REPORT OF THE BOARD OF DIRECTORS

In the name of Allah

The Most Gracious, the Most Merciful

Dear Shareholders,

Assalamu Alaikum Wa Rahmatullah Wa Barakatuhu.

The Board of Directors is pleased to welcome you all to the 20th Annual General Meeting (AGM) of Shahjalal Islami Bank Limited. We are delighted to present before you the Directors' Report and Audited Financial Statements together with Auditors' Report of the Bank for the year ended on 31 December 2020. We have also provided a brief description of the performance and financial position of the Bank for the same year as well as various aspects of the world economy and Bangladesh economy.

World Economy

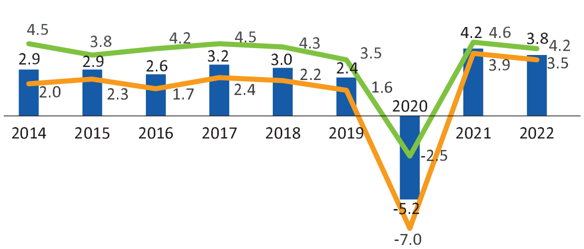
COVID-19 caused a global recession whose depth was surpassed only by the two World Wars and the Great Depression in the past century and a half. Although global economic activity is growing again, it is not likely to return to business as usual in the foreseeable future. The pandemic has caused a severe loss of life, is tipping millions into extreme poverty, and is expected to inflict lasting scars that push activity and income well below their pre-pandemic trend for a prolonged period.

The incipient recovery was supported by a partial easing of stringent lock-downs. Various restrictive measures have been reintroduced, however, as COVID-19 has continued to spread around the world. Some areas have experienced a sharp resurgence of infections, and daily new cases remain high. That said, there has been substantial progress in the development of effective vaccines, and inoculation has begun in some countries. A more general rollout in advanced economies and major emerging market and developing economies (EMDEs) is expected to proceed early this year. Most other EMDEs, however, face greater constraints in vaccine procurement and distribution. Until vaccines are widely distributed, effective containment strategies to limit the spread of COVID-19 remain critical.

In all, the global economy is estimated to have contracted 4.3 percent in 2020 In advanced economies, the initial contraction was less severe than anticipated, but the ensuing recovery has been dampened by a substantial resurgence of COVID-19 cases. Meanwhile, output in China is estimated to have rebounded last year at a faster-than-expected clip, with particular support from infrastructure spending. China's strength was an exception, however, and disruptions from the pandemic in the majority of other EMDEs were more severe than previously envisioned, resulting in deeper recessions and slower recoveries, especially in countries with recent large COVID-19 outbreaks.

Prospects for the global economy are uncertain, and several growth outcomes are possible. In the baseline forecast, global GDP is expected to expand 4 percent in 2021, predicated on proper pandemic management and effective vaccination limiting the community spread of COVID-19 in many countries, as well as continued monetary policy accommodation accompanied by diminishing fiscal support.

Global Growth

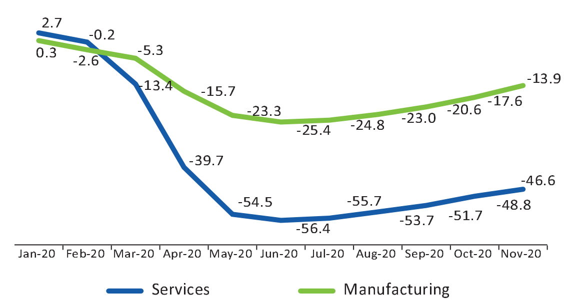


Source: World Bank

Global Trade

Global trade collapsed last year as border closures and supply disruptions interrupted the international provision of goods and services. Goods trade fell more rapidly and recovered more swiftly than during the global financial crisis, while services trade remains depressed. Relative strength in manufacturing, alongside persistent weakness in services, reflects the unusual nature of the recession, which has shifted consumption patterns toward goods and away from services requiring face-to-face interactions. The recovery in global merchandise trade has also benefited from the resilience of global value chains to supply disruptions.

Global Trade Deviation

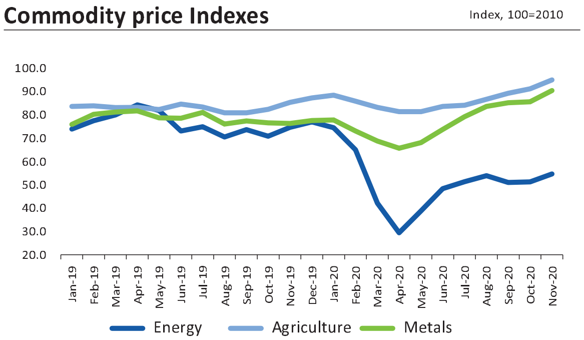


Source: World Bank

Global Commodity Market

Most commodity prices rebounded in the second half of last year; however, the pickup in oil prices lagged the broader recovery in commodity prices due to the prolonged impact of the pandemic on global oil demand. Crude oil prices averaged \$41/bbl in 2020, a 34 percent fall from 2019. Oil demand fell 9 percent last year—the steepest one-year decline on record—as a result of pandemic-control measures and the associated plunge in global demand, Oil prices are forecast to remain close to current levels and average \$44/bbl in 2021 before rising to \$50/bbl in 2022. Base metal prices were, on net, broadly flat in 2020, Prices are expected to increase 5 percent in 2021 alongside the expected rebound in global demand. Agricultural prices rose 4 percent in 2020, largely driven by supply shortfalls and stronger-than-expected demand in edible oils and meals. Agricultural prices are forecast to see a further modest increase in 2021.

Commodity price Indexes



Source: World Bank

Global Financial Market

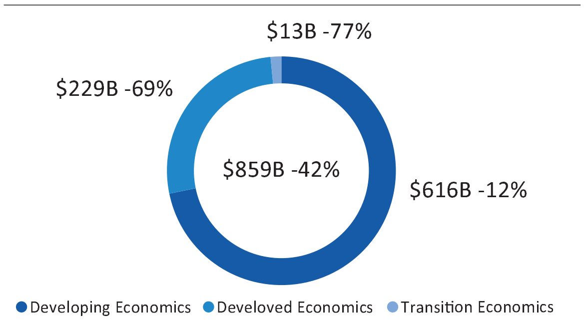
Aggressive policy actions by central banks kept the global financial system from falling into crisis last year. Financial conditions are generally loose, as suggested by low borrowing costs, abundant credit issuance, and a recovery in equity market valuations amid positive news about vaccine development. This masks rising underlying vulnerabilities, however, including rising debt levels and weakening bank balance sheets. Banks' capital buffers are under pressure due to falling profitability and asset quality deterioration. Defaults have already surged in the hardest-hit sectors and countries, and rising credit downgrades point to further strains in the future.

Global Foreign Direct Investment

Global foreign direct investment (FDI) collapsed in 2020, falling 42% from $1.5 trillion in 2019 to an estimated $859 billion, according to UNCTAD. Such a low level was last seen in the 1990s and is more than 30% below the investment trough that followed the 2008-2009 global financial crisis. Despite projections for the global economy to recover in 2021 – albeit hesitant and uneven – UNCTAD expects FDI flows to remain weak due to uncertainty over the evolution of the COVID-19 pandemic.

The organization had projected a 5-10% FDI slide in 2021 in last year's World Investment Report.

Global FDI in 2020



Source: UNCTAD

Risks to the Outlook

Although global activity is projected to recover as the pandemic is gradually brought under control, it is not expected to return to its pre-crisis trend. The baseline forecast is subject to several risks. The spread of the pandemic could accelerate, particularly if the vaccination process is delayed, and economic weakness and impaired banking systems may lead to financial crises. In the medium term, the crisis may lower global potential output as a result of lasting damage to health, education, and balance sheets.

Bangladesh Economy

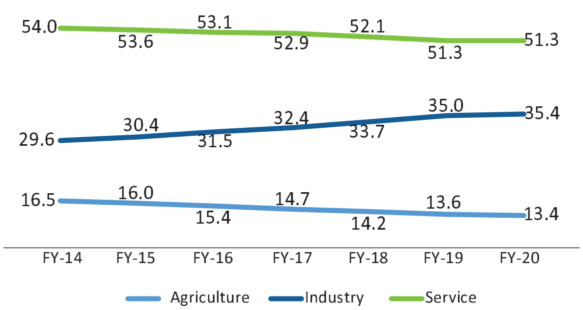
Bangladesh - just like the rest of the world has and more so as an emerging economy - faced tough challenges - often having to choose between saving lives and preserving livelihoods. Prior to the outbreak of the pandemic in 2020, the Bangladesh economy was somewhat under stress due to the weak performance of a few economic indicators such as exports, imports, private investment, foreign direct investment, and revenue mobilization. Like all other economies, Bangladesh has experienced pressure due to the disruption in economic activities during the pandemic. Both domestic and global demand contracted. As our economy is now integrated with the global economy, a downward trend was observed in case of exports, outflow of Bangladeshi migrants for work, and foreign investment. On the domestic front, depressed domestic demand has been reflected through low investment. Credit flow to the private sector and import of capital machinery had been low. Job losses by a large number of people had also reduced demand. All these had an impact on growth which was on an increasing trend during the last decade. Thus, in fiscal year 2020, the growth of gross domestic product (GDP) was 5.2 percent as opposed to 8.2 percent, which the government projected originally. Several studies have indicated that low growth and slower economic activities had a knock-on effect on poverty, unemployment, education, inequality and many social aspects.

Bangladesh economy faced Covid-19 pandemic-induced challenges in every economic sector. In this backdrop , the government of Bangladesh and Bangladesh Bank took a series of timely and appropriate initiatives such as stimulus packages of more than BDT 1.21 trillion, policy relaxations, low cost refinance schemes, etc., among others, to support weaker segments of the economy and to ensure sufficient liquidity in the banking system. Due to government efforts combined with the hard work of the people, the Bangladesh economy has been less affected compared to other countries during the pandemic. Aided by those prompt policy initiatives, the economic recovery of Bangladesh remained at the forefront among the neighboring South Asian economies and attained a 5.2 percent growth rate.

Agricultural Sector

The agriculture sector maintained solid growth even amid the COVID period on the back of the healthy production of most of the cereal and non-cereal crops aided by the timely availability of inputs, favorable weather conditions at the time of cultivation and harvesting. Out of the three main sectors of the economy, agriculture emerged as the least affected. With few cases of the virus outbreak in rural areas, activities in agriculture and related sub-sectors (livestock, fisheries etc.,) remained, more or less, uninterrupted. A problem arose at the time of harvest of Boro crops for lack of labors and impending flood. Timely availability of inputs, benign weather conditions during cultivation and harvesting periods favoured satisfactory crop production. Meanwhile, the stimulus packages announced by the government to disburse credit at low cost among the affected farmers for mitigating the repercussion of the pandemic would likely to cushion the agriculture sector from further spill-over effects.

Sector wise GDP Contribution in %



Source: Bangladesh Bank

Industrial Sector

While the industry sector had been contributing to GDP with double-digit growth rates since FY16, the growth rate in this sector sharply came down to 6.48 percent in FY20. The industry sector decelerated to low but positive growth rates during the first three quarters of FY20, while the growth of the industry sector fell to a negative territory reflected in the growth of Quantum Index of Industrial Production (-14.98 percent) during Q4FY20. Mostly manufacturing sector led by wearing apparel, textile, pharmaceuticals, non-metallic mineral product, leather and related products and chemical production spurred the QIIP. Besides, service sector related activities also climbed out from their pandemic depths. Cargo handled through Chattogram port started increasing sharply after May 2020 and came back to the pre-pandemic level in November 2020 . Private sector credit growth in trade and commerce and consumer finance increased significantly during the first quarter of FY21.

Service Sector

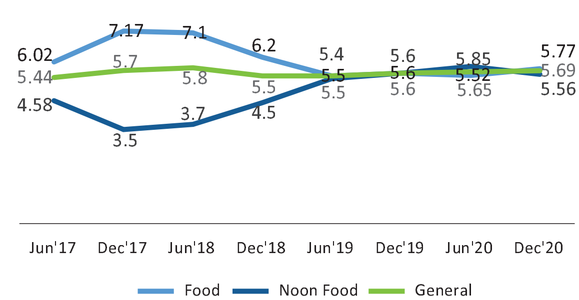
The service sector, which also impacted by the pandemic but grew by 5.32 percent in FY20 against 6.78 percent in FY19 as most of the leading sub-sector activities such as wholesale and retail trade activities, transport, storage and communication, financial intermediation, education, real estate, renting and business activities waned due to lock-down measures.

