Standard Chartered Bank
Bangladesh Branches

Disclosures on Risk Based Capital under Pillar – III of Basel III

The following detailed qualitative and quantitative disclosures are provided in accordance with Guidelines on Risk Based Capital Adequacy by Bangladesh Bank. The purpose of these requirements is to complement minimum capital requirement and Supervisory review process. These disclosures are intended for more transparent and more disciplined financial market where the participants can assess key information about the Bank's exposure to various risks.

The bank has an approved disclosure policy to observe the disclosure requirement set out by the Bangladesh Bank and International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as adopted by the Institution of Chartered Accountants of Bangladesh (ICAB) into Bangladesh Financial Reporting Standards (BFRS) and Bangladesh Accounting Standards (BAS) where relevant to the bank.

Guidelines on Risk Based Capital Adequacy are structured around the following three aspects or pillars of Basel III:

- Minimum capital requirements to be maintained by a bank against credit, market and operational risk;
- Supervisory Review i.e. Process for assessing overall capital adequacy in relation to a bank's risk profile and a strategy for maintaining its capital at an adequate level;
- Market Discipline i.e. to make public disclosure of information on the bank's risk profiles, capital adequacy and risk management.

Disclosure Framework

The disclosure requirements are as per the Guidelines on Risk Based Capital Adequacy (RBCA) for Banks.

A. Scope of Application

Qualitative Disclosures:

Bank has no subsidiaries and Basel III is applied at the Bank level only.

B. Capital Structure

Qualitative Disclosures:

Standard Chartered Bank Bangladesh's capital structure consists of Tier I and Tier II capital which is aligned with regulatory capital structure. Tier I capital is further categorized as Common Equity Tier 1 (CET1) and Additional Tier 1 capital. The computation of the amount of Common Equity Tier I, Additional Tier I and Tier II capital shall be subject to the following conditions:

- The Bank has to maintain at least 4.50% of total Risk Weighted Assets (RWA) as Common Equity Tier I capital.
- Tier I capital will be at least 5.50% of the total RWA.
- Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10% of the total RWA.
- Additional Tier I capital can be maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher.
- Tier II capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher.
- In addition to minimum CRAR, Capital Conservation Buffer (CCB) @ 0.625% of the total RWA will be maintained. in the form of CET1 in a phased manner from 2016 to 2019.

Tier I capital of the Bank includes funds deposited with Bangladesh Bank, actuarial gain/(loss) and retained earnings. Tier 1 capital is also called 'Core Capital' of the Bank. According to BRPD letter ref no.BRPD (BFIS)661/14B(P)/2015-18014 dated 24 December 2015, 5% of deferred tax recognised on specific provision shall be allowable as CET 1 capital whilst all other deferred tax assets created on other items shall be deducted from the retained earnings when calculating the capital adequacy ratio.

Tier II capital consists of general provision and revaluation reserve for Held to Maturity (HTM) and Held for Trading (HFT) securities. General provision for inclusion in Tier II capital is limited to a maximum 1.25% of Credit RWA calculated under the standardized approach. Revaluation reserve for securities shown as Tier II capital as on 31 December 2014 will be nullified in a phased manner at the rate of 20% starting from 2015 and will be fully adjusted by 2020.

Quantitative Disclosures:

The details of capital structure as at 31 December are provided as under:

Common Equity Tier I	**2016 (Taka)**	**2015 (Taka)**
Fund Deposited with Bangladesh Bank	2,223,946,156	2,219,501,566
Retained Earnings	31,511,451,349	32,555,862,835
Actuarial Gain/(Loss)	-174,286,114	-207,431,414
Less: Regulatory Adjustment for Deffered Tax Assets as per Bangladesh Bank Guidelines	-1,476,359,163	-1,160,742,557
	32,084,752,229	**33,407,190,430**
Additional Tier I	-	-
Total Tier I	32,084,752,229	33,407,190,430

Tier II	2016 (Taka)	2015 (Taka)
General Provision	3,888,595,180	2,032,164,606
Revaluation Reserve for Securities	143,745,642	191,660,856
	4,032,340,822	**2,223,825,462**
Total Capital	**36,117,093,051**	**35,631,015,892**

C. Capital Adequacy

Qualitative Disclosures:

Our approach to capital management is driven by our desire to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a three year horizon and are approved by the Country Management Team (CMT). The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained to support our strategy.

The capital plan takes the following into account:

• Regulatory capital requirements
• Forecast demand for capital to support the credit ratings
• Increases in demand for capital due to business growth, market shocks or stresses
• Available supply of capital and capital raising options
• Internal controls and governance for managing the Bank's risk, performance and capital

The bank uses a capital model to assess the capital demand for material risks, and support our internal capital adequacy assessment. Each material risk is assessed, relevant mitigates considered, and appropriate levels of capital determined. The capital modeling process is a key part of our management disciplines.

A strong governance and process framework is embedded in bank's capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Management Committee.

Standardize Approach is followed for computation of capital charge for credit risk, market risk and Basic Indictor Approach for operational risk.

