DISCLOSURE ON RISK BASED CAPITAL (BASEL III)

(December 2019)

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. The reports are purported to affirm the information on Minimum Capital Requirement (MCR) under pillar-I and Supervisory Review Process (SRP) under pillar-II and ensure transparency about the capital adequacy framework, risk assessment and mitigation methodologies, risk exposure in various spectrum so that the stakeholders of the industry can examine the risk related compliance of the Bank.

In a nutshell the purpose of this Disclosure Report is to set out how Sonali Bank Limited complies with the Pillar-III requirements under Basel-III. The following detailed qualitative and quantitative disclosures are prepared in accordance with guidelines on Risk Based Capital Adequacy (Basel-III) framework by Bangladesh Bank on December 2014.

a) Scope of application

Qualitative Disclosures

(a)**Sonali Bank Limited,** 100% state owned commercial Bank manages its risk and maintains risk based capital following the guidelines of Bangladesh Bank.

(b) 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)**, an 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% shares hold by Sonali Bank Limited. It is operating in London and Birmingham.
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.

(c) 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.

Quantitative Disclosures

(d)	**The following subsidiaries & associates has included their financial activities and their aggregate capital is as under:**	**(Tk. in Crore)**
	• Sonali Investment Limited	200.00
	• Sonali Exchange co. Inc. (SECI)	8.07
	• Sonali Bank (UK) Limited	324.85
	• Sonali Polaris FT Limited	2.63

b) Capital structure

Qualitative Disclosures

(a) The regulatory capital under Basel-III is composed of (I) Tier-1 (Going- concern Capital) and (II) Tier-2 (Gone-concern Capital). From regulatory capital perspective, going-concern capital is the capital which can absorb losses without triggering bankruptcy of the Bank and gone-concern capital is the capital which will absorb losses only in a situation of liquidation of the Bank.

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 Additional Tier-1 capital instrument at this moment.

Tier 2 Capital (Gone Concern Capital) :

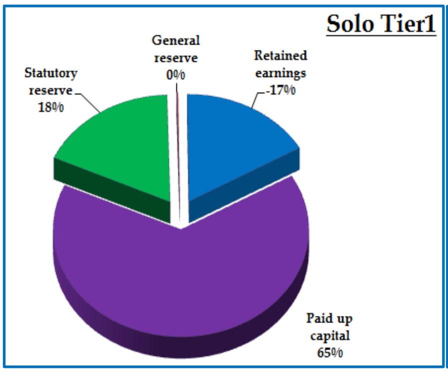
General provision: As per Bangladesh Bank directive, amount of provision maintained byBank.

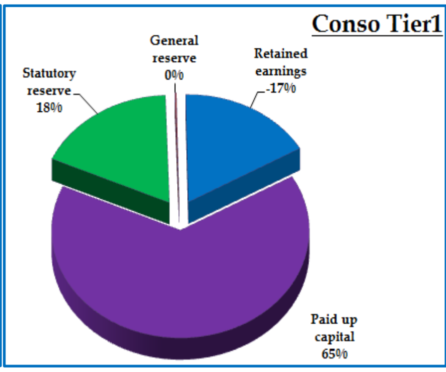
Revaluation reserves of Assets, HTMsecurities& HFT securities : As per Bangladesh Bank's instruction, until 31 December 2014, 50%, 50%& 10% of revaluation reserverespectively of Banks Assets, HTMsecurities& HFT securities has been considered. Revaluation Reserve (RR) based on the position as of 31 December 2014 has been adjusted @ 20% on yearly basis from 2015 to 2019 under Basel III guideline.

