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.

We are delighted to present before you the Directors' Report and Audited Financial Statements together with Auditors' Report of the Bank for the year ended 31 December 2017. We have also provided a brief description of the performance and affairs of the Bank for the same year as well as various aspects of the world market trend with highlights of the performance of Bangladesh economy.

World Economy

The last decade has been punctuated by a series of broad-based economic crises and negative shocks, starting with the global financial crisis of 2008–2009, followed by the European sovereign debt crisis of 2010–2012 and the global commodity price realignments of 2014–2016. As these crises and the persistent headwinds that accompanied them sub-side, the world economy has strengthened, offering greater scope to reorient policy towards longer-term issues that hold back progress along the economic, social and environmental dimensions of sustainable development.

GDP Growth					
	2015	**2016**	**2017E**	**2018f**	**2019P**
World	2.8	2.4	3.0	3.1	3.0
USA	2.9	1.5	2.3	2.5	2.2
Euro Area	2.1	1.8	2.4	2.1	1.7
Emerging & Developing Economics	3.6	3.7	4.3	4.5	4.7

Source: World Bank

In 2017, global economic growth is estimated to have reached 3.0 percent, a significant acceleration compared to growth of just 2.4 percent in 2016, and the highest rate of global growth recorded since 2011. Labour market indicators continue to improve in a broad spectrum of countries, and roughly two-thirds of countries worldwide experienced stronger growth in 2017 than in the previous year. At the global level, growth is expected to remain steady at 3.0 percent in 2018 and 2019.

The recent acceleration in world gross product growth stems predominantly from firmer growth in several developed economies, although East and South Asia remain the world's most dynamic regions. Conditions for investment have generally improved, amid low financial volatility, reduced banking sector fragilities, recovery in some commodity sectors and a more solid global macroeconomic outlook. Improved conditions have supported a modest revival in productive investment in some large economies. Gross fixed capital formation accounted for roughly 60 percent of the acceleration in global economic activity in 2017.

Recent course adjustments in major trade relationships, such as the United Kingdom of Great Britain and Northern Ireland's decision to withdraw from the European Union and the United States of America's decisions to renegotiate the North American Free Trade Agreement and to reassess the terms of its other existing trade agreements, The United States and China have fired the dramatic opening shots of what could become a trade war and these issues have raised concerns over a potential escalation in trade barriers and disputes. these could be amplified if met by retaliatory measures by other countries. An increasingly restrictive trade environment may hinder medium-term growth prospects, given the mutually reinforcing linkages between trade, investment and productivity growth. In this regard, policies should focus on upholding and revitalizing multilateral trade cooperation, emphasizing the possible benefits from trade in services.

Bangladesh Economy

Overall, the economy is moving forward, growing at a decent pace by Bangladesh's own historical as well as international standards. Many international organizations acclaimed Bangladeshi economy. Global investment firms like JP Morgan calling it the "frontier five" on the basis of its growth rate and economically active population. All the growth drivers are accounted for, it is the vast army of economically active population, young in age, that could fuel growth acceleration—a demographic dividend to move Bangladesh from being just an impressive underdog.

In FY17 growth on the supply side was driven by services and industry which officially estimated 7.28 percent GDP growth. Domestic demand growth appears to have been the driving force with private consumption contributing 4.7 percentage points and investment contributing 3.25 percentage points. Weak exports and strong imports dragged growth in FY17. Private investment stagnated as a percentage of GDP. Bangladesh's graduation from the LDC status will undoubtedly be a major milestone in the nation's history, but pressing economic challenges would remain. Bangladesh has made good progress in terms of meeting all the three graduation thresholds.

Fiscal Management

The overall budget deficit (excluding grants) decreased in the first half to Tk 62.96 billion from Tk 65.75 billion during the same period in FY17. This reflects undershooting of both the revenue and expenditure targets, with the size of the expenditure shortfall relative to the budget target exceeding the size of the revenue shortfall. Total revenue collection declined by 0.9 percent in the first half, reflecting 9.8 percent decline in nontax revenues. Tax revenue collection grew marginally by 0.3 percent despite high import growth and exchange rate depreciation. Import taxes grew by 4.3 percent and supplementary duties by 2.9 percent. In the backdrop of anticipated revenue shortfall, primarily emerging from the failure to implement the VAT and SD Act 2012, the government has been exploring alternative avenues of revenue mobilization, particularly in collecting unpaid VAT accruing to the Large Taxpayers Unit (LTU). Appropriate use of the Alternative Dispute Resolution (ADR) system could be a useful step in this direction.

Investment

Private investment growth in real terms slowed to 8.1percent in FY17, compared with 10.3 percent growth in FY16. Consequently, private investment as a share of GDP almost stagnated at 23.1 percent, compared with 23 percent in FY16. On the other hand, public investment boomed, growing by 17.3 percent in FY17, compared with only 4.5 percent growth in FY16, leading to a significant 0.7 percentage points increase as a percentage of GDP to reach 7.4 percent. Import of capital goods increased by19.4 percent in the first half of FY18 compared with 23.7 percent increase during the corresponding period of the previous year. However, capital machinery imports increased by 32.5 percent in the first half of FY18 compared with 23.6 percent increase in the first half of FY17. The key driving force appears to have been the capital imports needed by the mega public investment projects such as the Padma Bridge, Dhaka Metro Rail Transport and the Special Economic Zones. Private investments remain constrained by cumbersome business regulation and inadequate coverage as well as quality of infrastructure. Bangladesh slipped one notch to 177 ranking in Doing Business DB 2017. This is the second lowest among South Asian economies, after Afghanistan (183). During the DB 2017 period, no reforms were recorded in Bangladesh. Bangladesh's overall ranking was significantly affected by a nine-place slippage in the Starting a Business indicator minor improvements were recorded in DB 2017 rankings only in the areas of dealing with construction permits and getting electricity. The continued lackluster performance in DB indicators underlines significant shortcomings in Bangladesh's business environment.

Monetary Development

Monetary outcomes so far have largely been below target. The 10.9 percent monetary growth in FY17 fell short of the estimated 12.9 percent nominal GDP growth. Broad money growth remained subdued at 10.69 percent through December 2017 despite a reserve money growth of 13.31 percent. Slowdown in the growth of net foreign assets and decline in public sector borrowing from the banking system accounts for the slower growth in reserve and broad money. Domestic credit growth was stunted by the 14.48 percent decline in public sector borrowing through December 2017. Bangladesh Bank (BB) has taken a passive approach to domestic liquidity management. It has been reinjecting only part of the liquidity losses from the market due to its foreign exchange market intervention on the supply side.

Balance of payments

Current account deficit widened to over $4.8 billion in the first six months of FY18, compared with $543 million deficit in the corresponding period of FY17. This was mainly driven by near doubling of the trade deficit from $4.5 billion to $8.6 billion. A 25.2 percent growth in merchandize imports, driven by petroleum, food and industrial raw materials, far outweighed the modest 7.15 percent rebound in exports. These, together with an expansion in the service account deficit and weak recovery in remittances, led to the large increase in the current account deficit. The overall BoP was helped by more than doubling of medium and long-term (MLT) foreign loans from $1.1 billion in the first half of FY17 to $2.4 billion in the first six months of FY18 and over $1.2 billion net inflows from the banks' holding of foreign currency denominated assets and liabilities, compared with just $ 186 million in the corresponding period of FY17. Yet, the overall balance recorded a deficit of over $0.35 billion, compared with $2.65 billion surplus during the same period of the previous year.

Price Situation

The general point to point inflation fell slightly by 0.08 percentage point to 5.83 percent in December 2017 from 5.91 percent in November 2017, despite a rising trend in the cost of living. While year-on-year, the inflation in December of FY18 increased by 0.80 percentage point to 5.83 percent, compared to 5.03 percent in the past month. The food inflation however increased slightly by as little as 0.04 percentage point, to 7.13 percent in December 2017 from 7.09 percent in the immediate past month of November. On the other hand, non-food inflation decreased by 0.25 percentage point to 3.85 percent in December 2017 from 4.10 percent in the previous month. BBS data also shows that prices of food items such as egg, fish, meat, pulses dropped, while house rents and costs of clothing, household goods, medical and transportation services, and education increased. The government has targeted to keep the average inflation rate up to 6.0 percent in the latest monetary policy statement for January-June 2018 (H2 of FY18).

