Disclosures on Risk Based Capital (Basel-II) as on 31.12.2013

(a) Scope of Application

Qualitative Disclosure	(a)	The Revised Risk Based Capital Adequacy (RBCA) framework which is called Basel-II guideline issued by Bangladesh Bank in December-2010 duly applies to Standard Bank Limited.
	(b)	Standard Bank Limited prepared its RBCA report on 'Solo Basis' as well as 'Consolidated Basis' where three (03) subsidiaries belongs to Standard Bank Ltd.
	(c)	No incidence occurred which may cause for imposing any regulatory restriction or impediment for transferring fund with in the Standard Bank group.
Quantitative Disclosure	(d)	No Capital deficiency in solo or consolidated assessment.

(b) Capital Structure

Qualitative Disclosure	(a)	Regulatory capital will be categorized into three tiers: Tier 1, Tier 2, and Tier 3. **Tier 1 capital:** Tier 1 capital called 'Core Capital' comprises of highest quality of capital elements that consists of : a) Paid up capital b) Non-repayable share premium account c) Statutory reserve d) General reserve e) Retained earnings f) Minority interest in subsidiaries g) Non-cumulative irredeemable preference shares h) Dividend equalization account **Tier 2 capital:** Tier 2 capital called 'Supplementary Capital' and consists of: a) General provision (on & off Balance sheet) b) Revaluation reserves • Revaluation reserve for fixed assets • Revaluation reserve for securities 4 • Revaluation reserve for equity instrument c) All other preference shares d) Subordinated debt **Tier 3 capital:** Tier 3 capital called 'Additional Supplementary Capital', consists of short-term subordinated debt (original maturity less than or equal to five years but greater than or equal to two years). The calculation of Tier 1 capital, Tier 2 capital, and Tier 3 capital shall be subject to the following conditions: a) The amount of Tier 2 capital is not exceeded the limited to 100% of Tier 1 capital.
Quantitative Disclosure		The quantitative disclosure of Capital Structure are as follows:

b. Tier-1 (Core Capital)			SOLO	Consolidated
1.1	Fully Paid-up Capital/Capital Lien with BB		570.21	570.21
1.2	Statutory Reserve		291.15	291.15
1.3	Non-repayable Share premium account			
1.4	General Reserve			

1.5	Retained Earnings		49.37	60.12
1.6	Minority interest in Subsidiaries			
1.7	Non-Cumulative irredeemable Preferences shares			
1.8	Dividend Equalization Account			
1.9	Other if any (if any item approved by BB)			
1.10	Sub-Total: (1.1 to 1.8)		**910.73**	**921.48**
	Deductions from Tier-1 (Core Capital)			
1.11	Book value of Goodwill			
1.12	Shortfall in provisions required against classified assets			
1.13	Shortfall in provisions required against investment in shares			
1.14	Remaining deficit on account of revaluation of investment in securities after netting off from any other surplus on the securities			
1.15	Reciprocal crossholdings of bank capital/subordinated debt			
1.16	Any investment exceeding the approved limit under section 26(2) of Bank company Act-1991			
1.17	Investment in Subsidiaries which are not consolidated			
1.18	Other if any			
1.19	**Sub-Total (1.11 to 1.18)**			
1.20	**Total Eligible Tier-1 Capital (1.10-1.19)**			
	c. Tier-2 (Supplementary Capital)			
2.1	General Provision (Unclassified loans + off Balance Sheet exposure)		101.31	101.31
2.2	Assets Revaluation Reserves up to 50%			
2.3	Revaluation Reserves for Securities up to 50%		3.72	3.72
2.4	Revaluation Reserves for Equity instrument up to 10%			
2.5	All other preference shares			
2.6	Subordinated debt			
2.7	Other if any (if any item approved by BB)			
2.8	Sub-Total (2.1 to 2.7)			
2.9	Deductions if any			
2.10	**Total Eligible Tier-2 Capital (2.8-2.9)**		**105.03**	**105.03**
3	**Total Eligible Capital (Tier-1+Tier-2)(1.20+2.10)**		**1015.76**	**1026.51**

(c) Capital Adequacy

Qualitative Disclosure	(a)	Adequate capital means enough capital to compensate with Bank's risks profile. For assessing overall risk profile and a strategy for maintaining adequate capital, Bank has developed an Internal Capital Adequacy Assessment Process (ICAAP) for practicing better risk management techniques. Bank is strengthened and effectiveness its risk management process and internal control system in assessing and planning of economic capital against all risks. The strategic planning process critically analysis of bank's current and future capital requirements. The strategic plan includes the bank's capital needs, anticipated capital expenditures, desirable capital level, and external capital sources.