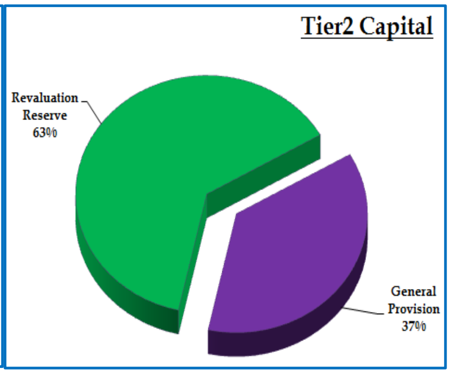
Quantitative Disclosures

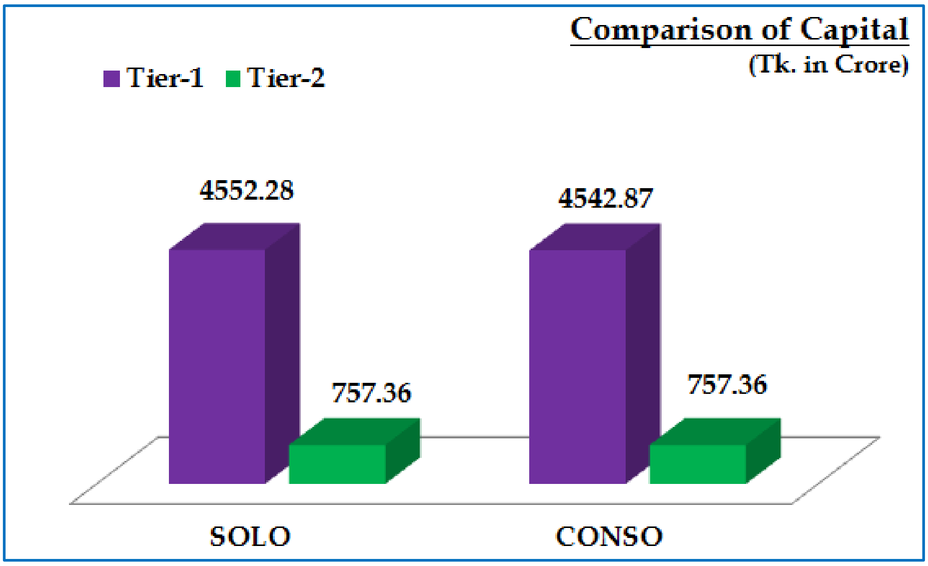
(b) Regulatory Capital of Sonali Bank Limited on the basis of Audited Balance Sheet of 31st December 2019 has been calculated as per Basel-III guidelines on 'Solo' basis as well as 'Consolidated' basis as shown below.

Regulatory Capital	(Tk. in Crore)	
Common Equity Tier1 Capital(Going Concern Capital) :	**Solo**	**Conso**
Paid up capital	4530.00	4530.00
Statutory reserve	1240.06	1240.06
General reserve	11.94	11.94
Retained earnings	(1174.85)	(1184.26)
Sub-Total	**4607.15**	**4597.74**
Regulatory Adjustments	**Solo**	**Conso**
Goodwill and all other Intangible Assets	54.87	54.87
Total Common Equity Tier 1 capital [A]	**4552.28**	**4542.87**
Additional Tier 1 (AT1) capital [B]	-	-
Tier-2 Capital (Gone Concern Capital)	**Solo**	**Conso**
General provision	757.36	757.36
Revaluation Reserves as on 31 December 2014 (50% of Fixed Assets and Securities & 10% of Equities)	1300.84	1300.84
Total of Tier 2 capital [C]	**2058.20**	**2058.20**
Regulatory Adjustments/Deductions from Capital.	**Solo**	**Conso**
Revaluation Reserves for Fixed Assets, Securities (100% for the year 2019) from Tier 2 capital	1300.84	1300.84
Total of Deduction [D]	**1300.84**	**1300.84**
Total eligible capital [A+B+C-D]	**5309.64**	**5300.23**









C) Capital Adequacy

Qualitative Disclosures

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 in view to this objective. An board approved Action Plan has been prepared for this purpose.

