DISCLOSURES ON RISK BASED CAPITAL (BASEL III)

For The Year 2021

Shimanto Bank Limited

The public disclosure of prudential information is an important component of the Basel Committee on Banking Supervision's framework of capital measurement and capital adequacy, known as Basel III. The Bank must set out the public disclosure upon its capital requirements, level of risks, and risk management system to facilitate and enhance greater insight information for the outsiders and market participants to assess and analyze all risks and capital adequacy of the Bank. This disclosure shall be deemed as the essential market mechanism in escorting the Bank to achieve an effective risks management system beyond simply the internal control of the Bank and the supervision of Bangladesh Bank.

In line with the Bangladesh Bank BRPD Circular no. 35 of December 29, 2010 as to Guidelines on 'Risk-Based Capital Adequacy for Banks' and subsequent BRPD Circular 18, dated December 21, 2014 on 'Guidelines on Risk-Based Capital Adequacy', following detailed qualitative and quantitative disclosures are provided in accordance with the central bank directions covering the scope of capital adequacy framework, capital of the bank, risk exposure and assessment methodology, risk mitigation strategies and capital adequacy of the bank.

To cope with the international best practices and to make the bank's capital shock absorbent 'Guidelines on Risk-Based Capital Adequacy (RBCA) for banks' (Revised Regulatory Capital Framework in line with Basel II) was introduced from January 01, 2009 as a parallel run with BRPD Circular No. 10, dated November 25, 2002 (Basel I). At the end of parallel run, Basel II regime started from January 01, 2010 and the guidelines on RBCA came fully into force with its subsequent supplements/revisions. After that Bangladesh Bank issued 'Guidelines on Risk-Based Capital Adequacy (RBCA) for banks' (Revised Regulatory Capital Framework in line with Basel III) vide its BRPD Circular 18 dated December 21, 2014 that Basel III reporting started from January 2015 and full implementation started from January 2020. Instructions regarding Minimum Capital Requirement (MCR), Adequate Capital, and Disclosure requirements as stated in the guidelines had to be followed by all scheduled banks for the purpose of statutory compliance.

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

Pillar 1 (Minimum Capital Requirement): covers the calculation of RWAs for credit risk, market risk, and operational risk.

Pillar 2 (Supervisory Review Process): covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations. Bank's own internal models and assessments support this process.

Pillar 3 (Market Discipline): covers external communication of risk and capital information by banks as specified in the Basel rules to promote transparency and good risk management. Market discipline comprises a set of disclosures on the Capital Adequacy and Risk Management Framework of the Bank. Pillar 3 disclosures as per BB circular on Basel-III Capital Regulations are set out in the following sections for information.

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, 2021. 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.

At present, the Bank is operating its business activities through Head Office with Nineteen 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 , and Godkhali branch) and Two Sub Branches (Ramu Sub Branch, & Pabla Sub Branch)

(c) Any restrictions, or other major impediments, on 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

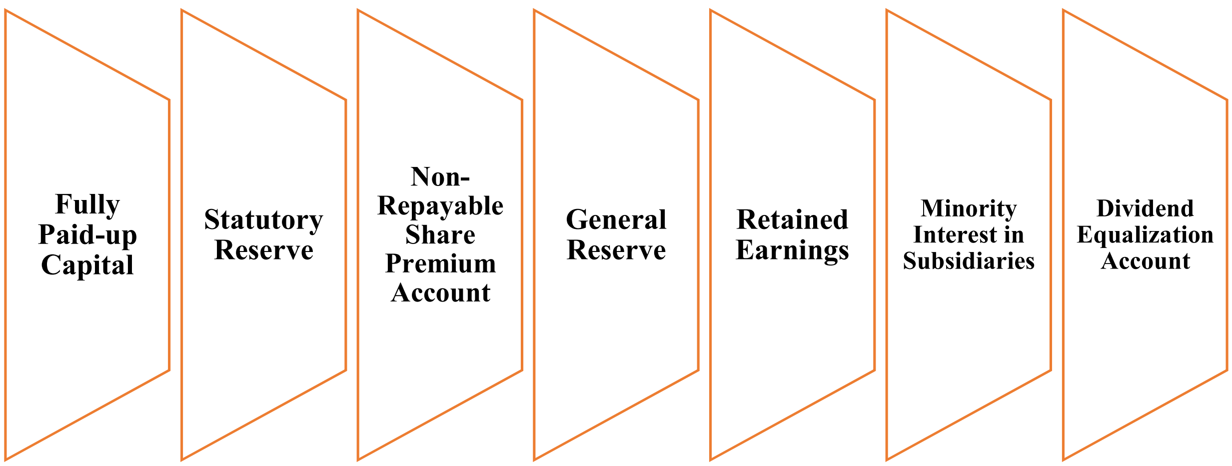
Qualitative Disclosures:

(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 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:



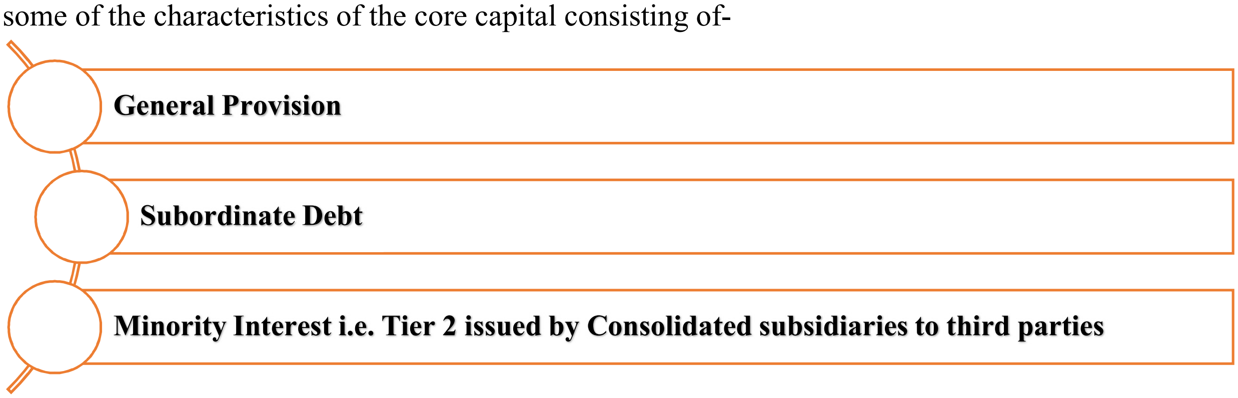
Less: Regulatory adjustments applicable on CET1

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-



Less: Regulatory adjustments applicable on Tier-2 capital

Capital Requirement Rules as per RBCA Guidelines of Bangladesh Bank for the year 2021:

- Common Equity Tier 1 of at least 4.5% of the total RWA
- Tier-1 capital will be at least 6.0% of the total RWA
- Minimum CRAR of 10% of the total RWA
- Additional Tier I capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher **
- Tier II capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET 1, whichever is higher
- In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.50% of the total RWA is being introduced which is maintained in the form of CET 1

** Footnote 9: For the purpose of calculating Tier 1 capital and CRAR, the excess Additional Tier 1 capital and Tier-2 capital can only be recognized if the bank has CET1 ratio in excess of the minimum requirement of 7.0% (i.e. 4.5% plus capital conservation buffer of 2.5%). Further, any excess Additional Tier 1 and Tier 2 capital will be recognized in the same proportion as stipulated above i.e. the recognition of excess Additional Tier 1 (above 1.5%) is limited to the extent of 33.3% (1.5/4.5) of the CET1 in excess of 7.0% requirement. Similarly, the excess Tier 2 capital (above 4.0%) shall be recognized to the extent of 88.89% (4.0/4.5) of the CET1 in excess of 7.0% requirement.

Quantitative Disclosures:

(b) The amount of Regulatory capital of Shimanto Bank Limited under Basel-III during 2021 as below:

Particulars	**BDT in Million**
Fully Paid-up Capital	4,284.80
Statutory Reserve	225.75
Retained Earnings	97.31
a. Total Common Equity Tier-1 Capital	**4,607.86**
b. Additional Tier-1 Capital	**-**
c. Total Tier-1 Capital (a+b)	**4,607.86**
General Provision	130.58
Others	6.96
d. Total Available Tier -2 Capital	**137.54**
Total Regulatory Capital (c+d)	**4,745.40**

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:

With regard to regulatory capital computation approaches (Minimum Capital Requirement), the bank is following the prescribed approach of Bangladesh Bank. Below are risk wise capital computation approaches that the bank is currently applying:

- 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 2021 the CRAR of the bank was 47.27%.
- During the same period Minimum Capital Requirement (MCR) of the bank was Tk. 4,000.00 million and the eligible capital was Tk. 4,745.40 million; i.e. the bank held TK. 745.40 million surplus capital.