			Solo	Consolidated
Quantitative Disclosure	(b)	Capital Requirement for Credit Risk	890.77	844.77
	(c)	Capital Requirement for Market Risk	17.79	42.89
	(d)	Capital Requirement for Operational Risk	43.77	46.74
	(e)	Total & Tier-1 Capital Ratio: • For the consolidated group: ➢ Total CAR 10.67% ➢ Tier-1 CAR 9.56% • For stand alone: ➢ Total CAR 10.99% ➢ Tier-1 CAR 9.86%		

(d) Credit Risk

Qualitative Disclosure	(a)	➢ **Definition of past due and impaired (for accounting purposes):** A customer will be considered to be past due once a repayment becomes overdue. **Past due and impaired:** In instances in which a customer is past due and for whom the furnished collateral is insufficient to cover the outstanding amount will be considered to be both past due and impaired. Accordingly, impairment will be raised in line with the impairment policy for the relevant accounts. **Past due but not impaired:** In instances in which a customer is past due, but the customer's facilities are fully collateralized, no impairment will be raised and the customer will be considered past due, but not impaired. A Continuous loan, Demand loan or a Term Loan which will remain overdue for a period of 02 (two) months or more, will be put into the "Special Mention Account (SMA)". This will help banks to look at accounts with potential problems in a focused manner and it will capture early warning signals for accounts showing first sign of weakness. Loans in the "Special Mention Account (SMA)" will have to be reported to the Credit Information Bureau (CIB) of Bangladesh Bank. Any continuous loan will be classified as: i. ***'Sub-standard'*** if it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months. ii. ***'Doubtful'*** if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months iii. ***'Bad/Loss'*** if it is past due/overdue for 09 (nine) months or beyond. Any Demand Loan will be classified as: i. ***'Sub-standard'*** if it remains past due/overdue for 03 (three) months or beyond but not over 06 (six) months from the date of expiry or claim by the bank or from the date of creation of forced loan. ii. ***'Doubtful'*** if it remains past due/overdue for 06 (six) months or beyond but not over 09 (nine) months from the date of expiry or claim by the bank or from the date of creation of forced loan. iii. ***'Bad/Loss'*** if it remains past due/overdue for 09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan. In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting upto Tk. 10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of such types of Fixed Term Loans: i. 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 **"Sub-standard"**.

		ii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as **"Doubtful"**. iii. If the amount of past due installment is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as **"Bad/Loss"**. In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of Fixed Term Loans: - i. If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loan will be classified as **"Sub-standard"**. ii. 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"**. iii. If the amount of 'past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as **"Bad/Loss"**. Explanation: If any Fixed Term Loan is repayable on monthly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 06 monthly installments. Similarly, if the loan is repayable on quarterly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 2 quarterly installments. ➢ **Description of approaches followed for specific and general allowances and statistical methods** As per relevant Bangladesh bank guidelines, 1% to 5% provision is maintained against good/ standard 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 / loss 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** The Board approves the credit policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in credit risk management and maintain quality of assets, Authorities are properly delegated ensuring check and balance in credit operation at every stage i,e screening , assessing risk, identification, management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early monitoring, supervision and recovery of loans with provision for early warning system. The credit risk management division is independently operated for dedicated credit risk management, separate credit administration division for ensuring perfection of security coverage and credit monitoring and recovery division for monitoring and recovery of irregular loans. Besides, Internal control & compliance division independently assess quality of loans and compliance status of loans at least once in a year. Adequate provision is maintained against classified loans as per Bangladesh Bank guidelines. Status of loan portfolios is being regularly reported to the Board /Executive Committee.	
Quantitative Disclosure	(b)	**Total gross credit risk exposures broken down by major types of credit exposure:**	Tk. in Crore
		SOD/Quard against TDR	1371.99
		Loans (General including Bai-Muajjal)	2242.88
		Cash Credit/Murabaha	1178.82

