Disclosure on Risk Based Capital

(Under Pillar 3 of Basel III)

For The Year Ended December 31, 2022

SHIMANTO BANK LIMITED

সীমান্ত ব্যাংক লিমিটেড

সীমাহীন আস্থা

Background:

The Basel Committee on Banking Supervision's (BCBS) framework of capital measurement and capital adequacy, known as Basel III, requires banks to publicly disclose prudential information. This information includes capital requirements, risk levels, and risk management systems. The purpose of this disclosure is to enhance transparency and enable market participants to assess and analyze a bank's risks and capital adequacy. This disclosure is an essential market mechanism that can help banks achieve effective risk management beyond simply internal controls and supervision by the Bangladesh Bank.

The current scenario of bank runs is a prime example of how the depletion of regulatory capital, combined with a panicked rush by depositors to withdraw their money, can render a bank unviable and insolvent. As a result, sound risk management is essential to any banking operation, and therefore the need for a sufficient capital adequacy ratio is paramount. Under prudential norms, capital regulation is of critical importance in order to ensure the structural stability of the banking system and protect depositors.

Given the importance of capital adequacy, a bank's capital adequacy ratio (CAR) is considered a symbol of its operational health, helping to protect against excessive leverage and insolvency. It is defined as the ratio of a bank's capital to its current liabilities and risk-weighted assets (RWAs). RWAs are a measure of the amount of a bank's assets, adjusted for risk. An appropriate level of capital adequacy ensures that the bank has sufficient capital to expand its business, while at the same time its net worth is sufficient to absorb any financial losses without becoming insolvent. It is the ratio that determines a bank's ability to meet its time liabilities and other risks.

To comply with international best practices and to make banks' capital more shock absorbent, the "Guidelines on Risk-Based Capital Adequacy (RBCA) for banks" (Revised Regulatory Capital Framework in line with Basel II) was introduced on January 1, 2009, in parallel with BRPD Circular No. 10, dated November 25, 2002 (Basel I). At the end of the parallel run, the Basel II regime began on January 1, 2010, and the RBCA guidelines came fully into force with subsequent supplements and revisions. Bangladesh Bank then issued the "Guidelines on Risk-Based Capital Adequacy (RBCA) for banks" (Revised Regulatory Capital Framework in line with Basel III) in BRPD Circular 18 dated December 21, 2014; Basel III reporting began on January 2015, and full implementation began on January 2020. All scheduled banks were required to follow the instructions regarding Minimum Capital Requirement (MCR), Adequate Capital, and Disclosure requirements as stated in the guidelines for statutory compliance.

Basel III Accord:

Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision (BCBS) in response to the financial crisis of 2008. It is a global regulatory framework that seeks to strengthen the regulation, supervision, and risk management of banks. Basel III builds on the previous Basel Accords (Basel I and Basel II) and mainly addresses the following areas:

- Raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis
- Increase the risk coverage of the capital framework
- Introduce leverage ratio to serve as a backstop to risk-based capital measure
- Raise the standards for the Supervisory Review Process (Pillar 2) and Public Disclosures (Pillar 3)

The Basel III framework consists of three-mutually reinforcing pillars:

Pillar 1 (Minimum Capital Requirement): This Pillar of the Basel III framework covers the calculation of risk-weighted assets (RWAs) for credit risk, market risk, and operational risk. Shimanto Bank Limited (SMBL) uses the standardized approach to measure credit risk, the standardized approach to measure market risk, and the basic indicator approach to measure operational risk. SMBL also maintains a non-risk-based leverage ratio at a healthy level.

Pillar 2 (Supervisory Review Process): This Pillar of the Basel III framework covers all other risks, as well as the entire risk management framework from both the internal and external (supervisory) perspectives. SMBL has developed a comprehensive ICAAP (Internal Capital Adequacy Assessment Process) manual to capture risks in detail. Pillar 2 covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations. Regular SRP-SREP interaction ensures compliance with Pillar 2 regulations.

Pillar 3 (Market Discipline): This Pillar of the Basel III framework covers the external communication of risk and capital information by banks. This is intended to promote transparency and good risk management, and to allow market participants to make informed decisions about their investments. Pillar 3 disclosures include information on a bank's capital adequacy, risk management framework, and exposures to various risks. The information provided in the Market Disclosure is consistent with the relevant guidelines set by Bangladesh Bank from time to time. It has been prepared based on the bank's audited financial statements and is available on the bank's website. Pillar 3 disclosures set out in the following sections:

1. Scope of Application

Qualitative Disclosures:

(a)The name of the top corporate entity in the group to which this guideline applies:

The framework applies to Shimanto Bank Limited (SMBL) as of the reporting date i.e. December 31, 2022. However, 'Solo Basis' information has been presented as Bank does not have any subsidiary.

(b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated; (ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted):

Shimanto Bank Limited was formally inaugurated on 1st September 2016 by the Honorable Prime Minister **Sheikh Hasina**, and incorporated as a Public Limited Company (Banking Company) under the Companies Act 1994 for carrying out all kinds of banking activities.

As of December 31, 2022; the Bank is operating its business activities through Head Office with Twenty Branches (Principal Branch, Mymensingh Branch, Agrabad Branch, Gulshan Branch, Satkania Branch, Benapole Branch, Motijheel Branch , Bibir Bazar Branch ,Cox's Bazar Branch , Teknaf Branch ,Lalmonirhat Branch , SeedStore Branch, Champoknagar Branch, Sylhet Branch, Pragpur Branch, Uttara Branch , Hazaribag Branch , Khulna Branch , Godkhali Branch and Brahmanbaria Branch) and Four Sub Branches (Ramu Sub Branch, Pabla Sub Branch, Mohammadpur Sub Branch, & Uttara Sub Branch).