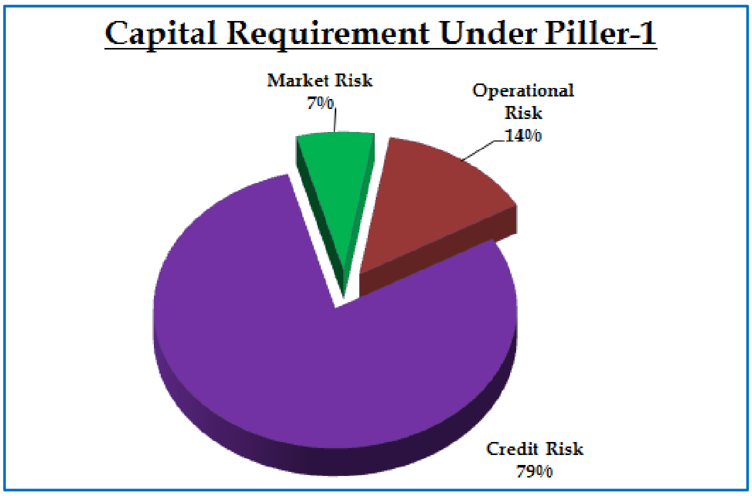
The Bank has maintained Capital to Risk-weighted Assets Ratio (CRAR) of 31 December 2019 on the basis of 'solo' and 'Consolidated' which is **10.09%** and **10.06%** respectively as against the minimum regulatory requirement of 10%. This has been calculated considering forbearance allowed by Bangladesh Bank.

Common Equity Tier-I (CET-1) and Minimum Tier-1 Ratio to RWA ratio including Capital Conservation Buffer for 'solo' is **8.65%** as well as 'consolidated' is **8.62%** against the minimum regulatory requirement of **4.50%** and **6.00%** respectively. Tier-2 ratio for 'solo' is **1.44%** as well as 'consolidated' is **1.44%**. 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 2019 is 0.09% as 'solo' and 0.06% as 'consolidated'.

Quantitative Disclosures

			(Tk. in Crore)
		Solo	Consolidated
(b)	Capital Requirement for Credit Risk	4163.74	4165.62
(c)	Capital Requirement for Market Risk	363.20	368.31
(d)	Capital Requirement for Operational Risk	735.48	736.73
(e)	Capital to Risk Weighted Assets Ratio (CRAR)	10.09%	10.06%
(f)	Common Equity Tier-1 to RWA Ratio	8.65%	8.62%
(g)	Tier-1 Capital to RWA Ratio	8.65%	8.62%
(h)	Tier-2 Capital to RWA Ratio	1.44%	1.44%
(i)	Capital Conservation Buffer	0.09%	0.06%
(j)	Available Capital under Pillar 2 Requirement	401.34	401.34



d) Credit Risk

Qualitative Disclosures

Credit risk is the potential loss that may arise from a borrower's failure to repay a loan or meet its obligation in accordance with agreed term. Banks are very much prone to credit risk due to its core activities i.e. lending to corporate, SME, individual, another bank/ FI.

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.

CL SL#	Types of Loans	Classification Status	Period for Classification (past due)
1	**Continuous Loan**	SMA	2 Month
		SS	3 Month
		DF	9 Month
		BL	12 Month
2	**Demand Loan**	SMA	2 Month
		SS	3 Month
		DF	9 Month
		BL	12 Month
3	**Fixed Term Loan**	SMA	8 Month
		SS	9 Month
		DF	15 Month
		BL	18 Month
4	**Short Term Agricultural & Micro Credit**	SMA	-
		SS	12 Month
		DF	36 Month
		BL	60 Month

(ii) Approaches followed for specific and general allowances:

Rate of Provision Requirement

	Unclassified		Classified		
Types of Loans & Advances	**Standard**	**SMA**	**SS**	**DF**	**BL**
Short Term Agriculture & Micro Credit	1%	-	5%	5%	100%
Consumer Financing					
Other than Housing Finance & Loans to Professionals to setup business	5%	5%	20%	50%	100%
Housing Finance	1%	1%	20%	50%	100%
Loans to Professionals to setup business	2%	2%	20%	50%	100%
Small & Medium Enterprise Financing	0.25%	0.25%	20%	50%	100%
Loans to Brokerage House/ Merchant Bank/ Stock Dealers	2%	2%	20%	50%	100%
All other Credit	1%	1%	20%	50%	100%

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.

Credit Risk (Continued)

(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.

- **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.

- **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.

- **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 is regularly reported to the Board of Directors/ Risk Management Committee of the Board.

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.

Credit Risk (Continued)

(b) Total gross credit risk exposures broken down by major types of credit exposure.

