities	355,753,502	599,820,917
Fixed assets	81,240,101	71,192,145
All other assets	7,954,415,582	7,560,919,887
Off-balance sheet items	6,887,419,908	7,079,661,286
Total	**21,164,983,040**	**21,929,776,896**

ii. Major types of Loans & advances:

Overdrafts	1,035,294,855	1,059,267,024
Demand loans	14,932	48,214
Cash credit	1,832,121,310	2,765,154,208
House building loan	241,700,000	56,100,000
Transport loan	623,300,000	979,100,000
Term loans	1,059,610,626	1,422,890,895
Loan against trust receipts	889,031,517	-
Export Development fund	-	168,592,328
Agricultural loan	176,600,000	100,000,000
Staff loans	39,754,928	24,445,359
	5,897,428,168	**6,575,598,028**
Bills purchased & discounted	344,479,281	642,405,551
	6,241,907,449	**7,218,003,579**

iii. Geographical Location Wise Portfolio Groupi

Inside Bangladesh:

Urban		
Dhaka Division	3,535,558,686	4,509,189,889
Chittagong Division	2,559,725,753	2,552,330,022
Sylhet Division	119,090,539	138,270,416
Khulna Division	10,730,968	11,003,548
	6,225,105,946	7,210,793,875
Rural		
Rajshahi Division	16,801,503	7,209,704
	16,801,503	7,209,704
	6,241,907,449	**7,218,003,579**

iv. Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

a. Staff:		
Managing Director & CEO	-	-
Senior Executives	11,926,478	7,333,608
Others	27,828,450	17,111,751
	39,754,928	**24,445,359**
b. Industries:		
i) Agricultural and Jute	176,600,000	100,000,000
ii) Readymade garments	300,300,000	156,160,000
iii) Textile	272,775,000	234,240,000
iv) Food & allied	218,220,000	194,900,000
v) Chemical	-	31,700,000
vi) Cement	123,960,777	210,829,328

vii) Printing Publishing & allied Industries	5,455,500	7,900,000
viii) Metal Products & Steel	403,272,977	457,400,000
ix) Petroleum & Coal Products	323,558,136	223,300,000
x) Leather & Leather Products	135,200,000	169,900,000
xi) Other	455,100,000	428,433,816
	2,414,442,390	**2,214,763,144**

c. Infrastructural:		
i) Power	112,243,253	214,200,000
ii) Telecom	-	-
iii) Construction	218,105,318	254,700,000
iv) Transport	623,300,000	979,100,000
v) Feed	47,007,968	54,291,499
v) Others	646,533,309	1,183,951,696
	1,647,189,848	**2,686,243,194**
d. Consumers		
i) Commercial lending	77,394,234	221,879,435
ii) Export financing	215,800,000	168,592,328
iii) House building loan	241,700,000	56,100,000
iv) Small and medium enterprise	275,759,469	82,000,000
v) Non-banking financial institutions	121,766,581	260,700,000
vi) Others	1,208,100,000	1,503,280,119
	2,140,520,284	**2,292,551,881**
	6,241,907,449	**7,218,003,579**

v. Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

Payable		
On demand	936,286,117	1,082,700,537
Within one month	1,248,381,490	1,443,600,716
Within one to	1,560,476,862	1,804,500,895
Within three to	1,061,124,266	1,227,060,608
Within one to five	1,435,638,714	1,660,140,823
More than five		
	6,241,907,449	**7,218,003,579**

vi. Amount of impaired loans and if available, pa

SMA	150,954,460	54,076,675
Sub standard	25,837,067	65,189,130
Doubtful	85,811,495	-
Bad / Loss	172,691,251	160,971,932
	435,294,273	**280,237,737**

vii. Specific and general provisions :

General Provision	138,779,840	143,699,414
Special Provision	178,971,113	171,197,499
	317,750,953	**314,896,913**
Charges for specific allowa		
Gross Non Performing Assets (NPAs)	284,339,813	226,161,062
Non Performing Assets (NPAs) to Ou	**4.56%**	**3.13%**

viii. Movement of Non Performing As

Opening balance	226,161,062	145,861,522
Additions (net)	58,178,751	80,299,541
Reductions		
Closing balance	**284,339,813**	**226,161,063**

ix. Movement of specific provisions fo

Opening balance	171,197,499	174,603,177
Provision made during the	7,773,614	-
Write-off	-	-
Write -back of excess	-	(3,405,678)
Closing balance	**178,971,113**	**171,197,499**

5 Market Risk

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

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

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

<u>Quantitative Disclosure</u>

The capital requirements for :	-	-
Interest rate risk	-	-
Equity position risk	221,038,172	142,962,736
Foreign exchange risk and	-	-
Commodity risk	**221,038,172**	**142,962,736**

6 Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide spectrum of issues. 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

- 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	1,613,027,251	1,306,019,359
	1,613,027,251	**1,306,019,359**

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

7 Specific Provision

The Bank follows Bangladesh Bank guidelines regarding loan classifications, provisioning and any other issues related to Non Performing Loan (NPL). Bank's internal credit guidelines also direct on managing of NPL, loan provisioning review procedure, debt write-off, facility grading, reporting requirements, interest recognitions. However, Bank's guidelines will not supersede local regulations. Thus, while dealing with NPL, the Bank's decision is always complied by local rules and regulations as well as group guidelines which are generally more conservative than the local regulations.