Inflation

CPI inflation became some sort of unstable after the detection of the first COVID patient in Bangladesh in March 2020 and gradually increased to 6.44 percent in October 2020, but then started to decrease to 5.52 percent in November 2020 which came down further to 5.29 percent in December 2020 though average inflation rose to a three-year high of 5.69 per cent in the concluded calendar year. The recent increase in inflation until October 2020 was mainly driven by an increase in food inflation. On the other hand, non-food inflation remained low during the coronavirus pandemic due mainly to subdued domestic demand.

In rural areas price was down in December at 5.28 per cent where Food inflation dropped to 5.60 per cent, and non-food inflation rose to 4.67 per cent. Urban inflation declined to 5.31 per cent, led by fall in food inflation, which stood at 4.77 per cent where non-food inflation in the urban areas rose to 5.93 per cent in December. The government has set a 5.4 per cent inflation target in the current fiscal year.

Twelve Months Average Inflation Rate In %



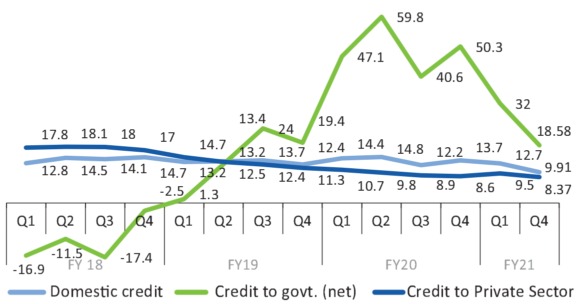
Source: Bangladesh Bank

Money Supply and Credit Growth

To accommodate the government's supportive policies and implement stimulus packages in view of cushioning the economy against the adversities of COVID-19 pandemic, Bangladesh Bank (BB) set an expansionary monetary policy for FY21. BB made the policy relaxations through slashing the policy rates including repo rate, reverse repo rate, cash reserve ratio (CRR), and bank rate to ensure adequate finance at a lower cost to the priority and productive sectors, particularly in agriculture; cottage, micro, small and medium enterprises (CMSMEs), and manufacturing industries, among others, without impairing price stability. The expansionary policy stance set broad money (M2) growth target at 14.00 and 15.60 percent for December 2020 and June 2021, respectively .

Broad money (M2) grew by 13.99 percent (y/y) at the end of November 2020, supported by a strong pickup in the net foreign asset (NFA) Amid the COVID-19 pandemic induced by global economic slowdown, net foreign asset (NFA) registered 27.75 percent growth (y/y) in Nov'20, aided mostly by a strong surge of inflows of remittance by 48.54 percent and foreign loans by 53.72 percent. Despite a high growth of credit to the public sector, the slower growth of credit to the private credit pulled down the growth of net domestic asset (NDA) to 10.56 percent at the end of November 2020 from 14.02 percent at the end of June 2020. On the back of a large inflow of foreign loans and a rise in the borrowing through selling of national saving certificates, the growth of credit to the public sector moderated somewhat; nonetheless it remained as high as 18.58 percent at the end of December, 2020, reflecting government's lower than expected revenue collection in the pandemic period. Although the growth of credit to the private sector started picking up with BB's policy supports and implementing government's stimulus package aimed at faster growth recovery of the economy, it still remained as low as 8.37 percent at the end of December, 2020 against the target of 11.50 percent and 14.80 percent for December 2020 and June 2021, respectively . In the period ahead, the growth path of credit to the private sector will recover with an expectation that intensity of the effects COVID-19 would be lesser in the second wave and the vaccine would be available to a larger coverage.

Growth of Credit in %



Source: Bangladesh Bank

Foreign Direct Investment

Bangladesh Bank statistics, however, showed that the net inflow of FDI in the country declined by 19.50 per cent in the first nine months (January-September) of 2020 and stood at around $1.74 billion. The amount was $2.15 billion in the same period of 2019. The annual net inflow of FDI in 2019 in Bangladesh was recorded at $2.87 billion, which was 20.46 per cent lower than $3.61 billion in 2018. FDI in Bangladesh is mostly domestic market-oriented like telecommunications, energy and financial services. The export-oriented investment is also there, but that declined due to slump in global demand.

FDI through equity or fresh capital injection declined by around 22 per cent during the first nine months of 2020. At the same time, FDI through intra-company loans recorded a big drop of 74 percent.

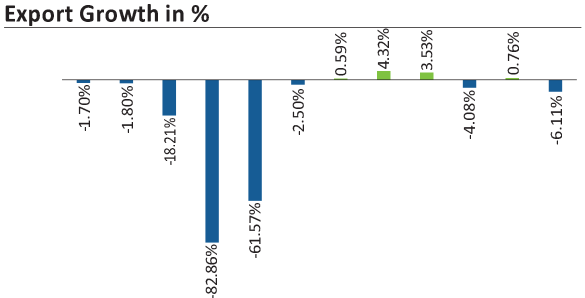
Fiscal Management

The fiscal position markedly slipped from its normal trend during Q4FY20 owing to COVID-19 related economic slowdown triggered by a government declared lock-down for two months that shut down economic activities across all sectors of the economy. The weak revenue collection and additional expenditure for health and cash transfer for coping with COVID-19 pandemic increased fiscal deficit. About 70 percent of deficit financing was met from domestic sources. During FY20, total revenue collection decreased by 2.4 percent (y/y) to BDT 2512.0 billion (9.0 percent of GDP) and 72.2 percent of annual revised budget target for FY20. Budget deficit, as percent of GDP, rose to 4.9 percent in FY20 from 4.5 percent in FY19 because of slower revenue collection against higher expenditure, below the revised budget target of 5.5 percent of GDP. In FY20, total expenditure rose by 4.3 percent (y/y) to BDT 3876.4 billion (13.9 percent of GDP) and 77.3 percent of the annual revised budget target for FY20. In FY20, about 60 percent deficit financing was met from domestic sources which mostly came from the banking sector.

Export

For many, 2020 has been a year of despair. The unprecedented effects of Covid-19 have jolted economies and supply chains worldwide with Bangladesh being no exception. In the financial year 2019-20, there was a very high negative growth in exports (17 percent) which was unprecedented in the recent history of Bangladesh and as a major player in the garments sector, Bangladesh has been severely affected by the coronavirus fallout. Primarily, the supply of raw materials to local garment factories was disrupted when China—Bangladesh's main source for such goods—halted all shipments between March and April due to the coronavirus outbreak. Overall, Earnings from the apparel shipment, which typically contributes 84 per cent to the national exports, witnessed an unprecedented 16.94 per cent year-on-year decline in 2020. Earnings from the shipment of leather and leather products, the second-largest foreign currency earning sector, slid 6.24 per cent to $446.13 million in H1FY21. Jute and jute goods fetched 30.56 per cent higher at $668.11 million. Export of home textile, bicycle, agricultural products and pharmaceuticals grew in the first half of the fiscal year. Frozen and live fish export declined by 3.71 per cent to $279.72 million.

Export Growth in %



	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20
Series1	-1.70%	-1.80%	-18.21%	-82.86%	-61.57%	-2.50%	0.59%	4.32%	3.53%	-4.08%	0.76%	-6.11%

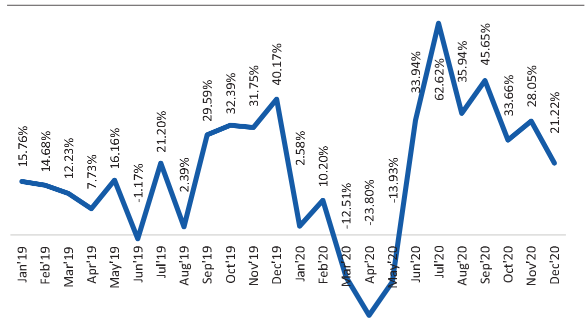
Source: Bangladesh Bank

Remittance

Bangladesh is the world's 6th largest manpower exporting country but it ranks 9th in terms of receiving remittances. Officially recorded inflows classified under worker's remittances have increased by more than 38 per cent in the first half of FY21 which is the highest ever in Bangladesh's history. The remarkable growth in remittance inflows mostly came from the Gulf region which accounted for 57 percent share of total inflows. This has happened at a time when the number of workers going abroad has declined by almost 75 per cent.

New workers going out of Bangladesh for work abroad has stopped after February 2020 and has not reopened as of now. At the same time, because of the collapse in petroleum prices and the pandemic induced recession, most oil exporting gulf countries and some others have sent back 300,000-400,000 workers from those countries. Various government policy measures such as relaxation of conditions for incentives including an extension of document submission time from 15 days to 2 months and a pandemic-induced slump in transactions through informal channels supported to strong remittance growth.

Remittance Growth Rate in %

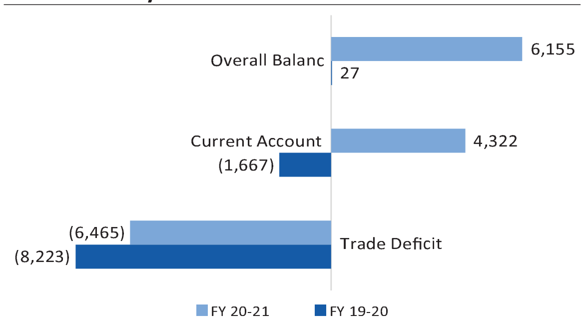


Source: Bangladesh Bank

Import

The Covid-19 induced economic crisis has affected the export and import of Bangladesh by large margins. The economic crisis has been exacerbated by the closure or limited operation of businesses during the lock-down at home and abroad. From July to December of FY 2020-2021 imports declined 6.8 per cent from that a year earlier to $25.22 billion. The economic meltdown brought on by the coronavirus pandemic has adversely affected the domestic demand, bringing down import payments. The falling import of capital machinery and industrial raw materials indicated that investment in the private sector is feeble. Capital machinery import stood at $ 1.5 billion in the first half of 2020-21, down 29.17 per cent from a year ago. This means businesses are reluctant to set up new plants or expand their existing ones. Import of intermediate goods, including industrial raw materials, dipped 8.8 per cent to $15.33 billion, in a sign of lower production than the pre-pandemic period.

Balance of Payments (USD in Million)



Source: Bangladesh Bank

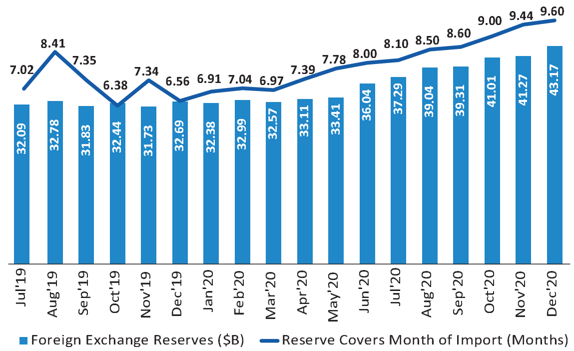
Balance of Payments

The trade deficit shrank heavily in the first half of the ongoing fiscal year because of dwindling imports amid the economic slowdown, in a sign of depressed demand and consumption. Between July and December, the trade deficit, which occurs when imports outweigh exports, stood at $6.46 billion, down 21.37 per cent year-on-year. During the period, imports declined 6.8 per cent from that a year earlier to $25.22 billion, eclipsing a 0.44 per cent fall in exports to $18.76 billion. Current account balance, one of the major indicators of the balance of payments (BoP), stood at $4.32 billion in the July-December period in contrast to a deficit of $1.66 billion a year ago. The lower imports and an increase in remittances have widened the current account. The overall balance was $6.15 billion in the first six months of the fiscal year in comparison to $27 million a year earlier. The stronger current account balance and the loans from multilateral lenders helped boost the overall balance of the BoP.

Foreign Exchange Reserve

Due to the ongoing surge in the officially measured inflow of workers' remittances and the decline in import payments associated with economic slowdown, the external current account of the balance of payments (BOP) recorded large surpluses and foreign exchange reserves of BB increased by more than $11 billion to more than $43 billion by end-December 2020. The current foreign exchange reserves (less ACU liability) is sufficient to pay import liability of 9 months; considering the average of the previous 12 months import payments.

