BASEL-III & Market Discipline

Basel-III reforms are the response of Basel Committee on Banking Supervision (BCBS) to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. "Basel-III: A global regulatory framework for more resilient banks and banking systems" (known as Basel-III capital regulations) in December 2014. Basel-III reforms strengthen the bank-level i.e. micro prudential regulation, with the intention to raise the resilience of individual banking institutions in periods of stress. Besides, the reforms have a macro prudential focus also, addressing system wide risks, which can build up across the banking sector, as well as the procyclical amplification of these risks over time.

Sonali Bank Limited has already trained all the staff associated with BASEL UNIT several times and also tried hard to cop up with the regulations of BASEL-III guideline from time to time also places all requirements to Bangladesh Bank as & when required. With the above goal, SBL has started to report to Bangladesh Bank from January 2015.

The purpose of Market discipline in the Revised Capital adequacy Framework is to complement the minimum capital requirements and the supervisory review process. The aim of introducing Market discipline in the revised framework is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of the bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. For the said purpose, banks will develop a set of disclosure containing the key pieces of information on the assets, risk exposures, risk assessment processes, and hence the capital adequacy to meet the risks. Banks should have a formal disclosure framework approved by the Board of Directors/Chief Executive Officer. The process of their disclosures will include validation and frequency.

Banks should provide all required disclosures in both qualitative and quantitative form, as at end March of each year along with the annual financial statements their disclosures to Department of Off-site Supervision of BB. Banks may make their annual disclosures both in their annual reports as well as their respective web sites. Qualitative disclosures will provide a general summary of a bank's risk management objectives and policies, reporting system and definitions.

The disclosure on the websites should be made in a web page titled **"Disclosures on Risk Based Capital (Basel III)"** and the link to this page should be prominently provided on the home page of the bank's website. Each of these disclosures pertaining to a financial year should be available on the websites until disclosure of the 4th subsequent annual (as on March 31) disclosure is made.

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

a) Scope of application	g) Market risk
b) Capital structure	h) Operational risk
c) Capital adequacy	i) Leverage Ratio
d) Credit Risk	j) Liquidity Ratio
e) Equities: disclosures for banking book positions	k) Remuneration
f) Interest rate risk in the banking book (IRRBB)	

"Disclosures on Risk Based Capital (Basel-III)"
(December 2016)

a) Scope of application

<table>
<tr><td rowspan="3">Qualitative Disclosures</td><td>(a)</td><td colspan="2">Sonali Bank Limited, 100% state owned commercial Bank manages its risk and maintains risk based capital following the guidelines of Bangladesh Bank.</td></tr>
<tr><td>(b)</td><td colspan="2">Capital to Risk-weighted Assets Ratio (CRAR) report of Sonali Bank Limited is submitted to Bangladesh Bank on 'Solo' basis as well as 'Consolidated' basis.

'Solo Basis' refers to all position of the bank and its local and overseas branches/offices ; and
'Consolidated Basis' refers to all position of the bank and its subsidiary companies.

Sonali Bank's subsidiary companies are as under:

1) Sonali Investment Limited, a entirely owned subsidiary in Dhaka, Bangladesh.
2) Sonali Exchange co. Inc. (SECI), a entirely owned subsidiary in USA.

Sonali Bank's associates companies are as under:

1) Sonali Bank (UK) Limited, 51% share capital of the company is held by the Government of the People's Republic of Bangladesh and the remaining 49 percent shares hold by Sonali Bank Limited. It is operating in London, Luton, Bradford, Camden, Birmingham and Manchester.
2) Sonali Polaris FT Limited, The ownership of the company having 51% share capital in favor of Polaries Financial Technologies Ltd., India, 39% by Sonali Bank Limited and remaining 10% by Bangladesh Commerce Bank Limited. It is operating in Dhaka, Bangladesh.</td></tr>
<tr><td>(c)</td><td colspan="2">Sonali Bank Limited transfers funds or regulatory capital within the group (subsidiaries & associate) as per Banking rules and regulations with the approval of the Board / Competent Authority.</td></tr>
<tr><td rowspan="5">Quantitative Disclosures</td><td rowspan="5">(d)</td><td>The following subsidiaries & associates has included their financial activities and their aggregate capital is as under:</td><td>(Tk. in Crore)</td></tr>
<tr><td>• Sonali Investment Limited</td><td>200.00</td></tr>
<tr><td>• Sonali Exchange co. Inc. (SECI)</td><td>7.48</td></tr>
<tr><td>• Sonali Bank (UK) Limited</td><td>124.64</td></tr>
<tr><td>• Sonali Polaris FT Limited</td><td>2.63</td></tr>
</table>

b) Capital structure

Qualitative Disclosures	(a)	In terms of Section 13 of the Bank Company Act, 1991 (Amended upto 2013), the terms and conditions of the main features of all capital instruments have been segregated in terms of the eligibility criteria set forth vide BRPD Circular No. 18 dated 21 December 2014 [Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for Banks in line with Basel III)] and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments are as follows: **Common Equity Tier 1 (CET1) Capital (Going Concern Capital)** : Paid-up share capital: Issued, subscribed and fully paid up share capital of the Bank. Statutory reserve: As per Section 24 of the Bank Company Act, 1991 (Amended up to 2013), an amount equivalent to 20% of the profit before taxes for each year of the Bank has been transferred to the Statutory Reserve Fund. General Reserve: General reserve created out of profit. Retained earnings: Amount of profit retained with the banking company after meeting up all expenses, provisions and appropriations. **Additional Tier 1 (AT1) capital :** There is no Addtional Tier-1 capital instrument at this moment. **Tier 2 Capital (Gone Concern Capital) :** **General provision against unclassified loans and off-balance sheet exposures:** As per Bangladesh Bank directive, amount of provision maintained against unclassified loans and off-balance sheet exposures as of the reporting date has been considered maximum up to 1.25% of credit risk weighted assets. **Assets revaluation reserves:** As per Bangladesh Bank's instruction, upto 31 December 2014, 50% of incremental value of Bank's assets has been considered. Revaluation Reserve (RR) based on the position as of 31 December 2014 will be adjusted @ 20% on yearly basis from 2015 to 2019 under Basel III guideline. **Revaluation reserves of HTM securities:** As per Bangladesh Bank's instruction, until 31 December 2014, 50% of revaluation reserve of HTM securities has been considered. Revaluation Reserve (RR) based on the position as of 31 December 2014 will be adjusted @ 20% on yearly basis from 2015 to 2019 under Basel III guideline. **Revaluation reserves of HFT securities:** As per Bangladesh Bank's instruction, until 31 December 2014, 10% of revaluation reserve of HFT securities has been considered. Revaluation Reserve (RR) based on the position as of 31 December 2014 will be adjusted @ 20% on yearly basis from 2015 to 2019 under Basel III guideline.