((Tk. in Crore))

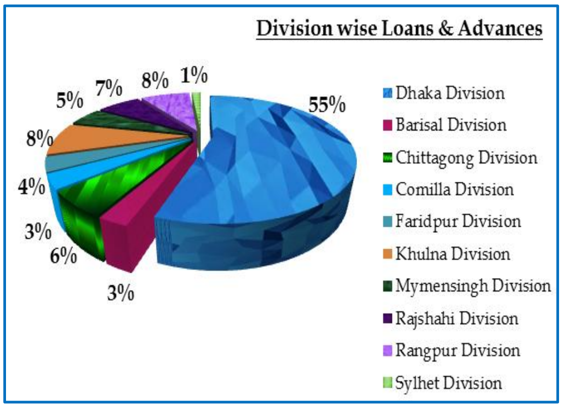
On Balance Sheet	Solo	Consolidated
Cash Credit General (Hypo)	949.76	949.76
Cash Credit General (Pledge)	1558.57	1558.57
Packing Cash Credit	453.99	453.99
Overdrafts Loan	2514.92	2514.92
Demand Loan	1.77	1.77
Small Loan	10.51	10.51
General House Building Loan	514.77	514.77
Staff House Building Loan	5822.08	5822.08
Staff Loan	381.43	381.43
House Building Loan (Govt.Employees)	26.13	26.13
Special Loan Programme	1.79	1.79
Loan under SB Industrial Credit Scheme	3681.80	3681.80
Loan under External Credit Program	7.00	7.00
Working Capital to Industries (Hypo)	3464.70	3464.70
Working Capital to Industries (Pledge)	276.16	276.16
Sonali Credit	20.27	20.27
Loan Under SB Agro Based Industrial Scheme	1378.56	1378.56
Working Capital to Agro Based Industry (Hypo)	1268.25	1268.25
Working Capital to Agro Based Industry (Pledge)	753.30	753.30
Agricultural Loan	5038.76	5038.76
Micro Credit	1211.73	1211.73
LIM (Loan Against Imported Merchandise)	202.59	202.59
LTR (Loan Against Trust Receipt)	5030.15	5030.15
Forced Loan	2382.05	2382.05
Loan for L/C under WES	0.01	0.01
Loan against Inland Bills	23.66	23.66
Current Account Barter (Debit Balance)	93.26	93.26
Bridge Finance	299.39	299.39
Small Business Loan Sceme	169.57	169.57
Lease Finance	2.65	2.65
Consumer Loan	6260.46	6260.46
Term Loan to Freedom Fighter	1857.79	1857.79
Special F.C Term Loan to Bangladesh Biman	5428.18	5428.18
Foreign Education Loan Program	0.08	0.08
SME Finance (Term Loan Service)	71.02	71.02
SME Finance (Term Loan to Industries)	10.28	10.28
SME Finance (Working Capital Wind)	2155.01	2155.01
Bills Discounted and Purchased	1274.52	1274.52
Special Loan-Advance Rent (Interest Bearing)	8.44	8.44
Term Loan to Banks & NBFIs	200.00	200.00
Forced Loan A/C EDF	53.29	53.29
Rural Housing Finance-SonaliNeer A/C	11.14	11.14
Loan against Food Procurement Bill A/C	225.98	225.98
Long term loan at prevailing rate of Interest (SECI)	6.86	0.00
Total	**55102.63**	**55312.84**
Off-Balance Sheet Exposure	**Solo**	**Consolidated**
Letter of Guarantee	801.23	801.23
Irrevocable Letters of Credit	100794.17	100794.17
Bills for Collection	641.43	641.43
Other	-	-
Total	**102236.83**	**102236.83**

Credit Risk (Continued)

(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.

(Tk. in Crore)