(c) Any restrictions, or other major impediments, on the transfer of funds or regulatory capital within the group:

Not applicable

Quantitative Disclosures:

(d) The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.

Not Applicable

2. Capital Structure

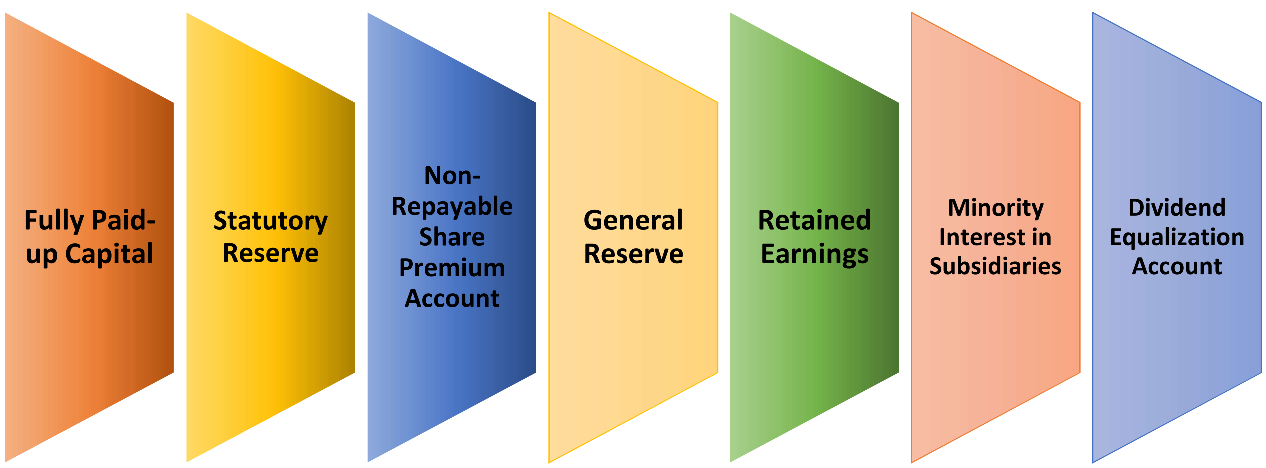
Qualitative Disclosures:

(a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1, or in Tier 2.

For the purpose of calculating capital under the capital adequacy framework, the capital of banks shall be classified into two tiers. The total regulatory capital will consist of the sum of the following categories:

I. Tier 1 Capital (going-concern capital): This form of capital can absorb losses without triggering the bankruptcy of the bank. Hence, it is the core measure of a bank's financial strength from the regulator's point of view. The components of Tier 1 Capital are given below:

Common Equity Tier 1 Capital: It is called 'Core Capital' and comprises the highest quality of capital elements consisting of:



Less: Regulatory adjustments applicable on CET1

Additional Tier 1:

- ☐ Non-cumulative irredeemable preference share
- ☐ Instruments issued by the banks that meet the qualifying criteria for AT1
- ☐ Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties as specified in Annex-4 of Basel III Guidelines (For Consolidated Reporting)

Less: Regulatory adjustments applicable on AT1

II. Tier-2 Capital: It is called 'gone-concern capital' and represents other elements that fall short of some of the characteristics of the core capital consisting of-

- General Provision
- Subordinate Debt
- Minority Interest i.e. Tier 2 issued by Consolidated subsidiaries to third parties

Less: Regulatory adjustments applicable on Tier-2 capital

Quantitative Disclosures:

(b) The amount of Regulatory capital of Shimanto Bank Limited under Basel-III during 2022 as below:

Sl. No.	Particulars	BDT in Million
(a)	**Common Equity Tier-1 Capital (CET-1)**	
a.1	Fully Paid-up Capital	4,380.00
a.2	Statutory Reserve	300.55
a.3	Retained Earnings	152.17
a.4	Sub-Total (a.1 to a.3)	**4,832.72**
(b)	**Less: Regulatory Adjustments**	
b.1	Deferred Tax Assets (DTA)	10.20
(c)	Total common equity Tier-1 capital (CET-1)	**4,822.51**
(d)	Additional Tier-1 Capital	**-**
(e)	Total Tier-1 Capital (c+d)	**4,822.51**
(f)	**Tier-2 Capital**	
f.1	General Provision	180.46
(h)	Total Admissible Tier -2 Capital	**180.46**
(i)	Total Eligible Regulatory Capital (e+h)	**5,002.97**

3. Capital Adequacy

Qualitative Disclosures:

(a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities:

Capital Calculation Approach:

The banking industry of Bangladesh transitioned to Basel III from Basel II in early 2015. In accordance with the Basel Committee on Banking Supervision (BCBS) recommendations and international best practices, Bangladesh Bank issued revised guidelines on Risk-Based Capital Adequacy based on Basel III with the goal of fully implementing it by the end of 2019. Shimanto Bank, as a result, implemented the Basel III framework as part of its capital management strategy. The bank applies the following approaches for its risk-wise capital calculation:

- Credit Risk: Standardized Approach (SA)
- Market Risk: Standardized Approach (SA)
- Operational Risk: Basic Indicator Approach (BIA)

Capital of the Bank:

In parallel to business growth, the bank effectively manages its capital to meet regulatory requirements considering the risk profile. Below are a few highlights:

- Currently Bangladesh Bank prescribed Minimum Capital Adequacy Ratio (MCR) including buffer is 12.50%, whereas as on December 2022; the CRAR of the bank was **42.56%.**
- During the same period Minimum Capital Requirement (MCR) of the bank was Tk. 4,000.00 million and the eligible capital was Tk. **5,002.97** million; i.e. the bank held TK. 1,002.97 million surplus capital.