Capital Management:

Capital adequacy calculation gives the bank an indicative resolution for the capital requirement; capital management, on the other hand, plays a vital role in maintaining the overall capital at an adequate level. SMBL'S capital management is underscored by a sound capital assessment process, followed by a risk-based long-term capital planning approach. Some of the mentionable initiatives to ensure adequate capital for the bank are as follows:

- 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

Risk Management Division (RMD) under the guidance of the Executive Risk Management Committee (ERMC) & the Board Risk Management Committee (BRMC) is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed.

Quantitative Disclosures:

Particulars	**BDT in Million**
Capital requirement for Credit Risk	881.87
Capital requirement for Market Risk	-
Capital requirement for Operational Risk	122.11
Minimum Capital Requirement (MCR) @ 10%	4,000.00
Total Regulatory Capital	4,745.40
Total Risk-Weighted Assets (RWA)	10,039.80
Capital to Risk-weighted Asset Ratio (CRAR)	47.27%
I. Common Equity Tier 1 (CET 1) Ratio	45.90%
II. Tier 1 Capital Adequacy Ratio	45.90%
III. Tier 2 Capital Adequacy Ratio	1.37%
Requirement for Capital Conservation Buffer (CCB)	2.50%
Capital Conservation Buffer (CCB) Maintained	37.27%

4. Credit Risk

Qualitative Disclosures:

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

Credit risk is defined as the probability of failure of the counter-party to meet its obligation as per agreed terms. Banks are very much prone to credit risk due to their core activities i.e. lending to Corporate, Consumer, SME, and other banks/FI. The main objective of credit risk management is to minimize the negative impact through adopting proper mitigates and also limiting credit risk exposures within acceptable limits.

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.

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)	3 months or more but less than 9 months	9 months or more but less than 12 months	12 months or more
Fixed Term 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
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

* Any Continuous Loan, Demand Loan, Fixed Term Loan under Cottage, Micro and Small Credits under CMSME will be classified according to BRPD Circular No. 16, July 21, 2020. Cottage, Micro and Small credits have been defined in SMESPD Circular No. 02 dated 05 September 2019 under Master Circular on Cottage, Micro, Small and Medium Enterprise (CMSME) Financing.

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

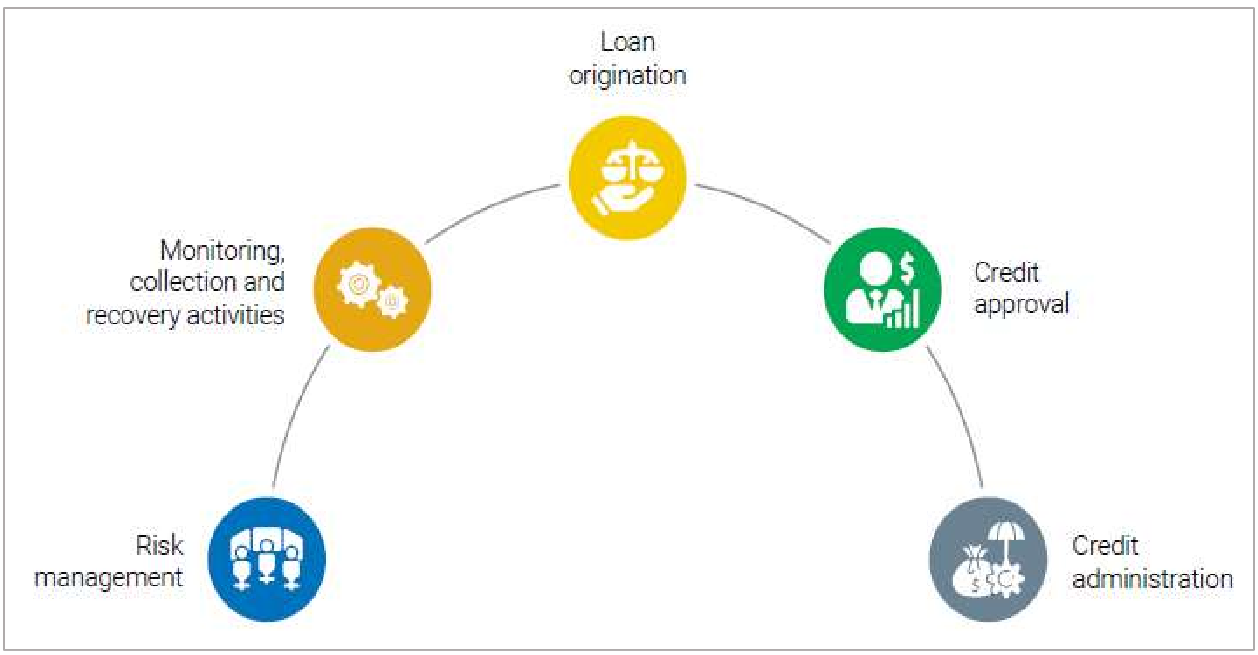
Particulars	Rates of Provision
General Provision on:	
Unclassified (including SMA) small and medium enterprise	0.25%
Unclassified (including SMA) Loans to BHs/MBs/SDs against shares etc.	2%
Unclassified (including SMA) loans for housing finance	1%
Unclassified consumer financing including credit card (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 credit risk management policy of the bank aims at a sustained growth of a healthy loan portfolio. It articulates while evolving a well-defined system to identify measure, monitor, and control various risks attached to the credit portfolio of the Bank. This entails reducing exposures in high risk areas, concentrating more on the promising industries/sectors/segments, striking a balance between risk and return on assets, and ensuring optimization of the stakeholder's value.