Capital structure (Continued)

Quantitative Disclosures	(b)	Regulatory Capital of Sonali Bank Limited on the basis of Audited Balance Sheet of 31st December 2016 has been calculated as per Basel-III guidelines on 'Solo' basis as well as 'Consolidated' basis as shown below.		
		Regulatory Capital	(Tk. in Crore)	
		Common Equity Tier1 Capital(Going Concern Capital) :	Solo	Conso
		Paid up capital	3830.00	3830.00
		Non-repayable share premium account	-	-
		Statutory reserve	828.49	828.49
		General reserve	12.28	12.28
		Retained earnings	(1305.16)	(1330.71)
		Dividend equalization account	-	-
		Other (if any item approved by Bangladesh Bank)	-	-
		Sub-Total of Tier 1 capital [A]	**3365.61**	**3340.06**
		Additional Tier 1 (AT1) capital		
		Non-cumulative irredeemable preference shares	-	-
		Instruments issued by the banks that meet the qualifying criteria for AT1	-	-
		Others (if any item approved by Bangladesh Bank)	-	-
		Sub-Total AT1 capital [B]	-	-
		Total Tier 1 Capital (A+B)	**3365.61**	**3340.06**
		Tier-2 Capital (Gone Concern Capital)		
		General provision against unclassified loans and off-balance sheet exposures	522.68	522.68
		All other preference shares	-	-
		Subordinated debt	-	-
		Revaluation Reserves as on 31 December 2014 (50% of Fixed Assets and Securities & 10% of Equities)	1300.84	1300.84
		Others (if any item approved by Bangladesh Bank)	-	-
		Sub-Total of Tier 2 capital [c]	**1823.52**	**1823.52**
	(c)	**Regulatory Adjustments/Deductions from Capital.**		
		Adjustments/Deductions from CET 1 capital	-	-
		Adjustments/Deductions from AT 1 capital	-	-
		Revaluation Reserves for Fixed Assets, Securities (40% for the year 2016) from Tier 2 capital	520.33	520.33
		Sub-Total of Deduction [D]	**1303.19**	**1303.19**
	(d)	**Total eligible capital [A+B+C-D]**		

C) Capital Adequacy

Qualitative Disclosures	(a)	The Bank assesses the adequacy of its capital in terms of Section 13 (1) of the Bank Company Act, 1991 (Amended up to 2013) and instruction contained in BRPD Circular No. 18 dated 21 December 2014 [Guidelines on 'Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel III)]. However, in terms of the regulatory guidelines, the Bank computes the capital charge / requirement as under: i. Credit risk : On the basis of Standardized Approach; ii. Market risk : On the basis of Standardized Approach; and iii. Operational risk: On the basis of Basic Indicator Approach. Sonali Bank Limited is very much aware of maintaining Capital to support its current and future activities inview to this objective. Five year capital growth plan up to 2019 was prepared for this purpose. The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the Capital to Risk-weighted Assets Ratio (CRAR) reporting to the Bangladesh Bank. The Bank has maintained Capital to Risk-weighted Assets Ratio (CRAR) of 31 December 2016 on the basis of 'solo' and 'Consolidated' which is **10.33%** and **10.25%** respectively as against the minimum regulatory requirement of 10%. This has been calculated considering forbearance allowed by Bangladesh Bank. Common Equity Tier-I (CET-1) and Minimum Tier-1 Ratio to RWA ratio including Capital Conservation Buffer for 'solo' is **7.45%** as well as 'consolidated' is **7.37%** against the minimum regulatory requirement of **4.50%** and **5.50%** respectively. Tier-2 ratio for 'solo' is **2.88%** as well as 'consolidated' is **2.88%**. Maximum limit of Tier-2 Capital (Tier-2 capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher). Capital Conservation Buffer for the year 2016 is 0.625%. (Tk. in Crore)		
			Solo	Consolidated
Quantitative Disclosures	(b)	Capital Requirement for Credit Risk	3529.97	3529.08
	(c)	Capital Requirement for Market Risk	526.15	535.93
	(d)	Capital Requirement for Operational Risk	463.19	464.23
	(e)	Capital to Risk Weighted Assets Ratio (CRAR)	10.33%	10.25%
	(f)	Common Equity Tier-1 to RWA Ratio	7.45%	7.37%
	(g)	Tier-1 Capital to RWA Ratio	7.45%	7.37%
	(h)	Tier-2 Capital to RWA Ratio	2.88%	2.88%
	(i)	Capital Conservation Buffer	0.33%	0.25%
	(j)	Available Capital under Pillar 2 Requirement	410.64	410.64

d) Credit Risk

(a) The general qualitative disclosure requirement with respect to credit risk, including:		
Qualitative Disclosures	(i) Definitions of past due and impaired (for accounting purposes);	As per relevant Bangladesh Bank guidelines, the Bank defines the past due and impaired loans and advances for strengthening the credit discipline and mitigating the credit risk of the Bank. The impaired loans and advances are defined on the basis of (i) Objective / Quantitative Criteria and (ii) Qualitative judgment. For this purposes, all loans and advances are grouped into four (4) categories namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural & Micro Credit. According to the instructions of Bangladesh Bank, all Loans & Advances are classified into four segments. These are: 1. Special Mention Account (SMA) 2. Substandard (SS) 3. Doubtful (DF) 4. Bad / loss (BL) Sonali Bank follows strictly all the regulations provided by Bangladesh Bank while calculating the above.
	ii) Description of approaches followed for specific and general allowances and statistical methods	The Bank follows the relevant Bangladesh Bank guideline for determination of general and specific allowances for loans and advances. firstly, the base for provision for the unclassified and classified loans are calculated as under: **A. Calculation of base for provision for unclassified /standard loans:** Outstanding amount less suspended interest, if any; **B. Calculation of base for provision for the classified loans, the higher of the following two amounts:** i. Outstanding amount less suspended interest less value of eligible securities; ii. or 15% of outstanding amount. **Secondly,** the following rates are applied on base for provision for determination of general and specific allowances for loans as per BB's instruction.

Credit Risk (Continued)

Qualitative Disclosures

ii) Description of approaches followed for specific and general allowances and statistical methods Continued.