		House Building Loans Staff Loans Transport Loans LTR PAD Packing Credit (PC) Demand Loan Lease Finance/Izara Syndicate/Club Finance Visa Credit Card SME/SE CCS/Hire Purchase Bills purchased & discounted (Local & Foreign) **Total**	153.92 27.85 70.37 1075.88 154.44 31.87 187.97 82.15 207.07 11.20 467.10 17.19 124.29 **7404.99**
	(c)	**Geographical distribution of exposures, broken down in significant areas by major types of credit exposure:** **<u>Urban:</u>** Dhaka Region Chittagong Region Sylhet Region Rajshahi Region Khulna Region Rangpur Region Barisal Region **Total** **<u>Rural:</u>** Dhaka Region Chittagong Region Sylhet Region Rajshahi Region Rangpur Region Barisal Region Khulna Region Outside Bangladesh **Total** **Grand Total (urban+rural)**	Tk. in Crore 4733.28 2088.97 30.09 82.27 228.81 81.97 19.14 **7264.54** 91.83 5.79 14.47 0.10 11.35 16.90 **140.45** **7404.99**
	(d)	**Industry or counterparty types distribution of exposures broken down by major types of credit exposure:** Commercial Lending Export financing House Building loan Consumers credit scheme Small & Medium Enterprise Special program loan Others **Total** **<u>Industrial loans:</u>** Agricultural Industries Textile Industries Food & Allied Industries Pharmaceuticals Industries Leather , Chemical & Cosmetics etc Cement & Ceramic Industries Service Industries Transport & Communication Industries Other Industries **Total**	Tk. in Crore 570.88 204.13 153.92 15.32 467.10 29.21 2323.50 **3764.07** 140.27 1665.79 96.79 215.65 14.05 82.09 214.38 178.86 965.92 **3573.80**
	(e)	**Residual contractual maturity breakdown of the**	Tk. in Crore

		whole portfolio broken down by major types of credit exposure: Payable On demand Up to one month Over one month but not more than three months Over three months but less than one year Over one year but less than five years Above five years	 --------- 625.88 560.09 3006.98 2773..94 438.10
	(f)	**By major industry or counterparty type :** Amount of impaired loans and if available, past due loans, provided separately Corporate SME Consumer Financing Others Specific and general provisions; and Charges for specific allowances and charge-offs during the period	In Crore Taka 95.25 19.54 145.14 233.99 ---------
	(g)	**Gross Non performing Assets (NPAs)** Non performing Assets (NPAs) to Outstanding Loans & advances **Movement of Non Performing Assets (NPAs)** Opening balance Additions Reductions Closing balance **Movement of specific provisions for NPAs** Opening balance Provisions made during the period Write-off Write-back of excess provisions Closing balance	259.93 3.51% 153.87 100.60 5.45 259.93 85.07 74.14 ------- 159.21

(e) Equities: Disclosures for Banking Book Positions

Qualitative Disclosure	(a)	The general qualitative disclosure requirement with respect to the equity risk, including: The Bank does not hold any value which is describes as “Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons” in RBCA Guidelines of Bangladesh bank. Therefore the Bank does not needed to narrate any “Discussion of important policies covering the valuation and accounting of equity holding in the banking book, This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices”. Apart from above, the Bank has being calculated **value at cost** method for Quoted shares & Unquoted shares.
Quantitative Disclosure	(b)	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially

		different from fair value. Tk. Crore Quoted shares 15.00 Unquoted shares 262.67
	(c)	The cumulative realized gain (losses) arising from sales and liquidations in the reporting period. Realized gain (losses) from equity investments
	(d)	Total unrealized gains (losses) – Total latent revaluation gains (losses) - 0.84 Any amounts of the above included in Tier 2 Capital
	(e)	There are no Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.