The policy also seeks to achieve prudent credit growth –both qualitative and quantitative- while adhering to the prudential norms with the balanced sectoral deployment of credit to control credit concentration across Industries, sectors, segments and at the same time increase the market share. The policy also aims at consistency and standardization of credit practices. There is a defined credit appraisal & credit approval authority, reporting cum monitoring/follow-up system, and loan review mechanism/ credit audit system in place at the Bank as spelled out 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)	
Consumer Finance	105.10
Small & Medium Enterprise (SME)	161.60
Loans to BHs/MBs/SDs against Shares	-
Other than SMEF,CF,HF,LF,BHs/MBs,SDs	1,798.89
Sub-Total	**2,065.59**
Demand loan (CL-3)	
Small & Medium Enterprise	294.63
Consumer Finance	-
Other than SMEF,CF,HF,LF,BHs/MBs,SDs	1,701.02
Sub-Total	**1,995.65**
Term loan (CL-4)	
Consumer Finance (including staff, other than HF)	231.77
Housing Finance (HF)	204.25
Small & Medium Enterprise (SME)	113.16
Other than SMEF,CF,HF,LF,BHs/MBs,SDs	5,384.25
Sub-Total	**5,933.43**
Short term Agri-credit and microcredit (CL-5)	
Short term Agri-credit	31.13
Micro Credit	3.30
Sub-Total	**34.43**
Staff loan	**18.29**
Total	**10,047.40**

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

Division	BDT in Million
Dhaka	7,920.84
Chattogram	1,328.50
Khulna	385.57
Sylhet	92.48
Rajshahi	-
Barisal	-
Rangpur	112.97
Mymensingh	207.04
Total	**10,047.40**

(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	31.10
RMG	200.10
Textile	510.40
Food and allied industries	967.10
Pharmaceutical industries	441.20
Chemical, fertilizer, etc.	-
Cement and ceramic industries	-
Ship building industries	-
Ship breaking industries	-
Power and gas	525.90
Other manufacturing or extractive industries	737.30
Service industries	1,056.40
Other Industry	-
Trade & Commerce	183.90
Construction (commercial real estate, construction, and land development loans)	789.80
Transport	-
Consumer financing	4,358.80
Loans to financial institutions	242.00
Miscellaneous	3.34
Total	**10,047.40**

(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	2,030.08
Not more than three months	-
More than three months but not more than one year	1,077.92
More than one year but not more than five years	2,256.24
More than five years	4,683.15
Total	**10,047.40**

(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	35.01
Doubtful	4.80
Bad and Loss	80.35
Total	**120.16**

- **Specific and general provision (Required):**

Particulars	BDT in Million
Total General Provision	98.17
Total Specific Provision	83.92

(g) Gross Non-Performing Assets (NPAs)

BDT in Million

Gross Non-Performing Assets (NPAs)	120.16
Non-Performing Assets (NPAs) to outstanding loans & advances	1.20%
Movement of Non-Performing Assets for NPAs	
Opening balance	5.91
Additions	116.55
Reductions	2.31
Closing Balance	120.16
Movements of specific provisions for NPAs	
Opening balance	2.54
Provision made during the period	86.97
Transferred to General Provision	(5.14)
Write-off	-
Write back of excess provisions	-
Closing Balance	84.37

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 risk that affects the Bank's financial condition due to changes in market interest rates. Changes in interest rates affect both the current earnings (earnings perspective) as also the net worth of the Bank (economic value perspective). Bank assesses the interest rate risk both in earning and economic value perspective.

