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.

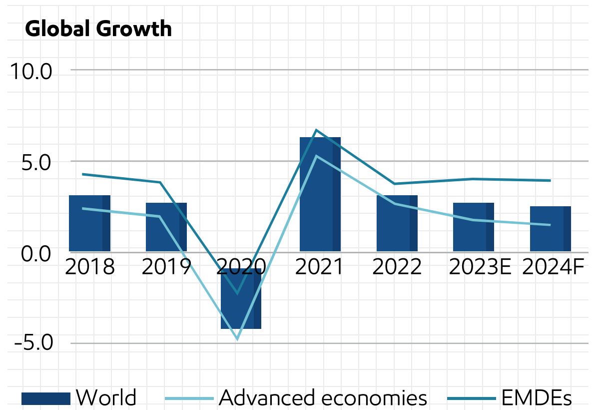
The Board of Directors of Shahjalal Islami Bank PLC. warmly welcomes you to the 23rd Annual General Meeting. We are pleased to present the Directors' Report, Audited Financial Statements, and Auditors' Report for the year 2023. Furthermore, we are delighted to provide you with a comprehensive overview of the bank's financial performance and its current financial standing, along with key insights into the global and Bangladesh economies.

The year 2023 was exceptional due to the ongoing Russia-Ukraine war, and the lingering impacts of the conflict in Palestine have affected economies worldwide, including Bangladesh. In addition to these challenges, the foreign exchange market experienced unprecedented volatility, and the country faced its highest inflation rate in a decade. It is crucial to note that if this situation persists, the exchange rate may face further pressure, impacting our foreign exchange reserves.

We take great pride in our unique strategy, deep local knowledge, empathy, and professional expertise. These qualities have consistently empowered us to navigate even the most formidable challenges. Despite the hurdles we have encountered, we remain firm in our commitment to rise to the occasion and deliver exceptional service to our valued customers. Our overall goal is to stand as a trusted partner to our clients, responsibly offering financial services that drive growth and foster economic advancement. As we ventured into 2023, we carried forward a commendable business momentum across virtually all facets of our operations. We maintain a high level of confidence that our collective expertise, coupled with the bank's robust foundations, will continue to generate enduring value for all our stakeholders throughout the current year and beyond.

World Economy

Global economic activity is experiencing a gradual slowdown due to the effects of tight monetary policies, restrictive financial conditions, and sluggish global trade growth. Despite some positive signs, such as China's consumption returning to normalcy and a rebound in US growth, Europe continues to struggle with a significant slowdown resulting from the lingering effects of the 2022 energy shock. However, the full impact of recent monetary tightening is yet to be fully felt, compounded by China's ongoing property slump and stagnation in the eurozone. The tightening of monetary policy is gradually permeating economies worldwide. This is evident in the rapid increase in policy rates, leading to higher interest rates for new corporate and mortgage loans. Although rising borrowing costs pose challenges for households and firms, they serve.



Inflation has been declining more rapidly than anticipated across most regions worldwide due to the resolution of supply-side bottlenecks and the implementation of restrictive monetary policies. The number of trade restrictions imposed by countries has also increased significantly, with approximately 3,200 new restrictions in 2022 and about 3,000 in 2023, compared to approximately 1,100 in 2019, according to data from Global Trade Alert.

Global Economic Outlook

According to a World Bank estimate, global growth is projected to decline to 2.4 percent in 2024, the third consecutive year of deceleration, reflecting the delayed and continued impacts of tight monetary policies to rein in decades-high inflation, restrictive credit conditions, and sluggish global trade and investment. While major economies are experiencing subdued growth, emerging markets and developing economies (EMDEs) with strong fundamentals show signs of improvement.

Global trade growth in 2023 witnessed its slowest expansion outside of global recessions in the past half century. This sluggishness stemmed from a contraction in goods trade, coinciding with lackluster global industrial production. While the services trade sector continued its recovery from the pandemic, the pace fell short of earlier expectations. The International Monetary Fund (IMF) projects world trade growth to remain subdued at 3.3% in 2024 and 3.6% in 2025, trailing the historical average of 4.9%. Rising trade distortions and geo-economic fragmentation are expected to continue to weigh on the level of global trade. These forecasts are based on assumptions that fuel and nonfuel commodity prices will decline in 2024 and 2025 and that interest rates will decline in major economies. Annual average oil prices are projected to fall by about 2.3 percent in 2024, whereas nonfuel commodity prices are expected to fall by 0.9 percent.

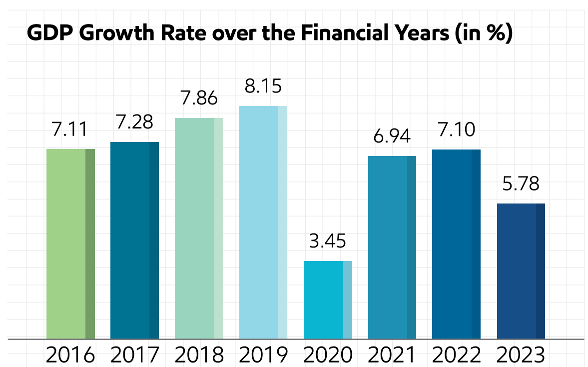
The IMF predicts that global headline inflation is expected to fall from an estimated 6.8 percent in 2023 (the annual average) to 5.8 percent in 2024 and 4.4 percent in 2025. Advanced economies are expected to see faster disinflation, with inflation falling by 2.0 percentage points in 2024 to 2.6 percent. Overall, about 80 percent of the world's economies are expected to see lower annual average headline and core inflation in 2024. The drivers of declining inflation differ by country but generally reflect lower core inflation as a result of still-tight monetary policies, a related softening in labor markets, and pass-through effects from earlier and ongoing declines in relative energy prices.

According to IMF projections, the global economy may grow by 3.1 percent in 2024 and 3.2 percent in 2025. This is due to greater-than-expected resilience in the United States and several large emerging markets and developing economies, as well as fiscal support in China. However, the forecast for 2024–25 is below the historical (2000–19) average of 3.8 percent, with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. Inflation is falling faster than expected in most regions amidst unwinding supply-side issues and restrictive monetary policy. Global headline inflation is expected to fall to 5.8 percent in 2024 and to 4.4 percent in 2025, with the 2025 forecast revised down.

Bangladesh economy

Post-pandemic, Bangladesh experienced a relatively swift recovery, showing promising signs of returning to its pre-Covid growth trajectory. However, the economy faced challenges due to global inflationary pressures and supply disruptions stemming from the Russia-Ukraine War. Factors such as the strengthening US dollar, escalating international inflation rates, and recessionary concerns in advanced economies, compounded by a few not so thoughtfull domestic policy measures, contributed to an unfavorable economic environment. Economic activity slowed in 2023 with persistently high inflation and the erosion of external buffers. Bangladesh has been facing some serious macroeconomic challenges, reflected in high inflation, balance of payments pressure causing the loss of foreign exchange reserves, local currency sharply losing its value, and fiscal pressures indicated by a severe revenue constraint and rising fiscal deficits.

Despite significant stress in the external sector and persistent geopolitical and geo-economic uncertainties, the Bangladesh economy demonstrated resilience, achieving a growth rate of 5.78 percent in FY23. This growth rate was one of the slowest since 2011–12, with the lowest recorded at 3.42 percent in 2019–20 due to the adverse impact of the coronavirus pandemic. Notably, this growth was propelled by the manufacturing sector, spanning firms of all sizes, and a robust service sector. While the agriculture sector faced crop losses due to natural disasters, it still achieved commendable growth. On the demand side, both public consumption and public investment as a percentage of GDP remained steady, driven by the completion of ongoing government transportation and energy infrastructure mega-projects.



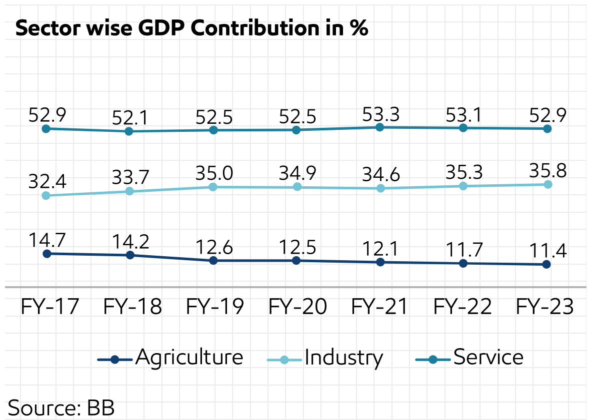
Spending under the Annual Development Programme (ADP) has been sluggish in the first half of FY 2023–24, with implementing agencies utilizing only 22.48 percent of their allocations until December of the previous year. The government managed to spend just Tk 61,739 crore of its Tk 274,678 crore ADP budget in the first six months of FY24, which was its lowest execution rate in at least the past 13 years. The recent general elections were the key reason for the slow ADP implementation, as administrative activities had become restricted at the time. Apart from that, government revenue collection is expected to reduce this year, which may contribute to slower disbursals for project implementation.

The tax collector logged revenue of Tk 165,630 crore in the July-December period of FY24, missing its target by more than Tk 23,200 crore, according to provisional data from the National Board of Revenue.

Bangladesh also runs a budget deficit, which stands at Tk 261,785 crore, which is 5.2 percent of GDP for the fiscal year 2023–24. Almost two-thirds of public revenue is derived from indirect taxes and a third from direct taxes. Reliance on indirect taxes, especially consumption taxes, is viewed as regressive, and such taxes negatively affect income redistribution via the taxation system.

Growth Driver

The growth drivers and rates varied across different sectors and sub-sectors, showing some degree of inequality.



Agricultural sector

Agriculture is working as one of the driving forces of the economy of Bangladesh as a result of the adoption of favorable agricultural policies and strategies by the government. The agriculture sector, which is the most important sector in the Bangladesh economy in terms of employment, employs about 39 percent of the country's total labor force, continuously losing its position in overall GDP. The growth in the agriculture sector clocked 3.37 percent, an upward trend from last year. Any degree of growth in the agriculture sector is positive because arable land is not increasing. Rather, they are shrinking gradually. The share of the sector in GDP, according to the provisional estimate of the National Accounts Statistics, was 11.4 percent in FY23, compared to 11.7 percent in the previous fiscal year. The growth rate of agricultural crop production showed an upward trend in FY23. The main crop of the country, Boro rice, has been cultivated on a higher acreage in FY23. Among non-rice crops, the production of wheat, jute, potato, vegetables, and maize grew ample, aided by favorable market prices, low-cost finance, subsidies, mechanization of agriculture, rising cropping intensity, and increasing awareness among the farmers.

Industrial sector

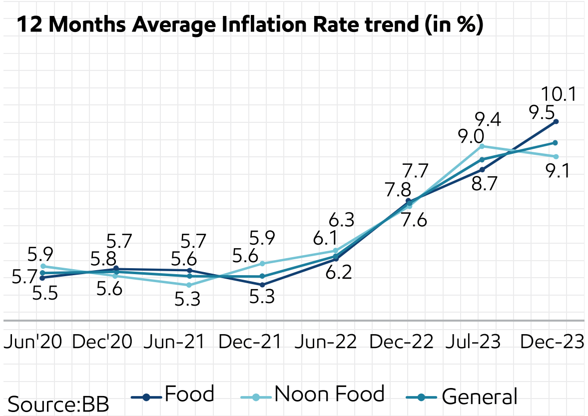
The industrial sector contributed 35.8 percent of GDP in FY23, and overall, the industry sector registered an impressive growth rate of 8.4 percent in FY23, slightly lower than 9.9 percent in FY22, though rising energy costs and supply constraints saw industrial production contract throughout the whole year of 2023. BBS started stratifying all the manufacturing productions into three categories, such as a. 'Large'; b. 'Small, Medium, and Micro'; and c. 'Cottage' scales. The growth of large-scale manufacturing production emanated from the growth in the production of textiles, tobacco, leather, and related products and beverages.

Service sector

The services sector accounts for the largest share of GDP. The service sector's growth dropped 81 basis points to 5.37 percent in the last financial year. It was 6.26 percent in FY22. The service sector's performance suffered due to slowdowns in real estate, financial and insurance activities, and accommodation and food services. Activities in the transport sector and the trade sector also slowed down. The transport and storage sector, which accounted for 7.29 percent of the GDP, witnessed a 50 basis point decline to 5.49 percent in the final estimate. Overall, it is projected that improvements in related industries, such as the industry sector, and government policy support will trickle down to the operations of the service sector, even though the developing global uncertainties could have non-trivial consequences for the sector.

Inflation

The pass-through of a sharp depreciation of the local currency accounted for half of the inflation surge seen in Bangladesh in the last calendar year. Although initially triggered by temporary cost-push factors, higher inflation has over time gotten more entrenched as second-round effects emanating from multiple sources, including rising global commodity prices, bouts of taka depreciation, and hikes in domestic fuel and energy prices, took hold. Reductions in global inflation have had no impact on inflation in Bangladesh, notwithstanding the fading of energy price shocks and their associated pass-through to inflation. The Consumer Price Index (CPI) rose 9.02 percent in FY23, the highest average inflation rate in 12 years. The price trend has continued in the current financial year of 2023–24, averaging 9.41 percent in December. Since March 2023, inflation has persisted above 9 percent. Last year witnessed the sharpest jump in consumer prices at 9.94 percent. Both food inflation and non-food inflation have continued their upward trend over the year. Point-to-point food inflation in both rural and urban areas exhibited a sharp increase in CY 2023. and encountered double-digit inflation. Higher food inflation in rural areas may hurt the rural poor and low-income people adversely because of their lower purchasing power.



