Market Discipline

Disclosures on Risk Based Capital (Basel II) as on 31.12.2012

The purpose of Market Discipline in (Basel- II) is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. For the said purpose, this "Disclosures on Risk Based Capital (Basel II)" is made as per Bangladesh Bank's Guideline.

1. Scope of Application	
Qualitative Disclosures	
a) The name of the top corporate entity in the group to which this guidelines applies:	Shahjalal Islami Bank Limited (SJIBL)
b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk - weighted).	The Financial Statements of the bank include the financial statements of (i) Shahjalal Islami Bank Limited (ii) Shahjalal Islami Bank Securities Limited and (iii) Off-Shore Banking Units (OBUs). A brief description of the Bank (Main Operation) its subsidiary and the OBUs are given below:
	<u>Shahjalal Islami Bank Limited</u> The Shahjalal Islami Bank Limited (hereinafter called 'the Bank'-'SJIBL') was established as a Public Limited Company (Banking Company) as on the 1st day of April 2001 under the Companies Act 1994 as interest

	free Islamic Shari'ah based commercial bank and commenced its operation on the 10th day of May 2001 with the permission of Bangladesh Bank. Presently the Bank is operating its business through head office having 84 branches, 06 (six) SME centers, 33 (Thirty three) ATM booths and 1889 employees all over Bangladesh. The Bank is listed with both the Stock Exchanges of the country, i.e. Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. The principal activities of the bank all kinds of commercial banking services to its customers through its branches following the provisions of the Bank Companies Act 1991, Bangladesh Bank's Directives and the principles of the Islamic Shari'ah.
	Shahjalal Islami Bank Securities Limited Shahjalal Islami Bank Securities Limited is a subsidiary company of Shahjalal Islami Bank Limited (SJIBL) incorporated as a public limited company under the Companies Act 1994 vide certification of incorporation no. C - 86917/10 dated September 06, 2010 and commenced its operation on the 25th day of May 2011. The main objective of the company is 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.
	<u>Off-shore Banking Unit (OBU)</u> Off-shore Banking Unit is a separate business unit governed by the applicable rules & regulations and guidelines of Bangladesh Bank vide letter no. BRPD (P-3)744(99)/2008-2800 dated 24 July 2008. The Bank opened its Off-shore Banking Unit on 21st December 2008 and the same is located at 40/5, North Avenue, Gulshan-2, Dhaka-1212.
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not applicable.
Quantitative Disclosures **d)** The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and name(s) of such subsidiaries**.**	Not applicable.

2. Capital Structure **Qualitative Disclosures**	
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier- 1 or Tier - 2.	As per the guidelines of Bangladesh Bank, Tier-1 Capital of SJIBL consists of (i) Fully Paid-up Capital, (ii) Statutory Reserve, (iii) Retained Earnings and (iv) Minority Interest in Subsidiaries. Tier-2 Capital consists of applicable amount of (i)General Provision (against un-classified Investments, Of-Balance Sheet exposure & Off-Shore Banking Units),

Quantitative Disclosures		
b) The amount of Tier-1 capital, with separate disclosure of		**Taka in million**
Particulars	**Solo**	**Consolidated**
i. Fully paid-up Capital	5,565.81	5,565.81
ii. Statutory Reserve	2,959.02	2,959.02
iii) Non-repayable Share Premium account	-	-
iv General Reserve	-	-
v Retained Earnings	1,121.49	1,136.61
vi Minority interest in Subsidiaries	-	226.78
vii. Non-cumulative irredeemable preference shares	-	-
viii. Dividend equalization account	-	-
ix Other (if any item approved by Bangladesh Bank)	-	-
Sub-Total (A)	**9,646.32**	**9,888.22**
C) The total amount of Tier-2 and Tier-3 capital	-	-
i) Amount of Tier-2 capital	1,408.98	1,483.98
ii) Amount of Tier-3 capital	-	-
Sub-Total amount of Tier-2 and Tier-3 capital (B)	**1,408.98**	**1,483.98**
d) Other deductions from capital	-	-
e) Total Eligible Capital (A+B)	**11,055.30**	**11,372.20**

3. Capital Adequacy **Qualitative Disclosures**	
a) A summary discussion of the bank's approach to assess the adequacy of its capital to support current and future activities.	The Bank has adopted Standardized Approach (SA) for computation of capital charge for investment risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank.

	The Bank has maintained capital adequacy ratio at 12.40% & 12.31% on the basis of "Consolidated" and "Solo" respectively as against the minimum regulatory requirement of 10%. Tier-I capital adequacy ratio under "Consolidated" basis is 10.78% which "Solo" basis is 10.74% as against the minimum regulatory requirement of 5%. The Bank's policy is to manage and maintain strong Capital Adequacy Ratio with high rating grade of investment clients. The Bank maintains adequate capital that is sufficient to absorb all material risks associated with the Bank. The Bank also ensures that the levels of capital comply with regulatory requirements and satisfy the external rating agencies and other all stakeholders including depositors.