Exports

Exports have rebounded in FY18. Total export earnings increased by 7.4 percent in July-December, FY18, compared with 3.96 percent growth in the corresponding period of FY17. However, the export growth is short of track to attain the FY18's 8.2 percent growth target. Exports will need to grow by 16.2 percent during January-June 2018 relative to the same period in FY17 to achieve the target. Export growth this fiscal year has so far been driven by Ready-made garments (RMG) recording a growth of 7.75 percent during July-December, FY18, thanks to the 11.6 percent growth in export of knit products. Growth appears to have been primarily volume driven. Growth from non-RMG export earnings was unable to keep pace.

Exports to the EU market gained some momentum with a growth of 11.7 percent in the first six months, higher than the growth rate for the corresponding period in FY17. Phase-out of the initial shock emanating from the Brexit and improvements in the global economic outlook contributed. Exports to US market grew by a miniscule 1.5 percent, leading to a fall in US market share in Bangladesh's total export from 16.9 percent in July-December 2017 to 16 percent during the same period this year. This is attributable to loss of price competitiveness and lack of product diversification. Bangladesh's export earnings from US declined by 6 percent in FY17, with its market share dropping from 18.2 percent in FY16 to 16.8 percent in FY17. Other prime competitors of Bangladesh experienced significant growth in the US market. Vietnam registered over 7 percent growth in the US apparel market, followed by Mexico at 5.33 percent, India at 1.19 percent and Pakistan at 1 percent in 2017.Vietnam is taking the advantage of China's displacement much better than her close competitors such as Bangladesh. China, the largest exporter of apparel products, also had a decline in export earnings as well as market share in the US. In general, however, an RMG import by the US has been on the decline in recent years.

Imports

Import payments during July-December of FY18, stood at US$28.44billion, which is 25.89 percent higher than import payments during the corresponding months of FY17. Import payments increased mainly due to higher imports of consumer & intermediate goods and capital machinery and also substantial depreciation of the taka against all major currencies. According to Bangladesh Bank data, the settlement of import Letters of Credit (LCs) increased by 9.17 percent to US$24.66billion during July-December of FY18 compared to US$22.59billion in the corresponding period of the previous fiscal. The opening of fresh import LCs also increased substantially by 74.76percent to US$40.23 billion in the first six months of FY18 from US$23.02 billion in the corresponding period of the previous fiscal.

Remittance

Remittance flow recovered impressively, growing 12.47 percent in the first six months of FY18, following successive declines in two previous years. The recovery has been spread over several countries such as GCC, US, UK and others. Rise in crude oil price, increase in the number of Bangladeshis working abroad, change in policies in KSA (a rise in minimum wage, change in akamasystem), depreciation of taka, and effective action against illegal money transfers may have contributed to the recovery. The composition of remittance inflow has remained unchanged with about 56 percent of remittance earnings coming from the Gulf countries in the first six months of FY18, reflecting resilience in the concentration of migrants in the Middle East. Bangladesh Bank increased their vigilance on mobile banking transfer. In September 2017, Bangladesh Financial Intelligence Unit (BFIU), the anti-money laundering wing of Bangladesh Bank, ordered bKash to suspend activities of 2,887 agents for breaching the laws and sent the account details of the agents to law enforcers for further probe and legal actions. These interventions may have helped improve Bangladesh's remittance earnings and bring more transparency in the mobile banking transfers.

Foreign Exchange Reserve

Bangladesh Bank's gross foreign exchange reserves stood at US$33.23 billion (with ACU liability of US$1.35 billion) as of end December 2017, as compared to US$32.09 billion (with ACU liability of US$0.68 billion) as of end December 2017. The foreign exchange reserve (less ACU liability) is equivalent to the import liability of 7.34 months. Calculated as the average import values for the previous 12 months (December 2016-December 2017), this import liability turns out to be US$4.34 billion per month.

Service Sector

Services had a better year with growth rising from 6.25 percent in FY16 to 6.7 percent in FY17. Services growth was driven by wholesale and retail trade, transport and hotel and restaurants. Export of services grew by 10.8 percent in nominal dollars in FY17, compared with a 2.6 percent decline in FY16. Service export growth increased to 14.1 percent in the first half of FY18, compared to the same period a year earlier. It is worth noting that the share of the services sector in GDP, which was at its peak at 55.59 percent in FY06, has been steadily declining thereafter, dropping to 52.73 percent in FY17. Among the different services sub-sectors, the wholesale & retail trade held the highest share in GDP (13.94%) in FY17 compared to 13.99 percent in FY16. The GDP shares of certain other sub-sectors in FY17 were: transport, storage & communication 11.25 percent; community, social & personal services 8.86 percent; construction 7.39 percent; real estate, renting & business activities 6.48 percent; public administration & defense 3.72 percent; financial intermediations 3.41 percent; and education 2.48 percent.

Industry

Sustained momentum in industrial growth continues to impress. The industry sector grew by 10.22 percent in FY17, decelerating by 0.87 percent from the growth of 11.09 percent in FY16. However, despite the deceleration in growth, the share of the industry sector in GDP increased by 0.94 percentage point to 32.48 percent in FY17 from 31.54 percent in the previous fiscal year. The industries sector grew at double digit (10.2 percent) in FY17 with significant contribution from the 11 Percent growth in large and medium scale manufacturing industries. Quantum Index of Industrial Production (QIIP) data suggests that many large-scale industries posted significant growth in FY17 including leather and related products (53.4 percent), textile (21.2 percent),pharmaceuticals and medicinal chemical manufacturer (32.1 percent) and manufacture of other non-metallic mineral products (32.3 percent). Combined weight of these four industries was about one-third of the total industrial production. The QIIP for medium and large-scale manufacturing grew even faster (20.6 percent) in the first quarter of FY18 led by textiles, pharmaceuticals and leather products. Electricity production index in the first quarter increased by 10.4 percent and trade cargo handled by the Chittagong port.

Agriculture

Agriculture had a bad year in 2017 due to fungus attack and recurring floods. The crops most affected were Aus, Aman, Aman seedbed, seedling, jute, and vegetables. The secondary flooding destroyed freshly planted Aman paddy and seedbeds, which dealt a fresh blow to farmers. The setback was partially overcome by replantation through supply of seedlings and other related services in the affected areas. Some farmers switched to early winter crops instead of the costly seedlings, going for rice varieties that are submergence-tolerant and can withstand 15 to 17 days of stagnant water. The transplanting of Aman was completed quite late in the season owing to an atypical monsoon.

Capital Market

Stock prices increased by more than 10 percent in DSEX since June 2017, reaching a recent high, before starting to decline again. DSE turnover recorded the highest level in 2017 since the large stock market corrections in FY11. Participation by overseas investors and stable macroeconomic outlook contributed to the buoyance in stock trading activities. Foreign portfolio investment in the first half of FY18 amounted to $209 million, compared with $184 million in the first half of FY17. Bangladeshi diaspora abroad appeared to have increased their participation with their contribution in total foreign portfolio investment rising from 51.2 percent in the first half of FY17 to 67.3 percent in the first half of the current fiscal year. The stock market witnessed several positive developments in 2017.

Banking Sector

The banking sector, the most important player in the money market, has continued to move in the wrong direction. Despite some push from the Bangladesh Bank, asset quality and governance has not improved. State owned Commercial Banks (SCBs) performed with a poor record of large non-performing loans, bad governance, and continued recapitalization. The setback from several major financial scams has taken a heavy toll on both the health and reputation of SCBs. The 9 fourth-generation private banks are beset with large amounts of non-performing loans (NPLs) and are making losses. BB's Financial Stability Report 2016,revealed that when exposed to various credit shocks, 23 out of 49 banks would become undercapitalized mainly due to default by large borrowers. This was a clear recognition of the gravity of the banking sector woes in Bangladesh.

Non-performing loans (NPLs) surged to over Tk 800 billion (4 percent of GDP) for the first time at the end of September 2017 from Tk 657.31 billion (3.8 percent) a year back. The total NPLs accounted for 10.67 percent of the total outstanding loans from the banking sector at the end of September 2017. These figures do not include loan write-offs which amounted to Tk 4.52 billion in the last quarter of FY17 alone, higher by over 18 times relative to the third quarter. Thus, once restructured, rescheduled loans and write offs are factored in, the NPL size would increase very significantly. Poor management of state owned commercial banks, underpinned by malpractices and corruption, has contributed to the high levels of NPL.

The liquidity crunch was in the making for the last several years with a declining growth in banks deposits, primarily due to the diversion of household financial savings to National Savings Directorate instruments. Large excess liquidity in the banking system made the impact of this diversion of deposits away from the banking system escape notice. Since the growth in bank deposits continued to plunge and growth in private sector lending accelerated, the excess liquidity evaporated rapidly. To sustain profit growth, many banks started to violate macro-prudential conditions such as the advance-deposit ratio. The violations pushed the ratio of many banks to the 90-92 percent range, well above the prudential norm of less than 85 percent. The liquidity problem was also accentuated by the increasing burden of non-performing loans. Due to this excess lending, banks on the verge of becoming illiquid, started scrambling for deposits, thereby pushing up the deposit rates.