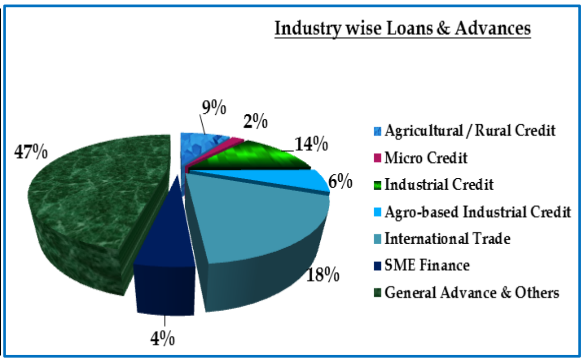
Inside Bangladesh	Solo	Consolidated
1) Dhaka-1 Division	25114.46	25324.67
2) Dhaka-2 Division	5286.37	5286.37
3) Barisal Division	1384.27	1384.27
4) Chittagong Division	3062.57	3062.57
5) Comilla Division	1852.21	1852.21
6) Faridpur Division	1925.95	1925.95
7) Khulna Division	4568.20	4568.20
8) Mymensingh Division	2801.62	2801.62
9) Rajshahi Division	3752.84	3752.84
10) Rangpur Division	4495.32	4495.32
11) Sylhet Division	820.44	820.44
Outside Bangladesh		
Kolkata &Siliguri	38.38	38.38
Total	**55102.63**	**55312.84**



(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.

(Tk. in Crore)

Industry Name	Solo	Consolidated
1) Agricultural / Rural Credit	5038.76	5038.76
2) Micro Credit	1211.73	1211.73
3) Industrial Credit	7429.66	7429.66
4) Agro-based Industrial Credit	3400.11	3400.11
5) International Trade	9759.70	9759.70
6) SME Finance	2441.10	2441.10
7) General Advance & Others	25821.57	26031.78
Total	**55102.63**	**55312.84**



(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.

(Tk. in Crore)

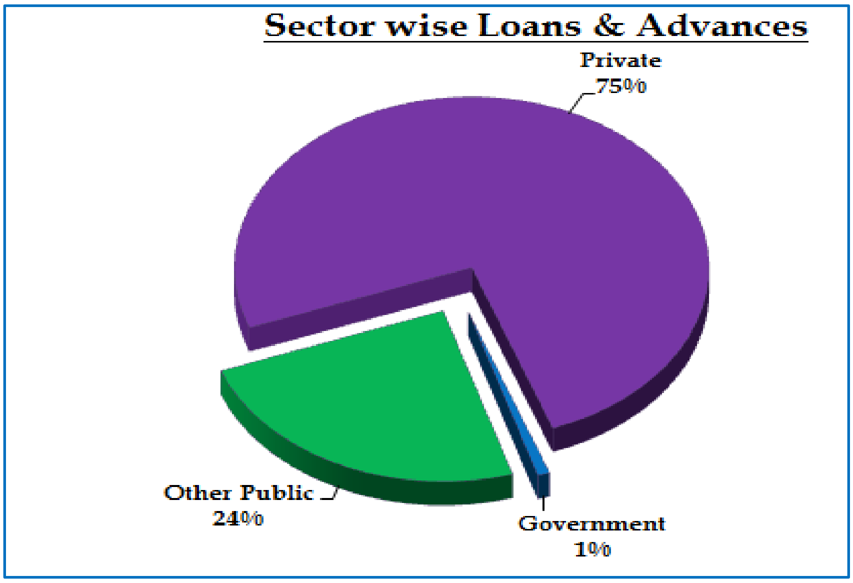
	Solo	Consolidated
On demand	5701.73	5701.73
Not more than 3 months	2322.52	2322.52
More than 3 months but not more than 1 year	15982.53	16192.75
More than 1 year but not more than 5 years	11873.13	11873.13
More than 5 years	17924.53	17924.53
Total	**53804.45**	**54014.66**
Bills purchased and discounted		
Not more than 1 month	865.82	865.82
More than 1 month but not more than 3 months	200.10	200.10
More than 3 months but not more than 6 months	180.91	180.91
More than 6 months	51.36	51.36
Total	**1298.18**	**1298.18**

Credit Risk (Continued)

(f) Major counterparty wise amount of impaired loans

Loans and advances on the basis of significant concentration including bills purchased and discounted	Solo	Conso
Advances to allied concerns of Directors	-	-
Advances to Managing Directors andother Senior Executives	11.25	11.25
Advances to customer group(amounting more than 10% of banks total capital)	40821.79	40821.79
Other customers	8068.30	8226.19
Advance to staff	6201.29	6253.61
Total	**55102.63**	**55312.84**