Quantitative Disclosures:

Details of Risk Weighted Assets as on 31 December 2016:

Risk Weighted Assets	2016 (Taka)	2015 (Taka)
On balance sheet exposures	118,347,471,047	105,587,896,352
Off-balance sheet exposures	75,824,115,442	56,985,272,146
Total Credit risk	**194,171,586,489**	**162,573,168,498**
Market risk	**2,116,373,576**	**2,861,793,013**
Operational risk	**34,325,248,509**	**33,553,721,507**
Total Risk Weighted Assets	**230,613,208,574**	**198,988,683,018**

Capital requirement for Credit risk	19,417,158,649	16,257,316,850
Capital requirement for Market risk	211,637,358	286,179,301
Capital requirement for Operational risk	3,432,524,851	3,355,372,151
Minimum Capital Requirement	**23,061,320,857**	**19,898,868,302**

	2016	2015
Common Equity Tier -I Ratio	13.91%	17.91%
Tier I Capital Adequacy Ratio	13.91%	16.79%
Tier II Capital Ratio		
Capital to Risk Weighted Assets Ratio (CRAR)	15.66%	1.12%

Risk management

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank. Through the risk management framework we manage enterprise-wide risks, with the objective of maximizing risk-adjusted returns while remaining within our risk appetite. As part of this framework, we use a set of principles that describe the risk management culture we wish to sustain:

• **Balancing risk and return:** Risk is taken in support of the requirements of our stakeholders, in line with our strategy and within our risk appetite

• **Responsibility:** It is the responsibility of all employees to ensure that risk-taking is disciplined and focused. We take account of our social responsibilities and our commitments to customers in taking risk to produce a return.

• **Accountability:** Risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported.

• **Anticipation:** We seek to anticipate future risks and ensure awareness of all known risks.

• **Competitive advantage:** We seek to achieve competitive advantage through efficient and effective risk management and control.

D. Credit Risk

Qualitative Disclosures:

Credit risk is the potential for loss due to failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms.

Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

A comprehensive framework is in place for the management of counterparty credit risk. This includes a structured process for the delegation of credit approval authority and for monitoring compliance with appetite. Policy and procedures are defined to support credit underwriting activities at all levels of the Group. These policies are defined at 3 levels-Group, Business and Country level.

All credit decisions are subject to underwriting standards which mandate defined processes and procedures for performing credit checks and detailed due diligence reviews. Systems and controls are in place to monitor collateral value and loan covenants. Each counterparty is also required to have an approved limit in place prior to drawdown of funds. Limit excesses are actively managed and subject to reporting and escalation.

Counterparties are subject to credit rating and these ratings are reviewed on a regular basis. Active monitoring of account level activity and limit utilization trends help to inform the early alert and risk trigger mechanisms. Potential problem accounts are investigated, monitored and appropriate action is taken. Standing Committees dedicated to account and portfolio monitoring supported by portfolio information reports are a well established discipline. The portfolio is monitored from the point of view of industry concentrations, risk grade distribution and tenor and security profiles amongst other parameters.

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions. The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

Past dues and impaired exposures are defined in accordance with the relevant Bangladesh Bank regulations. Specific and general provisions are computed periodically in accordance with the Bangladesh Bank regulations.

Quantitative Disclosures:

Details of Credit Risk as on 31 December 2016:

	2016 (Taka)	2015 (Taka)
Gross Credit risk exposures:		
Funded	253,108,726,383	185,463,694,904
Non-funded	178,607,789,848	126,534,518,262
Total	**431,716,516,231**	**311,998,213,166**
Distribution of risk exposure by claims:		
Cash and cash equivalents	2,786,359,988	2,193,451,568
Claims on Sovereigns and Central Bank	15,491,814,765	14,017,698,172
Claims on banks	31,707,012,446	21,987,336,340
Investments	27,192,233,470	23,301,506,428
Claims on corporate	80,693,040,200	67,375,801,583
Claims on Consumer and SME Loan	51,050,787,479	47,064,490,132
Fixed Assets	443,273,218	692,232,603
Others assets	9,655,035,429	8,831,178,078
Off-balance sheet items	178,607,789,848	126,534,518,262
Total	**397,627,346,843**	**311,998,213,166**

Credit risk mitigation:		
Claims secured by financial collateral	1,578,749,189	1,236,096,931
Net exposures after the application of haircuts	1,139,237,372	703,360,209
Claims secured by eligble Guarantee	0	0

	2016	2015
Gross non-performing assets (NPAs)		
Non-performing asset (NPAs) to outstanding loans and advances	4.22%	4.16%

	2016 (Taka)	2015 (Taka)
Movement of non-performing assets (NPAs)		
Opening balance	4,761,691,247	5,941,570,549
Net movement during the year	801,031,005	(1,179,879,308)
Closing balance	**5,562,722,252**	**4,761,691,241**
Movement of specific provision for (NPAs)		
Opening balance of specific provision	3,412,721,625	4,469,416,566
Written off during the period	(525,828,580)	(1,673,693,193)
Recovers during the period	(498,054,711)	(592,262,290)
Provision made during the period	27,957,217	1,209,130,223
Other Movement	47,389	
Translation increase / (decrease)	3,506,398,869	130,319
Closing balance of specific provision	-	**3,412,721,625**

Geographical Distribution of Credit Exposure:

2016	Dhaka	Chittagong	Narayangonj	Khulna	Sylhet	Bogra	Total
	BDT	BDT	BDT	BDT	BDT	BDT	BDT
Cash and cash equivalents	2,025,690,473	567,091,931	15,511,642	87,296,818	44,987,602	45,781,523	2,786,359,988
Claims on Sovereigns and Central Bank	15,491,814,765	-	-	-	-	-	15,491,814,765
Claims on Banks	31,707,012,446	-	-	-	-	-	31,707,012,446
Investments	27,192,233,470	-	-	-	-	-	27,192,233,470
Claims on Corporate	67,303,217,497	12,999,822,703	-	-	-	390,000,000	80,693,040,200
Claims on Consumer and SME Loans and L	44,055,021,008	5,383,871,687	667,125,820	306,404,283	472,111,728	166,252,954	51,050,787,479
Fixed Assets	441,224,443	1,129,017	35,858	133,717	135,183	615,000	443,273,218
Others Assets	4,994,702,569	2,988,085,741	507,270,101	501,449,216	557,046,273	106,481,529	9,655,035,429
Total on-balance sheet Items	**193,210,916,671**	**21,940,001,077**	**1,189,943,421**	**895,284,033**	**1,074,280,786**	**709,131,006**	**219,019,556,995**
Off-balance Sheet Items	144,868,340,894	33,739,448,954					178,607,789,848
Total	**338,079,257,565**	**55,679,450,031**	**1,189,943,421**	**895,284,033**	**1,074,280,786**	**709,131,006**	**397,627,346,843**

Geograhical Distribution of Credit Exposure:

2015	Dhaka	Chittagong	Narayangonj	Khulna	Sylhet	Bogra	Total
	BDT	BDT	BDT	BDT	BDT	BDT	BDT
Cash and cash equivalents	1,737,262,184	303,114,176	21,629,566	64,600,218	34,205,982	32,639,442	2,193,451,568
Claims on Sovereigns and Central Bank	14,017,698,172						14,017,698,172
Claims on Banks	21,987,336,340						21,987,336,340
Invetments	23,301,506,428						23,301,506,428
Claims on Corporate	54,403,477,765	12,072,323,818	-	-	-	900,000,000	67,375,801,583
Claims on Consumer and SME Loans	40,070,811,356	5,399,760,883	581,297,714	300,788,874	524,657,097	187,174,208	47,064,490,132
Fixed Assets	686,617,656	3,523,700	495,902	280,845	270,367	1,044,133	692,232,603
Others Assets	5,822,346,542	2,007,897,531	567,541,557	525,354,676	521,154,815	(613,117,043)	8,831,178,078
Total on-balance sheet Items	**162,027,056,443**	**19,786,620,108**	**1,170,964,739**	**891,024,613**	**1,080,288,261**	**507,740,740**	**185,463,694,904**
Off-balance Sheet Items	106,577,851,753	19,956,666,509					126,534,518,262
Total	**268,604,908,196**	**39,743,286,617**	**1,170,964,739**	**891,024,613**	**1,080,288,261**	**507,740,740**	**311,998,213,166**

Industry Distribution of Exposure:

2016	Banks & FI	Agriculture, hunting, forestry and fishing	Manufacturing	Electricity, gas and water	Commerce	Transport and communications	Community, social and personal services	Financing, insurance and business service	Retail and SME and Large Loan	Others	Total
	BDT	BDT	BDT	BDT	BDT	BDT	BDT	BDT	BDT	BDT	BDT
Cash and cash equivalents	2,786,359,988	-	-	-	-	-	-	-	-	-	2,786,359,988
Claims on Sovereigns and Central Bank	15,491,814,765	-	-	-	-	-	-	-	-	-	15,491,814,765
Claims on Banks	31,707,012,446	-	-	-	-	-	-	-	-	-	31,707,012,446
Investments	-	-	-	-	-	-	-	-	-	27,192,233,470	27,192,233,470
Claims on Corporate	-	9,181,844,167	42,786,720,829	1,011,268,895	7,208,951,527	9,328,921,275	8,259,082,116	2,916,251,391			80,693,040,200
Claims on Consumer and SME Loans and Large Loans	-	-	-	-	-	-	-	-	51,050,787,479	-	51,050,787,479
Fixed Assets	-	-	-	-	-	-	-	-	-	443,273,218	443,273,218
Others Assets	-	-	-	-	-	-	-	-	-	9,655,035,429	9,655,035,429
Total on-balance sheet Items	**49,985,187,199**	**9,181,844,167**	**42,786,720,829**	**1,011,268,895**	**7,208,951,527**	**9,328,921,275**	**8,259,082,116**	**2,916,251,391**	**51,050,787,479**	**37,290,542,117**	**219,019,556,995**
Off-balance Sheet Items	33,755,863,123	-	-	-	-	-	-	-	-	144,851,926,725	178,607,789,848
Total	**83,741,050,322**	**9,181,844,167**	**42,786,720,829**	**1,011,268,895**	**7,208,951,527**	**9,328,921,275**	**8,259,082,116**	**2,916,251,391**	**51,050,787,479**	**182,142,468,842**	**397,627,346,843**

Industry Distribution of Exposure:

2015	Banks & FI	Agriculture, hunting, forestry and	Manufacturing	Electricity, gas and water	Commerce	Transport and communications	Community, social and personal services	Financing, insurance and business service	Retail and SME	Others	Total
	BDT	BDT	BDT	BDT	BDT	BDT	BDT	BDT	BDT	BDT	BDT
Cash and cash equivalents	2,193,451,568										2,193,451,568
Claims on Sovereigns and Central Bank	14,017,698,172										14,017,698,172
Claims on Banks	21,987,336,340										21,987,336,340
Investments										23,301,506,428	23,301,506,428
Claims on Corporate		6,695,136,690	35,279,471,958	374,150,810	6,010,517,357	11,050,244,958	6,363,179,763	1,603,100,047			67,375,801,583
Claims on Consumer and SME Loans									47,064,490,132		47,064,490,132
Fixed Assets										692,232,603	692,232,603
Others Assets										8,831,178,078	8,831,178,078
Total on-balance sheet Items	**38,198,486,080**	**6,695,136,690**	**35,279,471,958**	**374,150,810**	**6,010,517,357**	**11,050,244,958**	**6,363,179,763**	**1,603,100,047**	**47,064,490,132**	**32,824,917,109**	**185,463,694,904**
Off-balance Sheet Items	22,590,111,545									103,944,406,717	126,534,518,262
Total	**60,788,597,625**	**6,695,136,690**	**35,279,471,958**	**374,150,810**	**6,010,517,357**	**11,050,244,958**	**6,363,179,763**	**1,603,100,047**	**47,064,490,132**	**136,769,323,826**	**311,998,213,166**

Maturity Breakdown of Credit Exposure:

2016	Maturity up to 1 month	Within 1 to 3months	Within 3 to 12 months	Within 1 to 5 Years	Over 5 Years	Total
Details	BDT	BDT	BDT	BDT	BDT	BDT
Cash and cash equivalents	2,786,359,988	-	-	-	-	2,786,359,988
Claims on Sovereigns and Central Bank	15,491,814,765	-	-	-	-	15,491,814,765
Claims on Banks	31,617,012,446	90,000,000	-	-	-	31,707,012,446
Investments	5,742,222,736	3,464,702,360	10,625,312,845	6,979,161,820	380,833,709	27,192,233,470
Claims on Corporate	42,070,822,148	20,851,508,516	12,613,686,929	4,940,997,144	216,025,463	80,693,040,200
Claims on Consumer and SME Loans	8,718,454,242	2,580,252,992	9,574,686,232	22,364,013,144	7,813,380,870	51,050,787,479
Fixed Assets	-	-	-	-	443,273,218	443,273,218
Others Assets	8,125,433,807				1,529,601,623	9,655,035,429
Total on-balance sheet Items	**114,552,120,131**	**26,986,463,867**	**32,813,686,006**	**34,284,172,107**	**10,383,114,883**	**219,019,556,995**
Off-balance Sheet Items	88,792,428,383	39,901,739,017	30,005,553,689	18,482,891,265	1,425,177,494	178,607,789,848
Total	**203,344,548,515**	**66,888,202,884**	**62,819,239,695**	**52,767,063,372**	**11,808,292,377**	**397,627,346,843**

Maturity Breakdown of Credit Exposure:

2015

Details	Maturity up to 1 month BDT	Within 1 to 3months BDT	Within 3 to 12 months BDT	Within 1 to 5 Years BDT	Over 5 Years BDT	Total BDT
Cash and cash equivalents	2,193,451,568					2,193,451,568
Claims on Sovereigns and Central Bank	14,017,698,172					14,017,698,172
Claims on Banks	21,987,336,340					21,987,336,340
Investments	-	-	6,508,988,827	16,411,736,805	380,780,796	23,301,506,428
Claims on Corporate	29,213,560,139	22,756,908,868	11,426,924,478	3,407,398,162	571,009,936	67,375,801,583
Claims on Consumer and SME Loans	10,149,339,341	2,809,155,366	8,987,251,882	19,209,950,550	5,908,792,993	47,064,490,133
Fixed Assets					692,232,603	692,232,603
Others Assets	7,655,634,115				1,175,543,963	8,831,178,078
Total on-balance sheet Items	**85,217,019,675**	**25,566,064,234**	**26,923,165,187**	**39,029,085,517**	**8,728,360,291**	**185,463,694,905**
Off-balance Sheet Items	82,823,117,833	18,593,387,883	14,621,194,778	10,496,817,768		126,534,518,262
Total	**168,040,137,508**	**44,159,452,117**	**41,544,359,965**	**49,525,903,285**	**8,728,360,291**	**311,998,213,167**

E. Equities: Disclosures for Banking Book Positions

The Bank does not hold trading position in equities.

F. Interest rate risk in the banking book
Qualitative Disclosure

a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.

Interest rate risk from the non-trading book portfolios is transferred to ALM under the supervision of ALCO. This risk arises principally from the re-pricing mismatch between commercial assets and liabilities. ALM also deals in approved financial instruments in the market to manage the net interest rate risk, subject to approved VaR and risk limits. VaR and stress tests are applied to non-trading book exposures in the same way as for the trading book and thus the primary risk measurement tool is VaR for the non-trading book. ALM also manages a portfolio of marketable securities primarily for the purpose of meeting the reserve requirements. For non maturing products like current accounts, savings accounts, cards and overdrafts, behavioural calculation is done to segregate the portfolio according to the balances expected to remain with the bank under non stress conditions for a year or more (core) or less than a year (non-core).