Fx Reserve of BB & Import Coverage

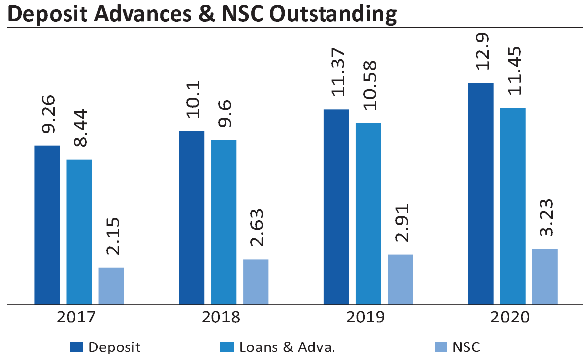


Banking Sector:

Digital services in the financial sector are slowly expanding. The Covid-19 pandemic has added momentum to them. Private banks have scaled up their digital services during the pandemic. As part of digitization, each bank has to launch e-KYC system by December 2021. The first three quarters of 2020 saw U$ 65 Bn+ transaction with 72% of the market dominated by mobile banking. With 96Mn Registered users and U$ 202Mn daily MFS transactions, digital transactions will unlock the digital commerce industry's potentials.

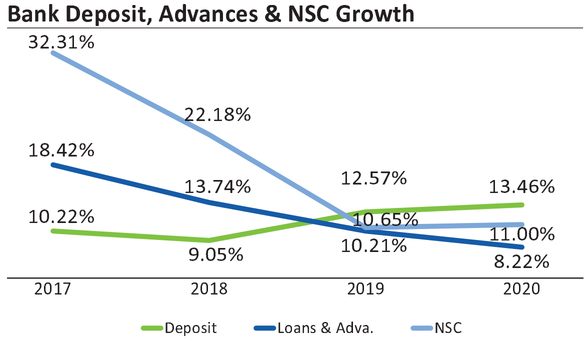
These policy relaxations had a significant impact on liquidity in the banking system. The ratio of total liquid asset to total demand and time liabilities (TDTL) increased to 27.52 percent in Q1FY21 as compared to 23.5 percent Q3FY20 . Similarly, liquid asset excess of SLR to TDTL rose to 12.55 percent from 6.9 percent at the same period.

Deposit Advances & NSC Outstanding



Source: Bangladesh Bank

Bank Deposit, Advances & NSC Growth



Government Stimulus Package Implementations

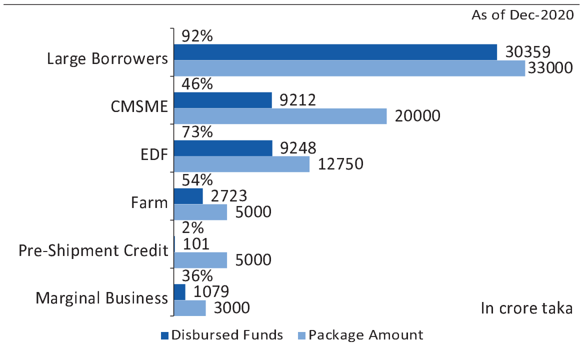
Since March, the government has unveiled 21 stimulus packages involving more than Tk 120,000 crore, which is about 4.5 per cent of the GDP of Bangladesh.

Businesses are experiencing an uneven recovery from the pandemic-induced slowdown as larger firms are bouncing back strongly thanks to the easy access to the stimulus packages while the smaller ones are still mired in the crisis. The large industrial and service sectors have made as much as 80-90 per cent recovery compared to the pre-pandemic level. It is only 30-40 per cent for small and medium enterprises.

The central bank initiated the stimulus package of Tk 20,000 crore in April, 2020 dedicated to the cottage, micro, small and medium enterprise (CMSME) sector. Forty-six per cent of the fund was given out as of December 2020. A large number of CMSMEs are unable to provide documents to banks where as much as 92 per cent of the Tk 33,000-crore package for the large industries and the service sectors was approved by lenders as of December.

The businesses in the agriculture sector have not managed adequate loans from the stimulus fund as well. As of December 15, 2020 banks disbursed 56 per cent of Tk 5,000-crore stimulus package for the farming sector. The implementation of the Export Development Fund has got momentum as Tk 9,248 crore has been distributed against the package amount of Tk 12,750 crore as of December 22,2020, Large industries usually get credit support from the facility.

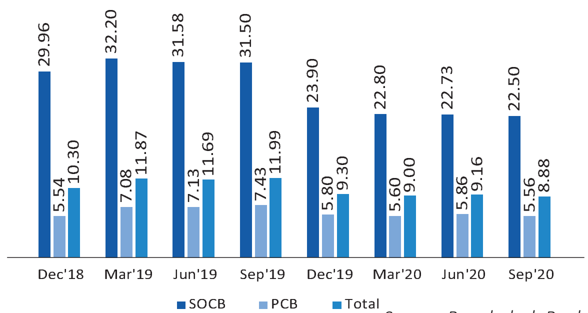
Implementation of Major Stimulus Package Run By BB



Non-performing Loans (NPLs) Status

Default loans went down in 2020 on the back of a general forbearance on loan payments. The overall NPL ratio of the banking industry reduced to 7.66 percent as of December,2020 from 9.16 percent in December,2019, mainly attributed to the loan moratorium facility continued by the Bangladesh Bank. Non-performing loans (NPLs) stood at Tk 88,734 crore as of December, down 5.93 per cent year-on-year, showed data from Bangladesh Bank. The central bank unveiled a moratorium facility for 2020 to insulate borrowers from the economic hardship caused by the coronavirus pandemic, in a move that reined in the escalation of defaulted loans and brought them down. The gross NPL ratio for SCBs dropped to 19.16 percent in Dec,2020 from 22.73 percent in Dec, 2019. Similarly, the gross NPL ratio for PCBs stood at 5.56 percent in Q1FY21, declined by 0.30 percentage points from the preceding quarter.

NPL Movement in %



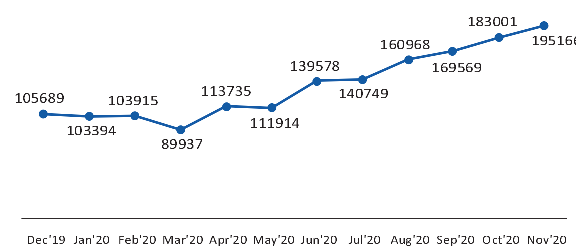
Source: Bangladesh Bank

Banking Sector Liquidity Condition

The policy relaxations by Bangladesh Bank and low-cost refinancing lines of credit along with the government's big stimulus packages to support economic activities had already injected a big liquidity in the economy where High foreign currency inflow through remittances amid low import expenditures mainly shot up excess liquidity. The central bank purchased $5 billion, worth Tk 46,563 crore, in the first six months of the current fiscal year – which was nearly seven times higher than its purchases in the entirety of Fiscal Year 2019-2020. The government, for the first time, allowed the investment of black money in the banks to ease liquidity pressure, help implement the stimulus package and support high bank borrowing.

Excess Liquidity Trend in Banking Sector

Figure in crore taka

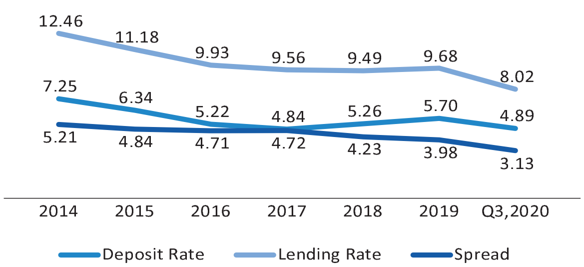


Interest (Profit) Rate Outlook

While sufficient liquidity in the banking system to be aligned with the government's effort of implementing stimulus packages to revive the economy from the COVID-19 fallout is critical, the BB cut its cash reserve ratio (CRR) by 150 basis points from 5.50 to 4.00 percent in two steps during March – April 2020. Moreover, BB reduced the bank rate from 5.00 to 4.00 percent in July 2020, which had been remained unchanged at 5.00 percent since 2003, rationalizing it with the current interest rate regime. The BB also slashed its repo from 6.00 to 4.75 percent in three steps during March - July 2020, aiming at easy access for the banks to lend more credit to the priority sectors during the pandemic period. Consequently, the interest rate in the call money market and interbank repo rate continued to decline from 5.14 and 5.96 percent in March 2020 to 2.00 and 0.70 percent respectively in November 2020.

Weighted average interest rates in the retail market also witnessed a significant decline both in lending and depositing, following the ceiling of 9.0 percent lending rate cap effective from 1 April 2020. Weighted average lending and deposit rates decreased from 5.51 and 9.58 percent in March 2020 to 4.64 and 7.62 percent in November 2020, respectively. The rise in the liquidity in the banking system, amid COVID-19 driven by a weak credit demand, led to a sharper fall in the interest rates on lending, which, in turn, induced to lower the cost of funds by the way of lowering the interest rate on deposit.

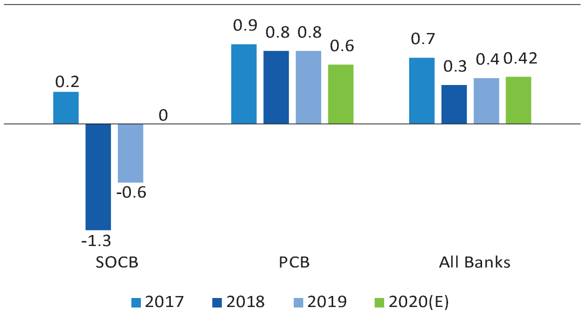
Weighted Deposit, Advance & Spread rate in %



Banks Profitability

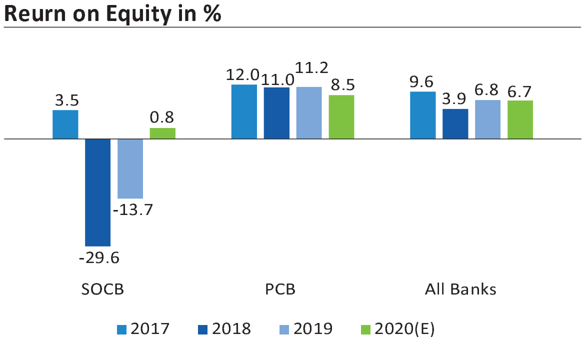
Total operating profits in the banking sector declined by only 7.16% last year from the previous year when industry insiders had assumed that the 9% lending rate cap will erode profits significantly. In 2019, the operating profit growth was 7%. Although operating profits declined, net profits in 2020 were expected to surge significantly because of lower provision requirements, thanks to the loan classification suspension facility offered for January-December of the year considering the pandemic situation. High returns from investment in government treasury bills and bonds largely contributed to earnings when the private sector credit growth was depressed throughout the year, hovering between 8% and 9%. Banks had to spend only Tk.2,500 crore in an additional provision as a cost for payment deferral of borrowers.

Return on asset in %



Source: Bangladesh Bank

Reurn on Equity in %



Source: Bangladesh Bank

Banking Sector Outlook

It was feared that the banking sector would face a double-whammy, stemming from Covid-19 and lending rate cap. But what the end of 2020 shows is different picture with two major performance indicators – profitability and loan recovery – being far better than expected. Though NPL's decline was driven by the loan moratorium and the prohibition on banks downgrading loans until December 2020, which delayed the recognition of NPL. Non-performing loans would increase in the coming quarters because of the expiration of credit moratorium period and weakening of the repayment capacity of borrowers as a result of the coronavirus shock.

Low private sector credit growth and high investment in government bills and bonds took excess liquidity in the banking sector to above Tk 2 lakh crore in December last year, the highest in the history.

The real challenge will be this year as payment holiday has been lifted. The depressed private sector credit growth is another big challenge because banks could not lend even at 5% as businessmen have cash in hand due to one-year payment deferral.

The COVID-19 pandemic has ironically brought about a revolution in digital banking as banks are quickly adopting technology-based products, thereby allowing customers to access banking services remotely. Use of both credit and debit cards hit an all-time high in December as people continued to fulfill their demand using the digital means. Digital loan(Investment) is one such product that will give customers a first-time experience in the country of processing loans through their bKash app, reflecting how technology has been taking over the banking industry. In 2020 Bangladeshi banking sector has experienced first block chain-based cross-border remittance service, the pandemic has given a further push to cashless transaction as people from all walks of life are increasingly embracing the different digital financial payment tools to avoid cash in order to keep the coronavirus at bay.

Bangladesh Economic Outlook 2021

Even in the corona crisis, the Bangladesh economy is growing much faster than in other parts of the region. It presents itself to international entrepreneurs as the best in its class: The International Monetary Fund (IMF) expects an economic growth of 3.8% in Bangladesh for the crisis year 2020 – by far the highest value in the whole of Asia.

Looking forward, the government has set a 7.4 percent real GDP growth target for FY21 weighing on the rebound in the economic situation aided by continued policy initiatives such as stimulus packages, low cost refinance schemes, and policy relaxations, among others. Bangladesh economy has recovered faster as reflected in sector-wise performance for the first quarter of FY21 amid a dreadful situation as the pandemic continues. The growth targets indicate that growth will recover at a faster pace in FY21 and will increase gradually . The economy is likely to maintain the targeted growth path with an expectation that a second wave of the pandemic would not harm the economy seriously. Besides, an advanced stage of vaccine development would have a positive impact on the global as well as domestic economy.