General provisions for unclassified loans and advances:	**rates [%]**
All unclassified loans (Other than loans under special mention account, short term agricultural credit, loans to Brokerage Houses (BHs) / Merchant Banks (MBs) / Stock Dealers (SDs) against Shares, consumer financing, small and medium enterprise financing, and staff loans)	**1.00%**
Small and medium enterprise financing	**0.25%**
Consumer financing (other than housing finance and loans for professionals under consumer financing scheme)	**5.00%**
Consumer financing (for housing finance)	**2.00%**
Consumer financing (for professionals)	**2.00%**
Loans to Brokerage Houses (BHs) / Merchant Banks(MBs) / Stock Dealers (SDs) against Shares etc.	**2.00%**
Short term agricultural credit	**2.50%**
General provisions against Special Mention Account (SMA) loans and advances:	**rates [%]**
All unclassified loans (other than loans under small enterprise and consumer financing and BHs, MBs, SDs)	**1.00%**
Small and medium enterprise financing	**0.25%**
Consumer financing (other than housing finance and loans for professionals under consumer financing scheme)	**5.00%**
Consumer financing (for housing finance)	**2.00%**
Consumer financing (for professionals)	**2.00%**
Loans to Brokerage Houses (BHs) / Merchant Banks(MBs) / Stock Dealers (SDs) against Shares etc.	**2.00%**
Specific provision for classified loans and advances except short term Agriculture credit::	**rates [%]**
Substandard	**20.00%**
Doubtful	**50.00%**
Bad/loss	**100.00%**
Specific provision for classified loans and advances for short term Agriculture credit:	**rates [%]**
Substandard	**5.00%**
Doubtful	**5.00%**
Bad/loss	**100.00%**

Mentionable that, all interest accrued is credited to interest suspense account instead of crediting the same to income account if the loan is classified as sub-standard and doubtful. However, charging of interest is discontinued when the loan is classified as bad/loss.

iii) Discussion of the Bank's credit risk management policy

The salient features of SBL credit risk management policy and procedures are as under:

- **Credit policy approved by the Board:** The Board approves the Credit Risk Management Policy of SBL for ensuring the best practice in credit risk management and maintaining quality of assets. The credit policy/manual has been put in place in compliance with Bangladesh Bank's guidelines on credit risk management and other rules & regulations circulated by BB from time to time. The policy envisages making credit decisions based on sound lending principles and practices supported by reliable and accurate financials, management integrity, industry/ technical analysis, environmental due diligence, industry information of the borrowing entity/ company.

Credit Risk (Continued)

Qualitative Disclosures	iii) Discussion of the Bank's credit risk management policy Continued...	• **Credit approval is delegated properly:** 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 warning system. • **Independent credit risk Management Division:** There is an independent Credit Division (Credit Risk Management Division) to assess credit risks and suggest the mitigation procedures & techniques while processing the credit proposals by the Corporate Banking Division for approval. • **Separate credit Administration Division:** A separate credit administration division confirms that perfected security documents are in place before disbursement. SBL is continuing a unique process of rechecking security documentation by a second legal advisor other than the lawyer who vetted it originally. The division also monitors borrower's compliance with lending covenants and agreed terms and conditions. • **Independent credit Monitoring & recovery Division and Management recovery committee:** An independent and fully dedicated Credit Monitoring & Recovery Division monitors the performance and recovery of loans, identify early signs of delinquencies in portfolio and take corrective measures including legal actions to mitigate risks, improve loan quality and to ensure timely recovery of loans. This division also monitors risk status of loan portfolio and ensures adequate loan loss provision. There is a dedicated and high-level management recovery committee to deal with the problem loans for early and most appropriate settlements. • **Credit operations are subject to independent internal Audit:** Internal Control & Compliance Division independently verifies and ensures, at least once in a year, compliance with approved lending guidelines, Bangladesh Bank guidelines, operational procedures, adequacy of internal control, documentation and overall Credit Risk Management System. • **Reporting to Board/ executive committee/risk Management committee:** Overall quality, performance, recovery status, risks status, adequacy of provision of loan portfolio are regularly reported to the Board of Directors/ Executive Committee/ Risk Management Committee of the Board for information and guidance. Above all, the Risk Management Division is regularly guiding the Credit Risk Management Division (s) on increasing the collateral coverage, product/sector specific diversification of credit exposures, single borrower exposures limit, large loan portfolio ceiling as stipulated by Bangladesh Bank, improving the asset quality, conducting credit rating of the borrowers to minimize the capital charge against credit risk of the Bank. Adequate provision is maintained against classified loans as per Bangladesh Bank Guidelines. Status of loans are regularly reported to the Board of Directors/ Risk Management Committee of the Board.

Credit Risk (Continued)

Quantitative Disclosures

Sonali Bank Limited has its own Credit Risk Management guideline interms of Core Risks Management guidelines of Bangladesh Bank. The Bank also follows other instructions/guidelines of Bangladesh Bank in this regard. Sonali Bank Limited constantly monitors, reviews and analyses its credit portfolio with a view to improving ability of credit portfolio, minimizing potential losses and ensuring efficient credit process.

To manage the Non-Performing Loans (NPL), Sonali Bank Limited has a comprehensive remedial management policy, which includes a framework of controls to identify weak credits and monitoring of these accounts constantly.

(Tk. in Crore)

(b) Total gross credit risk exposures broken down by major types of credit exposure.	**On Balance Sheet**	Solo	Consolidated
	Cash Credit General (Hypo)	1412.44	1412.44
	Cash Credit General (Pledge)	1187.68	1187.68
	Packing Cash Credit	465.74	465.74
	Overdrafts Loan	2095.36	2073.88
	Demand Loan	324.71	324.71
	Small Loan	22.97	22.97
	General House Building Loan	76.97	76.97
	Staff House Building Loan	5456.41	5456.41
	Staff Loan	325.80	325.80
	Special Loan Programme	20.53	20.53
	Loan under SB Industrial Credit Scheme	3332.82	3332.82
	Loan under External Credit Program	20.11	20.11
	Working Capital to Industries (Hypo)	2928.23	2928.23
	Working Capital to Industries (Pledge)	231.83	231.83
	Sonali Credit	11.52	11.52
	Loan Under SB Agro Based Industrial Scheme	1111.81	1111.81
	Working Capital to Agro Based Industry (Hypo)	1169.52	1169.52
	Working Capital to Agro Based Industry (Pledge)	672.11	672.11
	Agricultural Loan	4180.98	4180.98
	Micro Credit	1221.84	1221.84
	LIM (Loan Against Imported Merchandise)	202.24	202.24
	LTR (Loan Against Trust Receipt)	2825.00	2825.00
	Forced Loan	2441.59	2441.59
	Loan for L/C under WES	0.01	0.01
	Loan against Inland Bills	348.45	348.45
	Current Account Barter (Debit Balance)	93.26	93.26
	Bridge Finance	262.45	262.45
	Small Business Loan Sceme	115.22	115.22
	Lease Finance	14.89	14.89
	Probashi Karmo Sangsthan Prokalpa	-	-
	Consumer Loan	2289.17	2289.17
	Term Loan to Freedom Fighter	928.87	928.87
	Education Loan	20.18	20.18
	Foreign Education Loan Program	0.81	0.81
	SME Finance (Term Loan Service)	57.65	57.65
	SME Finance (Term Loan to Industries)	28.05	28.05
	SME Finance (Working Capital Wind)	1630.57	1630.57
	Bills Discounted and Purchased	926.02	926.02
	Others	-	232.94
	Total	**38453.81**	**38665.27**
	Off-Balance Sheet Exposure	Solo	Consolidated
	Letter of Guarantee	231.26	231.26
	Irrevocable Letters of Credit	18775.02	18775.02
	Bills for Collection	686.33	686.33
	Other	-	-
	Total	**19692.61**	**19692.61**