Quantitative Disclosure

Particulars			**Amount (BDT) in Crore**
Market value of assets			25,335.41
Market value of Liabilities			21,951.95
Weighted Average Duration of Assets (DA)			0.66
Weighted Average Duration of Liabilities (DL)			0.16
Duration Gap (DA-DL)			0.5
Yield to Maturity (YTM- Assets)			5.57%
Yield to Maturity (YTM- Liabilities)			1.28%
Magnitude of Interest Rate Change	1%	2%	3%
Changes in Market value of Equity due to an increase in interest Rate	-125.18	-250.37	-375.55
Stress Testing	**Minor**	**Moderate**	**Major**
Regulatory capital (after shock)	3,486.53	3,361.34	3,236.16
RWA (after shock)	22,936.14	22,810.95	22,685.77
CAR (after shock)	15.20%	14.74%	14.27%

G. Market risk

Qualitative Disclosures:

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

The Bank recognises market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Bank is exposed to market risk arising principally from client-driven transactions. The objective of the Bank's market risk policies and processes is to obtain a balance of risk and return while meeting clients' requirements.
The primary categories of market risk for the Bank are interest rate risk and currency exchange rate risk.
The Country Risk Committee, in conjunction with MTCR, provides market risk oversight, reporting and management of the market risk profile.

b) Methods used to measure Market risk.

Interest Rate Risk
The interest rate exposures arise from trading and non-trading activities. Structural interest rate risk on non-trading arises from the differing re-pricing characteristics of Government securities, commercial banking assets and liabilities.

Foreign Exchange Risk
The foreign exchange exposures comprise trading and non-trading foreign currency translation exposures. Foreign exchange trading exposures are principally derived from client driven transactions.

c) Market Risk Management System

The BRC – Board Risk Committee - approves the Group's market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes. The Market and Traded Credit Risk management operating under the current approved market risk limits policy in force is responsible for setting Value at Risk (VaR) as the primary market risk measure within the Group's risk appetite. The CIBRC (Credit and Market Risk Committee) is responsible for approving policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books.

Market and Traded Credit Risk (MTCR) approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations, where appropriate. Sensitivity measures are used in addition to VaR as a risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas, foreign exchange sensitivities are measured in terms of the underlying values or amounts involved. The Country Risk Committee reviews the market risk exposures in its periodic meetings.

d) Policies and processes for mitigating market risk.

The Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time. VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

Losses beyond the confidence interval are not captured by the VaR, which therefore gives no indication of the size of unexpected losses in these situations. The VaR measurement is complemented by regularly stress testing market risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both, historical market events and forward looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

Quantitative Disclosure:

Details of Market Risk as on 31 December 2016:

Capital requirements for:	**2016**	**2015**
	Taka	**Taka**
Interest rate risk	65,815,666	275,786,012
Equity position risk	-	-
Foreign exchange risk	145,821,691	10,393,289
Commodity risk	-	-
Total	**211,637,358**	**286,179,301**

H. Operational Risk

Qualitative Disclosures:

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. It is the Bank’s objective to minimize exposure to operational risks, subject to cost trade-offs. This objective is ensured through a framework of policies and procedures that drive risk identification, assessment, control and monitoring at business / function, country levels.

Responsibility for the management of operational risks rests with the business and functional management as an integral part of their role. An independent Operational Risk function within the Group Risk function works alongside business and functional management, to ensure operational risk exposures are managed within acceptable risk tolerance limits. Group Operational Risk is responsible for setting the operational risk policy, defining standards for measurement and for the operational risk capital calculation.

Governance over operational risks is ensured through a defined structure of risk committees at group, business function and country levels. Country Operational Risk Committees (“CORC”) have the responsibility for oversight of operational risks and significant issues at a country level. The monthly CORC process ensures that operational risks, losses and results of assurance reviews are managed within acceptable risk tolerance limits.

The bank’s Pillar I approach is Basic Indicator Approach (BIA) as set out in the Guidelines on Risk Based Capital Adequacy.

The bank proactively monitors its exposure to material loss events by leveraging on internal experience (via risks and losses) and industry experience. The types of events that could result in a material operational risk loss / business disruption include:

• Internal and external fraud.
• Damage to physical assets.
• Business disruption and system failures.
• Failure in execution, delivery and process management.

Quantitative Disclosures:

Capital requirement for Operational risk as on 31 December 2016 was BDT 3,432,524,851

I. Leverage Ratio:

Leverage ratio is the ratio of tier 1 capital to total on and off-balance sheet exposures. The leverage ratio was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements.

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 the 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; and

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

The Bank has calculated the regulatory leverage ratio as per the guideline of Basel III. The numerator, capital measure is calculated using the new definition of Tier I capital applicable from 01 January 2015. The denominator, exposure measure, is calculated on the basis of the Basel III leverage ratio framework as adopted by the Bangladesh Bank. The exposure measure generally follows the accounting value, adjusted as follows:

• On-balance sheet, non derivative exposures are included in the exposure measure net of specific provision;

• Physical or financial collateral is not considered to reduce on-balance sheet exposure;

• Loans are not netted with deposits;

Off balance sheet items are converted into credit exposure equivalents through the use of credit conversion factors (CCFs). Depending on the risk category of the exposure a CCF of 20%, 50% or 100% is applied. Commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is applied;

• Item deducted from Tier I capital such as deferred tax assets is excluded.