The target for private sector credit has been reset at 16.8 percent or 1.3 percent lower than the actual growth at end 2017.As BB aims to decrease its regulatory limit for ADR, this accentuated pressure on market competition for deposit collection and the interest rate on advances. Combined with the competitive rates of the national saving schemes and pressures from the import payment obligation, there has been a steep reaction in interest rates. With no signs of change in National Savings Certificate (NSC) borrowing, private sector banks may continue to be crowded out of the deposit base and rates are likely to converge closer to the NSC rates. The saturation of Bank profitability in the corporate segment has induced banks to be more adventurous towards SME and retail.

Prospect in 2018

Bangladesh is projected to maintain growth resilience despite internal political headwinds and emerging macroeconomic pressures. Rebound in exports and private investments are likely to be the key growth drivers. The impetus for such a rebound is expected from the broad-based cyclical upturn in the global economy, aided by a bounce back in investment and trade. This is expected to be sustained over the next couple of years, although not without downside risks. The latter include the possibility of financial stress, increased protectionism, and rising geopolitical tensions. With actual output exceeding the potential, inflation in Bangladesh is projected to rise. Investment driven imports will cause current account deficit to persist while fiscal space is likely to shrink with stagnating revenue effort and elevated expenditure levels.

Profile of Shahjalal Islami Bank Limited

Shahjalal Islami Bank Limited, a Shariah Based Commercial Bank in Bangladesh, was incorporated as a Public limited company on 1st April, 2001 under Companies Act 1994. The Bank commenced commercial operation on 10th May 2001 by opening its 1st branch, i.e. Dhaka Main Branch at 58, Dilkusha, Dhaka obtaining the license from Bangladesh Bank, the Central Bank of Bangladesh. The Bank went for public issue of its shares in 2007 and its shares are listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. Now its Head Office is situated at Shahjalal Islami Bank Tower, Plot#4, Block-CWN(C), Gulshan Avenue, Gulshan, Dhaka-1212. As on 31 December 2017 the bank had 113 branches across the country with diversified deposits and investment products.

During the course of its successful journey, the bank has rooted out in all areas of Bangladeshi people's/enterprise's economic activities by means of introducing Shariah compliant contemporary and diversified product and service range through it's strong branch network in country's commercially crucial locations hiring people of all economic classes have the flavor of personalized banking service.

Off-shore Banking Unit

Off-shore Banking Unit (OBU) is a separate business unit of Shahjalal Islami Bank Limited, governed under the Rules and Guidelines of Bangladesh Bank. The Bank obtained the Off-shore Banking Unit permission vide letter no. BRPD (P-3)744(99)/2008-2800 dated 24 July 2008. The Bank opened its Off-shore Banking Unit on 21 December 2008. The unit is located at Shahjalal Islami Bank Tower, Plot#4, Block-CWN(C), Gulshan Avenue, Gulshan, Dhaka-1212.

Subsidiary

Shahjalal Islami Bank Securities Limited

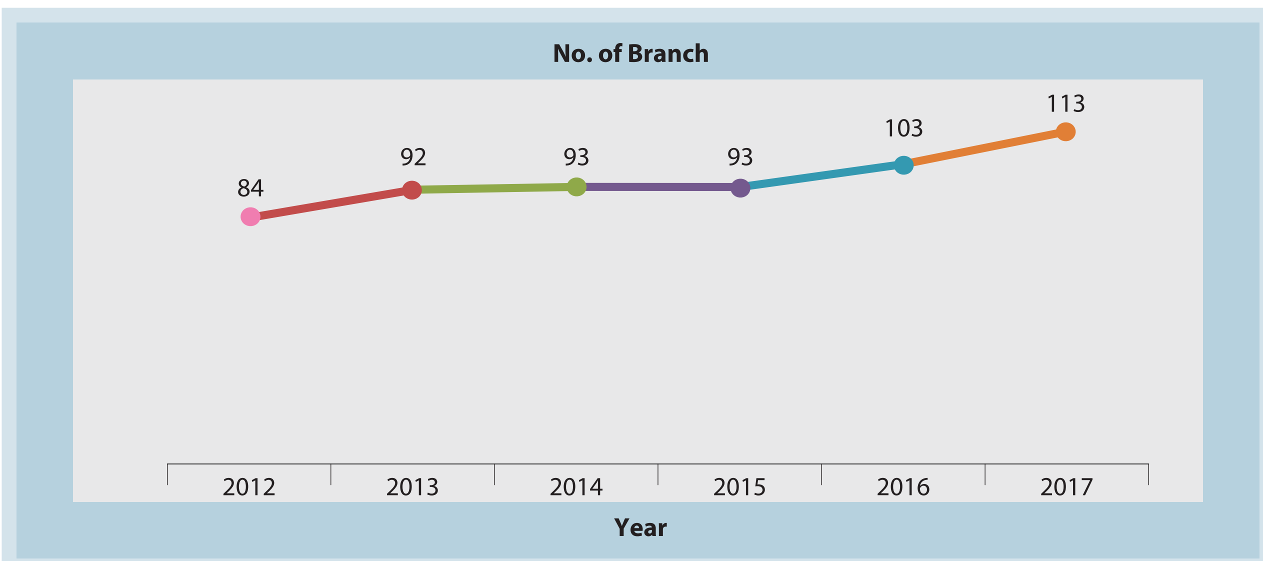
Shahjalal Islami Bank Securities Limited is a subsidiary company of Shahjalal Islami Bank Limited incorporated as a public limited company under the Companies Act 1994 and commenced its operation on the 25th day of May 2011. The main objective of the company is to carry on business of stock broker/dealers in relation to shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the Company. It has corporate membership of Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. Shahjalal Islami Bank Limited holds 91.79% shares of Shahjalal Islami Bank Securities Limited.

Principal Activities

The principal activities of the Bank is to provide all kinds of commercial banking products and services to the customers including deposit taking, cash withdrawal, extending investments to corporate organization, retail and small & medium enterprises, trade financing, project finance, working capital finance, lease and hire purchase financing, issuance of Debit Card and Credit Card. Its vision is to be the best private commercial bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability.

Branch Network

The Bank has been operating with a network of 113 branches around the country. In the year 2017, the Bank has opened 10 new branches. The bank is working to expand its business by opening 10 more branches in Dhaka and some other important business location of the country in the year 2018 upon approval of Bangladesh Bank.



Correspondent Relationship

Shahjalal Islami Bank has established correspondent relationship across the world with major foreign banks. The number of correspondent banks stood at 410 as on December 31, 2017 across 54 countries. The Bank is successfully maintaining such relationships around the world to facilitate international trade transactions. The bank maintains 27 Nostro accounts in 6 major currencies with reputed international banks around the world in all of the important global financial centers. The Bank is also enjoying sufficient credit lines from correspondent banks for add confirmation to Letter of Credits to facilitate international trade.

Relationship with other Bodies

Shahjalal Islami Bank Limited has established relationship with the following organizations/institutions:

a) Bangladesh Institute of Bank Management (BIBM);

b) The Institute of Bankers, Bangladesh (IBB);

c) Bangladesh Foreign Exchange Dealers' Association (BAFEDA);

d) Bangladesh Association of Banks (BAB)s;

e) Central Shariah Board for Islamic Banks of Bangladesh;

f) Islamic Banks Consultative Forum (IBCF);

g) Dhaka Chamber of Commerce & Industry (DCCI);

h) Bangladesh Chamber of Industries (BCI); and

h) Association of Bankers, Bangladesh (ABB).

Strategic Plan for Future Growth

The Banking industry has been experiencing intensive competition as the domestic and international banks operating in Bangladesh strongly pursued the banking and financing needs of the Corporate, Retail & SME sector customers with diversified banking products and services and extending automated banking service with ATM, Debit Card facilities and Internet Banking. Besides, profit rates have become very competitive for both deposit and investment. Customers are demanding higher rate of return against their deposits. On the other hand, they are also demanding to reduce their investment rates.

Considering the overall scenario, the Bank continues to focus on its delivery channel, technology, human resource and its brands along with branch network, business promotion, corporate social responsibility and product diversification.