Money Supply and Credit Growth

Bangladesh Bank (BB) has adopted an interest rate targeting framework, replacing the previous monetary aggregates targeting framework, starting on July 1, 2023. Under this transformative framework, BB introduced an Interest Rate Corridor (IRC), replacing the conventional reliance on reserve money, which signifies a notable departure from the previous practice. The objective lies in allowing the interbank call money rate to move closely with the policy rate. BB implements a symmetric Interest Rate Corridor (IRC) centered on the policy rate (repo rate) of 6.50 percent, consistent with international practices. The width of the IRC is fixed at ±200 basis points of the policy rate. Thus, the upper limit of the IRC, the standing lending facility (SLF) rate, is fixed at 8.50 percent, and the lower limit of the IRC, the standing deposit facility (SDF) rate, is fixed at 4.50 percent. In the new framework, the policy rate replaces the repo rate, the SLF replaces the special repo rate, and the SDF replaces the reverse repo rate.

The growth of reserve money and broad money (M2) observed an uptrend during FY23. The growth in these monetary aggregates emanated mainly from net domestic asset (NDA) growth. Besides, on an institutional basis, an upward trend was observed in the yields on government securities.

A notable growth in the NDA of BB led to a 10.5 percent rise in reserve money (RM) at the end of FY23, against the target of 14.0 percent for June 2023. This growth in the NDA of BB resulted from a rise in the government's and DMBs' borrowings from the central bank. Nonetheless, the currency-deposit ratio stood at 4.4 at the end of June 2023, which was 4.2 in March 2023, reflecting higher issuance of currency (21.8 percent) in June 2023.

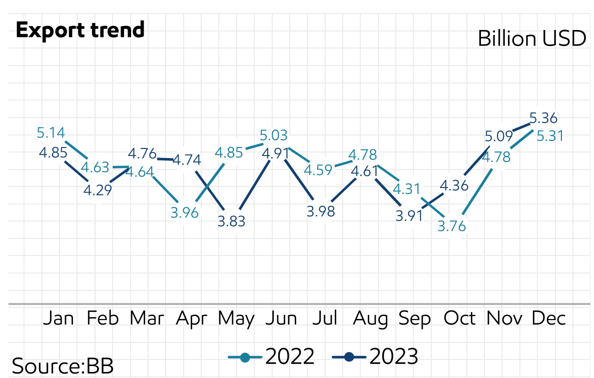
On the other hand, M2 growth accelerated to 10.5 percent at the end of FY23. FY23 observed lower-than-expected growth in net domestic assets (NDA) and marginally positive development in the growth of net foreign assets (NFA). The NFA situation has been improving slowly, although NFA growth still remained in the negative domain, mostly due to the prevailing pressure over the balance of payments (BoP). NFA growth stood at -13.0 percent at the end of June 2023, against a negative -11.9 percent programmed growth for June 2023.

Export

Earnings from merchandise shipments rose 1.99 percent to $55.78 billion in the just-concluded calendar year because of the slowdown in apparel sales in the international markets. Earnings from merchandise shipments rose marginally in 2023 owing to the persistently lower demand among western consumers amid high inflationary pressure, the dragging Russia-Ukraine war, and the outbreak of the Middle East crisis. Garments, which contribute nearly 85 percent to the national income, did not fare well, largely owing to the fall in orders and the shutdown of production in many factories following labor unrest between September and the first week of December, when the minimum wage for apparel workers was announced.

Woven garment exports fell 4.12 percent to $9.91 billion in July-December, and knitwear shipments rose 6.48 percent to $13.48 billion. Non-garment items also did not perform well in July and December. The leather and leather sector earned $523.03 million, registering 17.93 percent negative growth. Jute and jute goods exports fell 10.24 percent to $436.12 million. Home textiles' earnings plunged 38.48 percent to $369.91 million. Frozen and live fish fetched $215.13 million, down 12.68 percent. Non-leather footwear shipments increased 1.85 percent to $246.15 million.

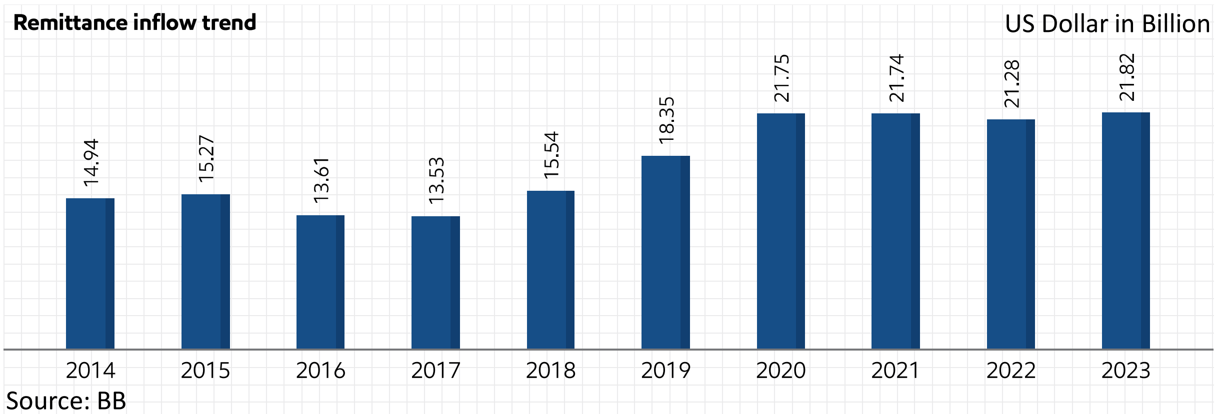
As on the western front, retailers are coming off a successful holiday season. Export data for the last 2 months shows signs of revival in garment shipments, as already seen in the export data for the current fiscal year.



Remittance

Remittances have been in the slow lane in the last couple of years. The underperformance of the remittance sector rang louder since more than 30 lakh people have gone abroad from Bangladesh in the past three years alone. However, the record outflow did not reflect the funds transferred by remitters to their beneficiaries at home. Earnings stood at $21.82 billion in 2023 and $21.28 billion in 2022. The inflows were lower despite 2.5 percent incentives from the government and more than 10 percent informal incentives available from banks.

In a World Bank research showed that in Bangladesh, a 1 percent deviation between the formal and informal exchange rates shifts 3.6 percent of remittances from the formal to the informal financial sector, the World Bank said. The growing use of hundi, an illegal cross-border transaction system, is the major reason for the lower remittance flow.

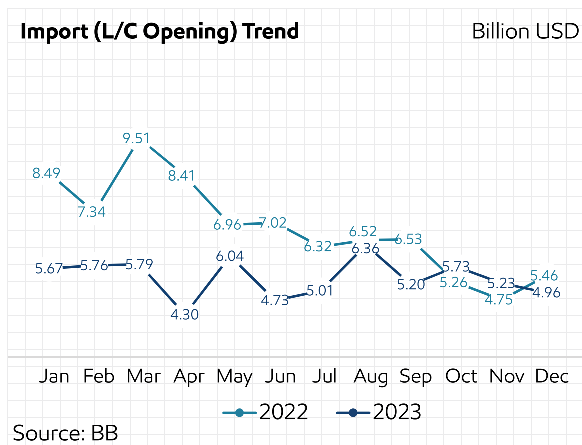


Import

The overall imports saw a sharp decline in 2023 due to the scarcity of foreign currency as well as increased oversight by the central bank. The government and the Bangladesh Bank have implemented several initiatives since April 2022 to address the rapid growth of imports and safeguard the country's foreign exchange reserves. LC opening reached a 32-month low in April due to a combination of restrictions implemented by the central bank and the ongoing dollar crisis. Import LCs worth only $4.30 billion were opened last April, while settlements amounted to $4.69 billion.

The BB imposed high LC margins on imports, particularly non-essential and luxury items. The move has led to a reduction in the trade deficit, with the country's import payments falling to $69.49 billion in FY23, down from $75.4 billion in the corresponding period of the previous year.

The opening of letters of credit (LCs) for imports fell by 21.52 percent in 2023 over 2022. The total L/C opening for merchandising goods in 2023 was $64.79 billion, compared to $82.56 billion in 2022. Average L/C opening reduced to $5.40 billion in 2023 compared to $6.88 billion in 2022

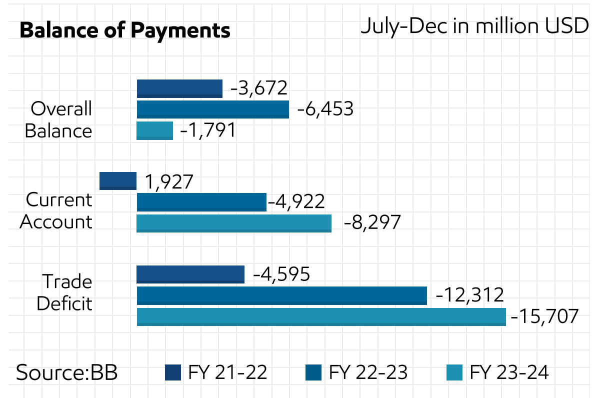


Balance of Payments

The worsening financial account and significant tightening of global monetary conditions have put significant pressure on the taka. The deficit in the trade balance narrowed in H1FY24, aided by a rapid fall in imports in the face of the depreciation pressure of BDT and BB's several policies aimed at limiting luxury and unnecessary imports along with increasing the monitoring of prices. The current account balance recorded a surplus of USD 1.93 billion during July–December of FY24 compared to a deficit of USD 4.92 billion during July–December of FY23, mainly supported by a lower trade deficit during the period.

The country's banking sector witnessed a sharp decline of $11.45 billion in short-term foreign loan inflows within the private sector. This led to the widening of the financial account deficit and an increased depletion of the foreign exchange reserve. The cumulative inflow of short-term foreign loans in the private sector amounted to $25.8 billion by the end of December 2023. This figure reflects a 31% decrease compared to the previous year's receipt of $37.25 billion.

The overall balance incurred a lower deficit of USD 3.67 billion during July–December of FY24 compared to a USD 6.45 billion deficit during July–December of FY23. Despite the surplus in current account balance, a deficit in the financial account of USD 5.39 billion resulted in this lower deficit in overall balance during the period under review. The deficit in the financial account was mainly attributed to deficits in trade credit net (USD 7.44 billion) and other net short-term loans (USD 1.32 billion).

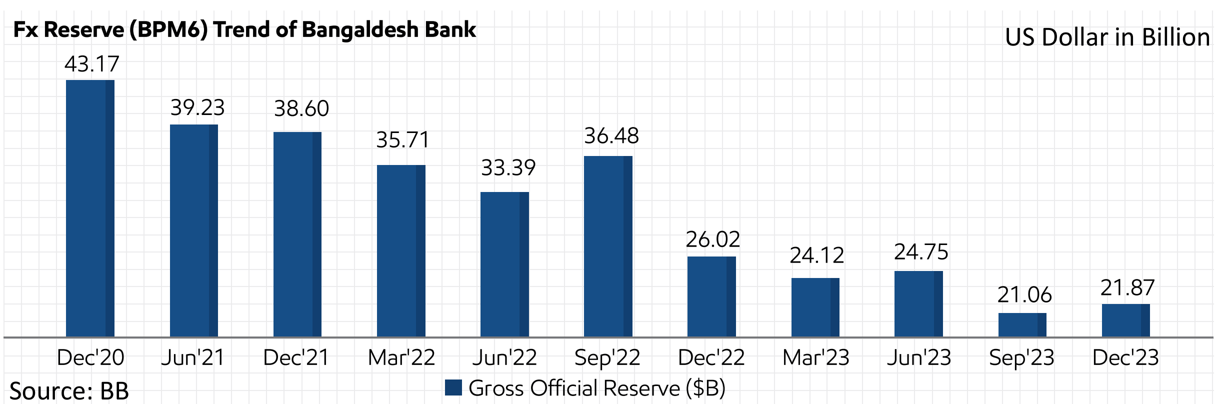


Foreign Exchange Reserve

The lower-than-expected export and remittance earnings have a direct impact on the foreign exchange reserves, which have fallen to a level enough to bring about an unprecedented cost of living crisis and a drastic fall in the value of the local currency. The forex reserve situation would not improve even if exports grew, as there has been a huge gap between exports and actual export realization in recent times. Higher import bills against moderate export and remittance earnings have caused a slide in the foreign currency reserves in Bangladesh, sending the US dollar rate to a record high amid the shortage of American greenbacks.

Despite the downward trend in opening import LCs, the central bank is continuing to pump USD into the market. In FY23, BB sold around $14 billion to the market from its forex reserves. In FY2021-22, it sold over $7 billion to banks.

Foreign exchange reserves came down to USD 21.87 billion in December 2023 from USD 26.02 billion in December 2022. The foreign exchange reserves in December 2023, where gross foreign exchange held by commercial banks was 5.56 billion, increased by 15.93 percent (y-o-y) at the end of December 2023. The foreign exchange reserves of December 2023 were sufficient to pay imports of goods for 5.2 months (cif, prospective).