(f) Interest Rate Risk in the Banking Book (IRRBB)

Qualitative Disclosure	(a)	The Banking Book consists of assets and liabilities contracted basically on account of relationship or for steady income and statutory obligations and are generally held till maturity/payment by counter party. The earnings or changes in the economic value are the main focus in banking book. Interest rate risk is the risk that a bank will experience deterioration in its financial position as interest rates move over time. Interest rate risk in the banking book arises from a bank's core banking activities. Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. Changes in interest rates affect a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses.
Quantitative Disclosure	(b)	see table below

Interest Rate Risk -Increase in Interest Rate:	Minor	Moderate	Major
Magnitutude of Shock	***1.00%***	***2.00%***	***3.00%***
Net Interest Income impact			
<12 Months	*-15.14*	*-30.27*	*-45.41*
Capital after shock	1000.62	985.49	970.35
CAR after shock (%)	10.51	10.35	10.19
Change in CAR after shock (%)	-0.16	-0.32	-0.48
Repricing Impact			
Change in the value of the bond portfolio	-15.28	-30.56	-45.84
Capital after shock	985.35	954.93	924.52
CAR after shock (%)	10.35	10.03	9.71
Change in CAR after shock (%)	-0.16	-0.32	-0.48
Overall change in CAR (NII & repricing impact, %)	-0.32	-0.64	-0.96

(g) Market Risk

Qualitative Disclosure	(a)	**Views of BOD on trading/investment activities:** Market risk is potential for loss resulting from adverse movement in market risk factors such as interest rates, forex rates, and equity

		and commodity prices. The important aspect of the Market Risk includes liquidity management, interest rate risk management and the pricing of assets and liabilities. There are three types of Market Risk such as Interest Rate Risk, Foreign Exchange Risk & Equity Price Risk. The Board will have to approve all policies related to market risk, sets limits and reviews compliance on a regular basis. **Method used to measure Market Risk:** In Standardized Approach, the capital requirement for various market risks (interest rate risk, equity price risk, commodity price risk, and foreign exchange risk) is determined separately. **Market Risk Management System:** The Treasury Division manage market risk covering Liquidity, interest rate and foreign exchange risk with oversight from Assets Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meets at least once in a month. **Policies and Processes for mitigating market risk:** There are approved limits for credit deposit Ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items and borrowing from money market and forex position. The limits are monitored and enforced on a regular basis to protect against market risk. The exchange rate committee of the Bank meets on a daily basis to review the prevailing market condition, exchange rate, forex position and transactions to mitigate foreign exchange risks.

Quantitative Disclosure	(b)	**The capital requirement for:**	Solo	Consolidated
		Interest rate risk	5.83	5.83
		Equity position risk	2.79	27.90
		Foreign exchange risk	9.16	9.16
		Commodity risk		

(h) Operational Risk

Qualitative Disclosure	(a)	**Views of BOD on system to reduce Operational Risk:** Operational risk is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system; technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems. Operational risk exists in all products and business activities. In addressing Operational Risk, Bank has been strengthened its Internal Control System, and ensure sound Corporate Governance in all sphere of Management and Operation level as well. The Bank should maintain a robust CBS (Core Banking Software) and enriches its IT infrastructure in terms of demand of time. Besides, in order to capacity building of its Human Resources Bank may be taken a number of steps like training, workshop etc. **Performance gap of executives and staffs:** SBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. SBL's strong brand image plays an important role in employee motivation. As a result there is no significant performance gap. **Potential external events:** No potential external events are expected to expose the Bank to significant operational risk. **Policies and Processes for mitigating operational risk:**

		To mitigate operational risk, Bank use basic indicator approach to calculate capital charge against operational risk. The policy for operational risks including internal control & compliance risk is approved by Board taking into account relevant guidelines of Bangladesh Bank. The Bank developed a Risk Management Unit and supervisory review Committee for review and managing operation risk as well as evaluating of the adequacy of the capital. For mitigating operational risk Internal Control and compliance division undertakes periodical and special audit of the branches and departments at the Head Office for review of the operation and compliance of statutory requirements. **Approach for calculating capital charge for operational risk:** The Bank followed Basic Indicator Approach (BIA) for measuring capital charges for operational risk. Under the Basic Indicator Approach (BIA), the capital charge for operational risk is a fixed percentage (denoted by alpha) of average positive annual gross income of the Bank over the past three years.	
Quantitative Disclosure	(b)	**The Capital Requirement for Operational Risk (Solo)**	43.77
		The Capital Requirement for Operational Risk (Consolidated)	46.74