Quantitative disclosures:

	2016	2015
Leverage Ratio (%)	9.44%	11.80%
A. On Balance Sheet Exposure	249,904,977,936	218,943,108,002
B. Off Balance Sheet Exposure	91,524,031,432	65,215,729,044
C. Total Deduction From on and off balance sheet exposure/ Regulatory adjustment made to Tier I Capital	1,476,359,163	1,160,742,557
Total Exposure (A+B-C)	339,952,650,206	282,998,094,489

J. Liquidity Ratio

Qualitative disclosures:

Liquidity risk is the potential that the Bank either does not have sufficient liquid financial resources available to meet all its obligations as they fall due, or can only access these financial resources at excessive cost. Liquidity is managed by the Country Asset Liability Management Committee (ALCO) within the pre-defined liquidity limits set by and in compliance with Group liquidity policies and local regulatory requirements.

Liquidity management of the Bank is centered on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) based on BASEL III. The Bank has Asset Liability Management (ALM) desk to manage this risk with active monitoring and management from Market and Traded Credit Risk (MTCR) Department.

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) has been adopted by the bank for liquidity risk management. LCR ensures that banks maintain enough high quality unencumbered liquid assets to meet its liquidity needs for 30 calendar time-line whereas NSFR ensures availability of stable funding is greater than required funding over 1 year period.

ALCO monitors the liquidity risk on a monthly basis. Based on the detail recommendation from ALM desk, ALCO takes appropriate action to manage the liquidity risk. These ratios are regularly monitored at ALCO. Also Bank has internal risk control framework which outlines clear and consistent policies and principles for liquidity risk management.

Quantitative disclosures:

	2016	**2015**
Liquidity Coverage Ratio (%)	191.57%	233.35%
Net Stable Funding Ratio (%)	137.46%	116.98%
Stock of High Liquid Assets	52,319,700,911	53,062,428,713
Total Net Cash Outflows over the next 30 Calender days	14,815,289,493	10,079,659,780
Available Amount of Stable Funding	221,766,214,719	191,392,969,054
Required Amount of Stable Funding	161,334,681,348	163,612,351,602

K. Remuneration

Qualitative disclosures:

(a) Information relating to the bodies that oversee remuneration:
i. Name, composition and mandate of the main body overseeing remuneration

Group Remuneration Committee ("Committee") is the main body overseeing remuneration policy across the Bank.

The Committee is comprised of independent non-executive directors and is one of six board level committees.

The Committee reviews, and is responsible for setting the principles, parameters and governance framework of the Group and its subsidiaries' remuneration policy. The Committee is also responsible for:

- Determining and agreeing with the Board the framework and policy for the remuneration of the Group Chairman, Group Chief Executive, the executive directors and other designated senior executives;
- Ensuring that the Group's remuneration policies are appropriate and consistent with effective risk management;
- Recognizing and managing any conflicts of interest when receiving views from executive directors or senior management on executive remuneration proposals and ensuring no individual is involved in deciding his or her own remuneration;
- Approving any proposal to award a high remuneration package to new recruits;
- Overseeing the remuneration of Material Risk Takers ("MRTs"); and
- Approving the Group discretionary incentives each year.

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

Though the Bank has no permanent external consultant for managing remuneration, but expert opinion may have been sought by the Management, on a case to case basis, or third party vendor is engaged for various retirement benefits accounting or getting local market information on remuneration and benefits.

iii. A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches

Standard Chartered (the "Group") is regulated globally by the UK Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The remuneration rules of the PRA and FCA are based on the principles adopted by the G20 countries in relation to the Financial Stability Board's ("FSB") Principles for Sound Compensation Practices and their Implementation Standards. The rules also include the provisions of the European Union's Capital Requirements Directive IV.

iv. A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.

The Group's Identification of MRTs for Remuneration Purposes Policy was introduced in 2014 to comply with expanded rules for identifying key risk taking staff in accordance with the European Banking Authority's ("EBA") Regulatory Technical Standards and the remuneration rules set out by the PRA and the FCA.
The identification of MRTs is based on qualitative and quantitative criteria.

Qualitative criteria:

- The qualitative criteria are based on role-based indicators such as:
  - o Group executive and non-executive directors;
  - o Members of the Group Management Team;
  - o Senior employees within the Audit, Compliance, Legal and Risk functions; (1 employee identified in this group)
  - o Staff with authority over new products, processes or systems (including committees);
  - o Senior employees within material business units ("MBU");
  - o Employees who are able to initiate or approve market or credit risk exposures above a certain level and/or sign off on trading book transactions above certain threshold; and
  - o Staff with managerial responsibility who report directly to a MBU head or Control Function Head and/or is the line manager for an employee who meets the qualitative criteria.
- The Group additionally assesses and, as applicable, identifies any employees that take or authorise material risk and are not already identified by the qualitative criteria e.g. all Band 1 and Band 2 employees regardless of whether they meet the qualitative or quantitative criteria. (1 employee identified in this group)

Quantitative criteria:

- The quantitative criteria captures employees who, in the preceding financial year, have been: awarded total remuneration of EUR 500,000 or more; or earned more than the lowest paid MRT; or are among the highest paid 0.3% of staff on a global basis.