We hope Bangladesh Bank will continue with expansionary monetary policy stance during the year 2021. The government has already cut its GDP growth projection at 7.40 per cent from its earlier projection of 8.20 per cent for the FY'21 mainly due to the ongoing Covid-19 pandemic. We predict credit to the public sector particularly the government borrowing from the banking sector is likely to decline in the year 2021 while the private sector credit growth is expected to pick up in the coming months as the launch of coronavirus vaccination is set to contain the spread of deadly virus in the country, thus boosting the peoples' confidence in economic activities.

Against all the odds 2021 ushers in with a lot of expectations. The Covid-19 pandemic which engulfed our economic and social lives in every possible manner in 2020 is expected to be brought under control as hopes are high with the approval of vaccinations developed by a number of companies.

A GENERAL REVIEW OF THE PERFORMANCE OF SHAHJALAL ISLAMI BANK LIMITED

After remaining buoyant in the FY19, economic activities drastically suffered, in FY20, particularly in the industry and service sectors, disrupted by an unprecedented lockdown measures to limit the outbreak of COVID-19 pandemic. During this FY20, industrial production dropped significantly, driven mostly by an abrupt fall in manufacturing output, while the service sector activities were held up by the partial and often complete shutdown of transportation, trade, and hospitality industries. The agriculture sector however maintained firm growth during this period, aided by supportive government initiatives. Nonetheless, the real GDP growth slided to 5.24 percent in FY20 from 8.15 percent in FY19.

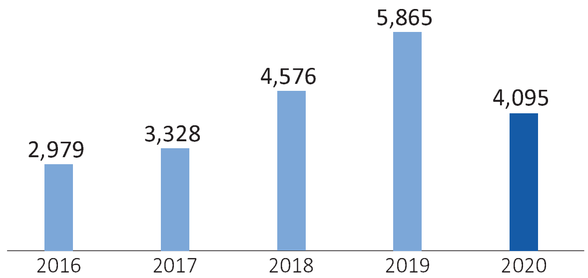
Due to the outbreak of COVID 19 pandemic private sector credit growth reduced significantly to 8.37% in 2020 from 10.23% of 2019. The realization of loan reduced substantially. Moreover, interest rate cap introduced by Bangladesh Bank also impacted heavily the interest income of banking sector of Bangladesh. Accordingly, the Banks are obliged to reduce interest rate of deposit products. The indicators of the banking sector exhibited a mixed performance at the end of FY20, as reflected by the rising non-performing loans (NPLs), decreasing interest income, and the improvement of liquidity conditions, stable capital adequacy, and moderate provision maintenance.

Despite huge challenges faced by the Banking sector, Shahjalal Islami Bank Limited passed another year of consolidation and compliance. The operating profit stood at Tk.4,094.81 million, net profit after tax reached to Tk. 1,908.20 million, return on average equity was 11.08 percent, Earnings per Share (EPS) stood at Tk.1.95. Non- performing investments (NPI) ratio was 4.57 percent. Capital to Risk-Weighted Assets Ratio of the Bank was 14.19 percent. The total deposit was Tk. 218,442.95 million and the bank invested Tk. 196,512.65 million as of 31 December 2020. Export was Tk.133,580.11 million and import was Tk.148,469.29 million during the year under review.

Operating Profit

The operating profit of the Bank has reduced during the year 2020 due to the outbreak of COVID 19 pandemic and profit (interest) rate cap introduced by Bangladesh Bank. Operating profit decreased by 30.18% from Taka 5,865.13 million to Taka 4,094.81 million in 2020 and net profit after tax increased by 11.05% from Taka 1,718.30 million to Taka 1,908.20 million in 2020.

Operating Profit (Taka in million)



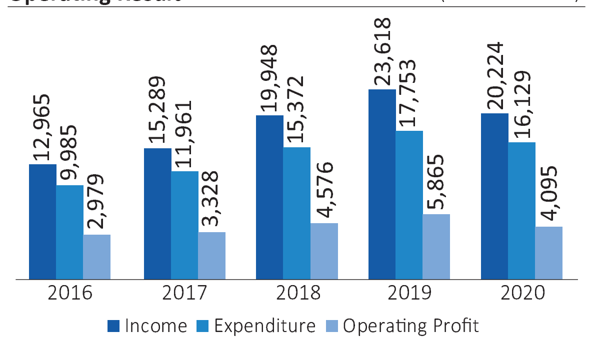
A summary of operating result of the bank as on 31 December 2020 and 31 December 2019 is shown below:

Taka in million

Particulars	2020	2019
Total Income	20,223.92	23,618.31
Less: Total Expenditure	16,129.11	17,753.18
Net Profit before Provision & Taxation	4,094.81	5,865.13
Less: Provision for Investment, Off Balance Sheets Items, Shares & others	451.39	1,970.98
Net profit before Taxation	3,643.42	3,894.15
Less: Provision for Taxation	1,735.22	2,175.85
Net Profit after Tax	1,908.20	1,718.30

The operating result of last five years is shown in the diagram below:

Operating Result (Taka in million)

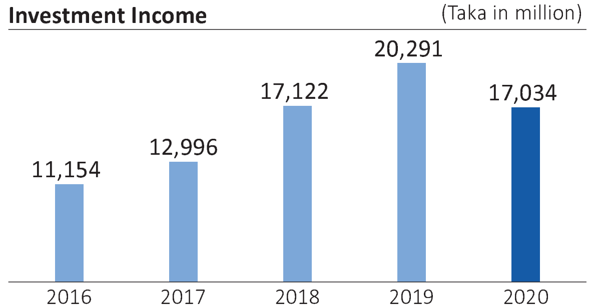


Investment Income:

Total Investment Income of the Bank stood at Tk. 17,033.75 million as on 31 December 2020 as against Tk. 20,290.69 million of 2019. Investment income decreased by Tk.3,256.94 million due to 9% profit rate cap introduced by Bangladesh Bank and negative growth of investment due to COVID 19 pandemic throughout the year 2020.

The amount of Investment Income represents 84.23% of the total income of the year 2020 as against 85.91% of the year 2019. The trend of investment income is given below:

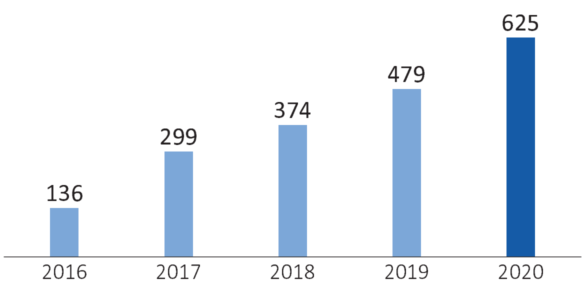
Investment Income (Taka in million)



Income from Investment in Shares & Securities

Income from investment in Shares & securities increased to Tk.625.32 million in 2020 from Tk. 478.76 million in 2019 showing a growth of 30.61% over last year. Surplus liquidity used in Investment of Bangladesh Government Islami Investment Bond (BGIIB) as a result income from investment in Shares and securities increased during the year under review. The progress of Income from investment in Shares & securities is given below:

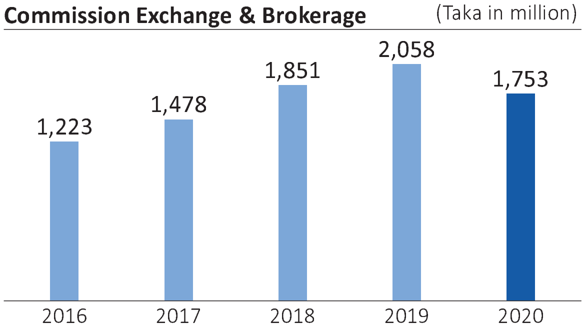
Income from Shares & Securities (Taka in million)



Commission, Exchange and Brokerage

Commission, Exchange and Brokerage income decreased to Tk.1,752.50 million in 2020 from Tk. 2057.86 million in 2019 exhibiting a negative growth of 14.84% over the previous year. The worldwide lockdown due to COVID 19 Pandemic is the key reason for the decrease in this income. In Bangladesh particularly, in April & May Export and Import reduced significantly as such related income also reduced in the same way. The position of Commission, Exchange and Brokerage income of last five years is given below:

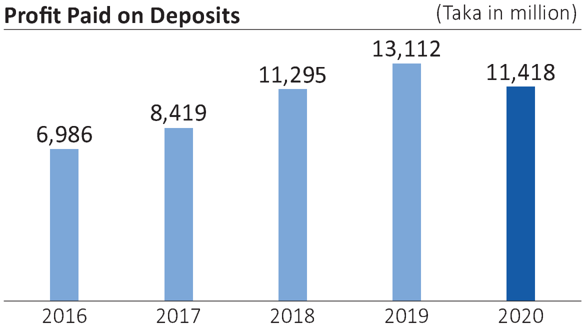
Commission Exchange & Brokerage (Taka in million)



Profit Paid on Deposits

Bank distributed Profit of Tk. 11,418.43 million among the Mudaraba Depositors in the year 2020 against Tk. 13,112.33 million in the year 2019 which being 92.56% of the distributable investment income earned from the deployment of Mudaraba Fund and 70.79% of the total expenditure of 2020. Improvements of Deposit Mix as well as reduction of profit rate of deposits time to time are the key reasons for reduction of profit paid on deposits. Profit Paid on Deposits for last five years is given below:

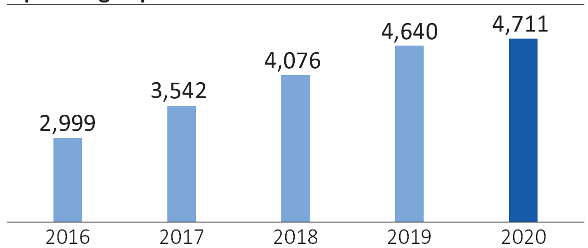
Profit Paid on Deposits (Taka in million)



Operating Expenses

Total operating expenses for the year 2020 was Tk. 4,710.68 million whereas it was Tk. 4,640.85 million for the year 2019. Total operating expenses was 29.21% of the total expenditure for the year 2020 as against 26.14% of 2019. The overall operating expenses reduced other than depreciation and salary. Depreciation expense increased due to change of depreciation method from reducing balance to straight line and salary expense increased due to regular increment and recruitment of new employees. Graphical presentation of operating expenses is given below:

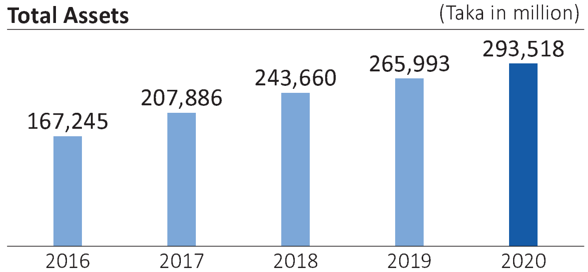
Operating Expenses (Taka in million)



Total Assets

Bank's total asset as on 31 December 2020 stood at Tk. 293,517.85 million which was Tk. 265,992.54 million as of 31 December 2019. Major impact on this growth was the increase in Balance with other Banks and Financial Institutions, Placement with other Banks & Financial Institutions, Investments in Shares & Securities as well as Other Assets. Surplus liquidity and negative credit growth are the key reasons for increase in Bank balance and Investment in Shares and Securities. The growth of total assets is shown below:

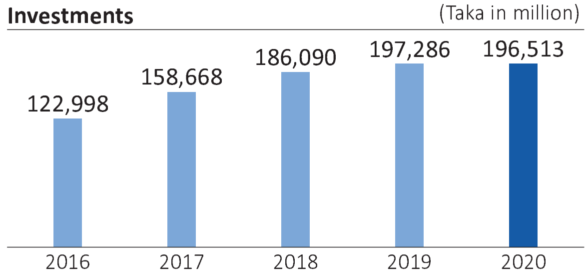
Total Assets (Taka in million)



Investment

Total investment of the Bank stood at Tk. 196,512.65 million as of 31 December 2020 as against Tk. 197,285.68 million as on 31 December 2019 registering a decrease of Tk. 773.03 million. Due to the outbreak of COVID 19, there was low appetite of investment and SJIBL was more cautious to disburse the investment as a result the overall investment growth became negative. To manage the situation, government had declared various stimulus packages which were implemented through commercial banks. SJIBL had participated in all the packages and disbursed a significant amount of investment under those packages. The trend of investment portfolio for last five years is given below:

Investments (Taka in million)

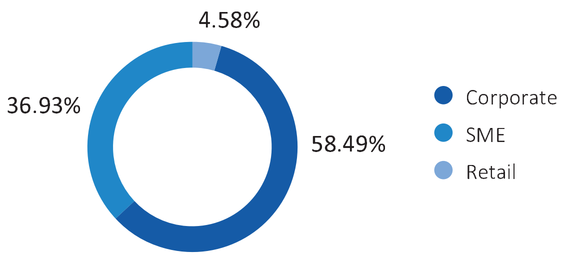


As part of the Bank's diversification strategy, the bank has been developing a balanced portfolio of corporate, retail, and SME investments. SJIBL placed focus on Retail & SME segments of businesses as not only these segments are becoming more important for the growth of the economy but also the competition in Corporate Banking is becoming ever more intense. The segment wise investment as on 31 December 2020 is given below:

Taka in million

Particulars	Total	Mix
Corporate	114,940.24	58.49%
SME	72,573.14	36.93%
Retail	8,999.27	4.58%
Total	**196,512.65**	**100.00%**

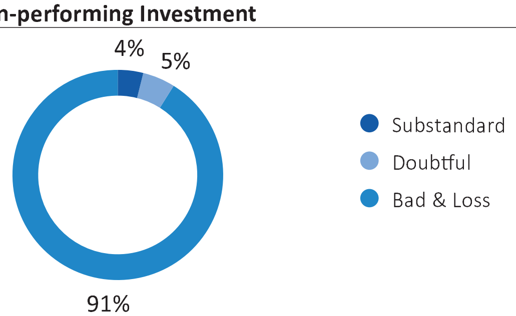
Investment Mix



Non-performing Investments(NPI)

Non-performing investment of the banking sector of Bangladesh stood at 7.77% as on 31 December 2020 whereas; non-performing investment of SJIBL was 4.57% at the same period which is significantly lower than the country position. NPI of SJIBL decreased to Tk.8,973.48 million as on 31 December 2020 from Tk. 9,687.32 million as on 31 December 2019. The Bank has strengthened lending discipline and streamlined the recovery process to reduce the NPIs to an acceptable level. The Bank has taken various initiatives to control NPI, as a result NPI came down to 4.57% from 4.91% of the previous year. Bangladesh Bank had issued Circulars regarding extension of investment moratorium period up to December, 2020, otherwise recovery from classified investment would be better and NPI Ratio would be better. However, the bank is taking more and more initiatives to realize and regularize non-performing investments and reducing it further.

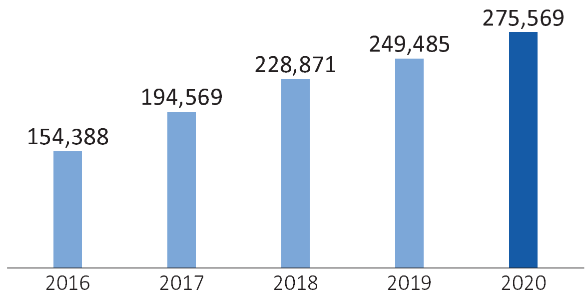
Non-performing Investment



Total Liabilities

Total liabilities stood at Tk. 275,569.10 million at the end of 2020 from Tk. 249,485.27 million of 2019 which was 10.46% higher than that of the previous year. Total liabilities increased mainly due to an increase in deposits and other liabilities. Liability growth of last five years is shown below:

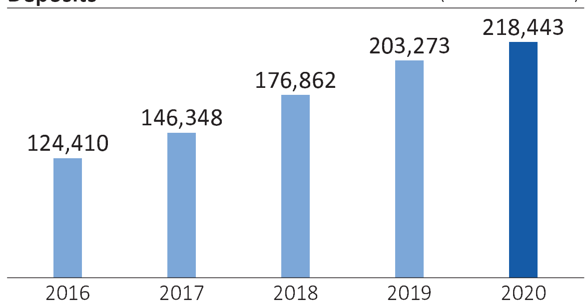
Total Liabilities (Taka in million)



Deposit

Total deposit of Shahjalal Islami Bank Limited stood at Tk. 218,442.95 million as on 31 December 2020 which was Tk. 203,272.98 million as of 31 December 2019 resulting a growth of Tk.15,169.97 million. Though the deposit rate was reduced over the year 2020, deposit increased due to improved overall financial strength of SJIBL and increased customer confidence upon the bank. Bank puts the utmost importance in the mobilization of deposit introducing popular and innovative products. The mobilized deposits are plowed back in economic activities through profitable and safe investments. The growth of deposit is shown below:

Deposits (Taka in million)



Deposit Mix

We have placed utmost emphasis on the optimum deposit mix, as a result, low cost no cost deposit increased to Tk.82,280.57 million in 2020 from Tk. 67,974.15 million in 2019 exhibiting a growth of 21.05% during the year. The percentage of low cost no cost deposit increased to 37.67% of total deposit during the year 2020 from 33.44% in 2019. SJIBL renewed its focus on rebalancing the deposit base to increase the portion of the low-cost transaction-based deposit portfolio. As a result, the bank succeeded in trimming down a high-cost deposit base from 66.56% in 2019 to 62.33% in 2020, thereby consolidating the deposit mix in a beneficial preferred way.

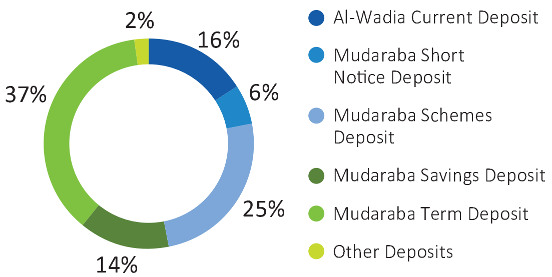
The Deposit-mix of the Bank as on 31 December 2020

Taka in million

Nature of Deposit	Taka in million	Percentage of Total Deposit
Al-Wadia Current Deposit	34,433.46	15.76%
Mudaraba Savings Deposit	30,316.57	13.88%
Mudaraba Short Notice Deposit	13,641.48	6.24%
Mudaraba Term Deposit	81,508.51	37.31%
Mudaraba Schemes Deposit	54,653.87	25.02%
Other Deposits	3,889.06	1.78%
Total	**218,442.95**	**100.00%**

Mix of deposit as on 31 December 2020

Deposit Mix



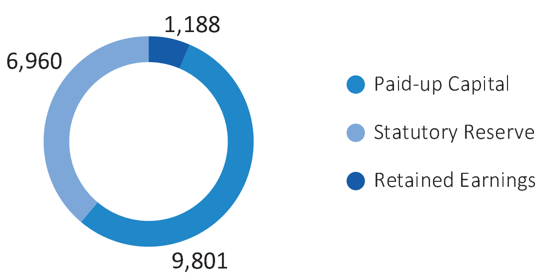
Placements from other Banks and Financial Institutions

Total Placements from other Banks and Financial Institutions stood at Tk.19,730.96 million as on 31 December 2020 which was Tk. 11,382.60 million as on 31 December 2019 resulting a growth of Tk.8,348.37 million.

Shareholders Equity

Total Shareholders Equity stood at Tk. 17,948.76 million at the end of 2020 from Tk.16,507.27 million of 2019 which is 8.73% higher than that of the previous year. Shareholders Equity increased mainly due to the increase of Paid-up Capital and Statutory Reserve. Paid up Capital increased due to payment of 5% stock dividend for the year 2019. Composition of Shareholders' Equity as on 31 December 2020 is given below:

Shareholders Equity



Regulatory Capital

As part of risk management strategy, it is the policy of SJIBL to maintain strong capital to risk-weighted assets ratio to have sufficient cushion to absorb any unforeseen shock arising from any potential risk. Strong capital base is maintained to ensure long-term solvency of the Bank and to help sustainable business growth of the Bank that can maximize value of stakeholders.

Total Regulatory Capital of the Bank stood at Tk. 27,828.26 million as on 31 December 2020 which was Tk. 28,477.37 million as on 31 December 2019 with a negative growth of 2.28%. The regulatory capital reduced due to regulatory deduction and starting of repayment of SJIBL 1st & 2nd Mudaraba Subordinated Bond of Tk.4,000 million and 6,000 million respectively. The bank maintained sound regulatory capital throughout the year 2020. The regulatory capital maintained was 14.19%, much higher than the required capital of 10%. The bank will keep focusing on retention of profit by issuing bonus share and raising Tier-I capital by issuing Mudaraba Perpetual Bond to strengthen its capital adequacy position.

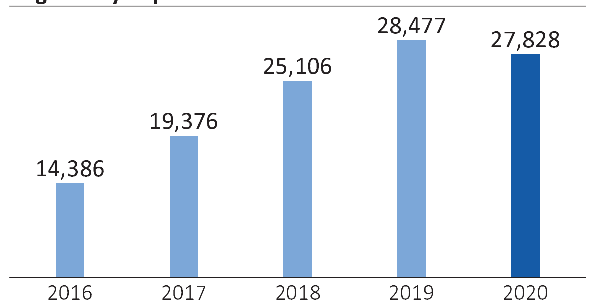
The Regulatory Capital and Risk-Weighted Asset of the bank is shown in the table below:

Taka in million

Nature of Deposit	2020	2019
Regulatory Capital:		
1. Tier-1 (Going-Concern Capital)	17,948.76	16,507.27
2. Tier-2 (Gone-Concern Capital)	9,879.50	11,970.10
Total Regulatory Capital (1+2)	27,828.26	28,477.37
Total Risk Weighted Assets (RWA)	196,154.99	182,775.69
Capital to Risk Weighted Assets Ratio (CRAR)	14.19%	15.58%
Tier-I Capital to RWA	9.15%	9.03%
Tier-II Capital to RWA	5.04%	6.55%
Minimum Capital Requirement (MCR)	19,615.50	18,277.57

Five years trend of regulatory capital is given below:

Regulatory Capital (Taka in million)



Net Asset Value (NAV) Per Share

The Net Asset Value per Share of Shahjalal Islami Bank Limited is Tk.18.31, much higher than the face value of its share. This indicates that the bank has created more value for its shareholders. As a result, the investor's confidence is increasing day by day and they are investing more in the Bank's share. The trend of NAV for the last five years is given below:

Year	Net Asset Value (NAV)
2020	18.31
2019	16.84
2018	15.84
2017	15.69
2016	16.67

Dividend

The Board of Directors of the Bank has recommended dividend @ 12% of which 7% cash and 5% stock for the year 2020. Over the past years, the Board of Directors declared dividends out of profit to shareholders at attractive rates. The rates of dividend declared by the Bank since 2016 are shown below:

Year	Dividend (%)
2020 (Proposed)	12 (7 Cash & 5 Stock)
2019	10 (5 Cash & 5 Stock)
2018	10 Stock
2017	10 Stock
2016	15 (10 Cash & 5 Stock)

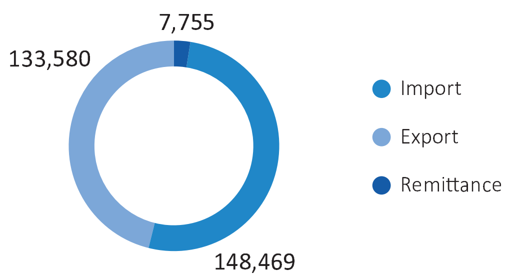
Foreign Exchange Business

Total Foreign Exchange Business handled during the year 2020 was Tk. 289,804 million as against Tk. 311,959 million of 2019 registering a decrease of Tk. 22,155 million, i.e. 7.10% negative growth. Due to COVID 19 pandemic Foreign Exchange Business was severely disrupted during the first half of the year 2020. The particulars of Foreign Exchange Business are given below:

Particulars	Amount in Million Taka	Composition
Import	148,469	51.23%
Export	133,580	46.09%
Foreign Remittance	7,755	2.68%
Total	**289,804**	**100.00%**

Mix of Foreign Exchange Business of 2020

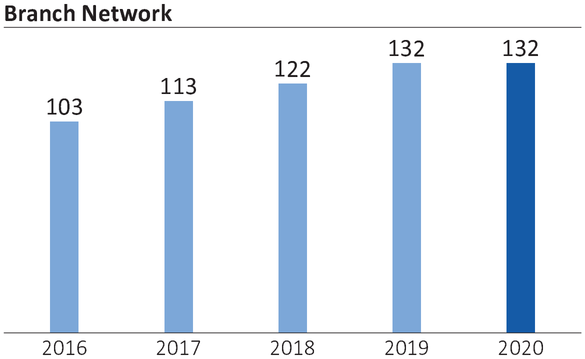
Foreign Exchange Business (Taka in million)