Credit Risk (Continued)

			Solo	Consolidated
Quantitative Disclosures	(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.	Inside Bangladesh	Solo	Consolidated
		1) Dhaka-1 Division	15850.48	15829.00
		2) Dhaka-2 Division	4191.96	4191.96
		3) Barisal Division	921.06	921.06
		4) Chittagong Division	2153.97	2153.97
		5) Comilla Division	1541.24	1541.24
		6) Faridpur Division	1472.76	1472.76
		7) Khulna Division	3796.74	3796.74
		8) Mymensingh Division	2218.71	2218.71
		9) Rajshahi Division	2577.21	2577.21
		10) Rangpur Division	3140.72	3140.72
		11) Sylhet Division	566.67	566.67
		Outside Bangladesh	22.29	22.29
		Other	-	232.94
		Total	**38453.81**	**38665.27**
	(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.			
		1) Agricultural / Rural Credit	4180.98	4180.98
		2) Micro Credit	1221.84	1221.84
		3) Industrial Credit	6512.98	6512.98
		4) Agro-based Industrial Credit	2953.43	2953.43
		5) International Trade	7302.30	7302.30
		6) SME Finance	4436.60	4436.60
		7) General Advance & Others	11845.68	12057.14
		Total	**38453.81**	**38665.27**
	(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	On demand	1603.28	1603.28
		Not more than 3 months	1175.31	1175.31
		More than 3 months but not more than 1 year	15121.91	15333.37
		More than 1 year but not more than 5 years	9868.37	9868.37
		More than 5 years	9758.92	9758.92
		Total	**37527.79**	**37739.25**
		Bills purchased and discounted		
		Not more than 1 month	662.96	662.96
		More than 1 month but not more than 3 months	189.10	189.10
		More than 3 months but not more than 6 months	52.35	52.35
		More than 6 months	21.62	21.62
		Total	**926.03**	**926.03**
	(f) Major counterparty wise amount of impaired loans	**Loans and advances on the basis of significant concentration including bills purchased and discounted**		
		Advances to allied concerns of Directors	-	
		Advances to Managing Directors and other Senior Executives	1.45	1.45
		Advances to customer group(amounting more than 10% of banks total capital)	19966.88	19966.88
		Other customers	12703.26	12914.72
		Advance to staff	5782.22	5782.22
		Total	**38453.81**	**38665.27**

Credit Risk (Continued)

		Sector wise loans and advances	Solo	Consolidated
		Government	295.77	295.77
		Other Public	5,455.50	5,455.50
		Private	32,702.54	32,914.00
		Total	**38,453.81**	**38,665.27**
		Government		
		Unclassified	58.74	58.74
		Classified	237.03	237.03
		Sub Total	**295.77**	**295.77**
		Other public		
		Unclassified	5,420.46	5,420.46
		Classified	35.04	35.04
		Sub Total	**5,455.50**	**5,455.50**
		Private		
		Unclassified	22,063.12	22,274.58
		Classified	10,639.42	10,639.42
		Sub Total	**32,702.54**	**32,914.00**
		Classification wise loan-advs. and Provision		
		Standard	25,132.60	24,861.87
		SMA	3,073.70	2,891.91
		Sub Total	**28,206.30**	**27,753.78**
		Classified		
		Special Mention Account (SMA)	2,891.91	2,891.91
		Substandard (SS)	1,356.78	1,356.78
		Doubtful (DF)	790.28	790.28
		Bad and Loss (BL)	8,764.43	8,764.43
		Sub Total	**13,803.40**	**13,803.40**
	g) Movement of NPA and Provisions	Gross Non Performing Assets (NPAs)	10,911.49	10,911.49
		Non Performing Assets (NPAs) to Outstanding Loans & advances	28.38%	28.22%
		Movement of Non Performing Assets (NPAs) (Loans & advances)		
		Opening balance	8,684.97	8,684.97
		Additions	3,514.52	3,514.52
		Reductions	1,288.00	1,288.00
		Closing balance	10,911.49	10,911.49
		Movement of specific provisions for NPAs (Loans & advances)		
		Opening balance	3,965.24	3,965.24
		Loans written-off which fully provided for	37.63	37.63
		Recovery loans which was written-off earlier	0.53	0.53
		Closing balance	3928.14	3928.14

e) Equities : Disclosures for Banking Book Positions

Qualitative Disclosures	(a)	**"Solo Basis"** the Bank has equity exposure in Banking Book consisting of listed shares of 89 companies and unlisted shares of 12 companies. **"Consolidated Basis"** the Bank has equity exposure in Banking Book consisting of listed shares of 143 companies and unlisted shares of 12 companies. Market value of alloted securities has been determined on the basis of the value of securities at the last trading day of the year. The non-listed investments in securities are shown at cost.		
Quantitative Disclosures	(b)	Value disclosed in the balance sheet of investments, as well as the fair value of those equity at cost price and market price have been disclosed as under :	(Tk. in Crore)	
			Solo	Consolidated
		Investment in shares at cost price :		
		Quoted and Un-quoted shares	1048.44	1097.37
		Quoted shares	480.73	529.66
		Un-quoted shares	567.71	567.71
		Investment in shares as market price :		
		Quoted and Un-quoted shares	902.70	941.05
		Quoted shares	334.99	373.34
		Un-quoted shares	567.71	567.71

f) Interest rate risk in the banking book (IRRBB)

Interest rate risk in the banking book reflects the shocks to the financial position of the Bank including potential loss that the Bank may face in the event of adverse change in market interest rate. This has an impact on earning of the Bank through net interest earning as well as on market value of equity or net worth.