Sector wise loans and advances	Solo	Consolidated
Government	452.63	452.63
Other Public	13230.81	13230.81
Private	41419.19	41629.40
Total	**55102.63**	**55312.84**
Government		
Unclassified	215.85	215.85
Classified	236.78	236.78
Sub Total	**452.63**	**452.63**
Other public		
Unclassified	13186.34	13186.34
Classified	44.47	44.47
Sub Total	**13230.81**	**13230.81**
Private		
Unclassified	30501.05	30711.26
Classified	10918.14	10918.14
Sub Total	**41419.19**	**41629.40**
Classification wise loan-advs. and Provision		
Standard	38871.94	39082.15
SMA	5031.30	5031.30
Sub Total	**43903.24**	**44113.45**
Classified		
Substandard (SS)	1253.00	1253.00
Doubtful (DF)	291.87	291.87
Bad and Loss (BL)	9654.52	9654.52
Sub Total	**11199.39**	**11199.39**



Credit Risk (Continued)

g) Movement of NPA and Provisions

In response to Bank request regarding fill up of capital shortfall, Bangladesh Bank waived the Bank from reservation of required provision against unclassified and classified loans & advances including writ and from adjustment of deferred tax assets against Common Equity Tier-1 (CET-1) capital through letter vide no- DBI-2 (UB-1)/2105 (01)/2020-885 dated 29 June 2020 for the year 2019.

(Tk. in Crore)

	Solo	Consolidated
Gross Non Performing Assets (NPAs)	11199.39	11199.39
Non Performing Assets (NPAs) to Outstanding Loans & advances	20.32%	20.25%
Movement of Non Performing Assets (NPAs) (Loans & advances)		
Opening balance	12188.34	12188.34
Additions	2208.50	2208.50
Reductions	3197.45	3197.45
Closing balance	**11199.39**	**11199.39**
Movement of specific provisions for NPAs (Loans & advances)		
Opening balance	**4404.59**	**4404.59**
Add: Provisions made during the period	919.32	919.32
Less: Loan write-off Which fully provided for	22.70	22.70
Add: Recovery loans which was written-off earlier	0.43	0.43
Closing balance	**5301.64**	**5301.64**

e) Equities :Disclosures for Banking Book Positions

The major portion of the Bank's holding of equity exposure is mainly with the purpose of capital gain. The quoted shares are valued both at cost price and market price basis. However, the un-quoted shares are valued at their cost price.

Qualitative Disclosures

(a) **"Solo Basis"** the Bank has equity exposure in Banking Book consisting of listed shares of 124 companies and unlisted shares of 12 companies.

"Consolidated Basis" the Bank has equity exposure in Banking Book consisting of listed shares of 192 companies and unlisted shares of 12 companies.

Market value of allotted 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:

Investment in shares at cost price :		**(Tk. in Crore)**
	Solo	**Consolidated**
Quoted and Un-quoted shares	**1423.50**	**1468.24**
Quoted shares	690.80	735.54
Un-quoted shares	732.70	732.70
Investment in shares as market price ; Quoted and Un-quoted shares	**1156.78**	**1201.52**
Quoted shares	424.08	468.82
Un-quoted shares	732.70	732.70

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.

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.

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.

Quantitative Disclosures

(b) 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.

(Rate Sensitive Assets & Rate Sensitive Liabilities)
as on 31 December 2019

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	7,337.12	200.00	90.00	685.00	3,343.00	2,894.60	110.00	14.52
Money at Call & Short Notice	1,623.87	1,623.87	-	-	-	-	-	-
Investment in Govt.-Securities	42,097.80	-	-	1,441.40	4,233.32	5,198.83	15,136.10	16,088.15
Other Investments	7,833.98	-	-	-	-	1,514.84	2,011.63	4,307.51
Loans and Advances*	44,910.00	161.30	640.93	2,580.74	8,392.64	11,262.31	13,945.12	7,926.95
Bills Purchased & discounted	1,265.68	13.47	60.04	383.37	808.79	-	-	-
Reverse REPO	-	-	-	-	-	-	-	-
Total RSA	**105,068.45**	**1,998.64**	**790.97**	**5,090.51**	**16,777.75**	**20,870.58**	**31,202.85**	**28,337.13**
Borrowings: From Bangladesh Bank	(321.46)	-	-	-	-	-	(261.04)	(60.42)
Money at Call & Short Notice	-	-	-	-	-	-	-	-
Deposits**	(90,753.46)	(3,985.50)	(1,033.57)	(3,961.85)	(19,377.48)	(30,703.08)	(21,485.79)	(10,206.20)
REPO	-	-	-	-	-	-	-	-
Total RSL	**(91,074.92)**	**(3,985.50)**	**(1,033.57)**	**(3,961.85)**	**(19,377.48)**	**(30,703.08)**	**(21,746.83)**	**(10,266.62)**
NET MISMATCH	**13,993.53**	**(1,986.85)**	**(242.60)**	**1,128.67**	**(2,599.72)**	**(9,832.49)**	**9,456.02**	**18,070.50**
CUMULATIVE NET MISMATCH		**(1,986.85)**	**(2,229.45)**	**(1,100.78)**	**(3,700.50)**	**(13,533.00)**	**(4,076.98)**	**13,993.53**