The Group is able to "exclude" employees identified by the MRT criteria under the following conditions:

(a) The employee only carries out professional activities in a business unit not regarded as "material" (business, country and/or regional units are defined by the Group as material based on percentage of risk weighted assets); or

The Group will notify the PRA of any exclusions where the employee earned up to EUR750,000 in the preceding year. If the individual earned more than EUR750,000 – EUR1,000,000, approval will need to be sought from the regulators prior to exclusion.

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

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

The Group's remuneration approach is consistent with effective risk management and delivery of the Group's strategy and values. The Group's approach is underpinned by:

- A competitive remuneration opportunity that enables us to attract, motivate and retain employees;
- A clearly defined performance management framework that ensures employees have clear objectives and receive ongoing feedback;
- Remuneration outcomes that relate to the performance of the individual, the business they work in, and the Group. The Group aims to ensure that everyone is aligned to deliver long-term sustainable growth in the interests of shareholders;
- Variable remuneration that recognises the achievement, conduct, behaviours and values of each individual, ensuring reward is aligned to the Group's performance. Both what is achieved and how it is achieved is taken into account;
- An appropriate mix of fixed and variable remuneration, with the level of fixed remuneration based on an individual's role and the business' risk profile;
- Remuneration that is fair and transparent. An equal pay review is undertaken as part of the pay review process globally; and
- A core level of benefits that protects all employees and reflects the Group's commitment to employee wellbeing.

ii. Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.

• The Group introduced scorecards, which played an integral role in the determination of Group Total Variable Compensation ("TVC") for the 2016 performance year. The scorecards take into consideration financial and non-financial targets, including those related to conduct and remediation programs.

• The Group has revised its Target TVC approach, based on the newly introduced scorecards, for employees in businesses and functions excluding Corporate and Institutional Banking ("CIB") and Private Banking ("PvB"). CIB and PvB retain a discretionary approach, in line with market practice for those businesses, to provide greater flexibility.

• The funding for the Target TVC Plan is based on scorecard modifiers (which reflect Group and business, function and or regional performance) and individual performance.

• The funding methodology of the Discretionary TVC Plan is determined on the basis of financial and strategic performance and with reference to market funding rates and overall Group affordability.

• To build on the progress made in 2015, the Group reviewed the risk adjustment methodology in 2016 to ensure the approach is aligned to changes made to incentives and the methodology is robust and transparent in years of both strong and weak performance.

• The Group introduced a three-tiered deferral structure for MRTs in line with newly effective requirements. The framework comprises of a minimum 7 year deferral period for Senior Managers with no vesting prior to year three; a minimum deferral period of five years for Risk Managers and three years for Other MRTs, with no vesting prior to year

• The criteria for identifying MRTs for remuneration purposes have expanded to include the top two levels of senior management.

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

Performance and reward decisions for the control functions (including those of Risk, Compliance, HR and Legal) are determined independently of the business

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

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

The Group's variable remuneration is subject to approval by the Committee, based on a recommendation by management. When considering the Group's variable remuneration and its allocation between businesses and functions, the Committee considers performance and risk factors including (but not limited to):

• The Group's performance and capital position;
• Shareholder returns and position in the market;
• Regulatory expectations; and
• The risk and control environment and adjustments for material events / issues in the Group and/or specific business lines.

At an individual level, employees are assessed annually in relation to what they have achieved and how they have achieved it, based on the values and behaviours they have demonstrated. This assessment feeds into decision-making in relation to individual variable remuneration.

ii. An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed).

The Group's approach to aligning remuneration to sound and effective risk management is supported by:

• Balanced performance measures: Variable remuneration, including both annual incentive awards and the long term incentive plan ("LTIP"), are comprised of a balance of financial and strategic measures. This ensures employees are incentivised to deliver the strategy both in the short-term and over the longer term, and ensures an appropriate focus on the execution of the strategy, prudent risk-taking and investor interests.
• Risk adjusted metrics: The Group uses appropriate risk-adjusted metrics as a measure of performance for both the LTIP and annual scorecards. This incentivises improvements in shareholder returns whilst ensuring that returns are not generated by excessive risk taking.
• Governance processes: Additional governance processes provide further safeguards against inappropriate outcomes. The Committee ensures that the design of measures and the subsequent remuneration outcomes are appropriate. Members of the Committee serve on other Board Committees, including the Audit, Board Financial Crime Risk, Board Risk and Brand Values and Conduct Committees. This overlap of membership brings a deeper understanding to the Committee of core business objectives and issues.

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

Variable remuneration is subject to the Group Ex-Post Risk Adjustment of Remuneration policy (previously known as Group Claw-Back policy), which enables the Group to: suspend payment of awards, suspend vesting of awards, apply in-year adjustments, and apply malus and claw-back to unvested and vested variable remuneration, in specified

iv. A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.