Branch Network

The Bank has been operating with a network of 132 branches around the country. In the year 2020, the Bank has not opened any new branch due to the COVID 19 pandemic throughout the year, rather, it has reevaluated and strengthen the existing branch operation. The bank is focusing on reduction of loss making branches as a result the number of loss making branches reduced during the year. The growth of the branch network in last five years is given below:

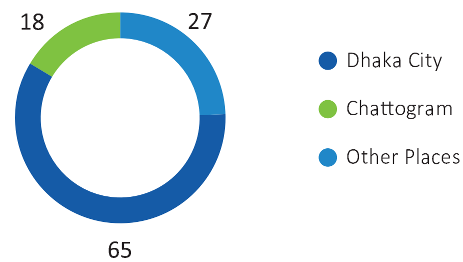
Branch Network



Automated Teller Machine (ATM) Network

At present, the bank has been rendering services through 110 own ATM Booths and 2,565 shared ATM Booths which was 107 own ATM Booths and 2,270 shared ATM Booths in 2019. Through our ATM, customers can access cash withdrawal, balance inquiry, mini statement, mobile recharge, and cash withdrawal from bkash. A significant amount of cash transactions of Shahjalal Islami Bank Limited have been done through its 110 own ATMs and 2,565 shared ATMs all over the country. The bank is planning to invest continuously to increase and widen its ATM network significantly. Area wise ATM Booths are shown in the graph below:

ATM Network



Correspondent Relationship

Shahjalal Islami Bank has established a correspondent relationship across the world with major foreign banks. The number of correspondent banks stood at 412 as of 31 December 2020 across 58 countries. The Bank is successfully maintaining such relationships around the world to facilitate international trade transactions. The bank maintains 34 Nostro accounts in 9 major currencies with reputed international banks around the world in all of the important global financial centers. The Bank is also enjoying sufficient credit lines from correspondent banks to add confirmation to the Letter of Credits to facilitate international trade.

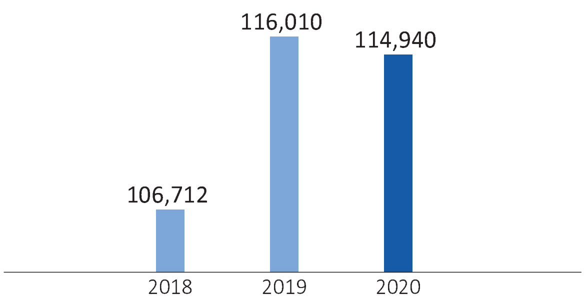
REVIEW OF PERFORMANCE OF VARIOUS SEGMENTS

Corporate Banking

Corporate banking is the custom made financing services for corporate houses. It is a major source of profit earning for our Bank. Corporate & Large investment have been made in almost all major corporate business sectors that are of large scale nature such as food and beverage, construction, power plants, transports, trade services, housing, utility, etc. To cater to the dynamic corporate business needs and also to come up with tailor-made services, Corporate & Large Investment have been shaped according to the need of our corporate customers. Usually, the corporate clients avail commercial investment, export finance, project finance, finance against work order, etc.

Total outstanding corporate investment stood at Tk. 114,940.24 million as of 31 December 2020 from Tk. 116,010 million of 2019 resulting a decrease of Tk. 1,069.76 million. The pandemic put significant strain on our corporate clients and their supply chains. As such investment demand became slowdown and corporate investment decreased during the year under review. However, the bank participated in government declared stimulus packages for corporate sector and disbursed Tk. 8,322 million among its corporate customers. The corporate investment of last three years is given below:

Corporate Investment (Taka in million)

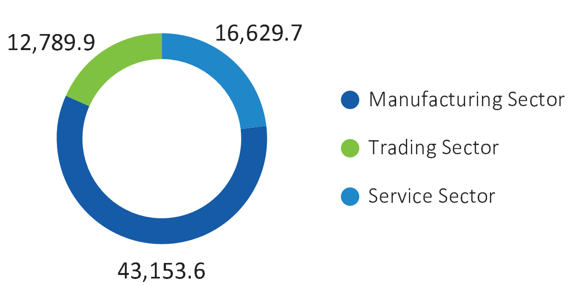


SME Banking

Small and Medium Enterprises (SMEs) play a significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to GDP. SJIBL strongly believes that SME sector is one of the main driving forces of economic growth and there is a market with huge potential. In order to facilitate the SMEs of our country, the Bank has been financing the SME sectors since its inception. SME Division has been strengthened to further reinforce SME financing to bring the grass-root entrepreneurs into the main stream of economic growth. A number of need based SME products are offered to our SME clients.

SME investment stood at Tk. 72,573.14 million in 2020 which was Tk. 72,516.50 million in 2019. Due to COVID-19 outbreak, the overall business activities and investment demand became slower. As a result the growth of SME was sluggish during the year under review. During the year 2020, the bank disbursed the total SME investment of Tk. 47,040 million. Out of total outstanding Tk. 43,153.6 million outstanding in the Manufacturing Sector, Tk. 12,789.9 million outstanding in Trading Sector and Tk. 16,629.7.6 million outstanding in Service Sector. The bank places the utmost importance to create women entrepreneurs as such disbursed Tk. 1,310.66 million to the women entrepreneurs during the year 2020 and present outstanding from women entrepreneurs is Tk. 2,778.5 million. Besides, we have participated government announced stimulus packages for SME sector and disbursed Tk. 5,380 million among our SME clients. Sector-wise outstanding of SME investment is given below:

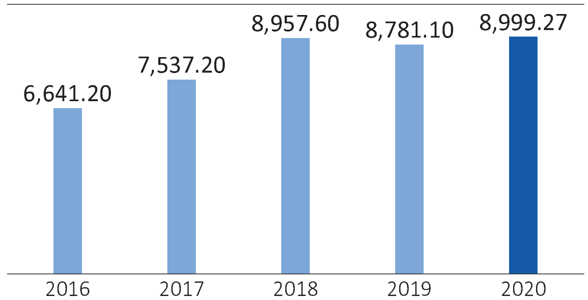
SME Investment (Taka in million)



Retail Banking

Shahjalal Islami Bank Limited is working relentlessly for the improvement of the living standard of the people as well as the society from various class & profession and to meet consumer demand in the fastest speed through its Retail Investment Department having various attractive investment products. It has been investing in the private sectors- including House Building Investment for purchasing new flat, construction and renovation of a building, Household Durables Investment for purchasing household goods, Education Investment for higher study, Marriage Investment for financial assistance during the marriage, Car Investment for vehicle purchase and various other specialized investment products. Besides, we have Semi-pacca Housing Investment to respond to the special arrangements for ensuring the provision of housing for middle and lower-income class people of the society. The retail Investment portfolio of the bank increased to Tk. 8,999.27 million in 2020 from Tk. 8,758.81 million in 2019 with a growth of 2.75%. The bank will continue its efforts to increase the retail portfolio for the betterment of middle and lower-middle-class people of Bangladesh. The position of retail investment of last five years is given in the diagram below:

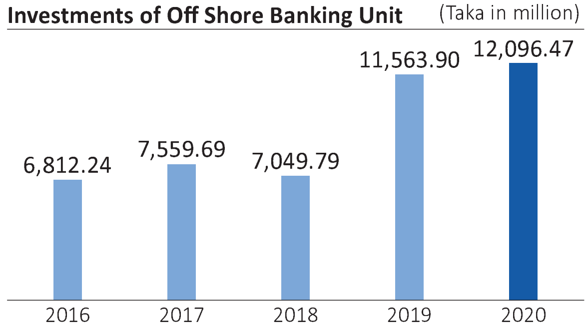
Retail Investment (Taka in million)



Offshore Banking Unit

Offshore Banking Unit (OBU) is a separate business unit of Shahjalal Islami Bank Limited, governed under the Rules and Guidelines of Bangladesh Bank. The unit is located at Shahjalal Islami Bank Tower, Plot # 4, Block-CWN(C), Gulshan Avenue, Gulshan, Dhaka-1212. The total investment of the Off-shore Banking Unit stood at Tk. 12,096.47 million as of 31 December 2020 as against Tk. 11,563.90 million as on 31 December 2019 registering an increase of Tk. 532.57 million, i.e. 4.61% growth. The trend of the investment portfolio of OBU is given below:

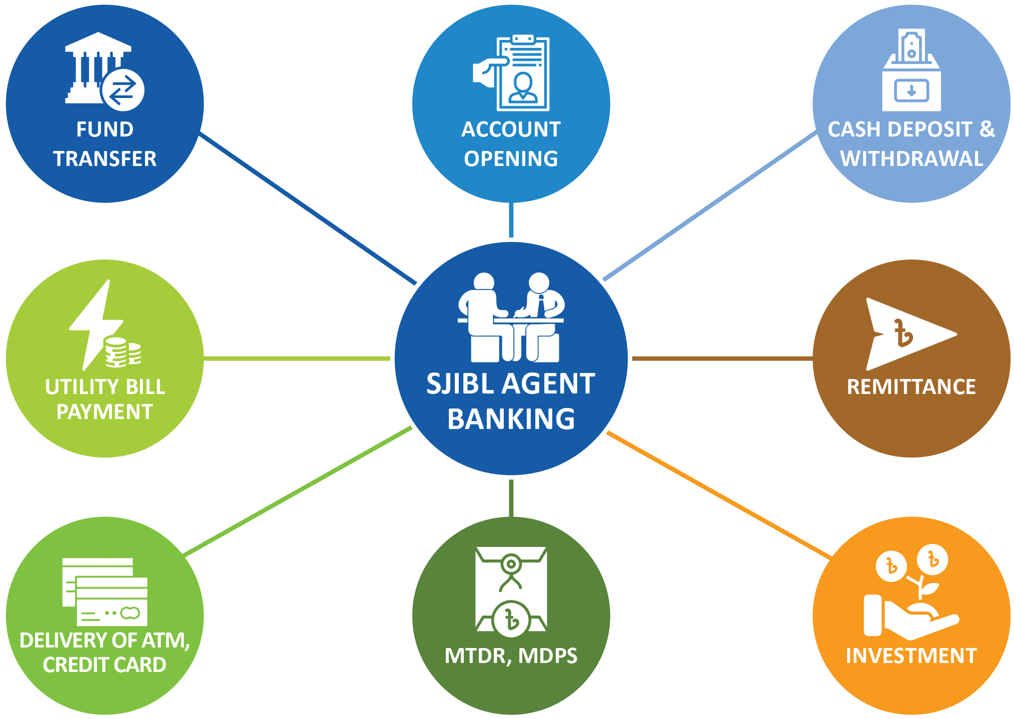
Investments of Off Shore Banking Unit (Taka in million)



Agent Banking

Agent Banking is a new dimension in the history of banking industry of Bangladesh. Through this new approach the bank will be able to extend its Banking Channel throughout the country offering its customers wider range of products and services, hence win their confidence in choosing Shahjalal Islami Bank Agent Banking as their preferred Banking Solution. Shahjalal Islami Bank made Agent Banking Structure with secured technology and real time banking for customers. Agent Banking customer can enjoy real time transaction and the Agent Banking System is integrated with the Core Banking System. Customer get instant SMS notification and system generated money receipt for each transaction.

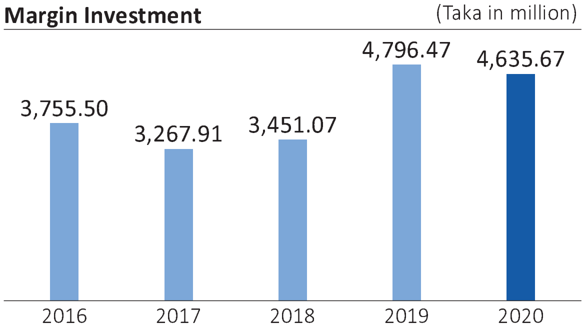
This service started eradicating difference of time and distance. It is facilitating customers with full-fledged banking services at their doorsteps, and making convenient channeling of remittance, deposit and withdrawal of cash and supporting small investments for cottage micro and small enterprises and also for agricultural farmers at a reasonable cost. Now people in many remote corners of the country are able to receive structured banking facilities with comfort, ease and security. At present the bank is providing agent banking services through its 53 Agent Banking outlets. The Bank opened 4,512 accounts of different categories and total deposit balance was Tk. 105.91 million as on 31 December 2020.