* Excluding Provision for Non-Performing Loans of Tk. 4,961.04 crore and Interest Suspense of Tk. 3,928.93 crore.
** Excluding Non-Performing bearing demand deposits of Tk. 23,888.68crore.

g) Market risk

Market risk arises due to changes in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. The financial instruments that are held with tradingintent or to hedge against various risks, are purchased to make profit from spreads between the bid and ask price are subject to market risk. SBL is exposed to market risk mostly stemming from Government Treasury Bills and Bonds, Shares of listed Public Limited Companies, foreign currency etc.

Qualitative Disclosures

(i) Views of Board of Directors (BOD) on trading / investment activities

The Board approves all policies related to market risk, set limits andreviews 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

(ii) 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:

Component of Market risk	Capital charged For Market risk	
	General Market risk	Specific Market risk
Interest Rate Risk	Applied	-
Equity Price Risk	Applied	Applied
Foreign Exchange Risk	Applied	-
Commodities Price Risk	N/A	

(iii) Market risk management system

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.

(iv) 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 foreign exchange position. The limits are monitored and enforced on a regular basis to protect against market risks. The exchange ratecommittee 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.

Quantitative Disclosures

		(Tk. in Crore)
The capital requirements for:	**Solo**	**Consolidated**
Interest rate risk;	187.47	187.47
Equity position risk;	84.82	89.92
Foreign exchange risk;	90.92	90.92
Commodity risk	Nil	Nil
Total Requirement	363.20	368.31

h) Operational risk

Operational risk is the risk which may arise directly or indirectly due to failure or breakdown of system, people,and process. This definition includes legal risk, but excludes strategic and reputation risk. The bank manages these risks through a control based environment in which processes are documented,authorization isindependent,and transactions are reconciled and monitored.

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 mitigatingoperational 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.

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Operational Risk (Continued)

(iv) Approach for calculating capital charge for operational risk

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.

Quantitative Disclosures

		(Tk. in Crore)
	Solo	**Consolidated**
The capital requirements for operational risk.	735.48	736.73

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.

Qualitative Disclosures

(i) Views of Board of Directors (BOD) on system to reduce Liquidity Risk

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.

(ii) Methods used to measure Liquidity Risk

In order to measure liquidity risk various methods are being used which are as follows:

- GAP analysis is being done regularly that deals with the mismatch of assets and liabilities in different time buckets like 0-30 days, 31-90 days, 91-180 days, 181-270 days, 271-365 days and

CAD OPERATION

Liquidity Ratio (Continued)

beyond 1 year. In monthly ALCO paper, SBL show this GAP analysis based on which different strategic decisions are taken in order to reduce liquidity risk that may arise due to the mismatch between assets and liabilities.

- Cash flow forecasting is another technique to measure liquidity risk that may arise due to future cash flow mismatch. In our monthly ALCO paper we show this cash flow forecasting

(iii) Liquidity risk management system

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.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.

(iv) Policies and processes for mitigating Liquidity Risk

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.

Quantitative Disclosures

Amount in Taka	
Liquidity Coverage Ratio	170.72%
Net Stable Funding Ratio (NSRF)	109.08%
Stock of High quality liquid assets	52,40,49,672
Total net cash outflows over the next 30 calendar days	30,69,64,428
Available amount of stable funding	1,04,69,00,590
Required amount of stable funding	95,97,33,671

j) Leverage Ratio

Leverage is an inherent and essential part of modern banking business. In other words, banks are highlyleveraged organizations which facilitate leverage for others. Leverage, in simple terms, is the extent to which a bank funds its assets with borrowings rather than capital. More debt relative to capital means ahigher level of leverage.