Qualitative Disclosures	(a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits and frequency of IRRBB measurement. (b)The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to managements method for measuring IRRBB, broken down by currency (as relevant).	Interest rate risk is the potential impact on the Bank's earnings (Net Interest Income- NII) and net asset values due to changes in market interest rates. Interest rate risk arises when the Bank's principal and interest cash flows (including final maturities), for both On and Off-balance sheet exposures, have mismatched re-pricing dates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. The portfolio of assets and liabilities in the banking book sensitive to interest rate changes is the element of interest rate risk. The immediate impact of changes in interest rates is on the Bank's net interest income (difference between interest income accrued on rate sensitive asset portfolio and interest expenses accrued on rate sensitive liability portfolio) for particular period of time, while the long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures are affected. To manage this risk in the banking book, bank considers the impact of interest rate changes on both assets and liabilities, and its particular features including, among other things, terms and timing. Changes in interest rates affect both the current earnings (earning perspective) as well as the net worth of the Bank (economic value perspective). SBL 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 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 to the ALCO regularly.

Interest rate risk in the banking book (IRRBB) (Continued)

Quantitative Disclosures

(Rate Sensitive Assets & Rate Sensitive Liabilities)
as on 31 December 2016

(TK. In Crore)

Particulars	TOTAL	Call	2-7 days	8 days-1 Month	1-3 Month	3-12 Months	1-5 Years	More than 5 years
Term Deposits with Bank & NBFI	3,544.52	0.00	30.00	1,152.00	454.00	1,894.00	14.52	0.00
Money at Call & Short Notice	356.32	339.00	0.00	0.00	0.00	0.00	17.32	0.00
Investment in Govt.-Securities	43,700.14	0.00	5,247.58	3,741.08	2,296.50	2,466.13	16,221.03	13,727.82
Other Investments	3,359.92	0.00	0.00	0.00	10.50	1,218.92	724.85	1,405.65
Loans and Advances*	31,168.06	161.64	636.84	2,078.98	6,647.04	8,367.25	8,510.25	4,766.06
Bills Purchased & discounted	916.43	14.43	101.22	413.16	387.62	0.00	0.00	0.00
Reverse REPO	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total RSA	**83,045.39**	**515.07**	**6,015.64**	**7,385.22**	**9,795.66**	**13,946.30**	**25,487.97**	**19,899.53**
Borrowings: From Bangladesh Bank	(76.96)	0.00	0.00	0.00	0.00	0.00	0.00	(76.96)
Money at Call & Short Notice	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposits**	(78,507.94)	(3,001.35)	(738.18)	(4,164.81)	(17,797.78)	(26,529.04)	(18,370.84)	(7,905.94)
REPO	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total RSL	**(78584.90)**	**(3001.35)**	**(738.18)**	**(4164.81)**	**(17797.78)**	**(26529.04)**	**(18370.84)**	**(7982.90)**
NET MISMATCH	4,460.49	(2,486.28)	5,277.46	3,220.41	(8,002.12)	(12,582.74)	7,117.13	11,916.63
CUMULATIVE NET MISMATCH		(2,486.28)	2,791.18	6,011.59	(1,990.53)	(14,573.27)	(7,456.14)	4,460.49

* Excluding provision for Non Performing Loans of Tk. 3,928.14 crore and Interest Suspense of Tk. 2,485.41 crore.
** Excluding non interest bearing demand deposits of Tk. 19,025.45 crore.

g) Market risk

<table>
<tr><td rowspan="4">Qualitative Disclosures</td><td>i) Views of Board of Directors (BOD) on trading / investment activities</td><td>The Board approves all policies related to market risk, set limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance assets growth and trade related transactions.
The market risk covers the followings risks of the Bank’s balance sheet:
i) Interest rate risk;
ii) Equity price risk;
iii) Foreign exchange risk; and
iv) Commodity price risk</td></tr>
<tr><td>ii) Methods used to measure market risk</td><td>Methods used to measure Market risk

As per relevant Bangladesh Bank guidelines, Standardized Approach has been used to measure the Market Risk for capital requirement for trading book of the Bank. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for “specific risk” and “general market risk” as under:
<table>
<tr><th rowspan="2">Component of Market risk</th><th colspan="2">Capital charged For Market risk</th></tr>
<tr><th>General Market risk</th><th>Specific Market risk</th></tr>
<tr><td>Interest Rate Risk</td><td>Applied</td><td>-</td></tr>
<tr><td>Equity Price Risk</td><td>Applied</td><td>Applied</td></tr>
<tr><td>Foreign Exchange Risk</td><td>Applied</td><td>-</td></tr>
<tr><td>Commodities Price Risk</td><td colspan="2">N/A</td></tr>
</table></td></tr>
<tr><td>iii) Market risk management system</td><td>The Treasury Division of the Bank manages market risk covering liquidity, interest rate and foreign exchange risks 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.

The Risk Management Division also reviews the market risk parameters on monthly basis and recommends on portfolio concentration for containing the RWA.</td></tr>
<tr><td>iv) Policies and processes for mitigating market risk</td><td>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 foreign exchange position. The limits are monitored and enforced on a regular basis to protect against market risks. The exchange rate committee of the bank meets on a daily basis to review the prevailing market condition, exchange rate, foreign exchange position, and transactions to mitigate foreign exchange risks</td></tr>
</table>

<table>
<tr><td></td><td></td><td colspan="3" align="right">(Tk. in Crore)</td></tr>
<tr><td rowspan="4">Quantitative Disclosures</td><td rowspan="4"></td><td>The capital requirements for:</td><td>Solo</td><td>Consolidated</td></tr>
<tr><td>Interest rate risk;</td><td>348.76</td><td>348.76</td></tr>
<tr><td>Equity position risk;</td><td>67.05</td><td>76.84</td></tr>
<tr><td>Foreign exchange risk;</td><td>110.34</td><td>110.34</td></tr>
</table>

h) Operational risk

Qualitative Disclosures	i) Views of Board of Directors (BOD) on system to reduce Operational Risk	The policy for operational risks including internal control and compliance risk is approved by the Board in line with the relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance Division (IC&CD) to protect against all operational risks. As a part of continued surveillance, the management committee (MANCOM), Risk Management Committee (at the management level), independent Risk Management Division regularly reviews different aspects of operational risk. The analytical assessment was reported to the Board/ Risk Management Committee/Audit Committee of the Bank for review and formulating appropriate policies, tools & techniques for mitigation of operational risk.
	ii) 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.
	iii) Potential external events	Like other peers, SBL operates its business with few external risk factors relating to the socio-economic condition, political atmosphere, regulatory policy changes, natural disaster etc. based on the overall perspective of the country. Potential external events and related downside risk, namely, political impasse, damage of Bank's delivery channel including ATM, fear of theft/ robbery in banks vaults, compliance/adjustment due to changes of regulatory policy stance, laws & regulations etc. are managed to keep within tolerable limit.
	iv) Policies and processes for mitigating operational risk	The policy for operational risks including internal control and compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. A policy guideline on Risk Based Internal Audit (RBIA) System is in operation. As per RBIA, branches with high risk status and subjected to more frequent audit by Internal Control and Compliance Division (IC&CD). IC&CD directly reports to Audit Committee of the Board. Currently, SBL are using some models or tools for mitigating operational risk such as Self Assessment of Anti-fraud Internal Control; Quarterly Operational Report (QOR) and Departmental Control Function Check List (DCFCL) in line with the Bangladesh Bank's relevant Instructions and recommendations. It is required to submit the statement on Self Assessment of Antifraud Internal Control to Bangladesh Bank on quarterly rest. In addition, there is a Vigilance Cell established in 2009 to reinforce the operational risk management of the Bank. Bank's Anti- Money laundering activities are headed by CAMLCO and their activities are devoted to protect against all money laundering and terrorist finance related activities. The newly established Central Customer Service & Complaint Management Cell was also engaged in mitigating the operation risks of the Bank. Apart from that, there is adequate check and balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.