Capital Management:

Capital adequacy calculation provides a bank with an indicative resolution for the capital requirement; however, capital management plays a crucial role in maintaining the overall capital at an adequate level. SMBL's capital management is underpinned by a sound capital assessment process, followed by a risk-based long-term capital planning approach.

- Encouraging borrowers to complete external credit rating to assess counterparty credit risk status, and minimize regulatory capital requirements;
- Improving and enhancing collateral coverage through efforts to obtain eligible collateral;
- Growth projection in line with RWA composition and capital planning trajectory;
- Assessing risk profile of new clients and onboarding clients with satisfactory external credit rating

SMBL's Risk Management Division (RMD) monitors CRAR status regularly and reports to the Senior Management and the Board from time to time.

(b) Quantitative Disclosures:

Sl. No.	Particulars	BDT in Million
(a)	Capital Requirement for Credit Risk	1,018.89
(b)	Capital Requirement for Market Risk	20.91
(c)	Capital Requirement for Operational Risk	135.65
(d)	Minimum Capital Requirement (MCR)	4,000.00
(e)	Total Eligible Regulatory Capital	**5,002.97**
(f)	Total Risk-Weighted Assets (RWA)	**11,754.57**
(g)	Capital to Risk-weighted Asset Ratio (CRAR)	**42.56%**
(h)	Capital Ratio	
h.1	Common Equity Tier 1 (CET 1) Ratio	41.03%
h.2	Tier 1 Capital Adequacy Ratio	41.03%
h.3	Tier 2 Capital Adequacy Ratio	1.54%
h.4	Capital Conservation Buffer (CCB) Maintained (Minimum Requirement of CCB is 2.50%)	32.56%
i.	Available Capital under Pillar 2 requirement	1,002.97

4. Credit Risk

Qualitative Disclosures:

(a) The general qualitative disclosure requirement with respect to credit risk:

Credit risk refers to the probability of loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Financial institutions face different types of credit risks—default risk (Unable to repay the loan obligation on time), concentration risk (heavy reliance on a particular sector or industry), country risk (probability of a foreign government defaulting on its financial obligation), downgrade risk (loss caused by falling credit ratings), and institutional risk (failure to comply on pre-determined rules, regulations, covenants or conditions). For most banks, default risk is the largest and most obvious source of credit risk. However, apart from the one stated above, there are other sources of credit risk both on and off-the balance sheet items. Off-balance sheet items include letters of credit, non-funded loan commitments etc.

Credit risk management is the process of mitigating those losses by identifying and assessing the risks associated with lending and at the same time understanding the adequacy of both a bank's capital and loan loss reserves to accommodate those risks.

Our credit risk management function has been kept independent from business origination functions to establish better internal control and reduce conflict of interest. The Bank has a well-structured delegation and sub-delegation of credit approval authority for ensuring better control in the credit approval system. The Board is the apex body for credit approvals at SMBL. The credit approval authority is delegated to the Managing Director, further sub-delegated to officials of CRM based on their credit skills, experience, and knowledge.

(i) Definitions of past due and impaired:

Bank classifies loans and advances (loans and bills discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. All the loans and advances are grouped into four categories for the purpose of classification, which are as followings:

- Any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date.
- Any Demand Loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date.
- In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue from the following day of the expiry date.
- The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date.

In this regard, all loans and advances/investments are grouped into four categories for the purpose of classification, as per BB circulars, namely:

- Continuous loan
- Demand loan
- Fixed term loan
- Short-term agricultural & micro-credit

All classified loans can be defined as below:

Types of Facility	Overdue Period for Loans Classification		
	Sub Standard	**Doubtful**	**Bad & Loss**
Continuous Loan & Demand Loan (Except CMSME)	3 months or more but less than 9 months	9 months or more but less than 12 months	12 months or more
Continuous Loan & Demand Loan (BRPD Circular no.16 under CMSME)	6 months or more but less than 18 months	18 months or more but less than 30 months	30 months or more
Fixed Term Loan (Except CMSME)	9 months or more but less than 15 months	15 months or more but less than 18 months	18 months or more
Fixed Term Loan (BRPD Circular no.16 under CMSME)	12 months or more but less than 24 months	24 months or more but less than 36 months	36 months or more
Short Term Agricultural & Micro Credit	12 months or more but less than 36 months	36 months or more but less than 60 months	60 months or more