• The Group introduced scorecards, which played an integral role in the determination of Group Total Variable Compensation ("TVC") for the 2016 performance year. The scorecards take into consideration financial and non-financial targets, including those related to conduct and remediation programs.
• The Group has revised its Target TVC approach, based on the newly introduced scorecards, for employees in businesses and functions excluding Corporate and Institutional Banking ("CIB") and Private Banking ("PvB"). CIB and PvB retain a discretionary approach, in line with market practice for those businesses, to provide greater flexibility.

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

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

The Group's variable remuneration is subject to approval by the Committee, based on a recommendation by management. When considering the Group's variable remuneration and its allocation between businesses and functions, the Committee considers performance and risk factors including (but not limited to):

• Shareholder returns and position in the market;
• Regulatory expectations; and
• The risk and control environment and adjustments for material events / issues in the Group and/or specific business lines.

At an individual level, employees are assessed annually in relation to what they have achieved and how they have achieved it, based on the values and behaviours they have demonstrated. This assessment feeds into decision-making in relation to individual variable remuneration.

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

• Salaries reflect individuals' skills and experience and are reviewed annually against market information and in the context of the annual performance assessment and affordability.
• Increases may occur where there is a role change, increased responsibility or to ensure market competitiveness.

iii. A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.

The Bank will in general implement the risk adjustment methodology to adjust the incentives for weak performance.

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

i. A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.

• Variable remuneration rewards and incentivises the achievement of business and individual objectives as well as adherence to the Group's values.
• The proportion of variable to fixed remuneration paid to employees is carefully monitored.
• Guaranteed variable remuneration is only paid exceptionally, and is limited to the first year of employment.
• For MRTs, at least 40 per cent of variable remuneration must be deferred. This increases to 60 per cent if variable remuneration is at least GBP 500,000.
• For other employees, annual variable remuneration over a defined threshold is subject to a graduated level of deferral, as shown below:

Variable remuneration value (USD)	Deferral percentage
≤100,000	0%
100,000 to 750,000	40%
>750,000	60% (flat rate applies to entire value)

• Deferred variable remuneration is typically delivered 50% in shares and 50% in cash.

ii. A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements

Variable remuneration is subject to the Group Ex-Post Risk Adjustment of Remuneration policy (previously known as Group Claw-Back policy), which enables the Group to: suspend payment of awards, suspend vesting of awards, apply in-year adjustments, and apply malus and claw-back to unvested and vested variable remuneration, in specified

f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include:

i. An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms

• Variable remuneration is delivered in cash and shares and is structured in line with the Group deferral framework (as set out in the table in question e(i) above, unless superseded by regulatory requirements. Any deferred variable remuneration is typically split equally between deferred cash and deferred shares

• Flexibility to pay zero variable remuneration

ii. A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.

The Group-wide deferral mechanism is a series of thresholds based on the value of variable remuneration – the larger the variable remuneration award, the greater the proportion that is deferred:

Variable remuneration (USD)	Deferral percentage
<=100,000	0%
>100,000 to 750,000	40%
>750,000	60% (flat rate applies to entire award)

The deferral amount is cumulative up to a variable remuneration value of USD 750,000, upon which a flat rate of deferral applies to the entire award.

The effective deferral level is USD 105,000. If the variable remuneration awarded is greater than USD 105,000 but less than or equal to USD 115,000 then the deferral is delivered as deferred cash only.

The deferral mechanism applies to the variable compensation of all employees in the Group, unless superseded by the remuneration requirements of the PRA and FCA, or any other regulator. For MRTs, at least 40% of variable compensation must be deferred, increasing to at least 60% when variable remuneration is more than GBP 500,000. Where a long-term incentive award is granted, this may result in the aggregate level of deferred variable remuneration exceeding the Group's deferral mechanism.

Quantitative Disclosure:

g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	In 2016, there were 6 REMCO meetings.
h)	• Number of employees having received a variable remuneration award during the financial year. • Number and total amount of guaranteed bonuses awarded during the financial year. • Number and total amount of sign-on awards made during the financial year. • Number and total amount of severance/termination payments made during the financial year.	Employees with variable remuneration: 1,268 Guaranteed bonuses: NIL Sign-on awards: NIL Number and total amount of termination payment: 1 employee and BDT 850,000
i)	• Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. • Total amount of deferred remuneration paid out in the financial year.	Outstanding deferred cash: BDT 8,429,333 Outstanding deferred shares value: BDT 8,429,333 Total deferred remuneration: BDT 16,858,666
j)	Breakdown of amount of remuneration awards for the financial year to show: - fixed and variable. - deferred and non-deferred. - different forms used (cash, shares and share linked instruments, other forms).	Fixed: BDT 2,522,007,672 Variable: BDT 471,670,981 Deferred: BDT 16,858,666 Non deferred: BDT 454,812,315 Upfront Cash – BDT 446,168,715 Upfront Shares : BDT 8,643,600
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 revaluations of awards) of deferred remuneration and retained remuneration: • Total amount of outstanding deferred remuneration and retained remuneration exposed to expost explicit and/or implicit adjustments. • Total amount of reductions during the financial year due to ex post explicit adjustments. • Total amount of reductions during the financial year due to ex post implicit adjustments.	Overall: BDT 2,503,981 Explicit: BDT 1,682,958 Implicit: BDT 821,023