Exchange Rate Movement

The year commenced with a series of controlled price adjustments and stricter regulations on foreign exchange prices and volumes. The Bangladesh Bank-backed BAFEDA-ABB model devalued the taka at periodic intervals. A de facto reduction in current account convertibility came into place with tighter export proceed surrender requirements and withholding payments on various invisibles.

To stem foreign exchange reserve losses and help restore external balance, the central bank allowed the taka to weaken by close to 20 percent over 2022–23. The operating dynamics of the exchange rate regime exhibited several mood swings. At present, the exchange rate is different for remitters, exporters, and importers. The multiple exchange rates are blamed as one of the major factors in the fast depletion of forex reserves. This might be because remitters prefer hundi cartels to transfer money to their beneficiaries at home since informal platforms offer better rates than official platforms.

To contain the persistent foreign exchange pressure during CY23, Bangladesh Bank as well as the government took various policy measures, aided by a steady inflow of remittances and lower import payments. As part of Bangladesh Bank's plan to introduce a crawling peg as part of its strategy to gradually move to market-led exchange rates, the adoption of a crawling peg regime will limit the steep depreciation of the local currency. The currency may become stable with the tightening of money printing, but substantial money printing has led to a sharp currency depreciation.

Banking Sector:

For years now, myriad challenges have overwhelmed the banking sector—liquidity shortfalls, dollar crises, money laundering, loan scams, and defaults—and the banking sector in Bangladesh has been in a state of perpetual crisis. The banking industry in the country is currently undergoing intense instability. The recent rise of NPLs in Bangladesh—to an all-time high of Tk 156,039 crore in June 2023, from the previous highest of Tk 134,396 crore in the third quarter of 2022—is not due to purely economic reasons. This abnormal rise is not surprising given our banking sector's prevailing nature. The bank notes that the accumulation of non-performing loans heightens the threat to the stability of the financial sector. Bangladesh Bank has unveiled a roadmap aimed at addressing the prevailing issues within the country's banking sector. This comprehensive plan integrates many of the reforms advocated for within the banking industry over the years.

The roadmap comprises action plans targeting 17 key issues. Among these, five are deemed particularly significant. They include the reduction of defaulted loans, the prevention of anonymous loans and fraudulent activities, the establishment of mechanisms for appointing competent directors, the appointment of qualified independent directors, and the consolidation of weaker banks through mergers with stronger ones.

Early 2023 saw administered price adjustments, tighter foreign exchange controls, and Bangladesh Bank backing the BAFEDA-ABB model for taka devaluation. Stricter export surrender requirements and withholding invisible payments led to a de facto reduction in current account convertibility.

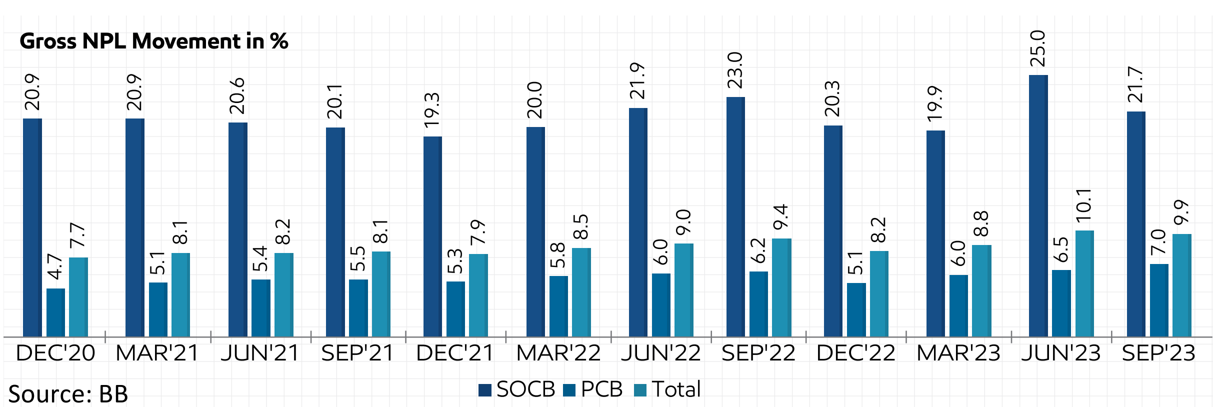
Non-performing loans (NPLs)

Non-performing loans (NPL) have been a concern for the banking sector in Bangladesh for quite some time. According to the World Bank, Bangladesh had the second-highest NPL ratio in South Asia in 2022, right after Sri Lanka. The persistence of a substantial volume of non-performing loans continues to be a matter of concern. Moreover, the lingering effects of the ongoing domestic and international economic downturn add a layer of apprehension for the months ahead.

The default loan ratio in the banking sector of Bangladesh rose to 9 percent in 2023 from 8.16 percent a year ago, owing to a slow recovery amid persisting economic stress. In December last year, non-performing loans (NPLs) at banks stood at Tk 145,633 crore, accounting for 9 percent of their total outstanding credits.

The NPL ratio is right below the systematic stress threshold for South Asian countries (10 percent) and well above the warning threshold (5 percent). Lenders face a multitude of problems arising from scams, irregular instalments, and a lack of corporate governance.

Contrary changes to the governing laws of the banking industry have failed to provide the central bank with the required ammunition to step in and aggressively resolve the crisis. NPLs have become a major concern for the economy, and the central bank unveiled a roadmap to bring them down to a reasonable level and restore good governance in the banking sector.



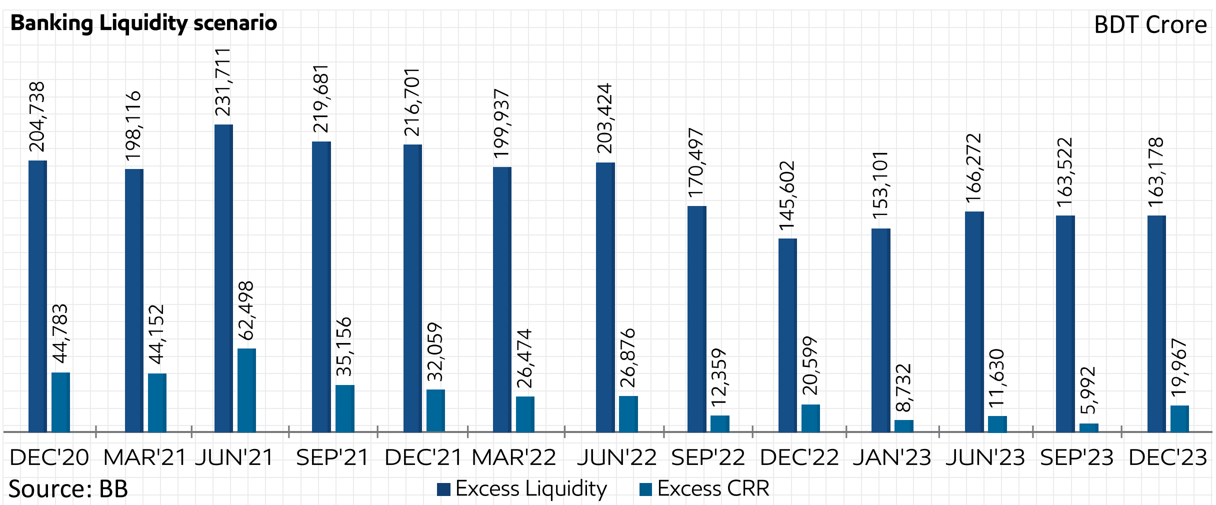
Banking Sector Liquidity Condition

The banking system in Bangladesh gets into a tighter liquidity situation as banks' cash stocks dip and cashable credits in vaults remain under heavy pressure amid a crunch. In 2023, particularly in the last quarter, the banking industry is reeling from immense liquidity shortfalls because of NPL buildup under a lenient loan-rescheduling regime and higher government borrowings from the banking system following a contractionary monetary stance to contain inflation as factors sapping the liquidity of the banks.

For the past three years, the central bank has consistently sold dollars from reserves to commercial banks. The severe dollar shortage has now put banks under liquidity stress as the central bank mopped up Tk 1.3 trillion crore from the market by selling $12 billion from the reserve in 2023. In the last quarter of 2023, amid this liquidity crisis, banks have been borrowing Tk 50,000 crore daily from the central bank through repo, which is a short-term borrowing arrangement primarily involving government securities.

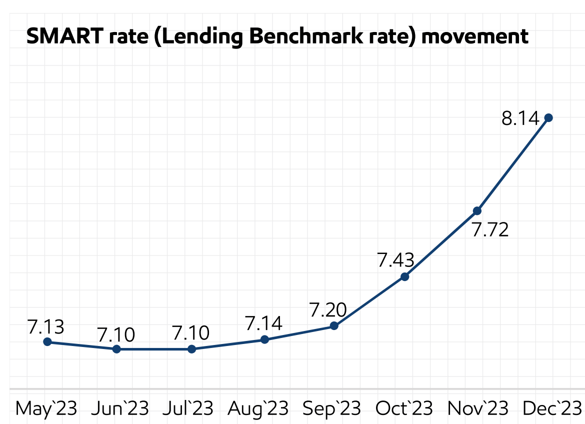
As a result, the excess liquidity and cashable funds in the banking system continue to shrink. Though BB data showed the excess liquidity in commercial banks increased to Tk 1.63 trillion in December 2023 from Tk 1.45 trillion in December 2022, industry experienced different scenarios. The crisis in the forex market, slow deposit growth, lack of trust in some shariah-based banks, higher amounts of bad loans, and slow loan recovery are the main reasons for the liquidity crisis.

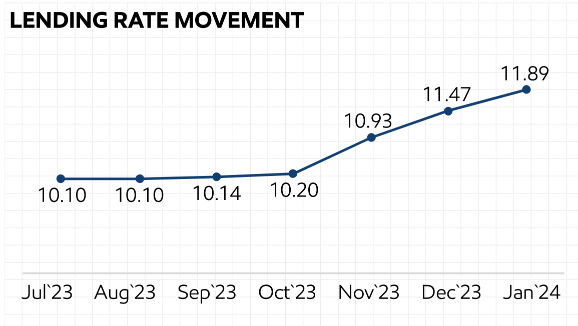
Liquidity feeding into credit-hungry banks marks a significant rise amid the major liquidity crunch facing the industry. As the buildup of pressure on the overall liquidity in the banking sector continues following the contractionary monetary stance taken by the Bangladesh Bank to combat inexorable inflation, commercial banks raise interest rates in their hunt for deposits. But the gradual increase in banks' deposit portfolios cannot alone help them navigate the existing liquidity tightness.



Interest (Profit) Rate Outlook

The central bank has raised the benchmark policy rate eight times in the past 20 months, scrapped the ceiling on the lending rate after more than three years, and introduced a new rate-setting mechanism. The SMART was launched by removing the interest rate cap in order to gradually allow market forces to determine the cost of funds and bring down demand-induced inflation. Since then, the benchmark interest rate has kept rising.





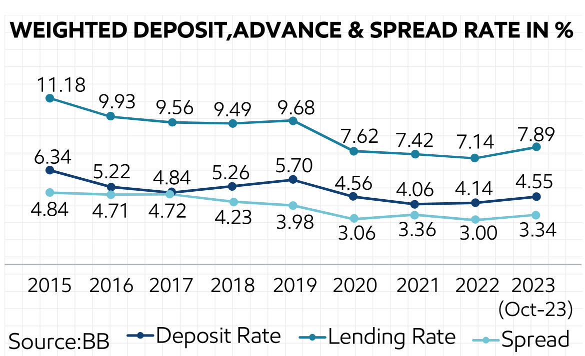
The lending rate is going up as the interest rates on government Treasury bills are on the rise. The yield of Treasury bills stands at a decade-high of more than 11 percent, which was 7 percent to 8 percent a few months ago. The Treasury bill rate has climbed since the government increased its borrowing from commercial banks after the BB suspended printing fresh money to avoid fanning inflation.

The Central Bank's interest rate targeting framework from the second half of 2023, in the form of a corridor system, seems to be working, as the effects of raising the policy rate raise the other interest rates available in the money market, including weighted average deposit and lending rates and interest rates on government Treasury bills and bonds. The rise in the policy rate raises the costs of borrowing funds, resulting in a deceleration of growth in RM and M2.

The policy rate (repo) was 8 percent, while SLF and SDF were 9.50 percent and 6.50 percent, respectively, after an upward adjustment in January 2024.

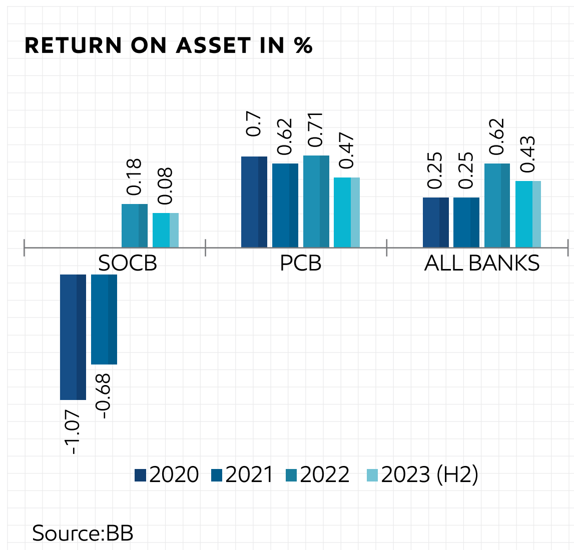
The yield of 10-year government bonds has increased to 12.05 percent, the highest in a decade, amidst tight liquidity in the market, indicating that money will turn expensive.