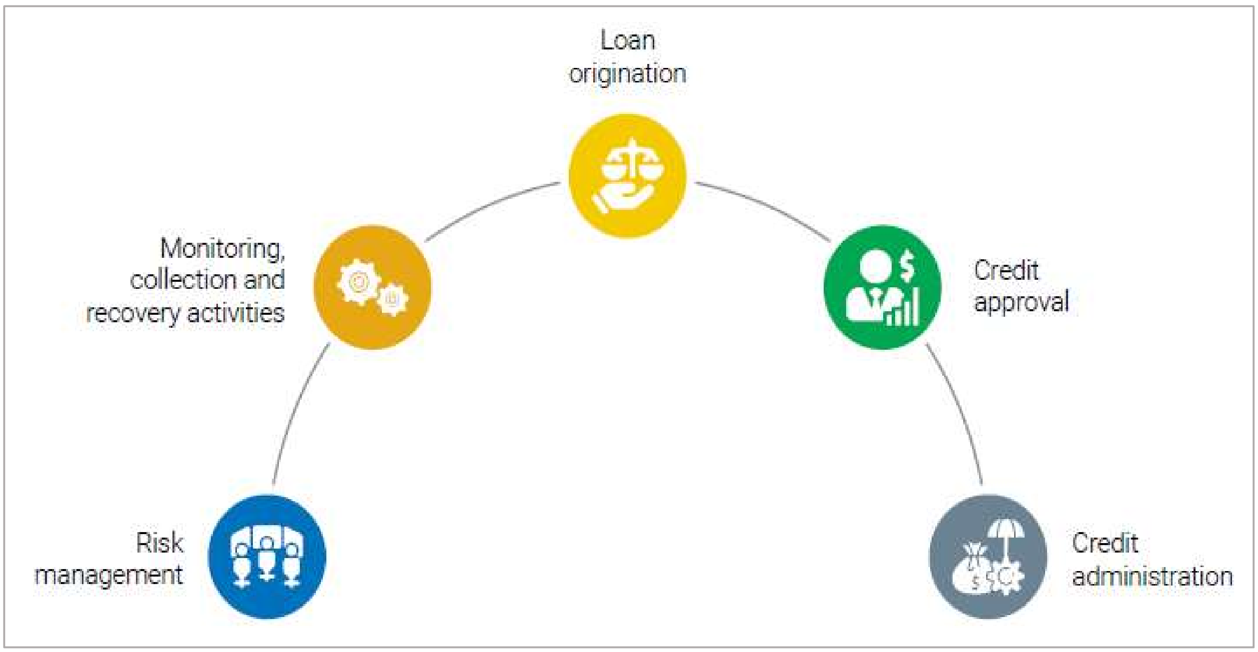
(ii) Description of approaches followed for specific and general allowances and statistical methods:

Particulars	**Rates of Provision**
General Provision on:	
Unclassified (including SMA) small and medium enterprise	0.25%
Unclassified (including SMA) Loans to BHs/MBs/SDs against shares etc.	2%
Unclassified (including SMA) loans for housing finance	1%
Unclassified consumer financing including credit card (other than housing finance)	2%
Unclassified (including SMA) other loans and advances	1%
Short term agri credit and micro credit	1%
Special General Provision: Covid-19	1-2%
Off-balance sheet exposures	1%
Specific provision on:	
Substandard loans other than short term agri credit, micro credit and CMSME	20%
Doubtful loans other than short term agri credit, micro credit and CMSME	50%
Substandard & doubtful loans short term agri credit and micro credit	5%
Substandard loans CMSME	5%
Doubtful loans CMSME	20%
Bad/Loss loans and advances	100%

(iii) Discussion of the Bank's Credit Risk Management Policy:

The bank's credit risk management policy is designed to promote the sustained growth of a healthy loan portfolio. It does this by establishing a well-defined system for identifying, measuring, monitoring, and controlling the various risks associated with the bank's credit portfolio. This includes reducing exposures to high-risk areas, focusing on promising industries and sectors, striking a balance between risk and return, and maximizing stakeholder value.

The policy also seeks to achieve prudent credit growth, both qualitatively and quantitatively, while adhering to prudential norms. This is done by deploying credit in a balanced manner across industries, sectors, and segments, while also increasing market share. The policy also aims to standardize and harmonize credit practices. The bank has a defined credit appraisal and approval authority, reporting and monitoring system, and loan review and credit audit system in place, as outlined in the board-approved credit risk management policy.



Moreover, credit risk appetite plays a vital role in devising the overall credit strategies of the bank. It sets out the perimeter for different credit aspects, which helps in shaping meticulous and wide-ranging credit-control mechanisms. SMBL underscores good governance, sound risk assessment, and timely approvals in our lending processes to accelerate quality credit operations. Thus, the bank's credit policy encompasses all operational issues of credit, right from the selection of borrowers to the ultimate recovery, overdue accounts, Special Mention Accounts (SMA), and classified loan accounts.

Quantitative Disclosures:

(b) Total Gross Credit Risk Exposure Broken down by Major Types of Credit Exposure:

Particulars	BDT in Million
Continuous loan (CL-2)	
Small & Medium Enterprise (SME)	227.78
Consumer Financing	270.25
Loans to BHs/MBs/SDs against Shares	-
Other than SMEF,CF,HF,LF,BHs/MBs,SDs	2,018.99
Sub-Total	**2,517.03**
Demand loan (CL-3)	
Small & Medium Enterprise	437.66
Consumer Financing	-
Loans to BHs/MBs/SDs	-
Other than SMEF,CF,HF,LF,BHs/MBs,SDs	3,544.80
Sub-Total	**3,982.46**
Term loan (CL-4)	
Small & Medium Enterprise (SME)	130.14
Consumer financing (other than HF & LP)	463.22
Housing Finance (HF)	230.50
Loans for professionals to set up business	-
Loans to BHs/MBs/SDs	-
Other than SMEF,CF,HF,LF,BHs/MBs,SDs	5,097.16
Sub-Total	**5,921.02**
Short term Agri-credit and microcredit (CL-5)	
Short term Agri-credit	77.64
Micro Credit	2.71
Sub-Total	**80.35**
Staff loan	30.99
Total	**12,531.85**

(c) Geographical Distribution, Broken down in Significant Areas by Major Types of Credit Exposures of SMBL:

Division	BDT in Million
Dhaka	10,654.72
Chattogram	1,092.01
Khulna	393.91
Sylhet	77.30
Rajshahi	-
Barisal	-
Rangpur	105.71
Mymensingh	208.20
Total	**12,531.85**

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

Industry Type	BDT in Million
Agriculture, Fishing, and Forestry	279.61
RMG	453.00
Textile	224.90
Food and allied industries	1,098.30
Pharmaceutical industries	489.00
Chemical, fertilizer, etc.	11.00
Cement and ceramic industries	-
Ship building industries	-
Ship breaking industries	-
Power and gas	505.30
Other manufacturing or extractive industries	1,075.40
Service industries	923.20
Other Industry	-
Trade & Commerce	731.91
Construction (commercial real estate, construction, and land development loans)	1,346.41
Transport	-
Consumer financing	3,986.81
Loans to financial institutions	1,154.21
Miscellaneous	252.81
Total	**12,531.85**

(e) Residual Contractual Maturity Breakdown of the Whole Portfolio, Broken down by Major Types of Credit Exposure of SMBL:

Particulars	BDT in Million
Repayable on demand	1,144.80
Not more than three months	-
More than three months but not more than one year	5,261.17
More than one year but not more than five years	4,473.66
More than five years	1,652.22
Total	**12,531.85**

(f) By major industry or counterparty type of SMBL:

Amount of impaired loans and if available, past due loans, provided separately:

Particulars	BDT in Million
Sub- Standard	36.04
Doubtful	38.39
Bad and Loss	78.22
Total	**152.65**

- **Specific and General provision (Maintained):**

Particulars	BDT in Million
Total General Provision	180.46
Total Specific Provision	76.68
Total Provision	**257.15**

(g) Gross Non-Performing Assets (NPAs) :

BDT in Million

Gross Non-Performing Assets (NPAs)	152.65
Non-Performing Assets (NPAs) to outstanding loans & advances	1.22%
Movement of Non-Performing Assets for NPAs	
Opening balance	120.16
Additions	74.39
Reductions	(41.89)
Closing Balance	152.65

Movements of specific provisions for NPAs	
Opening balance	84.37
Provision made during the period	146.66
Transferred to General Provision	(154.35)
Write-off	-
Write back of excess provisions	-
Closing Balance	76.68

5. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

(a) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons:

Investment in equity securities by SMBL is broadly categorized into two parts:

- **Quoted securities** include Common shares, Mutual funds listed with Stock Exchanges. These instruments are categorized as trading book assets. Investment in the trading book includes securities holding for capital gains, dividend income, and securities holding for strategic reasons.
- **Unquoted securities** are categorized as banking book equity exposures which are further subdivided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future i.e. held to maturity (HTM) and securities that are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Usually, these securities are held for trading (HFT) or investment for making capital gains.

(b) Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices:

The primary aim is to invest in these equity securities for the purpose of capital gain by selling them in the future or holding them for dividend income. Dividends received from these equity securities are accounted for as and when received. Both Quoted and Un-Quoted equity securities are valued at cost and necessary provisions are maintained if the prices fall below the cost price.

As per Bangladesh Bank guidelines, the HFT equity securities are revalued once a week using the marking to market concept and HTM equity securities are amortized once a year according to Bangladesh Bank Guideline. The HTM equity securities are also revalued if any, are reclassified to the HFT category with the approval of the Board of Directors. The quoted shares of the bank are valued at cost or market price, whichever is lower.

Quantitative Disclosures:

a. Total Unrealized gains/ losses:

<table>
<tr><th colspan="2">Particulars</th><th>BDT in Million</th></tr>
<tr><td rowspan="2">(i)Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value:</td><td>Cost Price</td><td>Nil</td></tr>
<tr><td>Market Price</td><td>Nil</td></tr>
<tr><td colspan="2">Difference</td><td>Nil</td></tr>
<tr><td colspan="2">(ii) Cumulative realized gains (losses) arising from sales and liquidations in the reporting period</td><td>Nil</td></tr>
<tr><td colspan="2">(iii) Total unrealized gains (losses)</td><td>Nil</td></tr>
</table>

6. Interest Rate Risk in the Banking Book (IRRBB)

Qualitative Disclosure:

(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 a bank's earnings and net asset values due to changes in market interest rates. It affects the underlying value of the bank's assets, liabilities, and off-balance sheet instruments because the present value of future cash flows (and in some cases, the cash flows themselves) changes when interest rates changes. Interest Rate Risk is the risk which affects the Bank’s financial condition due to change of market interest rates. Changes in interest rates affect both the current earnings (earnings perspective) and also the net worth of the Bank (economic value perspective). Bank assesses the interest rate risk both in earning and economic value perspective.

The process of interest rate risk management by the bank involves the determination of the business objectives, expectations about future macroeconomic variables, and understanding of the money markets and debt market in which it operates. Interest rate risk management also includes quantifying the appetite for market risk to which the bank is comfortable.

The Bank proactively manages the impact of IRRBB as a part of its ALM activities. ALM policy defines the different types of interest rate risks that are to be monitored, measured, and controlled. ALCO decides strategies for managing IRRBB at the desired level. ALM Committee periodically gives direction for the management of interest rate risk on the basis of its expectations of future interest rates. Based on the guidance, ALCO manages the IRRBB with the help of various tools i.e. gap analysis, earning at risk (EaR), duration of equity (DoE), and stress testing for basis risk.

Quantitative Disclosures:

(b)The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method of measuring IRRBB, broken down by currency.