Strategies mean to achieve the goals. Aligned with the vision and mission statements of Shahjalal Islami Bank Limited, 12 strategies have been identified to address the development and changes we need. It is envisaged that this strategic plan will cascade effectively the vision-mission into concrete action on priority basis and transform the Bank into a dynamic, effective and forward looking modern shariah based bank in Bangladesh. Strategic plans of the Bank are:

SL	Strategic Plan
1	Revisit the existing deposit products to introduce new deposit products and redesigned the existing deposit products
2	Re-examine existing investment products to introduce new investment products and redesigned the existing investment products
3	Strengthen Debit Card and introduction of Shariah Based Credit Card facility to enhance card business
4	Strengthen and make effective of Offshore Banking Unit
5	Expand non-funded and fee based business to increase income
6	Strengthen treasury function to increase profit from treasury operation
7	Strengthen risk-based internal audit (including Shariah audit) to add value to the risk management process in the Bank
8	Strengthen Marketing Division to ensure success of new deposit and investment products
9	Strengthen MIS to ensure accurate and timely information
10	Attract, retain and develop people (staff) ensuring sound organizational development
11	Develop a Governance Manual to ensure proper Office Administration and Corporate Governance
12	Create a 'Strategic Planning/Research & Development Unit'

Information Technology of SJIBL

With advancement of technology along with the rapid growth of business, need for capturing value from customer gives birth to eventual requirement of handling bulk data volume and created scopes to offer a wide variety of services accurately and rapidly by adopting secured technology that ultimately sparked up SJIBL for adopting top technologies and automation.

The bank has built an International Standard 3 tier Data Center in its own building for securing the infrastructure from all sorts of structural level failure. To extend its capability of recovering from a known and predicted disaster, bank never stays on back foot to invest. It always pays utmost concentration on up-gradation of Core Banking Software (CBS) by adding or customizing the modules for better customer service. In this consequence, implementation of new Data Storage or extension of existing one is done in every periodical term as anticipated to enhance capacity for accommodation of large extended business data. Our arrangement of dual connectivity through ensuring economy of scale assures business continuity by adjusting and substituting network connectivity among the service providers.

The bank pays topmost priority to establish and maintain automation in transaction through Bangladesh Automated Cheque Processing System (BACPS), Bangladesh Electronic Fund Transfer Network (BEFTN), Real Time Gross Settlement (RTGS) and Sanction Screening Software.

The bank has been offering automated customer services by facilitating collection of utility bills like WASA, DPDC, DESCO, BTCL, TITAS, BRTA and PDB through our CBS. This automation level soon will take further height after launching Internet Banking shortly. All of mentioned utility payments including interbank fund transfer will become handy solution for customers by using SJIBL technology platform and SJIBL technology platform is already well protected by Layer-7 security features as per cyber security compliance requirement of regulatory body.

As we know all the banks are now very concern in ensuring the SWIFT security, SJIBL remains continuously active in a process of enhancement of SWIFT security as guided by Bangladesh Bank and SWIFT authority.

Development in customer service through ATM, POS, Mobile and other delivery channels are consistently acquired. Chip based cards have been distributed among the clients. Up-gradations of machines are also in our priority list.

Automated Teller Machine (ATM)

With the aim to provide 24/7 cash withdrawal facilities to the valued clients, Shahjalal Islami Bank Limited has established 73 ATMs at different important locations of the country. As a member of VISA International, the Bank is also connected through National Payment Switch, Bangladesh (NPSB) as well as Q-Cash Network. Through this shared network, the Bank is providing support to its customer to get access from any ATM of Bangladesh.

Shahjalal Islami Bank Limited is committed to establish more ATMs for smooth and convenient servides of its cardholders.

Point of Sales (POS)

The valued cardholders can use their cards for dinning, shopping and other utility purpose at any VISA labeled POS Terminals at home and abroad (for International Card only). The Bank is also providing support to its cardholders to do POS transactions at NPSB (National Payment Switch, Bangladesh) as well as at Q-Cash POS Network.

The "Card Support Center" is open for 24/7 days to provide support to the valued cardholders.

Review of the Performance

During the year under review, the bank maintained the progress of business through its 113 branches. The operating profit before tax stood at Tk.2,078.52 million. Net profit attributable to shareholders reached to Tk. 1,195.90 million, return on average equity was 9.14 percent and Earnings per Share (EPS) stood at Tk.1.55. Non- performing investments (NPI) ratio was 3.97 percent. Capital to Risk Weighted Assets Ratio of the Bank was 12.19 percent comprising maximum under Tier-I, which was above the stipulated rate of 10 percent. Out of deposit of Tk. 145,382.48 million, the bank could deploy Tk. 158,668.16 million in investment as on December 31, 2017. The Bank handled total Foreign exchange business of Tk. 230,257 million in the year 2017.

Regulatory Capital of the Bank

The Bank's Capital is divided into two tiers i.e. Tier-I and Tier-II capital. Tier-I includes Paid-up Capital, Statutory Reserve and Retained Earnings. Tier-II includes General Provision on unclassified investments & Off-Balance Sheet items. The Authorized Capital of the Bank is Tk. 10,000 million and paid-up capital of the Bank is Tk. 7,714.23 million as on December 31, 2017. Total Regulatory Capital was Tk 19,375.98 million as on December 31, 2017. Comparative position of Capital for the year 2017 & 2016 is given below:-

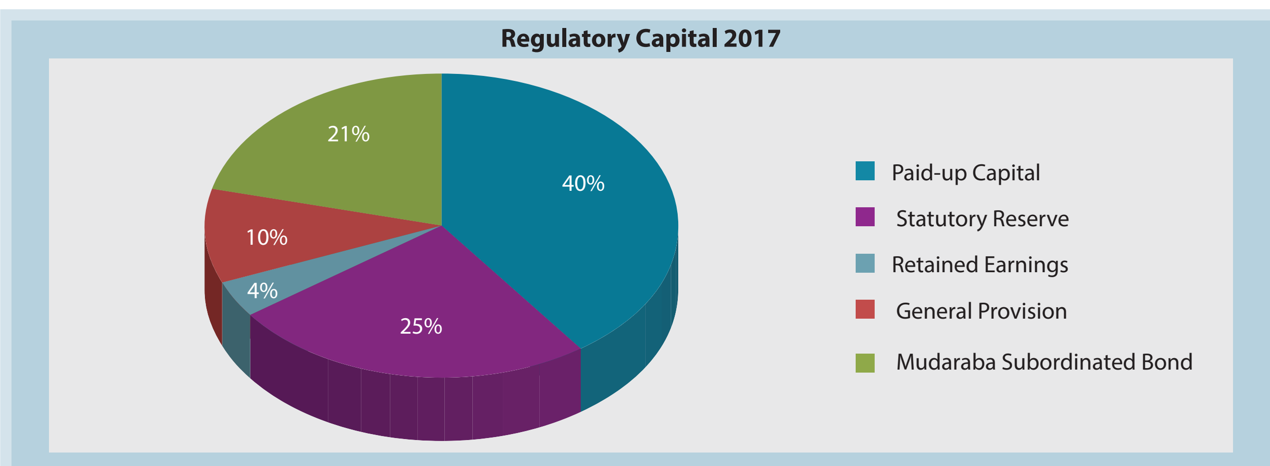
Tier-I Capital (Going-Concern Capital)

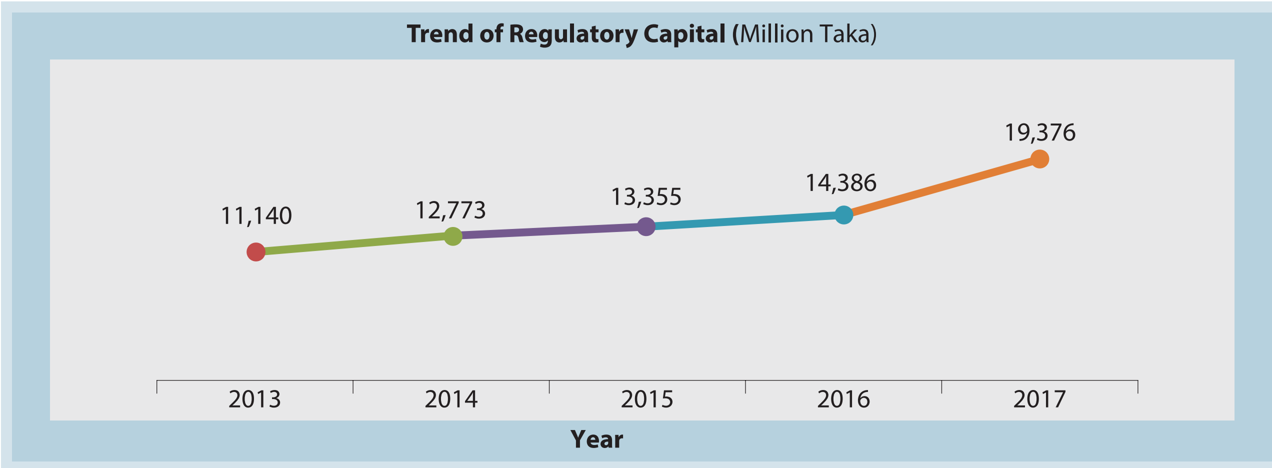
(Amount in million Taka)