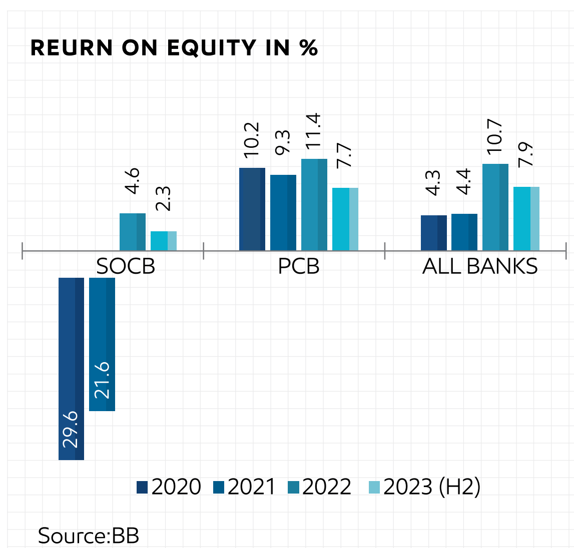
The lending rate may rise to 14 percent, reflecting a continuation of monetary tightening. This is expected to push the interest rate of the 364-day treasury bills to 13-14 percent by the end of June this year.



Banks Profitability

At the end of 2023, several private banks and state-owned banks registered handy operating profits thanks to hefty year-on-year growth in its profit from foreign exchange dealings in as well as swelling spread due to the central bank's relaxed policy lending rate cap withdrawal and credit growth in the private sector. But provisional data show a different picture. Latest BB data showed that the banking industry's profitability witnessed some moderation at the end of Q4FY23 compared to the end of Q4FY22, which was reflected by a decline in both return on assets (ROA) and return on equity (ROE) partly due to a fall in non-interest income and huge provision requirement. The final data may cast real picture.





Banking Sector outlook

Significant efforts will be required to overcome macroeconomic challenges, reduce defaulted loans, and restore discipline in the banking sector. The central bank increased policy rates to 8 percent, the ceiling of the standing lending facility to 9.50 percent, and the floor of the standing deposit facility to 6.50 percent as the BB struggles to contain the record inflation, driven by higher commodity prices in the global markets, ineffective market monitoring on the part of the government, collusion among market players, and the sharp decline in the taka's value against the US dollar. The move is aimed at raising the cost of funds for banks with a view to tightening the money supply to rein in consumer prices. The BB increased the policy rate, or repo rate, by 25 basis points to 8 percent, its eighth straight increase since the tightening cycle began in May 2022. The move is expected to increase the cost of funds.

Lately, the Bangladesh Bank introduced a currency swap guideline under which it will buy dollars from banks at the spot rate in exchange for the taka. The new arrangement aims to rebuild foreign exchange reserves and ease local currency liquidity stress. But the exchange rate volatility and its strain on the foreign currency reserves would not disappear anytime soon, as the floating US dollar rate would not be materialized soon.

The lending rate of bank loans may go beyond 13 percent on the back of the rising benchmark interest rate, increasing the cost of funds for borrowers further as the central bank's contractionary monetary policy appears to have taken hold. The tight monetary policy of the central bank might have pushed up borrowing costs.

The Six-months Moving Average Rate of Treasury bills (SMART), which is used to price the interest rate of loan products, stood at 8.68 percent in Dec'23 and would be increased further in the coming months. This signals that the lending rate is likely to move up further in the upcoming months, as the inflation rate has stayed above 9 percent since March last year and shows no sign of slowing down.

Bangladesh Bank has lowered the private sector credit growth target to 10 percent from 11 percent for the January to June period of FY24. BB has a plan to introduce a crawling peg system for the local currency to keep it stable, which would be a step toward a flexible exchange-rate regime. The taka could trade at around 115 per dollar by the end of June. The introduction of the crawling peg would allow greater stability and predictability of the exchange rate while further reflecting prevailing market forces compared to the current rate-fixing mechanism. It will allow greater capture of foreign currency flows and could bolster FX reserves that have deteriorated significantly over the past 1 to 2 years.

Higher lending rates are expected to dampen private investment activity, leading to a decrease in private sector credit growth. The potential increase in interest rates may constrain private sector credit growth, amplifying the risk of non-performing loans accumulating in the banking system. The taka may depreciate further to Tk 125–Tk 130 per US dollar at the end of December this year.

BD Economic outlook 2024

The remaining months of 2024 are likely to be a period of economic turbulence for Bangladesh. Consumers may face continued high inflation despite efforts to control it. Macroeconomic issues like balance of payments pressures, volatile exchange rates, and interest rate caps are expected to persist. Additionally, the tightening of credit flow to the private sector by the central bank may further hinder production and job creation. Consequently, demand and investment are likely to remain subdued. However, there may be a gradual decline in inflation as a result of these measures.

The central bank recently lowered the private sector credit growth target to 10 percent from 11 percent in its unveiling of monetary policy for the second half of the fiscal year. This adjustment aims to decrease the money supply to address inflationary pressure. However, the ongoing shortage of US dollars in the banking sector may persist, posing challenges for imports and impacting the economy accordingly.

Exports are expected to return to previous levels as major export destinations like Europe and the US are rebounding from the global economic slowdown and historic inflationary pressures. The government has cut the export subsidies for many sectors to reduce the pressure on Bangladesh's coffers and bring down the rates gradually since the country can't provide such subsidies once it becomes a developing nation. Exporters may see an end to the duty-free export benefit once the country moves out of the LDC category to become a developing nation in November 2026.

The acute gas crisis is significantly raising manufacturing costs for both domestically produced and exported goods. This rise in production costs is likely to translate into higher prices for consumers. Furthermore, the Bangladeshi economy faces additional challenges, as these cost increases could lead to a further slowdown in overseas sales.

The limited effect of decreasing global shocks on Bangladesh's macroeconomic stability indicates that factors beyond adverse global economic conditions are playing a substantial role in shaping the country's economic performance.

Despite tight monetary policy, high inflation, and reduced consumption, Bangladesh's economy may see 5% growth in FY2023–24. However, several challenges loom. Overall, to address these economic challenges, Bangladesh needs to build enhanced state capacity and reorient its economic policy approach by focusing not only on price competitiveness alone but also on innovation by harnessing the new technological frontiers using skilled labor with an emphasis on fairer distribution of income. Such a reorientation of economic policy will enable the country to achieve sustainable economic growth and development.

High global commodity prices significantly pressured the current account, while wider financial account deficits worsened the situation due to tepid foreign direct investment and lower trade credit inflows. Additionally, Bangladesh Bank's efforts to maintain the taka's value through dollar sales further strained reserve buffers.

The coming months are likely to see persistent inflationary pressures, making effective control a key policy challenge. Raising the tax-to-GDP ratio, which remains among the lowest globally, presents a significant hurdle for the government. Compounding this challenge is the National Board of Revenue's (NBR) consistent shortfall in meeting government tax collection targets for the past eleven years. Additionally, ensuring an uninterrupted and affordable energy supply is crucial to maximize productivity and prevent further aggravation of inflationary woes.

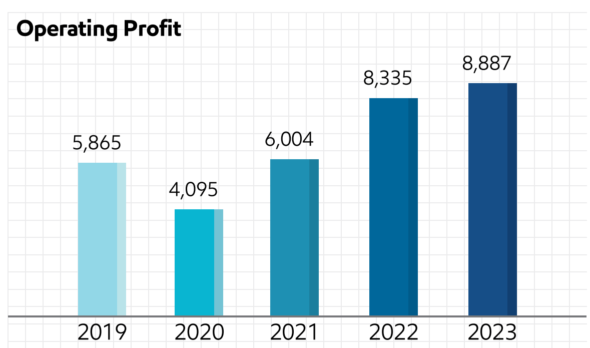
Bangladesh's GDP growth has fallen short of expectations, coinciding with a global economic slowdown. By the end of 2024, the world economy is projected to experience its weakest five-year stretch in three decades, marking a third consecutive year of declining global growth.

A General Review of the Performance of Shahjalal Islami Bank PLC

In 2023, the banking sector faced numerous significant challenges, including ongoing conflicts and economic turmoil, substantial turbulence in the foreign exchange market, and the highest inflation rate in a decade due to rising costs of essential and non-essential goods. Despite these challenges, Shahjalal Islami Bank PLC. exhibited remarkable resilience, not only weathering the storms but also achieving commendable performance. This report provides a comprehensive overview of the bank's performance, offering a detailed analysis of key financial indicators.

Operating Profit

In the year 2023, the bank recorded a surge in its operating profit, witnessing an increase of 6.63%. The operating profit soared to Taka 8,886.83 million, a notable upturn from the Taka 8,334.64 million reported in 2022. Furthermore, the net profit after taxes also exhibited substantial growth, reaching Taka 3,624.87 million in 2023 compared to Taka 3,525.06 million in the preceding year. The significant improvement in the bank's operating results for 2023 can be attributed to its outstanding performance in asset liability management, dynamic foreign exchange operations in a very crisis period, and the effective management of surplus funds.

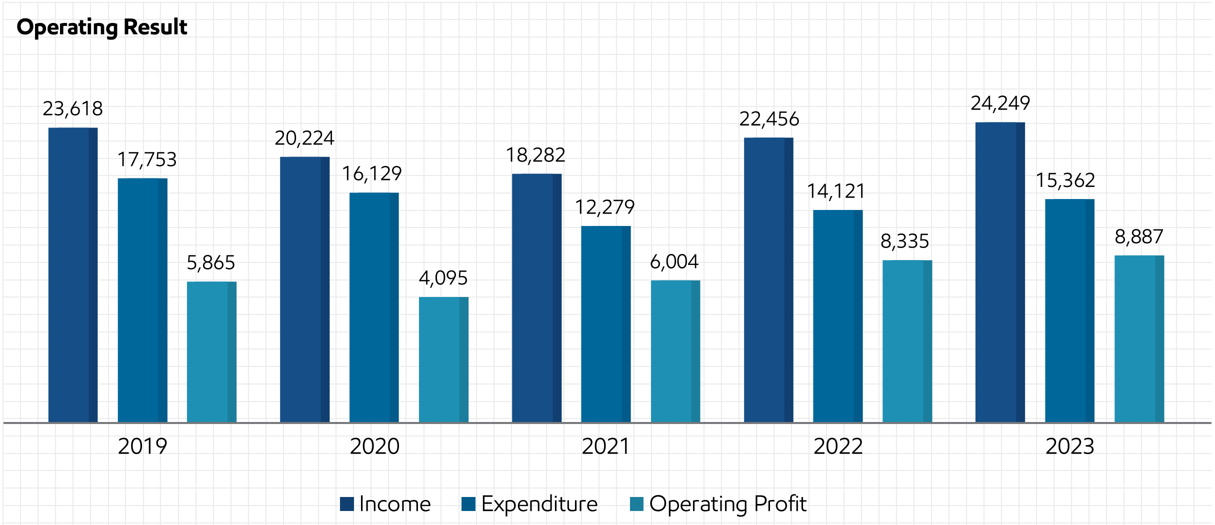


A summary of the operating results of the bank as of December 31, 2023, and December 31, 2022 is shown below:

(Amount in Million Taka)

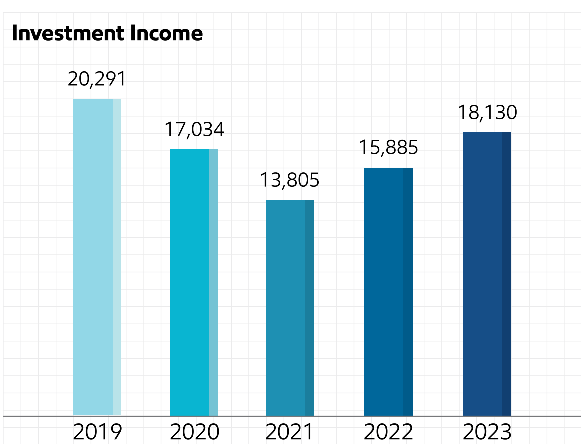
Particulars	2023	2022
Total Income	24,248.61	22,455.95
Less: Total Expenditure	15,361.78	14,121.31
Net Profit before Provision & Taxation	8,886.83	8,334.64
Less: Provision for Investment, Off Balance Sheets Items, Shares & others	1,733.58	1,108.37
Net profit before Taxation	7,153.25	7,226.28
Less: Provision for Taxation	3,528.38	3,701.22
Net Profit after Tax	3,624.87	3,525.06

The operating result of last five years:



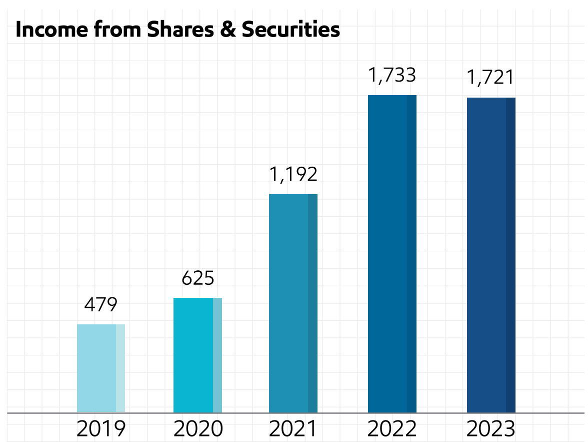
Investment Income

As of December 31, 2023, the Bank's total investment income reached BDT 18,129.79 million, marking a notable increase from the BDT 15,885.44 million recorded in 2022. This growth in investment income BDT 2,244.35 million, primarily attributed to a 1.91% rise in the investment portfolio as well as the implementation of SMART (Six-Month Moving Average Rate of Treasury Bill) in determining the profit rate of investments. The yield on investments experienced a noteworthy increase from 6.36% in 2022 to 7.14% in 2023, and it remains a significant contributor to the Bank's overall financial landscape. In 2023, investment income comprised 74.77% of the total income, a substantial increase from the 70.74% seen in 2022. The trajectory of investment income is illustrated below:



Income from investments in shares and securities

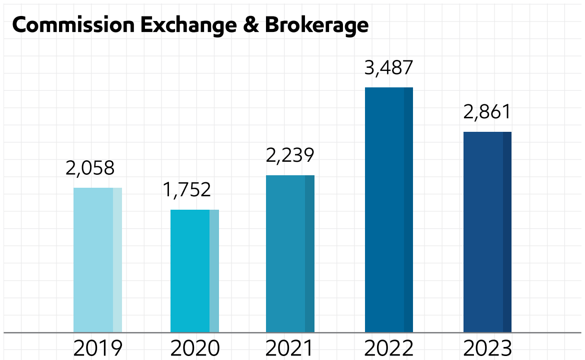
Income generated from investments in shares and securities moderately decreased to BDT 1,721.36 million in 2023 from the BDT. 1,732.56 million recorded in 2022. Registering 0.65% negative growth compared to the previous year. The income from investments in shares and securities is presented below:



Commission, Exchange, and Brokerage

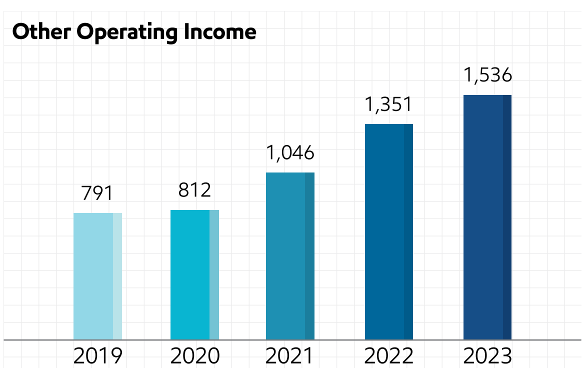
The income derived from Commission, Exchange, and Brokerage fell drastically from BDT 3,486.72 million in 2022 to BDT 2,861.08 million in 2023. This represents a decrease of 17.94% when compared to the previous year. Due to the persistent challenges posed by the

Russia-Ukraine conflict and volatility in the foreign exchange market, foreign exchange businesses experienced significant negative growth. The historical position of Commission, Exchange, and Brokerage income over the last five years is presented below:



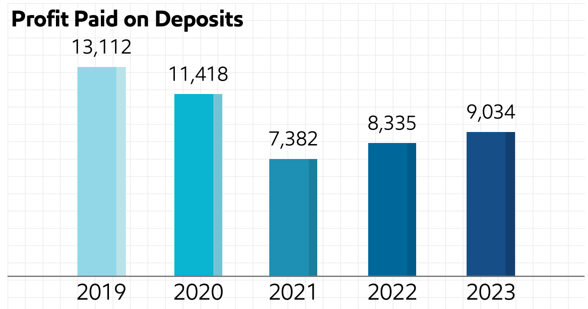
Other Operating Income

For the year 2023, Other Operating Income amounted to BDT. 1,536.38 million, a notable increase from the BDT. 1,351.23 million reported in 2022. This growth marks a substantial uptick of 13.70% compared to the previous year. The trend in Other Operating Income is illustrated below:



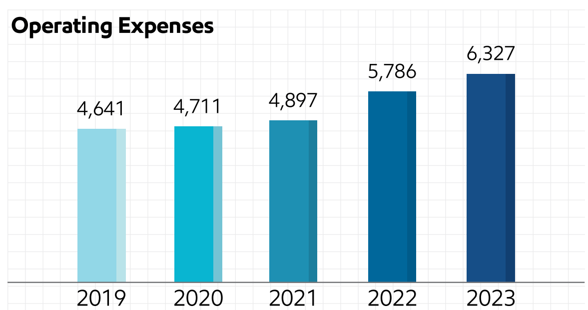
Profit Paid on Deposits

In the year 2023, the bank disbursed a total profit of BDT 9,034.42 million to Mudaraba depositors, showing a growth from BDT 8,335.13 million in 2022. This distribution amounted to 75.34% of the distributable investment income generated from the deployment of the Mudaraba Fund and represented 58.81% of the bank's total expenditure for 2023. One key contributing factor to this rise in profit on deposits is the bank's practice of periodically adjusting deposit profit rates to align with prevailing inflation rates. This approach has significantly bolstered the profit distributed on deposits. The historical data regarding profit paid on deposits for the last five years is presented below:



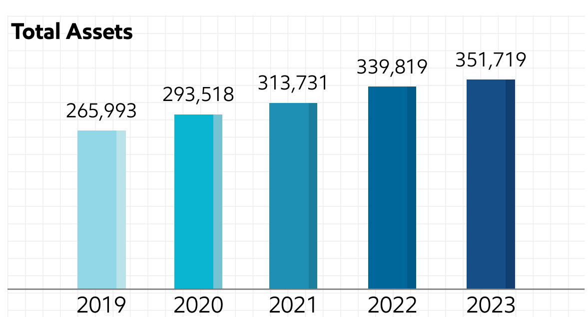
Operating Expenses

The cumulative operating expenses for the year 2023 amounted to BDT. 6,327.35 million, in contrast to BDT. 5,786.18 million reported in 2022. In the fiscal year 2023, these operating expenses constituted 41.19% of the total expenditure, marking a slight increase from the 40.97% ratio observed in 2022. Below, you will find a graphical representation illustrating the trends in operating expenses:



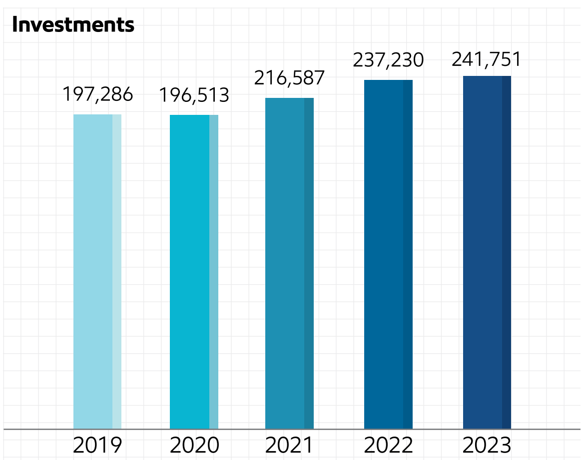
Total Assets

As of December 31, 2023, the bank's total assets amounted to BDT 351,719.34 million, a notable increase from BDT 339,818.87 million recorded on December 31, 2022. This signifies a growth of BDT 11,900.47 million, or 3.50%, compared to the previous year. This growth in total assets can be attributed to several key factors, including the expansion of investments, the increase in Cash and Bank Balance, and the growth of other assets. The following graph illustrates the growth in total assets:



Investments

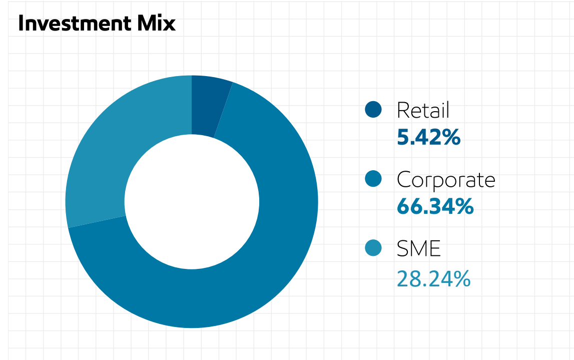
As of December 31, 2023, the bank's total investments amounted to BDT 241,750.80 million, representing a significant uptick from the BDT 237,229.98 million reported on December 31, 2022. This demonstrates an increase of BDT 4,520.82 million, equating to a 1.91% surge compared to the previous year. It's important to note that the Russia-Ukraine conflict and the global economic slowdown had a diminishing effect on market investment appetite. Consequently, SJIBPLC exercised caution in disbursing investments, resulting in a more measured pace of investment growth throughout 2023. The investment portfolio's trend over the past five years is depicted below:



In line with its diversification strategy, the bank has been actively cultivating a well-balanced portfolio encompassing corporate, retail, SME (Small and Medium-sized Enterprises), and agribusiness investments. SJIBPLC has placed particular emphasis on the retail and SME sectors, recognizing their increasing significance in fueling economic growth. In addition, the bank's strategic focus on these segments is a response to the intensifying competition within the corporate banking landscape. Below, you'll find the segment-wise investment breakdown as of December 31, 2023:

Taka in million

Sl. No.	Particulars	Total	Mix
1	Corporate	160,371	66.34%
2	SME	68,274	28.24%
3	Retail	13,106	5.42%
Total		**241,751**	**100.00%**

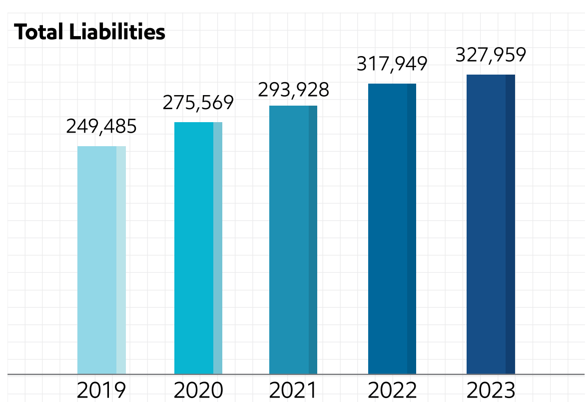


Non-performing Investments (NPI)

As of December 31, 2023, the non-performing investment rate in Bangladesh's banking sector stood at 8.16%. In contrast, SJIBPLC maintained a notably lower non-performing investment rate of 4.42%. SJIBPLC's non-performing investments (NPI) decreased to BDT 10,689.02 million by December 31, 2023, compared to BDT 11,332.83 million on December 31, 2022. This increase underscores the bank's commitment to strengthening its lending discipline and refining its recovery processes. SJIBPLC remains proactive in its efforts to identify and rectify non-performing investments, with the goal of further reducing NPIs. The bank also maintains provisions against investments that do not fall under classification to enhance the bank's financial health.

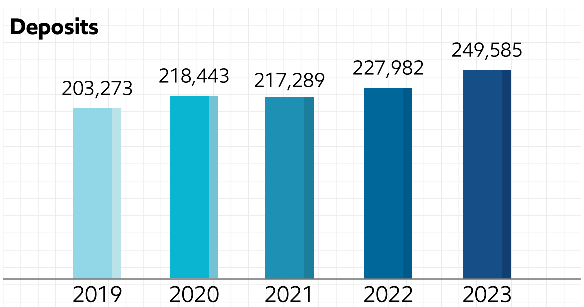
Total Liabilities

By the close of 2023, the bank's total liabilities amounted to BDT 327,959.15 million, marking a notable increase from BDT 317,948.73 million at the end of 2022. This surge represented 3.15% growth compared to the preceding year. The growth in total liabilities can be predominantly attributed to increased placements from other banks and financial institutions, deposits and other accounts, and other forms of liabilities. The trend in liability growth over the past five years is presented below:



Deposit

As of December 31, 2023, the total deposits in the bank reached BDT 249,585.02 million, showing an increase from BDT 227,982.06 million on December 31, 2022, equating to a growth of BDT 21,602.97 million. In line with the bank's strategic fund management approach, a deliberate decision was made to release certain corporate deposits and high-cost deposits. This action contributed to a more modest increase in overall total deposits. During 2023, the bank shifted its focus towards individual deposits, resulting in a significant rise in this category. SJIBPLC places a strong emphasis on deposit mobilization by introducing popular and innovative deposit products. The funds mobilized through deposits are subsequently channeled into the economy, supporting profitable and secure ventures. The accompanying graph illustrates the growth of deposits for a clear view and understanding:



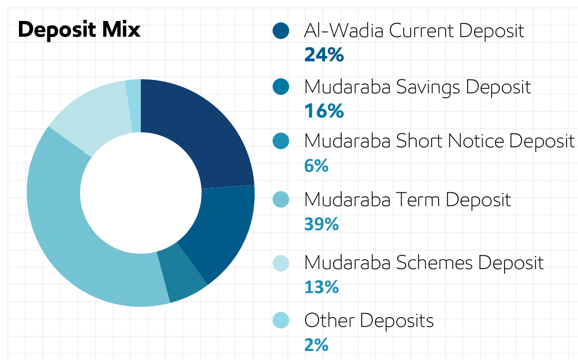
Deposit Mix

SJIBPLC prioritized attaining an optimal deposit mix, leading to a 15.73% rise in low-cost and no-cost deposits. In 2023, these deposits were at BDT. 102,557.63 million, and by 2023, they had increased to BDT. 118,685.60 million. Throughout 2023, the bank's primary focus was on rebalancing its deposit base, aiming to strengthen its portfolio of low-cost, transaction-based deposits. This strategic shift allowed SJIBPLC to marginally reduce its high-cost deposit segment while achieving a more favorable and consolidated deposit mix.