Throughout the year the Bank reviews loans and advances to assess whether objective evidence that impairment of a loan or portfolio of loans has arisen supporting a change in the classification of loans and advance which may result in a change in the provision required in accordance with BRPD Circular No.5 (5 June 2006) and subsequently new Circular No. 19, Dated. 27,2012. The guidance in the circular follows a formulaic approach whereby specified rates are applied to the various categories of loans as defined in the circular. The provisioning rates required, as updated by BRPD Circular No.05 (29 April 2008) are as follows:

Specific Provision on loans and advances

Specific provision on substandard loans and advances/investments 20%

Specific Provision on doubtful loans and advances/investments 50%

Specific provision on bad/loss and advances/investments 100%

BRPD Circular no.5 (5 June 2006) also provides scope for further provisioning based on qualitative judgements. 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 recognized in liabilities under “Provisions for loans and advances” with any movement in the provision charged/ released in the profit and loss account.

Specific and general provisions :		
General Provision	138,779,840	143,699,414
Special Provision	178,971,113	171,197,499
	317,750,953	**314,896,913**
Charges for specific allowa		
Gross Non Performing Assets (NPAs)	**284,339,813**	226,161,062
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Closing balance	**178,971,113**	**171,197,499**

8 Regulatory Capital

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

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.
Subordinated debt shall be limited to a maximum of 30% of the amount of Tier I capital and shall also include rated and listed subordinated debt instruments/bonds raised in the capital market.
Tier I capital of the Bank includes fund deposited with Bangladesh Bank, tax rebate on head office expenses and retained earnings. Tier I capital is also called 'Core Capital' of the bank.
Tier II (supplementary capital) consists of general provision, exchange equalization and 50% of revaluation reserve for Held to Maturity (HTM) and Held for Trading (HFT) securities.
The use of Tier III (short term subordinated debt) is limited only for part of the requirements of the explicit capital charge for market risks. The Bank does not have any Tier III capital.

Capital Adequacy Ratio - As per BASEL-II

Tier - I (Core Capital)		
Fund deposited with	5,680,034,639	4,627,256,195
Surplus in profit & loss	672,679,698	994,078,416
Statutory reserve		
Non-repayable share	-	-
General reserve	-	-
Retained Earnings		
Minority interest in subsidiaries	-	-
Share money deposit	-	-
Non-cumulative	-	-
Dividend equalization accounts	-	-
Sub-total	**6,352,714,337**	**5,621,334,611**
Deductable from Tier - I		
Book value of Goodwill	-	-
Shortfall in provision required against classified assets irrespective of any	-	-
Deficit on account of revaluation of investment in AFS category	-	-
Any increase in equity capital resulting from a securitization transaction	-	-
Deferred tax income arising from "Loan loss provision"	-	-
Investment in subsidiary	-	-
Other if any		

Sub-total	**-**	**-**
Total eligible Tier - 1 Capital	**6,352,714,337**	**5,621,334,611**
Tier - II (Supplementary Capital)		
General Provision	138,779,840	143,699,414
Asset revaluation reserve	10,139,512	7,609,746
Preference Share	-	-
Perpetual Subordinated debt	-	-
Exchange Equalization Fund	-	-
Sub-total	**148,919,352**	**151,309,160**
Deduction (Investment in subsidiary)	**-**	**-**
Total eligible Tier - 2 Capital (a)	**148,919,352**	**151,309,160**
market risk only)		
Short term sub-ordinated debt (b)	**-**	**-**
Total Supplementary Capital	**-**	**-**
Total Capital	**6,501,633,689**	**5,772,643,771**
Total Risk Weighted Assets (Details in Annexure- G	13,205,316,065	12,500,605,000
Required capital based on Risk	1,320,531,607	1,250,060,500
Surplus/ (Deficiency)	5,181,102,082	4,522,583,271
Capital Adequacy Ratio:		
On core capital (against	48.11%	44.97%
On actual capital	**49.23%**	**46.18%**

9 Capital Adequacy

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(Provision of various risk weighted assets are presented below:

	Total Exposure	Risk Weighted Assets
On balance sheet items	14,277,499,089	7,606,531,301
Off balance sheet items	6,887,419,908	3,764,719,342
Total B/S Exposure /Total credit risk	**21,164,918,997**	**11,371,250,643**
Market risk		221,038,172
Operational risk		1,613,027,251
Total risk weighted assets		**13,205,316,066**

Detail of capital adequacy

Capital requirement for credit risk	1,137,125,064
Capital requirement for Market risk	22,103,817
Capital requirement for Operational risk	161,302,725
Total required capital(10% of RWA)	**1,320,531,607**
Total Tier 1 capital	6,352,714,337
Total Tier 2 capital	148,919,352
Total regulatory capital	**6,501,633,689**
Surplus	**2,501,633,689**
% of capital adequacy required	
Tier I	5%
Total (I & II)	10%
% of capital adequacy maintained	
Tier I	48.11%
Total (I & II)	49.23%