SL. No	Particulars	2017	2016
a)	Paid-up capital	7,714.23	7,346.88
b)	Statutory Reserve	4,819.26	4,403.56
c)	Retained Earnings	784.29	1,106.13
	Sub total	**13,317.78**	**12,856.57**

Tier-II Capital (Gone-Concern Capital):

SL. No	Particulars	2017	2016
a)	General Provision	2,058.20	1,529.50
b)	Mudaraba Subordinated Bond	4,000.00	-
	Sub total	**6,058.20**	**1,529.50**
	Total Equity	**19,375.98**	**14,386.07**





Number of Shareholders

A large number of shareholders reposed their trust in our Bank's Shares. In the year 2017, total number of Shareholders stood 38,782. The position of shareholders for last three years is shown below:

Year	Shareholders
2017	38,782
2016	52,614
2015	63,480

Net Asset Value (NAV)

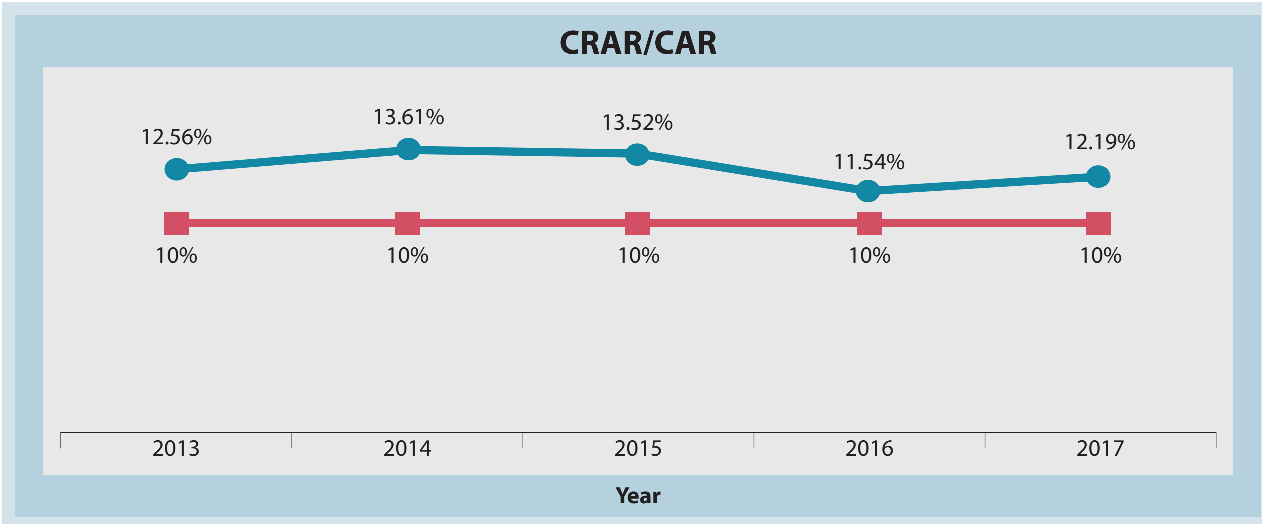
The Net Asset Value per Share is always positive which indicates higher assets back up compare to per value. As a result, more investors has subscribed to Bank. Trend of NAV for last five years is given below:

Year	Net Asset Value (NAV)
2017	17.26
2016	16.67
2015	16.68
2014	15.92
2013	16.40

Capital Adequacy

Total Regulatory Capital of the Bank as on December 31, 2017 stood at Tk. 19,375.98 million which was Tk. 14,386.07 million as on December 31, 2016, registering 12.19% of the Risk weighted Assets as against the requirement of 10%.

The Tier-I capital was 8.38% of Risk weighted Assets as on 31st December 2017 as against requirement of 5.50%.



Risk Based Capital Adequacy

A comparative quantitative feature of Risk Weighted Assets (RWA) and Minimum Capital Requirement (MCR) for December quarter ended 2017 & 2016 under Basel-III is furnished hereunder:

Tk. In Million

Particulars	2017	2016
Regulatory Capital:		
1. Tier-1 (Going-Concern Capital)	13,317.78	12,856.57
2. Tier-2 (Gone-Concern Capital)	6,058.20	1,529.50
Total Regulatory Capital (1+2+3)	**19,375.98**	**14,386.07**
Total Risk Weighted Assets (RWA)	**158,936.53**	**124,655.88**
Capital to Risk Weighted Assets Ratio (CRAR)	**12.19%**	**11.54%**
Tier-I Capital to RWA	8.38%	10.31%
Tier-II Capital to RWA	3.81%	1.23%
Minimum Capital Requirement (MCR)	**15,893.65**	**12,470.38**

Liabilities

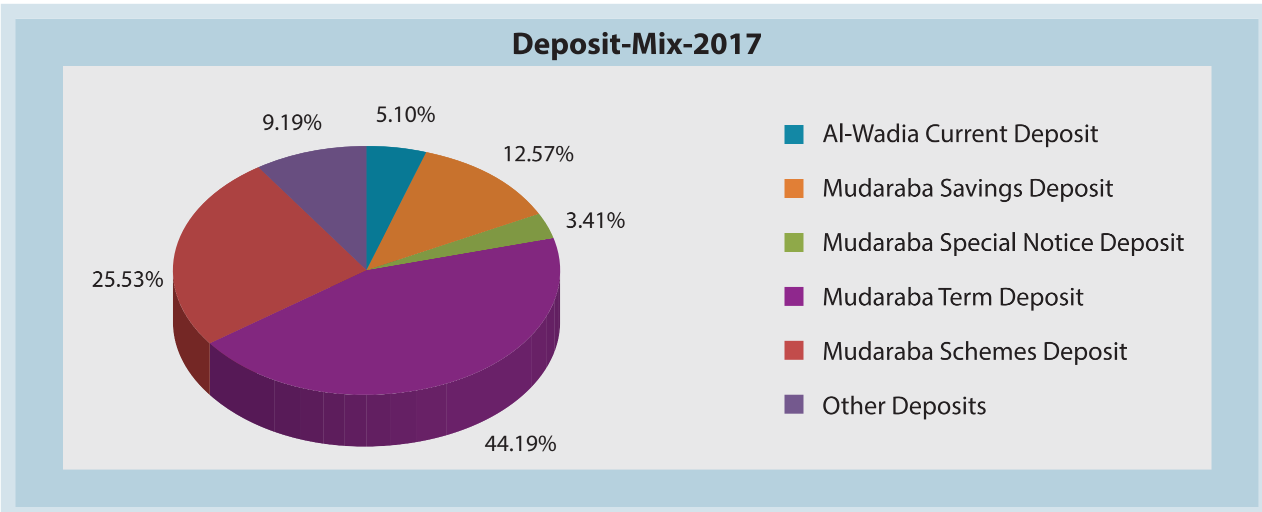
Total liabilities (excluding equity) stood at Tk. 194,569 million at the end of 2017, which was 26.03% higher than the previous years' figure. Liabilities increased mainly due to increase in deposits, issuance of Mudaraba Subordinated Bond and also placement received from other Banks & Financial Institutions.

Deposit

Total deposit of Shahjalal Islami Bank Limited stood at Tk. 145,382.48 million as on December 31, 2017 which was Tk. 124,409.83 million as on December 31, 2016. Deposit is the 'life-blood' of a Bank. Bank puts utmost importance in mobilization of deposits introducing a few popular and innovative schemes. The bank always tries to give the highest return on the deposits of the customers. The mobilized deposits are ploughed back in economic activities through profitable and safe investments.

The Deposit-mix of the Bank as on December 31, 2017 was as bellow:-

Sl.No	Nature of Deposit	Taka in million	Percentage of Total Deposit
1	Al-Wadia Current Deposit	7,416.18	5.10%
2	Mudaraba Savings Deposit	18,280.59	12.57%
3	Mudaraba Short Notice Deposit	4,956.74	3.41%
4	Mudaraba Term Deposit	64,248.15	44.19%
5	Mudaraba Schemes Deposit	37,121.57	25.53%
6	Other Deposits	13,359.25	9.19%
	Total	**145,382.48**	**100.00%**



Total Assets

Bank's total asset as on December 31, 2017 stood at Tk. 207,886 million which was Tk. 167,245 million as on December 31, 2016. A major impact to this growth was the increase in Investments by 29.00% i.e. from Tk. 122,998 million to Tk. 158,668 million. Investments in Shares & Securities as well as Balance with Bangladesh Bank & Sonali Bank Ltd also increased by 38.63% and 38.83% respectively.