The Deposit-mix of the Bank as on 31 December 2023

Sl. No	Nature of Deposit	Taka in million	Percentage of Total Deposit
1	Al-Wadia Current Deposit & Other Accounts	60,012.47	24.05%
2	Mudaraba Savings Deposit	39,696.82	15.91%
3	Mudaraba Short Notice Deposit	14,099.09	5.65%
4	Mudaraba Term Deposit	97,867.73	39.21%
5	Mudaraba Schemes Deposit	33,031.69	13.23%
6	Other Deposits	4,877.22	1.95%
	Total	**249,585.02**	**100.00%**

Mix of deposit as of December 31, 2023

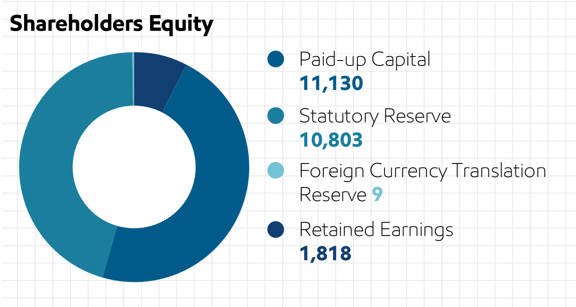


Placements from other Banks and Financial Institutions

As of December 31, 2023, the total placements from other banks and financial institutions amounted to BDT 27,511.35 million, a notable decrease from the BDT 42,036.65 million recorded on December 31, 2022. As part of its strategy, the bank lessened its dependency on borrowed funds, resulting in a negative growth of BDT 14,525.29 million.

Shareholders' Equity

By the close of 2023, the Total Shareholders' Equity reached BDT 23,760.19 million, marking a significant increase from the BDT 21,870.14 million reported in 2022, reflecting a growth of 8.64% compared to the previous year. This boost in Shareholders' Equity can be largely attributed to the increase in paid-up capital, the statutory reserve, retained earnings, and the foreign currency translation reserve. The expansion of paid-up capital was driven by the issuance of a 3% stock dividend for the year 2022. The composition of Shareholders' Equity as of December 31, 2023, is outlined below:



Regulatory Capital

In line with its risk management strategy, SJIBPLC adheres to a policy of upholding a robust capital-to-risk-weighted asset ratio. This approach ensures that the bank maintains a substantial buffer to absorb potential shocks stemming from unforeseen risks. The steadfast commitment to a strong capital foundation serves the dual purpose of safeguarding the bank's long-term solvency and facilitating sustainable business growth that maximizes value for its stakeholders.

As of December 31, 2023, the Total Regulatory Capital of the bank reached BDT. 34,126.24 million, up from BDT. 34,064.48 million at the close of 2022, reflecting a growth of BDT. 61.76 million compared to the previous year. Throughout 2023, SJIBPLC consistently maintained a sound regulatory capital position, with the regulatory capital standing at 15.06%, significantly exceeding the required rate of 12.50%. The bank's strategy includes a continued focus on profit retention, bonus share issuance, and the further strengthening of its capital adequacy position by issuing Mudaraba Subordinated Bonds in order to enhance its capital base.

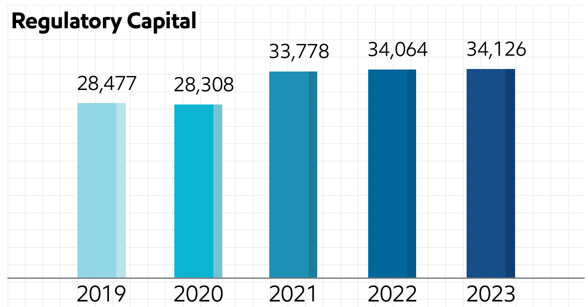
The Regulatory Capital and Risk-Weighted Asset of the bank are shown in the table below:

(Amount in million Taka)

Particulars	2023 BDT. In Million	2022 BDT. In Million
Regulatory Capital:		
1. Tier-1 (Going-Concern Capital)	28,735.65	26,846.54
2. Tier-2 (Gone-Concern Capital)	5,390.59	7,217.94
Total Regulatory Capital (1+2)	**34,126.24**	**34,064.48**
Total Risk Weighted Assets (RWA)	**226,626.82**	**236,937.49**
Capital to Risk Weighted Assets Ratio (CRAR)	**15.06%**	**14.38%**

Particulars	2023 BDT. In Million	2022 BDT. In Million
Tier-I Capital to RWA	12.68%	11.33%
Tier-II Capital to RWA	2.38%	3.05%
Minimum Capital Requirement (MCR)	**28,328.35**	**29,617.19**

Five years' trend of regulatory capital is given below:



Net Asset Value (NAV) per Share

Shahjalal Islami Bank PLC. exhibits a net asset value (NAV) per share of BDT 21.35, significantly surpassing the face value of its shares. This substantial difference underscores the bank's ability to generate added value for its shareholders. Consequently, investor confidence in the bank continues to grow steadily, leading to increased investments in the bank's shares. The trend in NAV over the past five years is depicted below:

Year	Net Asset Value (NAV)
2023	21.35
2022	19.65
2021	18.33
2020	17.44
2019	16.84

Dividend

The Bank's Board of Directors has proposed cash dividend of 14% for the year 2023. Over the past few years, the Board has consistently declared dividends to shareholders at attractive rates. Below are the dividend rates declared by the bank since 2019:

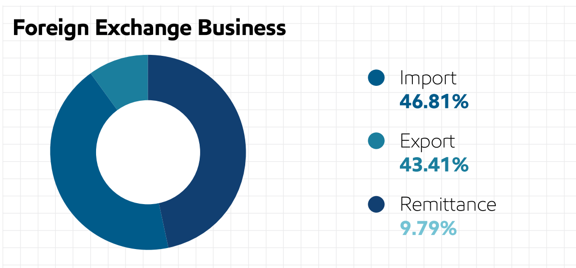
Year	Dividend (%)
2023 (proposed)	14 (Cash)
2022	15 (12 Cash & 3 Stock)
2021	15 (10 Cash & 5 Stock)
2020	12 (7 Cash & 5 Stock)
2019	10 (5 Cash & 5 Stock)

Foreign Exchange Business

In 2023, the total foreign exchange transactions facilitated by the bank reached BDT 570,260 million, marking a slight inscrease of BDT 36,151 million, equivalent to a 6.77% growth compared to the previous year's figure of BDT 534,109 million. Due to the market turbulence stemming from global conflicts, the bank remained firm in its commitment to prioritizing foreign exchange operations, which in turn resulted in a sustainable condition in business volume. The specifics of the foreign exchange activities are provided below:

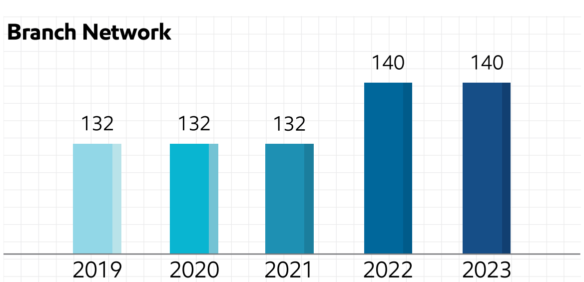
Particulars	2023	
	Amount in Million Taka	Composition
Import	266,912	46.81%
Export	247,526	43.41%
Foreign Remittance	55,822	9.79%
Total	**570,260**	**100.00%**

Mix of Foreign Exchange Business in 2023



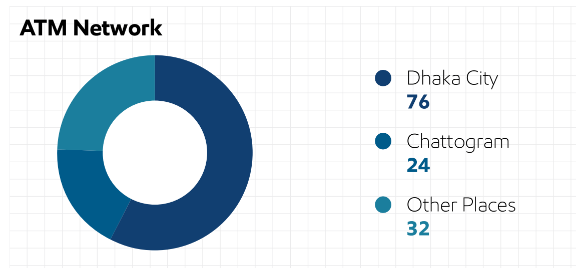
Branch Network

The bank currently maintains a presence through a network comprising 140 branches and 4 sub-branches across the country. In a concerted effort to expand its reach, the bank has successfully inaugurated 3 sub-branches during the year 2023. Additionally, the bank is engaged in an ongoing evaluation of its existing branch performance, with a focus on fortifying the operations of the branches. This strategy includes the reduction of loss-making branches, resulting in a decrease in their number in 2023. The evolution of the branch network over the past five years is outlined below:



Automated Teller Machine (ATM) Network

The bank's ATM network has grown to include 132 of its own ATMs and 3,320 shared ones, up from 129 and 3,203, respectively, in 2022. These ATMs provide customers with a range of services, from cash withdrawals to balance inquiries, mini statements, mobile recharges, and bKash cash withdrawals. Notably, a significant volume of cash transactions take place through the bank's ATMs nationwide. The bank is dedicated to continually expanding and enhancing its ATM network. Visual representations of the geographical distribution of these ATMs are available in the accompanying graph.



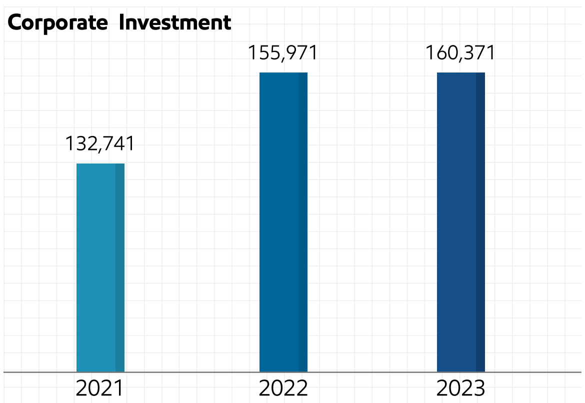
Correspondent Relationship

Shahjalal Islami Bank has forged robust correspondent relationships with prominent foreign banks worldwide. As of December 31, 2023, the bank maintained partnerships with a total of 433 correspondent banks spanning across 55 countries. These relationships are a key asset in facilitating international trade transactions. To support these connections, the bank holds 35 Nostro accounts in 9 major currencies, which are held with reputable international banks located in crucial global financial hubs. These Nostro accounts play a pivotal role in ensuring efficient international financial operations. Additionally, the bank benefits from ample credit lines extended by its correspondent banks, providing added confirmation to Letters of Credit and further streamlining international trade processes.

Corporate Banking

Shahjalal Islami Bank PLC. recognizes the diverse needs of its customers and understands the importance of tailoring solutions to ensure the prosperity of their businesses. To address the domestic and international requirements of corporate entities, the bank offers an extensive range of corporate finance products. These offerings encompass traditional working capital finance, project finance, and customized financing services. The bank's product covers everything from short-term financing to long-term investments, designed to support business expansion. Dedicated relationship managers are on hand to provide a variety of facilities to aid in various business activities.

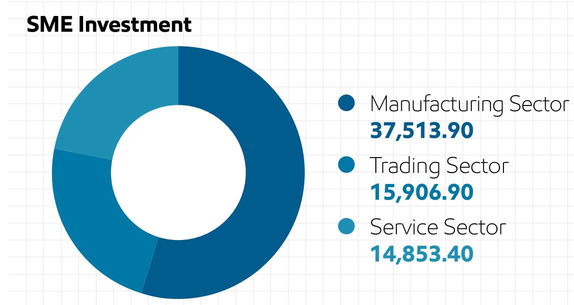
As of December 31, 2023, the total outstanding corporate investments of the bank amounted to BDT 160,371 million, marking a substantial increase of BDT 4,400 million from the 2022 figure of BDT 155,971 million. The ongoing Russia-Ukraine conflict placed significant strain on the bank's corporate clients and their supply chains, necessitating additional support. Consequently, the bank increased its corporate investments during the year under review. Furthermore, the bank actively participated in the government's announced stimulus packages for the corporate sector and disbursed a substantial amount of these packages to its corporate clientele. The trajectory of corporate investments over the past three years is detailed below:



SME Banking

Small and Medium Enterprises (SMEs) serve as the driving force behind global economic growth, innovation, and employment, and this is true for Bangladesh as well. This sector plays a pivotal role in stabilizing commercial activities and directly contributes to the grassroots development of the nation. SJIBPLC is deeply committed to recognizing the SME sector's potential as a significant market and believes it is a key catalyst for economic growth. From its inception, the bank has actively supported the SME sector by providing financing. The strengthening of the SME Division underscores our dedication to fortifying SME financing, thereby integrating grassroots entrepreneurs into the broader economic landscape.