Shahjalal Islami Bank Securities Limited

Shahjalal Islami Bank Securities Limited (SJIBSL) is a subsidiary company of Shahjalal Islami Bank Limited incorporated as a public limited company under the Companies Act 1994 and commenced its operation on 25 May 2011. The main objective of the company is to carry on the business of stock broker/dealers, shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the Company. It has corporate membership of Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. Shahjalal Islami Bank Limited holds 91.79% shares of Shahjalal Islami Bank Securities Limited. The total Operating income of SJIBSL stood at BDT 332.39 million for the year 2020 from Tk.329.99 million of 2019. Margin investment outstanding stood at BDT4,635.67 million in December 2020, which was BDT4,796.47 million in December 2019. The margin investment of last five years is given below:

Margin Investment (Taka in million)



Risk Management

The Risk Management Division (RMD) of SJIBL was established to oversee, monitor and report all risks in line with the risk appetite set by the Risk Management Committee (RMC) of the Board. The RMC of the Board reviews and monitors the overall risk management system of the Bank and updates to the Board from time to time. Risk management functions are subject to continuous scrutiny of the Internal Control & Compliance Division (IC & CD) to ensure appropriateness and integrity of the risk management practices. The risk management system of SJIBL has been described in "Risk Management" section of this report. Also the roles and responsibilities of RMC and major areas focused by RMC in 2020 have been presented in "Report of the Risk Management Committee of the Board" section of this report.

Risk management functions of the bank are embedded in such a manner that all the material risks are recognized and measured to exercise appropriate control mechanism. The objective of Bank's risk management is to secure the assets and its reputation and to ensure continued financial and organizational sustainability. Hence, we have developed a strong, disciplined and inclusive risk management culture where risk management is a responsibility shared by all the employees of the Bank.

a) Investment (Credit) Risk Management

Investment (Credit) risk can be defined as the risk of failure of the customer/counterparty of the bank to meet financial obligations. The Management of specific investment risk is developed according to associated risk with individual business units. The investment risk management function ensures that appropriate policies are established and ensures compliance with the related sanction, monitoring procedures, and controls at the business unit level. Investment exposures are aggregated from individual business units and are monitored regularly. Effective management of investment risk requires the establishment of an appropriate investment risk culture. Board of Directors, either directly or through the Risk Management Committee of the Board, reviews and approves the Bank's investment risk appetite annually and investment policy manual time to time. The concerned staffs follow a pragmatic program of regular monitoring and follow-up of investment risk.

b) Foreign Exchange Risk Management

The Foreign Exchange Risk arises from transactions involved in foreign currency. To ensure effective Foreign Exchange Risk Management, the Bank has wide scope in establishing organizational structure and formulating Foreign Exchange Risk Management Policy as per Guidelines of Bangladesh Bank. Bank maintains various NOSTRO accounts to conduct operations in different currencies including BDT. The management of the Bank has set limits for handling NOSTRO accounts transactions that include time and amount limits. As per the guidelines of Bangladesh Bank, the Foreign Exchange business should be audited internally to review the key control issues such as various limits, compliance requirements, and statutory management. The Bank has been complying with all the applicable laws, regulations, and guidelines applicable to the management of Foreign Exchange Risk.

c) Asset Liability Risk Management

Asset Liability Management is a process of addressing liquidity risk and profit rate risk which may arise due to maturity mismatch between assets and liabilities as a consequence of changes in profit rates or liquidity. The Asset Liability Management Committee (ALCO) that is formed with the senior executives headed by Managing Director is mainly responsible for managing Asset Liability Risk. The key agenda of Asset Liability Management Risk is liquidity position, pricing, risk related to the Balance Sheet, maintaining CRR & SLR, Economic outlook & Market Status, and rate of profit (interest). For managing Balance Sheet risk properly, the Bank has already prepared a policy of The Asset Liability Management according to the guidelines of Bangladesh Bank. The Bank has been complying with all the applicable rules, regulations, and guidelines regarding Asset Liability Risk Management.

d) Money Laundering Risk Management

Money laundering risk is defined as the loss of reputation and expenses incurred as a penalty for being negligent in the prevention of money laundering. Shahjalal Islami Bank Limited has been taking preventive measures against money laundering and terrorist financing in line with the amended Money Laundering Prevention Act 2012, amended Anti Terrorism Act 2013, and guidelines issued by the Bangladesh Bank from time to time. Shahjalal Islami Bank applies risk-sensitive customer due-diligence measures, monitors business relationships and records in line with regulations. The Bank regularly collects the correct and full documentation of Know Your Customer (KYC) which enables the prudential prevention of money laundering. Shahjalal Islami Bank has formed a committee of Anti Money Laundering headed by the Deputy Managing Director as Chief Anti-Money Laundering Compliance Officer & the committee regularly monitors and ensures the compliance of issues relating to Money Laundering through the trained personnel of head office & branches.

e) Internal Control & Compliance Risk Management

Internal control and compliance is a process introduced by the bank's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations.

The banking industry has a diversified and complex financial activity, which involves high risk in different modes. Consequently, the issues of the internal control system have become most significant in Banking industry through which Bank identifies its weakness and takes appropriate measures to overcome the same. In order to have an efficient and effective internal control system, Shahjalal Islami Bank Limited has strengthened and segregated its Internal Control and Compliance Division into three separate units i.e. Audit, Monitoring and Compliance based on the relative guidelines framed by Bangladesh Bank.

f) Information and Communication Technology Security Risk Management

Information and Communication Technology Security (ICT) Risk is a function of the likelihood of a given threat exercising a particular potential vulnerability and the resulting impact of that adverse event on the Bank. ICT risk is business risk specifically the business risk associated with the use, ownership, operation, involvement, influence, and adoption of information and communication technology within the Bank. It consists of IT-related events that could potentially cause a negative impact to the banking business. It might occur with both uncertain frequency and magnitude and might create challenges in meeting strategic goals and objectives. Managing ICT risk is therefore an element of sustaining a secure environment, a detailed process of identifying factors that could damage or disclose data, evaluating those factors in light of data value and countermeasure cost, and implementing cost-effective solutions for mitigating or reducing risk. For effective management of Information Communication Technology risk, the Bank has already formulated a Policy Guideline. Moreover, the Bank has been arranging internal IT audits and training on IT operations regularly.

g) Liquidity Risk Management

Liquidity risk is the risk that the Bank may not be able to meet its financial obligations as they become due. Liquidity risks also include the Bank's inability to liquidate any asset at a reasonable price on time. The policy of the Bank is to maintain enough liquid assets to meet its short-term, medium-term and long-term obligations. The Bank has set various limits for its liquidity management such as Liquidity Coverage Ratio, investment deposit ratio, maturity mismatch, commitment limit, wholesale borrowing limit, etc. SJIBL maintains a diversified and stable funding base comprising of retail, corporate and institutional deposits. The principal responsibility of the liquidity risk management of the bank rests with Treasury Division which maintains liquidity based on historical requirements, current liquidity position, anticipated future funding requirement, sources of fund, options for reducing funding needs, present and anticipated asset quality, present and future earning capacity, present and planned capital position.

Future Prospect/Outlook

Considering the overall macroeconomic and geopolitical outlook, significant pressure is expected on banking sector margins in the wake of low benchmark rates and limited financing opportunities due to COVID 19 pandemic and interest rate cap. Accordingly, our Bank intends to focus on building and maintaining a quality investment portfolio, enhancing its focus on customer service quality and cost rationalization initiatives through continuous improvement in automation and product innovations.

Similarly, our Bank intends to focus on a low-cost core deposit mix by effectively utilizing our extensive branch network, Sub-branch, and Agent Banking operations. Our Bank is confident that the above initiatives will enable it to maintain a stable performance trend going forward.

From the Bank's perspective, the focus will be given to value-added services via operational expansion and technological improvements. Effectiveness of the Bank's risk management systems, capitalization on low-cost liability, disciplined expense growth, expansion of our capital base, and strengthened corporate culture are primary factors in depicting continued strong financial soundness. Effective leadership with a clear vision is the key element of long-term sustainability leading to the highest levels of employee satisfaction and we aim to build cohesive teams and strong ethical standards. We will strive to enhance our domestic as well as global image to take the Bank from strong to stronger.

Our major steps towards managing upcoming challenges:

- Reduction of classification and strengthen recovery process in the post COVID phase and turnaround economic condition.
- Utilization of surplus liquidity through prudent fund management.
- Investment growth in right track to optimize changing market dynamics.
- Adoption of the latest technology to survive in a competitive market.
- Emphasis on employee productivity along with profitability and compliance.
- Continuous analysis of the business process to reduce cost and improve profitability.
- Continue to strengthen presence in SME and retail banking, the digital leadership race.
- Research and innovation of products to face cutting-edge marketing competition in existing and new markets.
- Diversification of corporate banking in line with the changing demand of customers.
- Promoting Green Finance and social integration through CSR & Financial Inclusion to achieve SDG goals of UNO.

Responsibilities Towards Staff

Health and safety of employees

A healthy, talented, committed, skilled and fully motivated team of human resources is the main driving force for providing better, faster, and coordinated services to the clients and for contributing at the highest level to the organization. Considering the fact, SJIBL is giving high priority to the health and safety of its employees. The bank has taken several steps for ensuring sound health and safety of its employees. The steps are given below:

- The bank is paying a medical allowance to its employees at a certain percentage of their basic salary.
- The bank has an agreement with Delta Life Insurance Company Limited. Under this agreement the insurance company will bear the medical expenses of bank's employees, their spouse and children in case of hospitalization.
- Female employees will get six months of maternity leave with medical allowance for the first two issues.
- In order to provide a highly sophisticated and encouraging working environment, all the offices of SJIBL including head office and branches are equipped with modern facilities with air-conditioning and generator for power back up.
- All SJIBL offices including head office and branches are equipped with fire fighting material and have multiple exit points for emergency exit.
- Corporate Head Office is Leed Certified Green Building.
- Free distribution of musk, gloves, hand sanitizer and COVID manual among all SJIBL employees during COVID 19 pandemic.
- Reimbursement of COVID test and treatment bill of the employees.
- Full time doctor was recruited to support all employees.

Staff Welfare

The Bank's strategy is to attract, retain, and motivate the most talented people and providing them with a healthy, safe, and progressive working environment and competitive compensation package. The Bank's policy is to look after people who want to make a long-term career with the Bank because trust and relationship are built over time; as such the bank offers its employees the following long term benefits:

i) Provident Fund (Defined Contribution Plan)

A "Defined Contribution Plan" is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Provident fund benefit is given to the eligible staff of the Bank under the rules of the provident fund duly recognized by the National Board of Revenue of Bangladesh. The Fund is administered by the Board of Trustees and is funded by fixed contributions equally from the employees and the bank. The fund is managed separately from the bank's assets, as per rules of the fund & section 399 of the Companies Act 1994.

ii) Gratuity Fund (Defined Benefit Plan)

Gratuity benefits are given to the staff of the Bank following the bank's approved Gratuity Fund Rules. National Board of Revenue has approved the fund as a recognized gratuity fund and the fund is operated by a separate Board of Trustees. Employees are entitled to get the benefit after completion of a minimum of 5 (five) years of service in the Bank. The gratuity is calculated based on the last basic pay of every employee in service as per IAS-19 "Employee Benefits". Gratuity fund is a "Defined Benefit Plan" and payable as per the modalities of the rules. Gratuity is calculated and transferred to the fund and charged to the expenses of the Bank.

iii) Superannuation Fund

"Shahjalal Islami Bank Limited Employees' Social Security-Superannuation Fund" commenced with effect from 1 January 2008. The purpose of the fund is to provide medical and death cum survival benefits in place of group insurance (death cum endowment). The fund shall be subscribed by the employees every month and with the contribution of the Bank.

iv) Benevolent Fund

The Benevolent Fund for the regular and confirmed employees of Shahjalal Islami Bank Limited was established in the year 2007. This fund is mainly used for payment of scholarship to the meritorious students of the children of SJIBL's officers and sub-staffs, to allow short-term quard/grant for the unexpected and certain needs of the staff of SJIBL and their family like an accident, clinical treatment, marriage ceremony, etc.

v) Incentive Bonus

To retain high quality and competent human resources and to increase the productivity of employees the Bank usually paid an incentive bonus to its employees every year. This bonus amount is distributed among the employees as per the bank's rule.

vi) Career prospect and training program

A resourceful training program can develop the efficiency and productivity of employees. The bank arranges various training and development programs in its training center all over the year. Furthermore, the bank arranges training for its employees in renowned training institutions at home and abroad. The bank arranged online training program through Zoom platform during COVID 19 pandemic.