Asset quality and non-performing investments

Non-performing investment was increased by Tk. 519 million compared to the year 2016. The non-performing investment ratio was 3.97% as at the end of 2017 whereas it was 4.70% at the end of 2016.

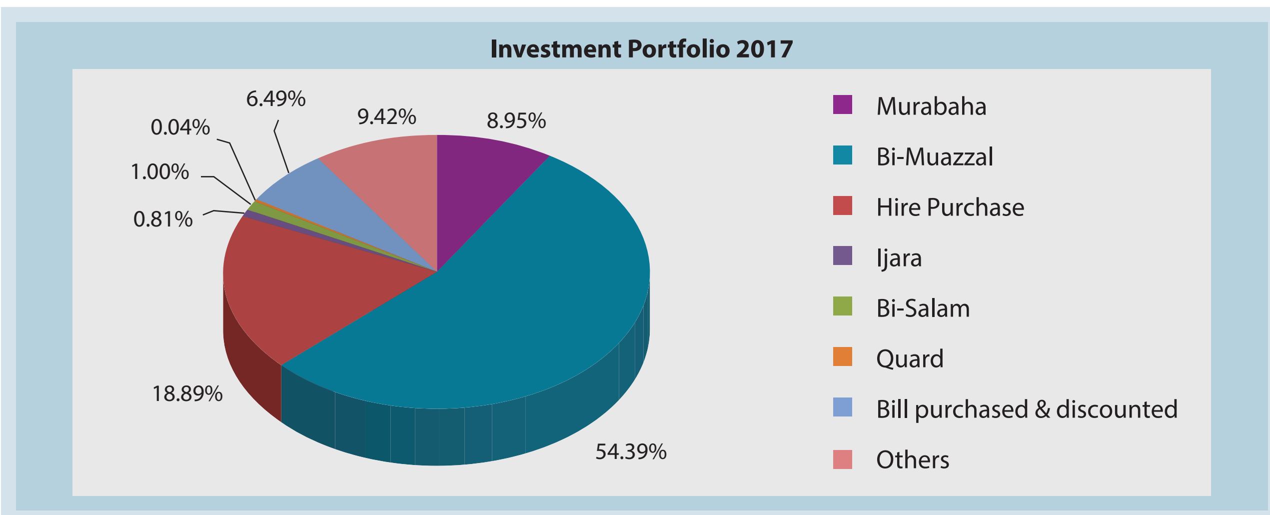
Investment

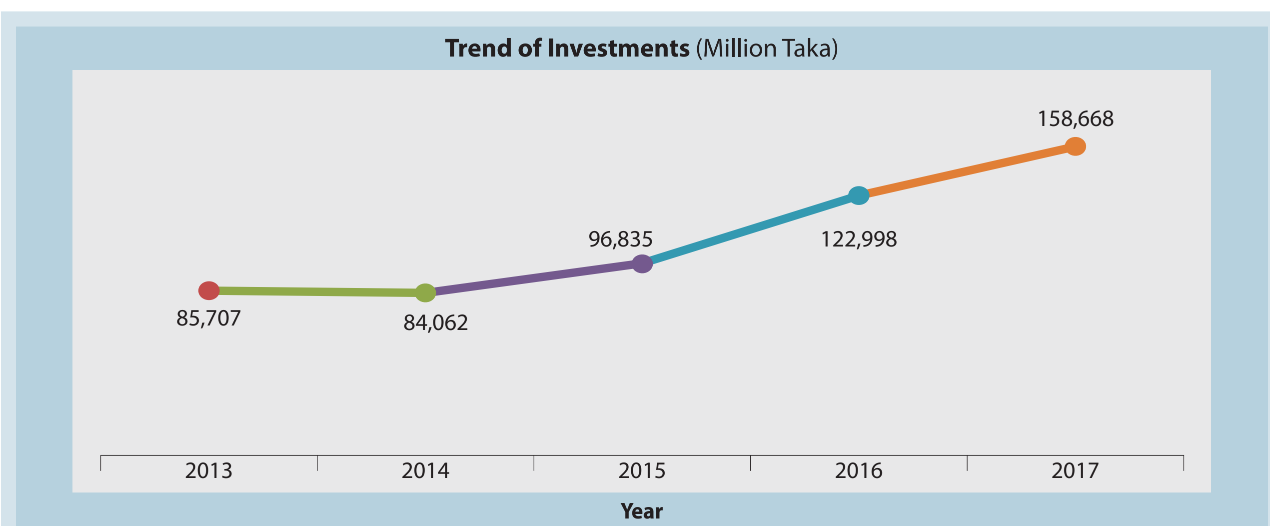
Total investment of the Bank stood at Tk. 158,668 million as on December 31, 2017 as against Tk. 122,998 million as on December 31, 2016 registering an increase of Tk. 35,670 million, i.e. 29.00% growth. The Bank was very conscious

& careful in deployment of investing fund. Mode wise investment portfolio as on December 31, 2017 is given below:

Sl. No	Modes of Investments	Taka in million	Percentage of Total Investment
1	Murabaha	14,197.54	8.95%
2	Bi-Muazzal	86,302.58	54.39%
3	Hire Purchase Shirkatul Meelk (HPSM)	29,972.94	18.89%
4	Ijara	1,288.40	0.81%
5	Bi-Salam	1,581.61	1.00%
6	Quard	70.85	0.04%
7	Bill purchased & discounted	10,303.97	6.49%
8	Others	14,950.29	9.42%
	Total	**158,668.16**	**100.00%**

The Bank always entertains quality investment proposals having sound creditworthiness and good track record of customers. The Bank has also introduced some Investment Schemes to provide financial assistance to comparatively less advantaged group of people.



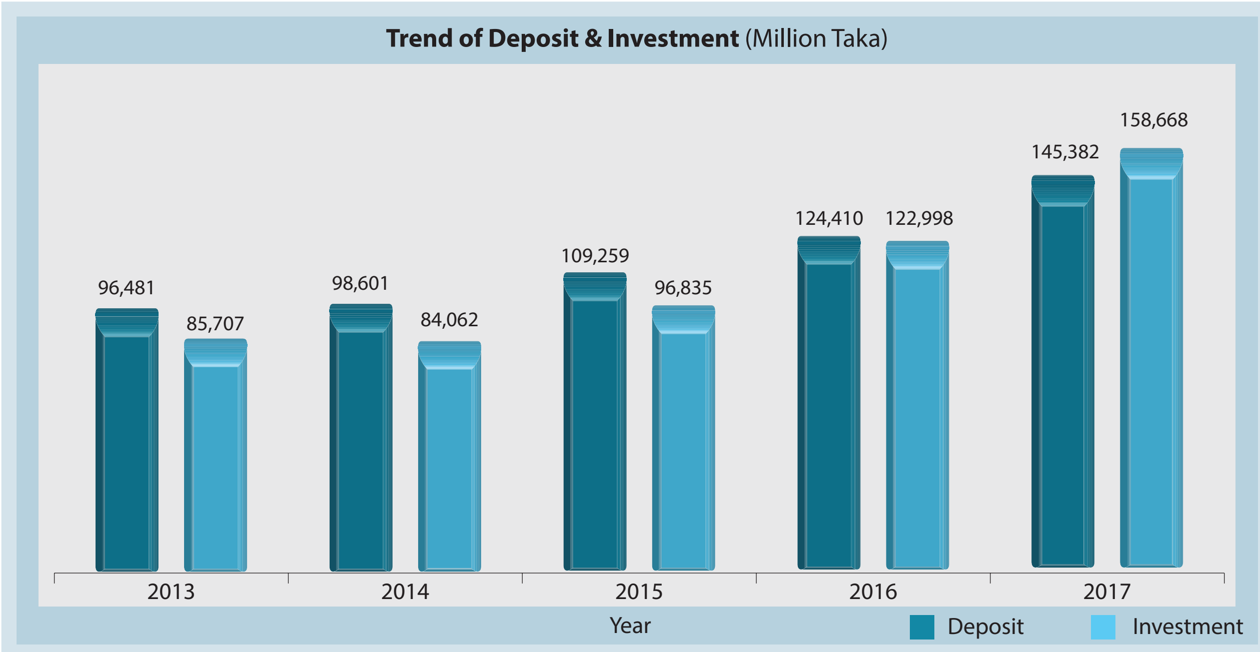


Division-wise Investment

Divisions	Horizontal Analysis				Vertical Analysis			
	Taka in Millions		Variance		Taka in Millions		Composition	
	2017	2016	2017/2016	2016/2015	2017	2016	2017	2016
Dhaka	117,798	93,241	26.34%	32.01%	117,798	93,241	74.24%	75.81%
Chittagong	26,889	20,012	34.36%	3.59%	26,889	20,012	16.95%	16.27%
Sylhet	2,002	1,455	37.62%	22.81%	2,002	1,455	1.26%	1.18%
Rajshahi	4,739	2,753	72.12%	50.34%	4,739	2,753	2.99%	2.24%
Rangpur	1,251	1,119	11.78%	53.39%	1,251	1,119	0.79%	0.91%
Khulna	5,417	4,063	33.34%	36.42%	5,417	4,063	3.41%	3.30%
Barisal	572	356	60.73%	120.83%	572	356	0.36%	0.29%
Total	**158,668**	**122,998**	**29.00%**	**27.02%**	**158,668**	**122,998**	**100.00%**	**100.00%**