In 2023, the SME investment portfolio amounted to BDT 68,274 million. However, it's worth noting that overall business activity and investment demand faced a slowdown due to ongoing global conflicts and the upcoming national election in Bangladesh. As a result, the growth of SMEs was relatively subdued during the year.

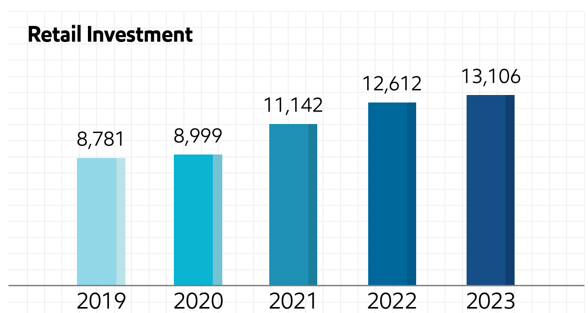


Retail Banking

The bank upholds a commitment to improving the living standards of a diverse range of individuals, encompassing various social classes and professions. To respond to consumer needs promptly, it has established a specialized Retail Investment Department that offers a variety of tailored investment products.

These offerings include house-building investments to facilitate new flat purchases, household durables investments for acquiring household goods, education investments for higher studies, marriage investments to provide financial assistance during weddings, and car investments for vehicle purchases. Moreover, the bank features a Semi-Pacca Housing Investment Scheme specifically designed to address the unique requirements of middle- and lower-income individuals in society.

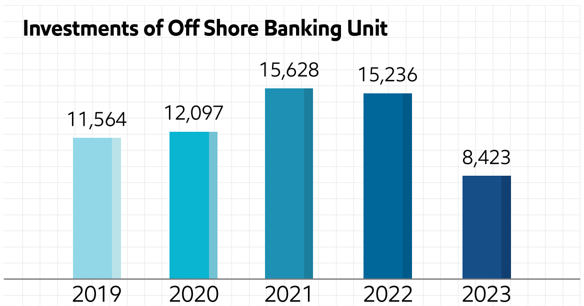
The bank's retail investment portfolio demonstrated growth, increasing from BDT 12,612 million in 2022 to BDT 13,106 million in 2023, reflecting a substantial growth of 3.91%. In the future, the bank will maintain its focus on expanding the retail portfolio to better cater to the needs of Bangladesh's middle- and lower-middle-class population. The diagram below illustrates the position of retail investments over the past five years.



Offshore Banking Unit

Shahjalal Islami Bank PLC. operates its Offshore Banking Unit (OBU) as a distinct and regulated business entity, strictly adhering to the regulations and guidelines established by Bangladesh Bank. Through effective communication, competitive pricing, and an unwavering commitment to exceptional customer service, SJIBPLC has swiftly attracted a significant customer base, establishing a robust and rewarding presence.

As of December 31, 2023, the total investments held by the Offshore Banking Unit amounted to BDT 8,423.31 million. This figure reflects a substantial decrease of BDT 6,812.45 million, translating to a negative growth rate of 44.71% when compared to the previous year's investment of BDT 15,235.76 million. The investment portfolio trend of the OBU is presented below:



Agent Banking

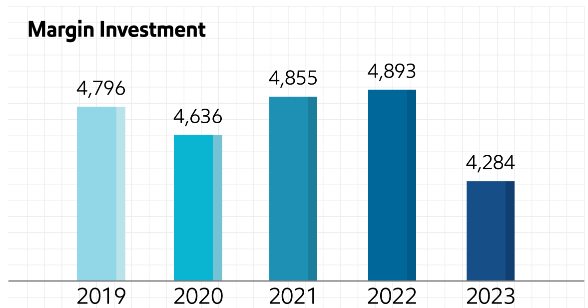
Shahjalal Islami Bank is committed to expanding its banking services across the country through Agent Banking, thereby extending its range of products and services to customers. The bank's Agent Banking structure offers secure technology and real-time banking capabilities, ensuring that customers can enjoy prompt, real-time transactions.

Notably, the Agent Banking System is seamlessly integrated with the Core Banking System, granting customers the advantage of instant SMS notifications and system-generated money receipts for each transaction. This service is geared towards removing the limitations of time and distance for customers. SJIBPLC provides comprehensive banking services at customers' doorsteps, simplifying processes such as remittances, deposits, and cash withdrawals. This initiative ensures that even individuals in remote areas of the country have access to structured and secure banking facilities. Currently, the bank operates 119 Agent Banking outlets, serving 33,611 accounts across various categories, with a total deposit balance of BDT. 616.06 million as of December 31, 2023.

Shahjalal Islami Bank Securities Limited

Shahjalal Islami Bank Securities Limited (SJIBSL) is a subsidiary company of Shahjalal Islami Bank PLC. It was established as a public limited company under the Companies Act of 1994 and commenced its operations on May 25, 2011. The core objective of this company is to engage in the business of stock brokering and dealing, share and securities transactions, and other services outlined in its Memorandum and Articles of Association. SJIBSL holds corporate memberships with both the Dhaka Stock Exchange PLC. and the Chittagong Stock Exchange PLC.

Shahjalal Islami Bank PLC. retains ownership of 91.79% of the shares of Shahjalal Islami Bank Securities Limited. In the year 2023, SJIBSL reported a total operating income of BDT. 350.83 million, showing a decrease from BDT. 577.08 million in 2022, resulting in a negative growth rate of 39.21%. The outstanding margin investments amounted to BDT. 4,283.92 million in December 2023, compared to BDT. 4,892.95 million in December 2022. The trend in margin investments over the past five years is detailed below:



Risk Management

SJIBPLC maintains a comprehensive risk management policy that addresses all the risks it manages while ensuring compliance with regulatory requirements. The Board is ultimately responsible for establishing and overseeing the bank's risk management framework. These risk mitigation efforts encompass strategic, financial, and operational aspects, reinforcing the bank's operations, reducing the potential for unexpected losses, and enhancing volatility management.

a) Investment (Credit) Risk Management

Investment (credit) risk is the potential loss resulting from a customer or counterparty failing to meet their financial or contractual obligations. This risk can stem from direct investment activities, commitments, and contingencies. The investment risk management function establishes and enforces policies, sanctions, monitoring procedures, and controls at the business unit level. Investment exposures are aggregated across business units and subject to regular monitoring. Effective investment risk management relies on fostering an appropriate investment risk management culture. The Board of Directors, directly or through the Risk Management Committee of the Board, reviews and approves the bank's annual investment risk appetite and periodically reviews the investment policy manual. Responsible officials continuously monitor and manage investment risk.

b) Foreign Exchange Risk Management

Foreign exchange risk arises from transactions involving foreign currencies, where adverse exchange rate fluctuations may lead to earnings losses. SJIBPLC adheres to a comprehensive foreign exchange risk management policy, in accordance with Bangladesh Bank's guidelines, to minimize various risks associated with foreign exchange transactions. The Treasury Division's Foreign Exchange Desk engages in need-based foreign exchange activities with counterpart banks. The Treasury Back Office handles fund transfers and transaction entries in the books, and the Mid Office verifies deals. All foreign exchange assets and liabilities are revalued at market rates as per the Bangladesh Bank's directives. Nostro accounts are reconciled monthly, with outstanding entries beyond 30 days reviewed for settlement.

c) Asset Liability Risk Management

Asset Liability Management addresses liquidity and interest rate risks due to maturity mismatches between assets and liabilities. The Asset Liability Management Committee (ALCO), led by senior executives and the managing director, is responsible for managing asset liability risk. The bank has a comprehensive Asset Liability Management policy in line with Bangladesh Bank's guidelines. SJIBPLC complies with all applicable rules, regulations, and guidelines for asset liability risk management and follows industry best practices.

d) Money Laundering Risk Management

Money laundering risk entails reputation loss and penalties incurred due to negligence in preventing money laundering. SJIBPLC takes preventive measures against money laundering and terrorist financing in accordance with the amended Money Laundering Prevention Act 2012, the amended Anti-Terrorism Act 2013, and Bangladesh Bank's guidelines. The bank employs risk-sensitive customer due-diligence measures, monitors business relationships, and complies with regulations. The bank's committee on anti-money laundering, headed by the Deputy Managing Director as Chief Anti-Money Laundering Compliance Officer, oversees and ensures compliance on anti-money laundering matters.

e) Internal Control & Compliance Risk Management

The banking industry's complexity necessitates a robust internal control system to identify weaknesses and take corrective actions. SJIBPLC has segregated its Internal Control and Compliance Division into three separate units: Audit, Monitoring, and Compliance, following Bangladesh Bank's guidelines, to ensure an efficient and effective internal control system.

f) Information and Communication Technology Security Risk Management

Information and Communication Technology (ICT) risk involves business risk associated with ICT use, ownership, operation, influence, and adoption. Managing ICT risk entails identifying factors that could damage or disclose data, evaluating them in terms of data value and countermeasure cost, and implementing cost-effective risk mitigation solutions. SJIBPLC has an ICT risk management policy in place and conducts regular internal IT audits and security training.

g) Liquidity Risk Management

Liquidity risk is the risk that the bank may not be able to meet its financial obligations when they are due. The bank maintains sufficient liquid assets and adheres to various liquidity management limits. The Treasury Division, responsible for liquidity risk management, assesses liquidity needs based on historical requirements, current liquidity position, and other factors to ensure the bank's liquidity is adequate.

Future Prospects/Outlook

Considering macroeconomic and geopolitical factors, the banking sector faces profitability challenges due to exchange rate volatility, low benchmark rates, and limited financing opportunities resulting from global events such as wars and crises in different parts of the world, as well as the ongoing uncertainty in the global economy. SJIBPLC plans to focus on building and maintaining a quality investment portfolio, improving customer service quality, and cost rationalization through automation and product innovations.

Similarly, the bank intends to focus on a low-cost and no-cost core deposit mix by effectively utilizing its extensive branch network, sub-branch network, and agent banking operations. The 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 on providing value-added services through operational efficiency and technological improvements. The effectiveness of the bank's risk management systems, the acquisition of low-cost or no-cost deposits, rationalization of operating expenses, strengthening of the capital base, and fostering a streamlined corporate culture are primary factors in demonstrating 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. We aim to build cohesive teams with strong ethical standards. Our goal is to enhance our domestic and global image and progress from strength to strength.

Outlined below are the major steps that the bank will take to manage upcoming challenges:

To navigate the evolving landscape and fortify its position, SJIBPLC has positioned itself to implement a series of strategic initiatives:

Enhance Export-Oriented Relationships

Forge stronger ties with existing export-oriented clients and cultivate new relationships with export-focused customers. This will bolster the inflow of foreign currency, including remittances.

Deposit Retention and Growth

Implement year-round deposit campaigns to retain existing deposits and attract new ones. This proactive approach aims to counterbalance potential challenges posed by rising inflation and increased spending on foreign currency.

Asset Quality Enhancement

Prioritize vigilant monitoring of both classified and unclassified investments. This focus on improving asset quality and enhancing recovery, even from written-off investments, is instrumental in safeguarding the bank's financial stability.

Operational Efficiency

Continuously analyze the bank's business processes to optimize costs and boost overall profitability. This process-driven approach ensures streamlined operations and increased cost-effectiveness.

Employee Productivity and Compliance

Place paramount emphasis on employee productivity, profitability, and unwavering compliance with regulations. A highly motivated and informed workforce is central to the bank's success.

SME and Retail Banking Expansion

Recognizing the growth potential and low concentration risk in SME and retail banking, SJIBPLC will fortify its presence in these sectors.

Corporate Banking Evolution

Evolve corporate banking to align with evolving customer demands and market dynamics. Flexibility and adaptability are key to meeting the diverse needs of corporate clients.

Technological Advancement

Embrace cutting-edge technology to remain competitive in the banking sector. Technological innovation enhances customer experiences and operational efficiency.

Capital Base Strengthening

The bank will enhance its capital base by issuing Mudaraba Subordinated Bonds, bolstering its financial resilience and capacity.

Research and Product Innovation

Prioritize research and innovation in product development to address the ever-evolving competitive landscape in existing and emerging markets.

Green Finance and Social Integration

SJIBPLC is committed to promoting Green Finance and social integration through Corporate Social Responsibility (CSR) and Financial Inclusion initiatives. These endeavors align with the United Nations' Sustainable Development Goals (SDGs) and contribute to sustainable growth and social well-being.

Responsibilities towards Employees

A highly skilled, motivated, and committed team of human resources is the driving force behind providing better, faster, and more coordinated services to clients and contributing to the success of the organization. With this in mind, SJIBPLC places a high priority on the health and safety of its employees, taking several steps to ensure their well-being. These measures include providing medical benefits as a percentage of basic salary, partnering with Progati Life Insurance Company Limited to cover medical expenses for employees, their spouses, and children, and granting six months of maternity leave with medical allowance for the first two issues to female employees.

SJIBPLC also equips all its offices, including the head office and branches, with modern facilities like air conditioning and generators for backup power, firefighting equipment, and multiple emergency exit points to provide a sophisticated and encouraging work environment. The Corporate Head Office is a LEED-certified green building, further demonstrating the bank's commitment to sustainability and employee well-being.