- **Earnings perspective:** Indicates the impact on Bank's Net Interest Income (NII) in the short term.
- **Economic perspective:** Indicates the impact on the net- worth of the bank due to re-pricing of assets, liabilities, and off-balance sheet items.

The process of interest rate risk management by the bank involves the determination of the business objectives, expectations about future macro-economic 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	(1,762.0)		
< 6 months	(2,953.20)		
< 12 months	(3,022.20)		
Stress Testing	**Minor**	**Moderate**	**Major**
Regulatory capital (after shock)	4,715.20	4,685.0	4,654.70
RWA (after shock)	10,298.40	10,555.30	10,810.40
CRAR (after shock)	46.08%	44.96%	43.90%

7. Market Risk

Qualitative Disclosures:

The Bank has set up a vigorous Market Risk management process which sets out the broad guidelines for managing Market Risk that the Bank is exposed. Management of market risk encompasses risk identification, measurement, setting up of limits and triggers, monitoring, control, reporting, and taking corrective actions, where warranted.

The Market Risk management process at the Bank ensures that the Treasury dealings in the product that are exposed to market risk are within the risk appetite of the Bank. Treasury's trading activity represents dealings that include the management of interest rate, foreign exchange (FX), and credit spread risk associated with wholesale funding, liquid asset portfolios, and hedging of foreign currency earnings and capital deployed offshore.

(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 stem from adverse movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads, or commodity prices. The BOD of the Bank ensures that the Bank has an adequate market risk management process that takes into account risk appetite, risk profile, market, and macroeconomic conditions. The BOD also approves prudent policies and processes to identify, measure, evaluate, monitor, and report market risks on a timely basis. Furthermore, the Board regularly reviews trading and investment activities and makes necessary advice 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	**0.00**
Equities	**0.00**
Foreign Exchange Position	**0.00**
Commodities	**0.00**
Total	**0.00**

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.

(d) 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	**122.11**

9. Liquidity Ratio

Qualitative Disclosures:

Liquidity Risk is the risk of a bank's inability to repay its obligations as they fall due or incurring excessive costs while mobilizing fund due to scarcity of cash fund at a certain period of time. The risk arises from the mismatch in the expected level of cash flows from maturing assets and liabilities. 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.

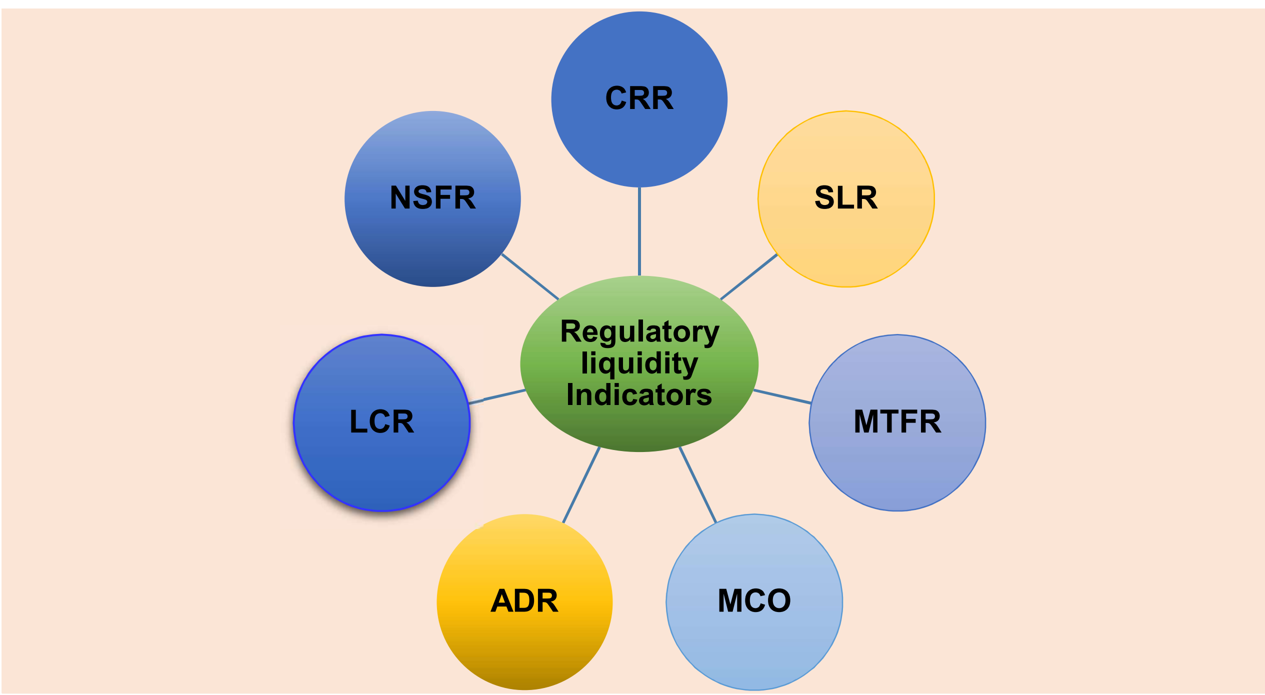
(a) Views of Board of Directors on system to reduce Liquidity Risk:

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:

BDT in Million

Liquidity Coverage Ratio (%)	236.16%
Net Stable Funding Ratio (%)	141.33%
Stock of High quality liquid assets	2,928.57
Total net cash outflows over the next 30 calendar days	1,420.50
Available amount of stable funding	17,429.24
Required amount of stable funding	12,332.20

10. Leverage Ratio

Qualitative Disclosures:

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

An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk-based leverage ratio has been introduced by Bangladesh Bank. The leverage ratio is calibrated to act as a credible supplementary measure to the risk-based capital requirements.

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

The policy for Leverage Ratio includes on and off-balance sheet exposure and capital-related policy. Boards of Directors of SMBL are continuously monitoring the exposure limit of lending, and capital strength of the Bank in order to avoid building-up excessive on- and off-balance sheet leverage.

(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.

(c) Approach for calculating exposure:

Calculation of Leverage Ratio:

For the year 2021, 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 (%)	24.23%
On balance sheet exposure	18,743.90
Off-balance sheet exposure	272.77
Total exposure	19,016.67

11. Remuneration

Shimanto Bank Limited is committed to ensuring remuneration practices that enable the Bank to attract, develop and retain top talents. The remuneration system combines the need to maintain a high performance culture along with market competitiveness. The following remuneration disclosures have been prepared in accordance with **'Guidelines on Risk-Based Capital Adequacy (RBCA) for banks'** provided by Bangladesh Bank.

Qualitative Disclosures:

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

The Human Resources Committee provides assistance to the Board of Directors to approve the policies regarding remuneration. The Committee consists of the following members as on Dec 31, 2021:

- Mr. Rafiqul Islam, DMD, Chairman
- Mr. Mohammad Azizul Hoque, Head of Operations & CRO
- Mr. Arman Hossain, Head of Cards & ADC
- Mr. Masud Hasan, Senior Manager, HRD
- Mr. Mohammad Mostafa Hossain Suman, Company Secretary

The committee assists the Board of Directors to ensure that, all employees are remunerated fairly and get performance-based compensation by ensuring effective remuneration policy, procedures, and practices aligned with the Bank's strategy and applied consistently to all employee levels.

(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 the 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:

The banking sector of Bangladesh is very competitive, remuneration system is basically driven by market dynamics. Due to huge competition in a crowded market with a substantial number of participants, restructuring compensation packages is more frequent than any other industries. Shimanto Bank always strives to ensure internal equity and fair treatment in its remuneration system to be competitive in such an industry. It takes into account the following key risks when managing and determining remuneration processes:

- Financial Risks
- Compliance Risks

Moreover, the bank manages key risks through its strategic and business unit plans, risk management framework, policies, and procedures.

(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 base salary and different benefit 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 have received a variable remuneration award during the financial year: NA

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

- **Festival bonuses:** On an average **198** no. employees received **3** festival bonuses amounted BDT **14,166,041.00**

Number and total amount of sign-on award made during the financial year:

Nil

Number and total amount of severance payments made during the financial year:

Nil

(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	77.22
Allowances	102.89
Festival Bonus	14.17
Gratuity	17.80
Provident Fund Contribution	7.53
Performance Bonus	10.00
Total	**229.60**

(k) Quantitative Information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. clawbacks or similar reversals or downward revaluation of awards) of deferred remuneration and retained remuneration:

Total amount of outstanding deferred remuneration and retained remuneration exposed to ex-post explicit and/or implicit adjustments:

Nil

Total amount of reductions during the financial year due to ex-post explicit adjustments:

Nil

Total amount of reduction during the financial year due to ex-post implicit adjustments:

Nil