Particulars	**BDT in Million**		
Cumulative Gap			
< 3 month	(4,002.20)		
< 6 months	(5,470.20)		
< 12 months	(6,448.80)		
Stress Testing	**Minor**	**Moderate**	**Major**
Regulatory capital (after shock)	4,671.50	4,341.80	3,682.40
RWA (after shock)	12,009.0	12,265.90	12,521.01
CRAR (after shock)	41.65%	40.77%	39.94%

7. Market Risk

Qualitative Disclosures:

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

Market risk is the risk of potential losses in the on-balance sheet and off-balance sheet positions of a bank and stems from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, equity prices, credit spreads, and/or commodity prices. Market risk exposure may be explicit in the bank's trading book and banking book. The objective of market risk management is to minimize the impact of losses on the bank's earnings and shareholders' equity.

The Board establishes trading and investment objectives, limits and other risk controls through different Board-approved policies, guidelines, and frameworks. The delegation chain for trading and investment activities originates from the Board, which further establishes control limits and responsibility centers for these activities. Furthermore, the Board regularly reviews trading and investment activities and issues necessary advisories and recommendations.

(b) Methods used to Measure Market risk:

Fundamentally, Shimanto Bank Limited applies the Standardized Approach for gauging market risk while calculating the minimum capital requirement. It is done under two separate approaches, i.e., capital charges for "specific risk," which is designed to protect against an adverse movement in the price of individual security, and capital charges on "general market risk," which is aimed at capturing the risk of loss arising from changes in market interest rates. Moreover, the Bank also uses gap analysis, and stress testing techniques to assume the impact of interest rate changes on earnings and capital base.

(c) Market Risk Management System:

To ensure holistic market risk management systems, the Bank diligently adheres to the risk management guidelines for Banks, FX guidelines, and other Bangladesh Bank directives. The Treasury Division of SMBL manages market risk covering, liquidity, interest rate, and foreign exchange risks, with oversight from Asset Liability Management Committee (ALCO), which comprises the Bank's senior management.

To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Of the ratios, the key ratios that ALCO regularly monitors are Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Maximum Cumulative Outflow (MCO), Liquid asset to total assets, Volatile liability dependency ratio, Snap liquidity ratio, and Short term borrowing to Liquid assets ratio.

To manage the foreign exchange risk of the bank, the bank has adopted the limit set by the central bank to monitor foreign exchange open positions. Foreign exchange risk is computed on the sum of net short positions or net long positions, whichever is higher.

(d) Policies and Processes for mitigating market risk:

To mitigate the several market risks the bank formed Asset Liability Management Committee (ALCO), the committee monitors the Treasury Division's activities to minimize the market risk. ALCO is primarily responsible for establishing the market risk management and asset-liability management of the Bank, procedures thereof, implementing core risk management framework issued by the regulator, best risk management practices followed globally, and ensuring that internal parameters, procedures, practices/policies, and risk management prudential limits have been set up and followed.

There are approved limits for Market risk-related instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against market risks.

Quantitative Disclosures:

The Capital requirements for specified risk are as follows:

BDT in Million

Particulars	Capital Requirement
Interest Rate Related instruments	10.43
Equities	2.84
Foreign Exchange Position	7.64
Commodities	-
Total	**20.91**

8. Operational Risk:

Qualitative Disclosures:

(a)Views of BOD on system to reduce Operational Risk:

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure, or external events. It is inherent in every business organization and covers a wide spectrum of issues. We seek to minimize exposure to operational risk, subject to cost-benefit trade-offs.

The policy for measuring and managing operational risks is approved by the Board in line with the relevant guidelines of Bangladesh Bank. the Audit Committee of the Board directly oversees the activities of the Internal Control and Compliance Division to protect against all operational risks. As a part of continued surveillance, the management committee (MANCOM), Executive Risk Management Committee (ERMC), and Risk Management Division (RMD) regularly review different aspects of operational risks and escalate the findings to appropriate authority while internal audit suggests formulating appropriate policies, tools & techniques for mitigation of operational risk of the bank.

(b) Performance Gap of Executive and Staff:

SMBL is an equal opportunity employer. It recognizes the importance of having the right people in the right positions to achieve organizational goals. Our recruitment and selection are governed by the philosophy of fairness, transparency, and diversity. Understanding what is working well and what requires further improvement is essential to our performance management system.

The performance management process aims to clarify what is expected from employees as well as how it is to be achieved. Our learning and development strategy puts special focus on continuous professional development to strengthen individuals' skill sets by removing weaknesses to perform the assigned job with perfection. We have a wide range of internal and external training programs to enhance capabilities as well as minimize performance gaps that will contribute more to the bottom line.

Employee’s performance is assessed on the bases of performance objectives and key performance indicators (KPI) set at the beginning of each year. Decisions related to rewards and recognition for the employees are taken on the bases of how well the assigned KPIs are met by the employee. Shimanto Bank wants its’ employees to balance their work and personal life and has organization-wide practices and policies that actively support employees to achieve success at both work and home. Management is also open and shows flexibility in regard to a balanced work-life.

(c) Potential external events:

The impact of external adverse events is a part of systemic risk. Shimanto Bank remains vigilant about its role against every event irrespective of its frequency of occurrence. The bank adopts a different strategy to mitigate the negative effect of systematic risk within tolerable limit. It has developed different policies and processes to diversify risk, also train and aware employees about money laundering, cybercrime, emergency situation, fraud, forgery, etc. which are contributing to managing operational risk.