Contribution to the National Exchequer

Being a responsible and tax abiding corporate citizen, SJIBL regularly pays corporate tax on time, sometimes even before it falls due as withheld tax and VAT to govt. exchequer. The Bank has made provision of Tk. 1,735.22 million for corporate tax in 2020 against 2,175.85 million in 2019. The bank has also contributed to the economy by generating employment of 2,657 full-time officials. In the year 2020, Bank has paid Tk. 4,779 million to Government exchequer as source tax, salary tax, VAT, excise duty and other tax & VAT realized against various services. In the intermediation process, the Bank mobilized resources of Tk. 218,442.95 million from the surplus economic unit and deployed Tk. 196,512.65 million. The Bank has generated direct and indirect employment for a large number of people over the years. With the payment of taxes and the investment in the network, the Bank is making a significant contribution to the development and growth of the nation.

Brand Positioning

Shahjalal Islami Bank Limited was established on 01 April 2001 under Companies Act 1994 as Islamic Shariah based commercial bank. SJIBL has established itself as a different shariah based Islami bank from all other banks by providing unique customer services, introducing innovative products and services complying shariah guidelines, creating shareholders' value, extending help to the underprivileged people by CSR, and Zakat. From the very beginning of its operation, the bank differentiated itself as one of the best banks among the third generation Islami banks for its asset quality, shariah compliance, social welfare, CSR activities, and technology-based automated banking solutions. With its 20 years of going forward the bank has established 132 branches, 110 ATMs, introduced several unique and innovative products and services, thus, the bank created itself a unique brand in the banking industry.

Customer Right

Shahjalal Islami Bank Limited considers its customers' rights with high priority. The bank does not judge its performance by looking at its profit figures; rather, the bank considers that it is the right of customers to get high-quality modern services. The bank thinks that customers' perception & satisfaction ultimately determines the success or failure of an organization. Such the bank is always protecting its customers' rights in all of its business activities. During pandemic most of our branches were opened. Moreover, the bank arranged sufficient hexasol, sanitizer etc. for customers in all branches and ATM Booths.

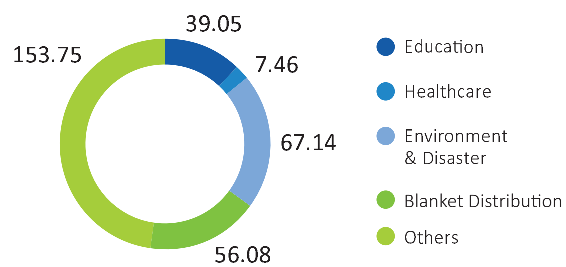
Corporate Governance

The Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank have issued notifications /circulars on corporate governance for listed companies/banks from time to time. Shahjalal Islami Bank Limited has established a set of good corporate governance practices in line with industry best practices and regulatory requirements of The Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank. The bank is ensuring transparency, accountability, and good governance at every step of its operations. The detail of Corporate Governance Report is given in this Annual Report.

Corporate Social Responsibility (CSR)

Shahjalal Islami Bank Limited has been expending a substantial amount from its annual profit each year to conduct its CSR activities in different areas such as education, health care, disaster management, environment, empowerment, human resources development, etc. to develop the backward sectors of Bangladesh and ensure its sustainable development. The bank has been paying respect to social and public welfare, rather than profit maximization strategy. During the year 2020, significant amount of money was spent for distribution of food and sanitizer to the poor people of different COVID infected areas of Bangladesh. The CSR expenses were Tk. 323.49 million in 2020 which was Tk. 220.19 million in 2019. Sector-wise CSR contribution is given below:

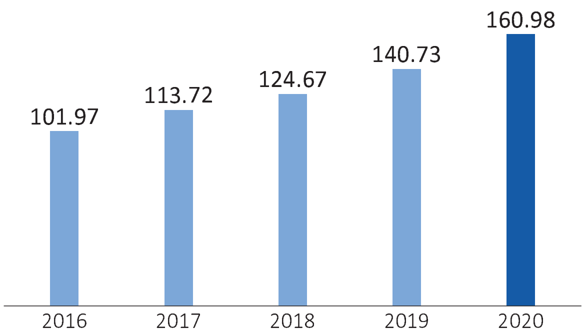
CSR (Taka in million)



Zakat

Shahjalal Islami Bank Limited as a shariah based Islami Bank is paying zakat as per the rules of Islami Shariah. Zakat is one of the five pillars of Islam and it purifies our wealth from evil. The main purpose of zakat is to discourage the accumulation of wealth by a group of people in society and impair the tendency of uneven distribution of wealth in society. Islam has made a system for helping poor people and an effective method to maintain a balance between luxury and poverty. Zakat is paid by the bank at a rate of 2.58% of the closing balance of the Statutory Reserve, General Reserve, and Retained earnings of previous year. Zakat is charged in the Profit & Loss Account of the Bank as per "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15 dated 09 November 2009. Zakat is paid to underprivileged people as per shariah principle. During the year 2020, the bank paid Tk.160.98 million as Zakat which was Tk.140.73 million in 2019. Zakat expenses of last five years is given below:

Zakat Expenses (Taka in million)



Green Banking

Shahjalal Islami Bank Limited has set examples by pioneering Green Banking initiatives while the Bank has been proactively taking steps for diverse sustainable banking initiatives. In such aspect, green banking initiatives of the bank broadly categorized into formulation of policy, Green Finance, Environmental & Social Risk Management (ESRM), Online Banking and Energy Efficiency. Besides, the Head Office building of Shahjalal Islami Bank Limited is a LEED Certified Green Building which is a pioneering step toward environment friendly business not only for the banking industry but also for the entire corporate sector of Bangladesh. A total amount of Tk.400 million was disbursed during the year 2020 by the bank in green finance. The total amount of outstanding Green Finance as of 31 December 2020 was Tk.979.9 million. The Bank has been gradually increasing its Green financing year on year basis.

Financial Inclusion

Financial inclusion emerges as one of the most effective tools among policymakers around the globe to ensure inclusive and sustainable economic development. Realizing the importance of financial inclusion, SJIBL has been exploring and promoting innovative and successful initiatives to bring the financially excluded people under the umbrella of financial inclusion. It has been working rigorously to ensure formal banking services to the poor and the under-privileged portion of the society through low cost digital financial services. SJIBL has been opening No-Frill Accounts (NFAs) for farmers, readymade garment workers, workers of small footwear & leather product industries, and physically challenged persons. We have school banking facilities to the students up to 18 years of age. They can open a school banking account through parents or legal guardians by depositing minimum BDT 100. Moreover, the bank is working with banking for Street Urchin, Working Children, Lactating & Working Mother etc.

SJIBL has started Agent banking Operations in 2020 targeting the vision to serve the unbanked community of the country. Agent banking, among various initiatives of Shahjalal Islami Bank Limited, will be an emerging financial inclusion tool that will provide unhindered access to the tailor-made financial products to the underprivileged, underserved and poor segment of the population especially from geographically remote locations. It will facilitate meeting their financial needs at an affordable cost within their vicinity. Agents will offer some banking services, including cash deposit and withdrawal, fund transfer, utility bill payment, and disbursement of salaries.

Preparation of Financial Statements

The financial statements of the Bank prepared by the management present fairly its state of affairs, the result of its operations, cash flows and changes in equity under the historical cost convention and following the First Schedule (Section-38) of the Bank Companies Act 1991 (as amended), related Bangladesh Bank circulars, International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs), the Companies Act 1994, the listing regulations of the Stock Exchanges, the Securities and Exchange Rules 1987, Financial Reporting Act 2015 and other laws and rules applicable in Bangladesh.

The financial statements of 2020 have been reviewed by the Audit Committee of the Bank and then referred to the Board of Directors for its consideration. The external auditor, M/s. ACNABIN, Chartered Accountants appointed by the shareholders, have certified the fairness of the financial statements for the year ended 31 December 2020.

Maintaining Proper Books of Account

Shahjalal Islamic Bank Limited maintained proper books of account for its financial transactions that occurred during 2020. The books of account have also been reviewed by the external auditor, M/s. ACNABIN, Chartered Accountants with an opinion that proper books of account as required by the law have been properly maintained.

Appropriate Accounting Policies

Appropriate accounting policies have been selected and applied consistently in preparation of financial statements and the accounting estimates are made based on reasonable and prudent judgment. Bank records the financial transaction on an accrual basis with required disclosures and also prepares the financial statements accordingly.

Internal Control and Compliance

Internal Control refers to the tools that provide reasonable assurance regarding the achievement of the Bank's goal concerning effectiveness and efficiency of operation, safeguarding the assets of the bank, Compliance of applicable laws and regulations, policy & procedures issued by both Bank and the regulators.

The above issues show the significance of effective internal control of a bank in the light of traditional activities. But in the context of residual risk under SRP, internal control has now become much more significant. Keeping such significance in view, Shahjalal Islami Bank Limited has strengthened and segregated its Internal Control and Compliance Division into three separate units based on the relative guidelines framed by Bangladesh Bank. Shahjalal Islami Bank Limited has formulated an Internal Control and Compliance Manual which has been updated from time to time. This manual contains Risk Assessment Methodology which has been designed to conduct Risk Based Internal Audit among some other significant issues.

Statement of Directors' Responsibility to establish an appropriate system of internal control

The Directors acknowledge their overall responsibilities for the Bank's system of internal control for establishing efficiency, effectiveness, reliability, timeliness, completeness, and compliance with applicable laws and regulations. This process involved a conformation that a system of internal control in accordance with the best financial reporting practice was in place throughout the year.

Going Concern

After reviewing the Bank's present and potential business growth, annual budget, performance, liquidity position, financing arrangement, the Directors are satisfied that the Bank has adequate resources to continue to operate in the foreseeable future and confirm that there is no material issue threatening to the going concern of the Bank. For this reason, Directors continue to adopt the going concern basis in preparing these financial statements. There are no significant doubts about the Bank's ability to continue as a going concern.

Credit Rating

Emerging Credit Rating Limited (ECRL) has made a rating on Shahjalal Islami Bank Limited. The report was issued on 25 March 2021. They rated the Bank as "AA" for the long term and "ST-2" for the short term. An institution rated in Long Term "AA" has very strong capacity to meet its financial commitments. These institutions typically posses a good track record and have no readily apparent weaknesses. An institution rated in Short Term "ST-2" has a strong capacity to meet its financial commitments in a timely manner. ECRL performed the rating surveillance based on the audited financial statement of 31 December 2020 and other relevant information.

Auditor's Report

The Board of Directors reviewed the Auditors Report issued by the Bank's auditor M/s ACNABIN, Chartered Accountants based on their audit of financial statements for the year ended 31 December 2020. The auditor issued an unqualified audit report which means no material misstatements exist in the financial Statements or no disagreement with management regarding the selection and application of accounting policies. The Board also reviewed the auditors' suggestion which they provided through a separate management report and gives the strategic guidelines to the management for improvement.

Appointment of Auditors

As per BSEC notification no. BSEC / CMRRCD / 2006-158 / 208 / Admin / 81 dated 20 June 2018 and as per Dhaka Stock Exchange (Listing) Regulation, 2015 dated 30 June 2015, an auditor of a listed company cannot be appointed for more than three consecutive years. M/s ACNABIN, Chartered Accountants was the auditor of the Bank for the year 2020. As 2020 was the second year of the audit so the firm is eligible for reappointment and they have also expressed their willingness to be reappointment for the year 2021.

Section 210 of the Companies Act, 1994 gives authority to the shareholders to appoint the auditor and fix their remuneration. Hence, the board recommends appointing M/s ACNABIN, Chartered Accountants as the auditor of the bank for the year 2021 subject to the approval of the shareholders in the upcoming Annual General Meeting.

Vote of Thanks

The Board of Directors expresses its profound gratitude to Almighty Allah (SWT) for enabling the Bank to achieve growth in operation during the year 2020. The Board extends thanks to the Ministry of Finance, Bangladesh Bank, Bangladesh Securities & Exchange Commission, and the Government Agencies for providing assistance, guidance, support, and cooperation at various stages of operation of the Bank. The Board appreciates the support and cooperation received from foreign correspondents of the Bank all over the world.

The members of the Board of Shahjalal Islami Bank Limited take this opportunity to express gratitude and extend sincere thanks to its valued shareholders, customers, depositors, investment clients, and well-wishers for their valuable support and confidence on the Bank.

Finally, and more importantly, the Board would like to express its great appreciation and thanks to all officials of the Bank for rendering untiring efforts.

May Allah grant us courage, dedication, patience, and fortitude to run the bank to the best of our abilities.

Ameen.

On behalf of the Board of Directors

Md. Sanaullah Shahid
Chairman