Operational risk (Continued)

<table>
<tr><td rowspan="1">Quantitative Disclosures</td><td>v) Approach for calculating capital charge for operational risk</td><td colspan="3">The Bank follows the Basic Indicator Approach (BIA) in terms of BRPD Circular No. 18 dated 21 December2014 [Guidelines on 'risk Based capital Adequacy for Banks' (revised regulatory capital framework in line with Basel III)]. The BIA stipulates the capital charge for operational risk is a fixed percentage, denoted by α(alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula:

K = [(GI 1 + GI2 + GI3) α]/n

Where:
K = the capital charge under the Basic Indicator Approach
GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)
α= 15 percent
n = number of the previous three years for which gross income is positive.

Besides, Gross Income (GI) is calculated as "net Interest Income" plus "net non -Interest Income". The GI is also the net result of :
i. Gross of any provisions;
ii. Gross of operating expenses, including fees paid to outsourcing service providers;
iii. Excluding realized profits/losses from the sale of securities held to maturity in the banking book;
iv. Excluding extraordinary or irregular items;
v. Excluding income derived from insurance.</td></tr>
<tr><td></td><td></td><td colspan="3" align="right">(Tk. in Crore)</td></tr>
<tr><td rowspan="2">Quantitative Disclosures</td><td rowspan="2"></td><td></td><td>Solo</td><td>Consolidated</td></tr>
<tr><td>The capital requirements for operational risk.</td><td>463.19</td><td>464.23</td></tr>
</table>

i) Liquidity Ratio

In line with the provisions of liquidity risk management under Basel III, Bangladesh Bank on the basis of the relevant guideline of Bank for International Settlements (BIS) has identified the (i) Liquidity Coverage Ratio (LCR); (ii) Net Stable Funding Ratio (NSFR); and (iii) Leverage under the purview of 'Liquidity' ratio vide BRPD Circular No. 18 dated 21 December 2014 and DOS Circular No. 1 dated 1 January 2015.

<table>
<tr><td rowspan="2">Qualitative Disclosures</td><td>i) Views of Board of Directors (BOD) on system to reduce Liquidity Risk</td><td>The Board of Directors reviews the liquidity risk of the Bank on quarterly rest while reviewing the Quarterly Financial Statements, Stress Testing Report etc. Besides, the Chairman of the Board also reviews the liquidity position while reviewing the management information system (MIS) report on monthly basis.

Upon reviewing the overall liquidity position along with the outlook of SBL funding need, investment opportunity, market/industry trend, the Board takes its strategic decision regarding deposits, funding, investments, loans as well as interest rates polices etc.

The Board of SBL always strives to maintain adequate liquidity to meet up Bank's overall funding need for the huge retail depositors, borrowers' requirements as well as maintain regulatory requirements comfortably.</td></tr>
<tr><td>ii) Methods used to measure Liquidity Risk</td><td>The maintenance of Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR) are considered as the fundamental methods/tools to measure the liquidity position/risk of SBL.

However, under Basel III, the following methods and tools are mandated for measuring the liquidity risk.

a) Liquidity Coverage Ratio (LCR): Liquidity Coverage Ratio ensures to maintain an adequate level of stock of high quality liquid assets that can be converted into cash to meet its liquidity needs (i.e. total net cash outflows) over the next 30 calendar days.

b) Net Stable Funding Ratio (NSFR): Net Stable Funding Ratio aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items. The minimum acceptable value of this ratio is 100 percent, indicating that, available stable funding (ASF) should be at least equal to required stable funding (RSF).

ASF consists of various kinds of liabilities and capital with percentage weights attached given their perceived stability.

RSF consists of assets and off-balance sheet items, also with percentage weights attached given the degree to which they are illiquid or "long-term" and therefore requires stable funding.

In addition to the above, the following measures have been put in place to monitor the liquidity risk management position of the Bank on a continued manner:
a) Asset-Liability Maturity Analysis (Liquidity profile);
b) Whole sale borrowing capacity;
c) Maximum Cumulative Outflow (MCO);
Besides the above, the following tools are also used for measuring liquidity risk:
a) Stress Testing (Liquidity Stress);
b) Net open position limit - to monitor the FX funding liquidity risk;</td></tr>
</table>

Liquidity Ratio (Continued)

<table>
<tr>
<td rowspan="2"></td>
<td>iii) Liquidity risk management system</td>
<td colspan="2">In SBL, at the management level, the liquidity risk is primarily managed by the Treasury Division (Front Office) under oversight of ALCO which is headed by the Managing Director along with other senior management.

Treasury Division (Front Office) upon reviewing the overall funding requirements on daily basis sets their strategy to maintain a comfortable /adequate liquidity position taking into consideration of Bank's approved credit deposit ratio, liquid assets to total assets ratio, asset-liability maturity profile, Bank's earning/profitability as well as overall market behavior and sentiment etc.

Apart from the above, Risk Management Division also monitors & measures the liquidity risk in line with the Basel III liquidity measurement tools, namely, LCR, NSFR, Leverage Ratio. RMD addresses the key issues and strategies to maintain the Basel III liquidity ratios to the respective division (s) on regular interval.</td>
</tr>
<tr>
<td>iv) Policies and processes for mitigating Liquidity Risk</td>
<td colspan="2">The Asset-Liability (ALCO) policy leads the process & procedures for mitigation of liquidity risk of SBL.

ALCO works under specific Terms of References (functions) approved by the Board.