(c) Policies and processes for mitigating operational risk:

Shimanto Bank has risk governance structure, which includes the risk management committee at the Board level; the Executive risk management committee at the senior management level, which ensures inclusive risk management culture. The Bank has board-approved internal control & compliance policies to ensure effective processes and adequate systems are in place for operational risk management.

Operational Risk is the risk of financial losses related to breakdown in internal control and corporate governance. Such breakdown can be the result of human errors, inadequate or failed internal process and technical system, fraud or any other adverse external event. The Bank has adopted policies to deal with different operational risks. The Internal Control and Compliance Division of the Bank, the inspection teams of Bangladesh Bank, and external auditors had conducted inspections in different branches and divisions at the Head office throughout the year and prepared the reports according to the findings of those inspections. Considering the suggestions and observations of those reports management took essential control measures and corrective actions.

SMBL strongly follows the KYC norms for its customer dealings and other banking operations. Banks Anti- Money laundering activities are headed by CAMLCO and their activities are devoted to protecting against all money laundering and terrorist finance related activities. 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.

(e) Approach for Calculating Capital Charges for Operational Risk:

Shimanto Bank has adopted Basic Indicator Approach (BIA) to assess the capital charge for operational risk as of the reporting date. Accordingly, the bank's operational risk capital charge has been assessed at 15% of positive annual average gross income over the previous three years as defined in the guideline of Risk-Based Capital Adequacy (RBCA).

Quantitative Disclosures:

The capital requirements for operational risk:

Particulars	BDT in Million
Minimum Capital Requirement for Operation Risk	**135.65**

9. Liquidity Ratio

Qualitative Disclosures:

Liquidity risk is the risk to the bank's earnings and capital arising from its inability to timely meet obligations when they come due without incurring unacceptable losses. Liquidity risk primarily arises due to the maturity mismatch associated with the assets and liabilities of the bank. The intensity and sophistication of the liquidity risk management system depend on the nature, size, and complexity of a bank's activities. Sound methods in measuring, monitoring, and controlling liquidity risk are critical to the sustainability of the bank. Therefore, the Board of Directors of the bank sets policy, different liquidity ratio limits, and risk appetite for liquidity risk management.

Thus, liquidity risk can be of two types:

- **Funding liquidity risk:** the risk that a firm will be unable to fulfill its current and future cash flow and collateral needs without affecting its daily operations or its financial condition
- **Market liquidity risk:** the risk that a firm cannot easily offset or sell a position without incurring a loss because of inadequate depth in the market.

(a) Views of Board of Directors on system to reduce Liquidity Risk:

The Board reviews and approves the Assets Liability Management Policies and ensures that senior management manages liquidity risk effectively in the context of the Bank's business plan, long-term funding plan, and economic and financial position. The Asset and Liability Management Committee is responsible for both statutory and prudential liquidity management. Ongoing liquidity management is discussed as a regular agenda of the ALCO meeting, which takes place on a monthly basis. At the ALCO meeting, the bank's liquidity position, limit utilization, changes in exposure, and liquidity policy compliance are presented to the committee. Asset Liability Management Desk closely monitors and controls liquidity requirements on a daily basis.

(b) Methods used to measure Liquidity risk:

SMBL follows Bangladesh Bank's Risk-Based Capital Adequacy guideline in line with Basel III for proper assessment and management of liquidity risk of the bank. The tools and procedures deployed by SMBL to manage liquidity risk are comprehensive. The measurement tools used to assess liquidity risks are:

I. Regulatory Liquidity Indicators (RLIs):

II. Bank's own liquidity monitoring tools:

- Wholesale Borrowing and Funding Guidelines
- Liquidity Contingency Plan
- Undrawn Commitment Limit

(c) Liquidity Risk Management System:

The Asset Liability Management Committee (ALCO) of SMBL sets the direction for the Bank's liquidity management. ALCO meets at least once every month and more as and when required. ALM desk of the Treasury Division closely monitors and controls liquidity requirements on regular basis by proper coordination of funding activities. It also monitors market developments, understanding their implications for the Bank's liquidity risk exposure, and recommends appropriate risk management measures to ALCO. Another strategy of liquidity risk management is to develop a diversified funding base. It aims to align sources of funding with their use.

(d) Policies and processes for mitigating liquidity risk:

At Shimanto Bank Limited, Asset-Liability Management Committee (ALCO) has responsibility for monitoring liquidity measures and limits. ALCO reviews the policy at least annually or as and when required by taking into consideration any changes in the market dynamics and appropriateness and put a recommendation for changes in policy to the Board for approval. Board Risk Management Committee set policies and processes to mitigate all risks including Liquidity risk.

Quantitative Disclosures:

Liquidity Coverage Ratio (%)	232.24%
Net Stable Funding Ratio (%)	136.77%
Stock of High quality liquid assets	3,058.72 (Million)
Total net cash outflows over the next 30 calendar days	1,317.05 (Million)
Available amount of stable funding	21,191.63 (Million)
Required amount of stable funding	15,493.98 (Million)

10. Leverage Ratio

Qualitative Disclosures:

(a) Views of BOD on system to reduce excessive leverage:

Leverage ratio is the ratio of Tier 1 capital to total on and off-balance sheet exposures. Leverage ratio was introduced in Basel III with an aim to avoid building-up excessive on- and off-balance sheet leverage in the banking system.

The leverage ratio is intended to achieve the following objectives:

- Constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy

- Reinforce the risk-based requirements with an easy-to-understand and a non-risk-based measure

SMBL adopted the leverage ratio in line with Basel III guidelines as a credible supplementary measure to the risk-based capital requirements.