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.

(ii) Policies and processes for managing excessive on and offbalance 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.

Leverage Ratio (Continued)

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	2.77%	2.77%
On balance sheet exposure	14,19,69,98,07,270.00	14,20,58,24,05,547.00
Off balance sheet exposure	2,22,06,91,00,000.00	2,22,06,91,00,000.00
Regulatory Adjustment made to Tier1 Capital	54,87,00,000.00	5,48,70,00,00.00
Total exposure	16,41,22,02,07,270.00	16,42,10,28,05,547.00

k) Remuneration

Qualitative Disclosures

a) Information relating to the bodies that oversee remuneration.

(i) Name of the bodies that oversee remuneration

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.

(ii) Composition of the main body overseeing remuneration

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.

(iii) Mandate of the main body overseeing remuneration

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.

Remuneration (Continued)

(iv) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.

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.

(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.

The Bank does not differentiate the 'Pay Structure' and 'employee benefits' by regions. However, variation in remuneration is i000n practice based on nature of job/business line/activity primarily bifurcated for the employees who are directly recruited by the Bank and the eadcounts/employees explored through outsourcing service providers as per rule. As of 31 December 2019, the Bank had two foreign subsidiaries and two branches outside Bangladesh.

(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.

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.

b) Information relating to the design and structure of remuneration processes.

(i) An overview of the key features and objectives of remuneration policy.

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.

(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.

Human Resources Division under guidance of MANCOM,the Board and senior management reviews the issues of remuneration & its associated matters from time to time.

(ii) A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

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.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes.

(i) An overview of the key risks that the bank takes into account when implementing remuneration measures.

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.

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Remuneration (Continued)

(ii) An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure.

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.

(iii) A discussion of the ways in which these measures affect remuneration.

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.

(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.

No material change has been made during the year 2019 that could the affect the remuneration.

d) Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.

(i) An overview of main performance metrics for bank, top-level business lines and individuals.

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.

(ii) A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.

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.

(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.

The Bank follows remuneration process as per set criteria with no in general adjustment in the event of weak performance metrics/scorecard.

e) Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.

(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.

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.

Remuneration (Continued)

(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.

Not Applicable.

f) Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms.

(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.

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.

(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.

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.

Quantitative Disclosures

g) Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member

12 (Twelve) meetings of the Management Committee (MANCOM) held in the year 2019. 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.

h)

i) Number of employees having received a variable remuneration award during the financial year.

The following Number of Employees were received a variable remuneration during the year 2019:

Particulars	Numbers
Number of employees having received a variable remuneration award during the year 2019	NIL

ii) Number and total amount of guaranteed bonuses awarded during the financial year.

The following Number of Employees were received a variable remuneration during the year 2019:

Particulars	number of employees (In Unit)	Total amount of guaranteed bonuses (In Million Taka)
Guaranteed bonuses awarded during the year 2019	NIL	NIL

Remuneration (Continued)

iii) Number and total amount of sign-on awards made during the financial year.

There was no severance payment during the year.

iv) Number and total amount of severance payments made during the financial year.

There was no severance payment during the year.

i)

i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.

Not Applicable.

ii) Total amount of deferred remuneration paid out in the financial year.

No deferred remuneration paid in the year 2019.

j) Breakdown of amount of remuneration awards for the financial year to show:

i) Fixed and variable remuneration paid in 2019 are as follows:

	Tk. in million
Particulars	**Amount**
Fixed pay	19,818.26
Variable pay	N/A
Total fixed and variable pay	

(ii) Deferred and non-deferred (paid during the year).

	Tk. in million
Particulars	**Amount**
Deferred	N/A
Non-deferred	19,818.26

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.

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 similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration::

i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.

Not Applicable

ii) Total amount of reductions during the financial year due to ex post explicit adjustments.

Not Applicable

iii) Total amount of reductions during the financial year due to ex post implicit adjustments.

Not Applicable

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