Treasury Division (Front Office) and ALM desk under regular supervision of Top Management reviews the overall liquidity position of SBL and takes appropriate strategy, process in line with the industry position for managing liquidity risk of the Bank.</td>
</tr>
<tr>
<td rowspan="7">Quantitative Disclosures</td>
<td colspan="2"></td>
<td>Amount in Taka</td>
</tr>
<tr><td colspan="2">Liquidity Coverage Ratio</td><td>537.90%</td></tr>
<tr><td colspan="2">Net Stable Funding Ratio (NSRF)</td><td>114.03%</td></tr>
<tr><td colspan="2">Stock of High quality liquid assets</td><td>276,02,13,991</td></tr>
<tr><td colspan="2">Total net cash outflows over the next 30 calendar days</td><td>51,31,49,170</td></tr>
<tr><td colspan="2">Available amount of stable funding</td><td>89,30,94,776</td></tr>
<tr><td colspan="2">Required amount of stable funding</td><td>78,32,17,420</td></tr>
</table>

j) Leverage Ratio

Qualitative Disclosures	i) Views of BOD on system to reduce excessive leverage	The Board of Directors of SBL primarily views on the growth of On and Off balance sheet exposures commensurate with its expected capital growth so that the excessive leverage is reduced. Within the On-balance components, again, the Board emphasizes on the growth of the prime component i.e. the loans and advances and maintaining good asset quality so as to maximize the revenue as well as the capacity to generate capital internally (in the form of retained earnings) to trade-off the excessive leverage supposed to be caused by asset growth. At the outset of asset growth, the Board also views the growth of its sources of fund i.e. deposit growth taking into consideration of projected business growth so that the credit-deposit ratio is maintained at a sustainable basis as well as to reduce the mismatches of asset-liability gap within the tolerable limit to manage the liquidity risk.
	ii) Policies and processes for managing excessive on and off balance sheet leverage	First and foremost, Bank's policy is to maintain the Leverage Ratio (Tier 1 capital as proportion to total adjusted On and Off balance sheet asset) well above the regulatory requirement. To this end, the striking components of balance sheet, namely, the deposits & borrowing, loans & advances, other liquid assets (treasury bills, bonds, fund placements) are analyzed on monthly basis. Measures are taken to contain the growth of overall size of balance sheet (On and Off balance sheet exposures aggregately) considering short term outlook of the industry indicators as well as possible growth of equity (Tier 1 capital) of the Bank on quarterly rest. With regard to managing the excessive leverage, the regulatory stance through the monetary policy initiatives i.e. the scope of expected business potential (growth), estimated money supply, inflation, resulting the estimated overall liquidity of the industry as well as the Bank in particular is also considered.
	iii) Approach for calculating exposure/Leverage	The exposures of balance sheet representing the overall position of the Bank as of the reporting date are calculated and presented in terms of applicable relevant accounting standards, i.e., IASs (BASs), IFRSs (BFRSs), etc. The accounting values of assets and liabilities are also presented and measured at gross. Netting of assets and liabilities are also made where permitted in compliance with the respective accounting standards and the regulatory instruction. For calculating "leverage", SBL follows the 'Leverage Ratio' approach/ method as suggested by Bangladesh Bank.

Quantitative Disclosures		Amount in Taka	
		Solo	Consolidated
	Leverage Ratio	2.81%	2.78%
	On balance sheet exposure	115712,48,00,000	115799,31,00,000
	Off balance sheet exposure	4155,56,60,000	4155,56,60,000
	Total exposure	119868,04,60,000	119954,87,60,000

k) Remuneration

<table>
<tr><td rowspan="7">Qualitative Disclosures</td><td colspan="2">a) Information relating to the bodies that oversee remuneration.</td></tr>
<tr><td>i) Name of the bodies that oversee remuneration</td><td>At the management level, primarily the Human Resources Division oversees the ‘remuneration’ in line with its HR management strategy/policy under direct supervision and guidance of Management Committee (MANCOM) of the Bank.</td></tr>
<tr><td>ii) Composition of the main body overseeing remuneration</td><td>The MANCOM is headed and chaired by the Managing Director & CEO of the Bank; along with other members of top executive management (Deputy Managing Directors) and the Heads of different functional divisions of Head Office. Head of Human Resources Division acts as the Member Secretary of the MANCOM of SBL.</td></tr>
<tr><td>iii) Mandate of the main body overseeing remuneration</td><td>The mandate of the Management Committee (MANCOM) as the main body for overseeing the Bank’s remuneration is to review the position of remuneration and associated matters and recommend to the Board of Directors for approval of its restructuring, rearrangement and modification commensurate with the industry best practices as per requirement.</td></tr>
<tr><td>iv) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.</td><td>The Bank has no External Consultant permanently regarding ‘remuneration’ and its process. However, experts’ opinion may have been sought in case to case basis regarding income tax matter, lawyers’ opinion for settlement of employees’ dues in case of death, penalty etc. if required, by the management.</td></tr>
<tr><td>v) A description of the scope of the bank’s remuneration policy (e.g by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.</td><td>The Bank does not differentiate the ‘Pay Structure’ and ‘employee benefits’ by regions. However, variation in remuneration is in practice based on nature of job/business line/activity primarily bifurcated for the employees who are directly recruited by the Bank and the headcounts/employees explored through outsourcing service providers as per rule. As of 31 December 2016, the Bank had two foreign subsidiaries and two branches outside Bangladesh.</td></tr>
<tr><td>vi) A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.</td><td>We consider the members of the senior management, branch managers and the employees engaged in different functional divisions at Head Office (except the employees involved in internal control, risk management and compliance) as the material risk takers of SBL.</td></tr>
</table>

Remuneration (Continued)

<table>
<tr><td rowspan="9">Qualitative Disclosures</td><td colspan="2">b) Information relating to the design and structure of remuneration processes.</td></tr>
<tr><td>i) An overview of the key features and objectives of remuneration policy.</td><td>Remuneration and other associated matters are guided by the Bank's Service Rule as well as instruction, guidance from the Board from time to time in line with the industry practice with the objectives of retention/hiring of experienced, talented workforce focusing on sustainable growth of the Bank.</td></tr>
<tr><td>ii) Whether the remuneration committee reviewed the bank's remuneration policy during the past year, and if so, an overview of any changes that were made.</td><td>Human Resources Division under guidance of MANCOM, the Board and senior management reviews the issues of remuneration & its associated matters from time to time.</td></tr>
<tr><td>iii) A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</td><td>The risk and compliance employees are carrying out the activities independently as per specific terms of references, job allocated to them.