To attract, retain, and motivate highly skilled personnel, SJIBPLC offers a competitive compensation package and a healthy, secure, and forward-thinking work environment. The bank is committed to taking care of its employees and building trust and relationships over time. As a result, SJIBPLC provides its employees with long-term benefits, including a Provident Fund, Gratuity Fund, Superannuation Fund, Benevolent Fund, Incentive Bonus, and Career Prospects and Training Programs.

The Provident Fund is managed by the Board of Trustees and funded equally by the bank and its employees. The Gratuity Fund is authorized by the National Board of Revenue as a recognized gratuity fund and is managed by a separate Board of Trustees. Employees are entitled to gratuity benefits after completing at least five years of service with the bank. The Superannuation Fund provides medical and death-related survival benefits instead of group insurance and is funded monthly by both employees and the bank. The Benevolent Fund covers substaff's marriage ceremonies and provides short-term grants for unexpected and certain needs of SJIBPLC staff and their families.

The bank typically pays an incentive bonus to retain high-quality and competent human resources and increase employee productivity. The bonus amount is distributed among employees in accordance with the bank's regulations. SJIBPLC also offers various training and development programs throughout the year at its training centers and arranges training for its employees at well-known institutions both domestically and abroad to enhance employee efficiency and productivity.

Contribution to the National Exchequer

Shahjalal Islami Bank PLC. operates as a responsible and law-abiding corporate entity, demonstrating a strong commitment to fulfilling its tax obligations, which include timely payments of corporate taxes, withholding tax, and VAT, all of which are promptly remitted to the government's treasury. In the year 2023, the bank earmarked a substantial amount of BDT 3,828.87 million for corporate tax, representing a notable increase from BDT 3,653.74 million in the previous year 2022. During the year 2023, SJIBPLC made significant contributions to the government's treasury, amounting to BDT. 9,857.50 million, covering a spectrum of taxes including source tax, salary tax, VAT, excise duty, and other related taxes, including VAT on various services. The bank's intermediation process efficiently mobilized resources totaling BDT 249,585.02 million from surplus economic units and effectively deployed BDT 241,750.80 million. Over the years, the bank has actively created a multitude of both direct and indirect employment opportunities, further underscoring its unwavering dedication to the nation's development and progress.

Brand Positioning and Differentiation

Shahjalal Islami Bank PLC, established on April 1, 2001, as an Islamic Shariah-based commercial bank, has positioned itself uniquely in the banking landscape. It stands out by offering exceptional customer service and innovative products and services that adhere to shariah guidelines. The bank not only creates value for its shareholders but also extends support to the underprivileged through Corporate Social Responsibility (CSR) and Zakat initiatives.

From the outset, the bank has established itself as a leading third-generation Islami bank, with a strong focus on asset quality, shariah compliance, social welfare, CSR activities, and technology-driven automated banking solutions. In its 23-year journey, SJIBPLC has expanded its physical, digital, and virtual channels and platforms, boasting 140 branches, 4 sub-branches, 119 agent outlets, 132 proprietary ATMs, 3,320 shared ATMs, and app-based banking services. These efforts have solidified the bank's position as the most attractive and distinctive institution in the banking sector, enhancing its brand value significantly.

Prioritizing Customer Rights

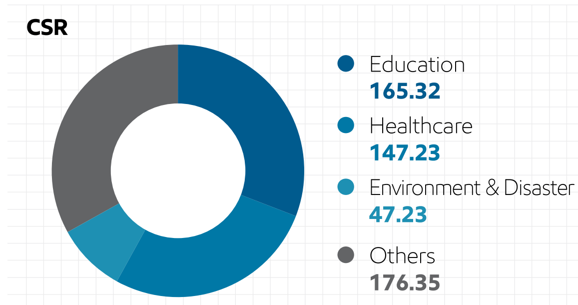
SJIBPLC places the rights of its customers at the forefront of its operations. The bank doesn't gauge its performance solely by profit figures but rather by the quality of modern services provided to customers. It firmly believes that customer perceptions and satisfaction determine an organization's success or failure. Therefore, the bank is unwavering in safeguarding its customers' rights across all its business activities.

Commitment to Corporate Governance

The bank adheres to a set of robust corporate governance practices aligned with industry best practices and regulatory requirements set forth by the Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank. Transparency, accountability, and good governance are integral to every facet of the bank's operations. The details of the Corporate Governance Report are comprehensively outlined in this Annual Report.

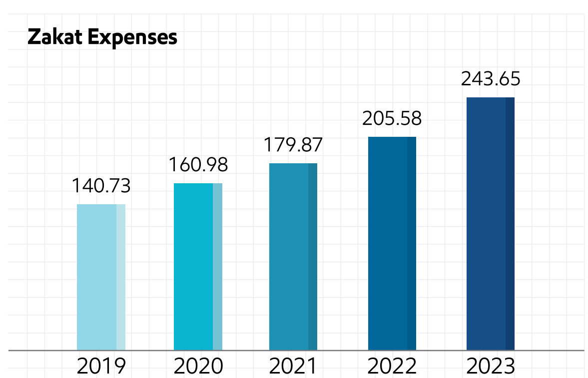
Corporate Social Responsibility (CSR)

Shahjalal Islami Bank PLC. allocates a significant portion of its annual profit to fund CSR initiatives in various areas, including education, healthcare, disaster management, environmental sustainability, empowerment, and human resource development. The bank prioritizes social and public welfare over mere profit maximization. In 2023, CSR expenses amounted to BDT 536.13 million, marking a notable increase from BDT 325.36 million in 2022. The bank's sector-wise CSR contributions are outlined below:



Zakat

Shahjalal Islami Bank PLC., as a Shariah-based Islamic bank, adheres to the rules of Islamic Shariah and pays zakat accordingly. The primary purpose of zakat is to discourage the accumulation of wealth among certain individuals in society and to promote a more equitable distribution of wealth. The bank pays zakat at a rate of 2.58% of the closing balance of the statutory reserve, general reserve, and retained earnings from the previous year. Zakat is reflected in the profit and loss account of the bank in accordance with the "Guidelines for Islamic Banking" issued by the Bangladesh Bank through BRPD Circular No. 15 dated November 9, 2009. Zakat funds are distributed to underprivileged individuals as per Shariah principles. In 2023, the bank paid BDT 243.65 million as Zakat, compared to BDT 205.58 million in 2022. The Zakat expenses for the last five years are provided below:



Green Banking

Shahjalal Islami Bank PLC. is a pioneer in sustainable banking practices and has been actively involved in several green initiatives. The bank has implemented proactive measures across multiple areas, such as green finance, policy formulation, environmental and social risk management (ESRM), online banking, and energy efficiency. It has also set a significant example for the corporate sector in Bangladesh by constructing a LEED-certified green building at its head office. The bank achieved a notable milestone in 2023 by disbursing a significant amount of green finance. As of December 31, 2023, the total outstanding amount of green finance was BDT 265.35 million, and the bank has been consistently increasing its green financing year on year.

Financial Inclusion

Financial inclusion is increasingly recognized as a vital tool by policymakers worldwide for fostering inclusive and sustainable economic development. Acknowledging this significance, SJIBPLC has been actively pursuing innovative initiatives to promote financial inclusion. The bank has diligently worked to extend formal banking services to marginalized segments of society through affordable digital financial services. Initiatives include opening No-Frill Accounts (NFAs) for various groups, such as farmers, garment workers, and individuals with disabilities. Additionally, school banking facilities are available for students under 18 years old, enabling them to open accounts with a minimum deposit of BDT 100 through their parents or legal guardians. Furthermore, SJIBPLC is collaborating with initiatives like banking for street children, working mothers, and Agent Banking. Agent Banking, in particular, is destined to emerge as a crucial tool for financial inclusion, offering tailored financial products to underserved populations, especially those in remote areas.

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, the Financial Reporting Act 2015 and other laws and rules applicable in Bangladesh.

The financial statements for 2023 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. Hoda Vasi Chowdhury & Co., Chartered Accountants appointed by the shareholders, has certified the fairness of the financial statements for the year ended December 31, 2023.

Maintaining Proper Books of Account

Shahjalal Islami Bank PLC. always maintains proper books of account for its financial transactions, including in 2023. The external auditor, M/s. Hoda Vasi Chowdhury & Co., Chartered Accountants, has reviewed the books of account and provided an opinion that they have been maintained as required by law.

Appropriate Accounting Policies

The bank has selected appropriate accounting policies and consistently applied them in preparing the financial statements. Accounting estimates are made using reasonable and prudent judgment. The bank records financial transactions on an accrual basis, including required disclosures. Financial statements are prepared accordingly.

Internal Control and Compliance

Internal control refers to the tools that provide reasonable assurance regarding the achievement of the bank's objectives. These include effectiveness and efficiency of operation, safeguarding the assets of the bank, compliance with applicable laws and regulations, and compliance with policies and procedures issued by the bank and the regulators. To recognize the significance of internal control, Shahjalal Islami Bank PLC. has strengthened and segregated its Internal Control and Compliance Division into three separate units, in line with guidelines from Bangladesh Bank. The bank has also created an Internal Control and Compliance Manual, which is updated regularly. This manual includes the Risk Assessment Methodology, designed to conduct Risk-Based Internal Audits, among other significant issues.

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

The Board of Directors recognizes their general responsibilities for the bank's internal control system. They are aware of their duties to establish efficiency, effectiveness, reliability, timeliness, and compliance with relevant laws and regulations in all of the bank's operations. To ensure this, they have confirmed that a system of internal control is in place throughout the year, following best financial reporting practices.

Going Concern

After reviewing the bank's present and potential business growth, annual budget, performance, liquidity position, and financing arrangements, 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 the bank's going concern. For this reason, the directors have continued 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

Shahjalal Islami Bank PLC. has been rated by Emerging Credit Rating Limited (ECRL). ECRL performed the rating surveillance based on audited financial statements of December 31, 2023 and other relevant information and the report was issued on April 29, 2024. They rated the bank as "AA+" under the "Long Term" category and "ST-2" under the "Short Term" category. An institution rated as "AA+" under the "Long Term" category has a very strong capacity to meet its financial commitments. These institutions typically have a good track record and have no readily apparent weaknesses. An institution rated as "ST-2" under the "Short Term" category has a strong capacity to meet its financial commitments in a timely manner.

Auditor's Report

An auditor of a listed company cannot be appointed for more than three consecutive years, according to BSEC notification no. BSEC/CMRRCD/2006-158/208/Admin/81, dated June 20, 2018, and Dhaka Stock Exchange (Listing) Regulation, 2015, dated June 30, 2015 as well as the Guidelines on External Audit of Banks issued by BRPD in 2016. M/s Hoda Vasi Chowdhury & Co., Chartered Accountants, was the auditor of the bank for the year 2023. As 2023 was their second year of auditing the bank, the firm is therefore eligible for reappointment as auditor for the year 2024.

However, an external auditor can conduct statutory audit in maximum 6 (six) number of Banks and NBFIs altogether in a financial year according to the maximum limit set in the DBI-3 Circular Letter No. 01 dated 28th November 2023 of Bangladesh Bank. Since the existing auditor M/s. Hoda Vasi Chowdhury & Co., Chartered Accountants is a leading audit firm specially for Banks and NBFIs audit in Bangladesh, they have several prior commitments in conducting audit of foreign bank branch offices. Hence, despite their willingness to continue as statutory auditors for the third consecutive year 2024, they expressed their intention for retirement from Shahjalal Islami Bank PLC. with a view to comply with the Bangladesh Bank Instruction.

Section 210 of the Companies Act of 1994 empowers shareholders to appoint the auditor and set their remuneration. In view of this, a number of eligible audit firms expressed their intention to be appointed as external auditor of the bank for the year 2024. Considering the competency and competitiveness, the board hence recommends appointing M/s Aziz Halim Khair Choudhury, Chartered Accountants, as the auditor of the bank for the year 2024, subject to the approval of the shareholders at the upcoming Annual General Meeting.

Vote of Thanks

The Board of Directors extends its deepest gratitude to Almighty Allah (SWT) for bestowing blessings and enabling the Bank to achieve significant growth and progress throughout the year 2023.

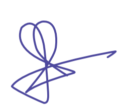
On behalf of the Board, we extend sincere thanks to the Ministry of Finance, Bangladesh Bank, Bangladesh Securities & Exchange Commission, and other esteemed government agencies for their invaluable assistance, guidance, support, and cooperation, which have been instrumental in the Bank's successful operations. We are also grateful for the ongoing collaboration and support provided by our esteemed foreign correspondents worldwide.

We, the members of the Board of Shahjalal Islami Bank PLC., take this opportunity to express our heartfelt gratitude and extend sincere thanks to our valued shareholders, customers, depositors, investment clients, and well-wishers. Your unflagging trust and confidence form the solid foundation of our success.

Finally, we express our deepest appreciation and sincere thanks to all officials of the bank for their tireless efforts, dedication, and commitment, which are the true driving force behind the bank's achievements.

We pray to Allah (SWT) to continue granting us the courage, dedication, patience, and fortitude to navigate the future and operate the bank to the highest standards for the continued benefit of all stakeholders.

Ameen.
On behalf of the Board of Directors



A.K. Azad
Chairman