(b) Policies and processes for managing excessive on and off-balance sheet leverage:

SMBL follows Bangladesh Bank's Risk-Based Capital Adequacy guideline in line with Basel III. There are approved limits for instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against such risks.
Revised guideline of RBCA based on Basel III as provided by BRPD of Bangladesh Bank is followed by the bank while managing excessive on- and off-balance sheet leverage of the bank. As per RBCA, the leverage ratio shall be Tier I capital divided by total exposure after related deductions.

(c) Approach for calculating exposure:

Calculation of Leverage Ratio:

For the year 2022, a minimum Tier 1 leverage ratio of 3% is being prescribed both at the solo and consolidated level. The central bank has directed all banks to get prepared to increase the leverage ratio by 0.25 percent annually from 2023 in line with Basel-III. The banks will be required to preserve 4.0 percent leverage ratio in 2026 from the existing 3.0 percent.

$$\textbf{Leverage Ratio} = \frac{\textbf{Tier 1 Capital (after related deductions)}}{\textbf{Total Exposure (after related deductions)}}$$

Quantitative Disclosures:

Particulars	**BDT in Million**
Leverage Ratio (%)	21.17%
On balance sheet exposure	22,468.62
Off-balance sheet exposure	325.70
Total exposure	22,784.12

11. Remuneration

Qualitative Disclosures:

(a) Information relating to the bodies that oversee remuneration:

SMBL aims to attract, retain, and motivate the best people who are committed to maintaining a career with the bank, and who will perform their roles in the long-term interests of the bank. A vigorous and effective governance framework ensures that the bank operates within the clear parameters of its compensation strategy. SMBL has a comprehensive pay scale indifferent to all its subsidiaries, regions, and business lines. All compensation matters are overseen by SMBL Human Resources Division in consultation with the Managing Director & CEO, and Human Resources Committee. The remuneration and compensation is a process-driven system aligned with a structured pay scale and with proportionate growth by evaluating and anchoring the market conditions and through the adjustment of the cost of living. The remuneration and its process are finally approved by the Board of Directors.

(b) Information relating to the design and structure of remuneration processes: Objective of Bank's Compensation policy is:

- To ensure a fair reward management system for the employees in line with the Bank's core values and strategic business goals
- To provide a competitive pay package compared to the best practices in the industry
- To ensure effective governance of compensation

The structure of remuneration packages for employees of the Bank consists of the following components:

- Fixed Remuneration;
- Variable Pay &
- Employee Benefits

The fixed remuneration is made up of base remuneration including salary and other fixed allowances paid in cash. Fixed remuneration differs from grade to grade and generally changes with promotion/demotion to the higher/lower grades and increments.

Variable pay consists of incentive bonuses paid on the basis of individual performance subject to the annual profit of the Bank. Therefore, individual performance is measured and reviewed against set goals, which include financial and non-financial metrics.

Gratuity Fund and Provident Fund are maintained by the Bank for employees as a future/long-term benefit. Such remunerations differ based on the grade, basic pay, and length of service of an employee.

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

In the competitive financial sector of Bangladesh, the remuneration system is largely driven by market forces. Due to the intense competition in a crowded market with a large number of participants, compensation packages are restructured more frequently than in other industries. However, such changes can sometimes lead to market distortions, excessive profit motives, and disparities in work-life balance. Nonetheless, Shimanto Bank always strives to design remuneration strategies that reward competitive employees with the compensation packages they truly deserve. Additionally, SMBL is committed to maintaining internal equity and fair treatment in its compensation system throughout the organization.

Ways in which measures affect remuneration:

- Commensuration to individual's performance, desired role in the organization, quality of past experience, quality of training received, and technical competency.
- Fair and Equal for different positions in the bank
- In line with the market dynamics and practices

(d) Description of the ways in which the bank seeks to link performance:

Employees' performance is appraised biannually in line with the achieved objectives, which have a positive and direct impact on their pay package. Incentive Bonus is directly linked with the employees' individual rating during their performance evaluation process. These ratings are also key parameters for employees to be considered for promotion.

(e) Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance:

The Bank's remuneration system is designed to reward long-term as well as short-term performance, encourage retention and recognize special performance in the organization. Shimanto Bank believes that individual and team effort and performance should be regularly appreciated and recognized to keep our employees motivated therefore they will give their best efforts. And, more importantly, by recognizing such performance, we reinforce, with our chosen means of recognition, the actions and behaviors, we want Shimanto Bank employees to embrace and repeat the most.

(f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using those different forms:

Shimanto Bank recognizes the efforts and performance of its employees based on its Compensation and Benefit Policy, which consist of a base salary and different benefits packages. However, there is also a Reward & Recognition system that recognizes exemplary contributions to business achievements and those that inspire and set high-quality services and standards.

Quantitative Disclosure:

(g) Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its member:

The committee held 03 (three) meetings during the financial year. No fees are paid to the remuneration committee member or for attending such meetings.

(h) Number of employees who have received a variable remuneration award during the financial year: NA

Number and the total amount of guaranteed bonuses awarded during the financial year:

- **Festival bonuses:** On average **260** no. employees received **3** festival bonuses amounted BDT **18.66** Million

(i) Total amount of outstanding deferred remuneration, split into cash, shares and share-lined instruments, and other forms:

Nil

The total amount of deferred remuneration paid out in the financial year:

Nil

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

Particulars	BDT in Million
Basic Salary	150.44
Allowances	79.23
Festival Bonus	18.66
Gratuity	17.37
Provident Fund Contribution	9.85
Performance Bonus	12.24
Total	**287.80**