Regarding remuneration of the risk and compliance employees, Human Resources Division does not make any difference with other mainstream/ regular employees and sets the remuneration as per the prevailing rule of the Bank primarily governed by the employees' service rule of the Bank.</td></tr>
<tr><td colspan="2">c) Description of the ways in which current and future risks are taken into account in the remuneration processes.</td></tr>
<tr><td>i) An overview of the key risks that the bank takes into account when implementing remuneration measures.</td><td>The business risk including credit/default risk, compliance & reputational risk are mostly considered when implementing the remuneration measures for each employee/group of employee.
Financial and liquidity risk are also considered.</td></tr>
<tr><td>ii) An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure.</td><td>Different set of measures are in practice based on the nature & type of business lines/segments etc. These measures are primarily focused on the business target/goals set for each area of operation, branch vis-à-vis the actual results achieved as of the reporting date. The most vital tools & indicators used for measuring the risks are the asset quality (NPL ratio), Net Interest Margin (NIM), provision coverage ratio, credit-deposit ratio, cost-income ratio, growth of net profit, as well the non-financial indicators, namely, the compliance status with the regulatory norms, instructions has been brought to all concerned of the Bank from time to time.</td></tr>
<tr><td>iii) A discussion of the ways in which these measures affect remuneration.</td><td>While evaluating the performance of each employee annually, all the financial and non-financial indicators as per pre-determined set criteria are considered; and accordingly the result of the performance varies from one to another and thus affect the remuneration as well.</td></tr>
<tr><td>iv) A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.</td><td>No material change has been made during the year 2016 that could the affect the remuneration.</td></tr>
</table>

Remuneration (Continued)

<table>
<tr><td rowspan="11">**Qualitative Disclosures**</td><td colspan="2">**Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.**</td></tr>
<tr><td>i) An overview of main performance metrics for bank, top-level business lines and individuals.</td><td>The Board sets the Key Performance Indicators (KPIs) while approving the business target/budget for each year for the Bank and business lines/segments. The management sets the appropriate tools, techniques and strategic planning (with due concurrence/approval of the Board) towards achieving those targets. The most common KPIs are the achievement of loan, deposit and profit target with the threshold of NPL ratio, cost-income ratio, cost of fund, yield on loans, provision coverage ratio, capital to risk weighted asset ratio (CRAR), ROE, ROA, liquidity position (maintenance of CRR and SLR) etc.</td></tr>
<tr><td>ii) A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.</td><td>The remuneration of each employee is paid based on her/his individual performance evaluated as per set criteria. And, accordingly, the aggregate amount of remuneration of the Bank as a whole is linked/ impacted to the same extent.</td></tr>
<tr><td>iii) A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining "weak" performance metrics.</td><td>The Bank follows remuneration process as per set criteria with no in general adjustment in the event of weak performance metrics/scorecard.</td></tr>
<tr><td colspan="2">**e) Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.**</td></tr>
<tr><td>i) A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.</td><td>The Bank pays variable remuneration i.e. annual increment based on the yearly performance rating on cash basis with the monthly pay. While the value of longer term variable part of remuneration i.e. the amount of provident fund, gratuity fund are made provision on aggregate/individual employee basis; actual payment is made upon retirement, resignation etc. as the case may be, as per rule.</td></tr>
<tr><td>ii) A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.</td><td>Not Applicable</td></tr>
<tr><td colspan="2">**f) Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms.**</td></tr>
<tr><td>i) An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms. A description of the elements corresponding to other forms of variable remuneration (if any) should be provided.</td><td>The Bank pays variable remuneration on cash basis (i.e. direct credit to the employee Bank account and/or Payment Order/Cheque), as the case may be, as per rule/practice.</td></tr>
<tr><td>ii) A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.</td><td>The following variable remuneration has been offered by SBL to its employees:
Annual Increment
Bank provides annual increments based on performance to the employees with the view of medium to long term strategy and adherence to Sonali Bank values.</td></tr>
</table>

Remuneration (Continued)

<table>
<tr><td rowspan="10">Quantitative Disclosures</td><td>g) Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member</td><td>12 (Twelve) meetings of the Management Committee (MANCOM) held in the year 2016. All the members of MANCOM are from the core banking area/operation of the Bank. No remuneration was paid to the members of the Management Committee for attending the meeting.</td></tr>
<tr><td>h)

i) Number of employees having received a variable remuneration award during the financial year.</td><td>The following Number of Employees were received a variable remuneration during the year 2016:
<table><tr><th>particulars</th><th>Numbers</th></tr><tr><td>Number of employees having received a variable remuneration award during the year 2016</td><td>NIL</td></tr></table></td></tr>
<tr><td>ii) Number and total amount of guaranteed bonuses awarded during the financial year.</td><td>The following Number of Employees were received a variable remuneration during the year 2016:
<table><tr><th>particulars</th><th>number of employees (In Unit)</th><th>Total amount of guaranteed bonuses (In Million Taka)</th></tr><tr><td>Guaranteed bonuses awarded during the year 2016</td><td>NIL</td><td>NIL</td></tr></table></td></tr>
<tr><td>iii) Number and total amount of sign-on awards made during the financial year.</td><td>Achieved “ICMAB Best Corporate Award-2015” from The Institute of Cost and Management Accounts of Bangladesh.</td></tr>
<tr><td>iv) Number and total amount of severance payments made during the financial year.</td><td>There was no severance payment during the year.</td></tr>
<tr><td>i)
i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.</td><td>N/A</td></tr>
<tr><td>ii) Total amount of deferred remuneration paid out in the financial year.</td><td>No deferred remuneration paid in the year 2016.</td></tr>
<tr><td rowspan="3">j) Breakdown of amount of remuneration awards for the financial year to show:</td><td>i) Fixed and variable remuneration paid in 2016 are as follows:
Tk. in million
<table><tr><th>particulars</th><th>Amounts</th></tr><tr><td>Fixed pay</td><td>19579.57</td></tr><tr><td>Variable pay</td><td>N/A</td></tr><tr><td>Total fixed and variable pay</td><td></td></tr></table></td></tr>
<tr><td>ii) Deferred and non-deferred (paid during the year).
<table><tr><th>particulars</th><th>Amounts</th></tr><tr><td>Deferred</td><td>N/A</td></tr><tr><td>Non-deferred</td><td>19579.57</td></tr></table></td></tr>
<tr><td>iii) Different forms used (cash, shares and share linked instruments, other forms).
• Remuneration is paid on cash basis (i.e. direct credit to the employee Bank account and/or Payment Order/Cheque), as the case may be, as per rule/practice.</td></tr>
</table>

Remuneration (Continued)

<table>
<tr><td rowspan="4">Quantitative Disclosures</td><td colspan="2">k) Quantitative information about employees’ exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw backs or imilar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:</td></tr>
<tr><td>i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.</td><td>Not Applicable</td></tr>
<tr><td>ii) Total amount of reductions during the financial year due to ex post explicit adjustments.</td><td>Not Applicable</td></tr>
<tr><td>iii) Total amount of reductions during the financial year due to ex post implicit adjustments.</td><td>Not Applicable</td></tr>
</table>