Sector-wise Investment

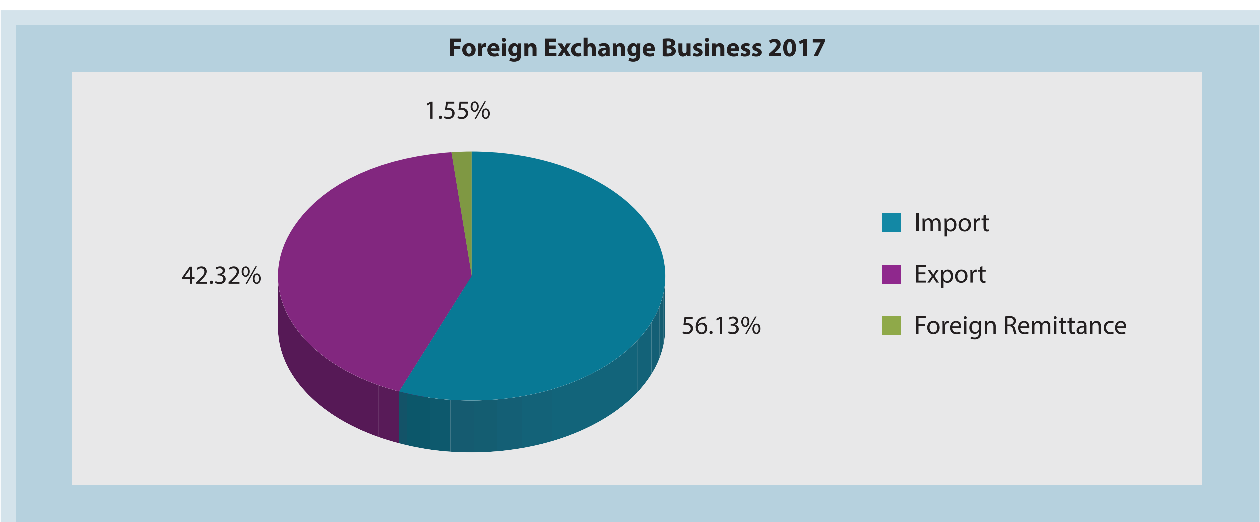
Sectors	Horizontal Analysis				Vertical Analysis			
	Taka in Millions		Variance		Taka in Millions		Composition	
	2017	2016	2017/2016	2016/2015	2017	2016	2017	2016
Agriculture & Fishing	5,234	5,982	-12%	59%	5,234	5,982	3%	5%
Cotton & Textile	13,742	9,620	43%	19%	13,742	9,620	9%	8%
Garments	19,129	14,473	32%	28%	19,129	14,473	12%	12%
Cement	1,293	1,289	0%	-37%	1,293	1,289	1%	1%
Pharmaceuticals & Chemicals	2,170	2,345	-7%	-1%	2,170	2,345	1%	2%
Real Estate	8,075	8,326	-3%	-12%	8,075	8,326	5%	7%
Transport	2,581	2,640	-2%	19%	2,581	2,640	2%	2%
Information Technology	400	341	17%	144%	400	341	0%	0%
Non Banking Financial Institutions	2,404	2,554	-6%	25%	2,404	2,554	2%	2%
Steel & Engineering	9,085	5,783	57%	40%	9,085	5,783	6%	5%
Food Processing & Beverage	11,230	9,320	20%	13%	11,230	9,320	7%	8%
Power & Energy	4,350	3,029	44%	9%	4,350	3,029	3%	2%
Paper & Paper Products	1,928	1,532	26%	1%	1,928	1,532	1%	1%
Plastic & Plastic Product	3,690	2,935	26%	70%	3,690	2,935	2%	2%
Electronics	4,023	2,797	44%	84%	4,023	2,797	3%	2%
Services Industries	5,415	3,425	58%	33%	5,415	3,425	3%	3%
Trading	26,669	20,317	31%	17%	26,669	20,317	17%	17%
Import Financing	7,061	3,812	85%	8%	7,061	3,812	4%	3%
Consumer Financing	421	182	131%	102%	421	182	0%	0%
Share business	1,042	1,449	-28%	-45%	1,042	1,449	1%	1%
Staff Investment	1,460	1,295	13%	54%	1,460	1,295	1%	1%
Others	27,267	19,552	39%	133%	27,267	19,552	17%	16%
Total	**158,668**	**122,998**	**29%**	**27%**	**158,668**	**122,998**	**100%**	**100%**



Foreign Exchange Business

Total Foreign Exchange Business handled during the year 2017 was Tk. 230,257 million as against Tk. 188,549 million of 2016 registering an increase of Tk. 41,708 million, i.e. 22.12% growth. The particulars of Foreign Exchange Business are given below:-

Particulars	Amount in Million Taka		Growth		Composition	
	2017	2016	2017	2016	2017	2016
Import	129,244	100,419	28.70%	16.82%	56.13%	53.26%
Export	97,437	84,769	14.94%	2.66%	42.32%	44.96%
Foreign Remittance	3,576	3,361	6.40%	-5.16%	1.55%	1.78%
Total	**230,257**	**188,549**	**22.12%**	**9.57%**	**100.00%**	**100.00%**



Operating Result

Income:

Investment Income:

Total Investment Income of the Bank stood at Tk. 12,860.04 million as on 31st December 2017 as against Tk. 11,154.36 million compare to that of the previous year. The amount of Investment Income represents 84.11% of the total income of the year 2017 as against 86.04% of the total income of the year 2016.

Non-Investment Income:

Total Non-Investment Income of the Bank as at 31st December 2017 stood at Tk. 2,428.73 million as against Tk. 1,810.31 million of the preceding year, which was 15.89% and 13.96% of the total income of the respective years.

Expenditure:

Profit Paid on Deposits:

Bank distributed Profit of Tk. 8,418.98 million among the Mudaraba Depositors in the year 2017 against Tk. 6,986.50 million in the year 2016 which being 65.47% of the Investment income earned from deployment of Mudaraba Fund and 70.39% of the total expenditure of 2017 as against 69.97% of the total expenditure of 2016.

Operating Expenses:

Total operating expenses for the year 2017 was Tk. 3,541.88 million whereas it was Tk. 2,998.96 million for the year 2016. Total operating expenses was 29.61% of the total expenditure for the year 2017 as against 30.03% of 2016.

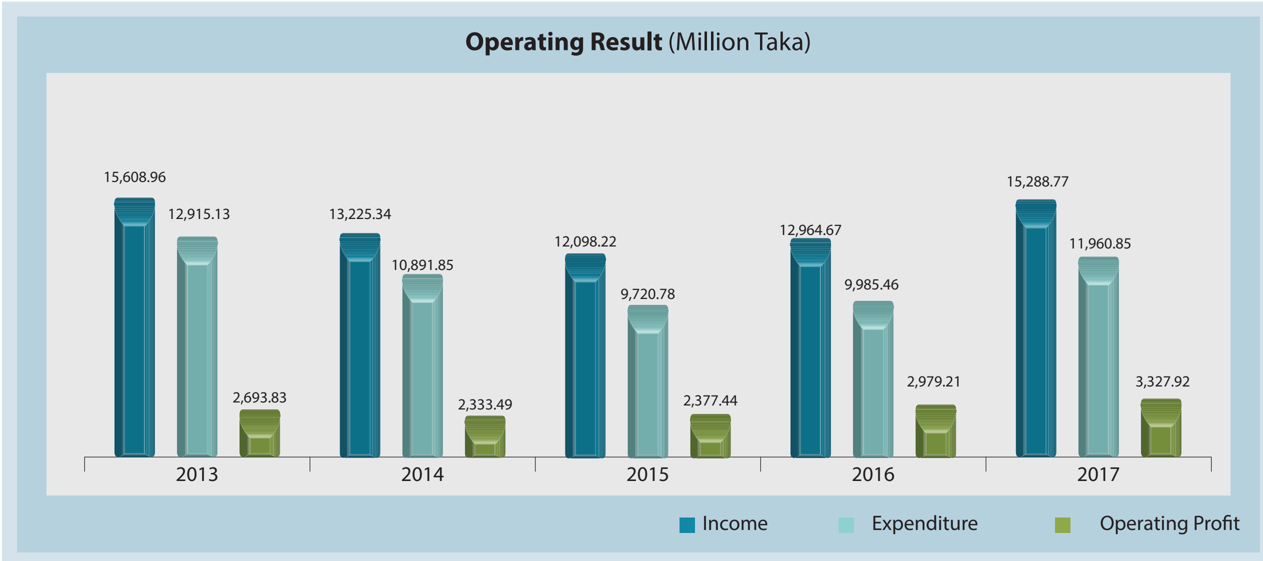
Operating Profit:

During the year 2017, the Bank earned an amount of Tk. 15,288.77 million and spent an amount of Tk. 11,960.85 million, resulting a total Operating Profit of Tk. 3,327.92 million which increased by Tk. 348.71 million over that of last year. From the operating profit, Tk. 934.50 million was kept as provision for investment, Tk. 259.00 million provisions was kept for Off-Balance Sheets, Tk. 37.40 million provision was kept for deminution in value of invest in shares, Tk. 18.50 million provision was kept for other assets and then profit before tax stood total Tk. 2,078.52 million and deducting income taxes of Tk. 882.62 million, net profit after taxation stood at Tk. 1,195.89 million. As appropriation of net profit Tk. 415.70 million was transferred to statutory reserve as per Bank Company Act and remaining Tk. 780.19 million was transferred to retained earnings.

A summary of operating result of the bank as on December 2017 vis-a-vis the position of December 2016 is shown below:-

(Amount in Million Taka)

Particulars	2017	2016
Total Income	15,288.77	12,964.67
Less: Total Expenditure	11,960.85	9,985.46
Net Profit before Provision & Taxation	**3,327.92**	**2,979.21**
Less: Provision for Investment, Off Balance Sheets, Shares & others	1,249.40	673.13
Net profit before Taxation	**2,078.52**	**2,306.08**
Less: Provision for Taxation	882.62	748.71
Net Profit after Tax	**1,195.89**	**1,557.37**
Appropriation:		
Statutory Reserve	415.70	461.22
Retained Earnings	780.19	1,096.15



Contribution to National Exchequer

The Bank has made provision of Tk. 840.09 million for corporate tax in 2017 against 757.46 million in 2016. The bank has also contributed to the economy by generating employment of 2,402 full time officials. In the year 2017, Bank has paid Tk. 2,049.40 million to Government exchequer as source tax, salary tax, VAT, excise duty and other tax & VAT realized against various services. In the intermediation process, the Bank mobilized resources of Tk. 145,382.48 million from the surplus economic unit and deployed Tk. 158,668.16 million in 2017.

The Bank has generated direct and indirect employment for a large number of people over the years. With the payment of taxes and the investment in the network, the Bank is making a significant contribution to the development and growth of the nation.

Dividend

The Board of Directors of the Bank has recommended 10% Stock dividend for each share for the year 2017. Over the last years, Board of Directors declared dividends out of profit to shareholders at good rates. The rates of dividend declared by Bank since 2013 are shown below:

Year	Dividend (%)
2017	10 (Stock)
2016	10 (Cash) & 5 (Stock)
2015	13 (Cash)
2014	10 (Cash)
2013	10 (Stock)

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 in accordance with the First Schedule (Section-38) of the Bank Companies (amendment) Act 2013, related Bangladesh Bank circulars, Bangladesh Accounting Standards (BASs) and Bangladesh Financial Reporting Standards (BFRSs), the Companies Act 1994, the listing regulations of the Stock Exchanges, the Securities and Exchange Rules 1987 and other laws and rules applicable in Bangladesh.

The financial statements of 2017 have been reviewed by the Audit Committee of the Board of Directors 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, have certified the fairness of the financial statements for the year ended 31 December 2017.

Maintaining Proper Books of Account

Shahjalal Ialamic Bank Limited maintained proper books of account for its financial transactions occurred during 2017. The books of account have also been reviewed by the external auditor, M/s. Hoda Vasi Chowdhury & Co, Chartered Accountants with an opinion that proper books of account as required by the law have been properly maintained.

Appropriate Accounting Policies

Appropriate accounting policies have been consistently applied, except for the changes disclosed in the financial statements in preparation of financial statements and that the accounting estimates are based on reasonable and prudent judgement. Bank records financial transaction on accrual basis with required disclosures and also prepares the financial statements accordingly.

Internal Control and Compliance

Internal Control refers to the tools that provide a reasonable assurance regarding the achievement of Bank's goal with respect to:

- Effectiveness and efficiency of operation.
- Safeguarding the assets of the bank.
- Compliance of applicable laws and regulations, policy & procedures issued by both Bank and the regulators

The above issues show significance of effective internal control of a bank in the light of traditional activities. But in the context of residual risk under SRP, internal control has now become much more significant.

Keeping such significance in view, Shahjalal Islami Bank Limited has strengthened and segregated its Internal Control and Compliance Division into three separate units based on the relative guidelines framed by Bangladesh Bank:

1. Audit and Inspection
2. Compliance
3. Monitoring

Shahjalal Islami Bank Limited has an Internal Control and Compliance Manual which has been lastly updated and approved by the competent authority on December 18, 2016. This manual contains Risk Assessment Methodology which has been designed to conduct Risk Based Internal Audit among some other significant issues.

Statement of Directors' Responsibility to Establish Appropriate System of Internal Control

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

Going Concern

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

Credit Rating

Credit Rating Agency of Bangladesh Limited (CRAB) has made a rating on Shahjalal Islami Bank Limited. In their report on 24 May 2018, they rated the Bank as AA2 for long term and ST-2 for short term. CRAB performed the rating surveillance based on audited financial statement up to 31st December 2017 and other relevant information. The long-term rating is valid for only one year and short-term rating is for six months.

Auditor's Report

The Board of Directors reviewed the Auditors Report issued by the Bank's auditor M/s Hoda Vasi Chowdhury & Co, Chartered Accountants based on their audit of financial statements for the year ended 31 December 2017. The auditor didn't mention about any material misstatement or significant disagreement regarding review of the Bank's financial statements. The Board also reviews the auditors' suggestion which auditor provides through a separate management report and gives the strategic guidelines to the management for improvement.

Appointment of Auditors

As per Dhaka Stock Exchange (Listing) Regulation, 2015, Notification dated 30 June 2015, an auditor of a listed company cannot be appointed for more than three consecutive years. M/s Hoda Vasi Chowdhury & Co, Chartered Accountants was the auditor of the Bank for the year 2017. As 2017 was the second year of audit and the firm is eligible for reappointment and they have also expressed their willingness to be reappointment for the year 2018.

Section 210 of the Companies Act, 1994 gives authority to the shareholders to fix the appointment of the auditor and its remuneration. Hence, the board recommends appointing M/s Hoda Vasi Chowdhury & Co, Chartered Accountants as the auditor of the bank for the year 2018 subject to the approval of the shareholders in the upcoming Annual General Meeting.

Future Outlook of the Bank

Going towards 2018, there are considerable challenges surrounding Bangladesh.

Considering the overall macroeconomic and geo-political outlook, significant pressure is expected on banking sector margins in the wake of low benchmark rates and limited financing opportunities. Accordingly, our Bank intends to focus on building and maintaining quality investment portfolio and to enhance its focus on customer service quality and major cost rationalization initiatives through continuous improvement in automation and product innovations.

Similarly, our Bank intends to focus on low cost core deposit mix in future by effectively utilizing our extensive branch network and new upcoming initiatives like Internet Banking, Credit Card and Mobile Banking. Our Bank is confident that the above initiatives shall enable it to maintain a stable performance trend going forward.

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

Vote of Thanks

The Board of Directors expresses its profound gratitude to Almighty Allah (SWT) for enabling the Bank to achieve growth in operation during the year 2017. The Board extends thanks to the Ministry of Finance, Bangladesh Bank, Bangladesh Securities & Exchange Commission and the Government Agencies for providing assistance, guidance, support and cooperation at various stages of operation of the Bank. The Board appreciates the support and cooperation received from foreign correspondents of the Bank all over the world.

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

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

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

Ameen.

On behalf of the Board of Directors

Akkas Uddin Mollah
Chairman