Quantitative Disclosures		Taka in million
Particulars	**Solo**	**Consolidated**
b)Capital requirements for Investment (Credit) Risk:	7,815.55	7,838.78
c) Capital requirements for Market Risk	367.00	519.70
d) Capital requirements for Operational Risk	798.60	813.42
e) Total and Tier-1 capital ratio:		
Minimum capital requirement	8,981.15	9171.90
Total Risk Weighted Assets (RWA)	89,811.40	91,719.00
Total and Tier-1 capital ratio:		
Tier-1 CAR	10.74%	10.78%
Tier-2 CAR	1.57%	1.62%
Total CAR	12.31%	12.40%

4. Investment (Credit) Risk):	
Qualitative Disclosures	a)The general qualitative disclosure requirement

	with respect to credit risk, including:
i) Definitions of past due and impaired (for accounting purposes)	-As per Bangladesh Bank guidelines, any Investment if not repaid within the fixed expiry date will be treated as Past Due/Overdue.
	Bangladesh Bank issued Circulars from time to time for strengthening Investment (Credit) discipline and brings provisioning. All Investments/ loans &advances will be grouped in to four (4) categories for the purpose of classification, namely (a) Continuous Investment/Loan (b)Demand Investment/Loan (c) Fixed Term Investment/Loan &(d) Short term Agricultural & Micro Investment. The above Investment (Credit) are classified as follows: **Continuous and Demand Investment/ loan are classified as:** **'Sub-standard'** if it is past due/overdue for 03(three) months or beyond but less than 06 months; **'Doubtful'** if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months; **'Bad/Loss'** if it is past due/overdue for 09 months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan. **Fixed Term Investment (Loans), which are repayable by installment(s) are classified as: -** **'Sub-standard'** if the amount of 'past due Installment is equal to or more than the amount of installment(s) due within 3 (three) months, the entire Investment (loan) will be classified as "Sub-standard"; '**Doubtful**' if the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months. the

	entire Investment (loan) will be classified as “Doubtful"; **'Bad/Loss**' if the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire Investment/loan will be classified as "Bad/Loss". **Short-term Agricultural and Micro-Investment are classified as:** If not repaid within the due date as stipulated in the Investment (loan) agreement. If the said irregular status continues, the Investment (credit) will be classified as 'Substandard' after a period of 12 months, as 'Doubtful' after a period of 36 months and as 'Bad/Loss' after a period of 60 months from the stipulated due date as per Investment (loan) agreement' A continuous Investment, Demand or a Term Investment which will remain overdue for a period of 02 (two) months or more will be put into the Special Mention Account (SMA)'
ii) Description of approaches followed for specific and general allowances and statistical methods;	The Bank is following the general and specific provision for investments on the basis of Bangladesh Bank guidelines issued from time to time. **Rates of provision are noted below**: a) **General Provision**: The Bank maintains General Provision in the following way : 1) @ 0.25% against all unclassified Investment of Small and Medium Enterprise(SME) as defined by the SME & Special Programmes Department of Bangladesh Bank from time to time and @1% against all unclassified Investments (other than Investments/loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock dealers etc'' Special

	Mention Account as well as SME Financing') 2) @ 5% on the unclassified amount for Consumer Financing where as it has to be maintained @ 2% on the unclassified amount for (i) Housing Finance and (ii) Investments/Loans for Professionals- to set up business under Consumer Financing Scheme. 3) @ 2% on the unclassified amount for Investments/Loans to Brokerage House, Merchant Banks, Stock dealers etc. @ 5% on the outstanding amount of Investments/loans kept in the 'Special Mention Account'' 5) @1% on the off-balance sheet exposures. (Provision will be held on the total exposure and amount of cash margin or value of eligible collateral will not be deducted while computing Off-balance sheet exposure.) b) **Specific Provision**: Banks will maintain provision at the following rates in respect of classified Continuous' Demand and Fixed Term Investments/Loans: (i) Sub-standard : 20% (ii) Doubtful : 50% (iii) Bad/Loss : 100% c) Provision for Short-term Agricultural and Micro-Investments: (i) All Investment (credit) except 'Bad/Loss' (i.e. 'Doubtful' 'Sub-standard', irregular and regular Investment accounts) : 5% (ii) Bad/Loss : 100%
iii) Discussion of the Bank's investment risk management policy	The Board approved the Investment Risk Manual (IRM) keeping in view relevant Bangladesh Bank guidelines to ensure best practice in investment risk management and maintain quality of assets. Authorities are

	properly delegated ensuring check and balance in investment operation at every stage i.e. screening, assessing risk, identification, management and mitigation of investment risk as Well as monitoring, supervision and recovery of investments with provision for Early Warning System. There is a separate Investment Risk Management (IRM) division for mitigation of investment risk, separate investment administration division for ensuring perfection of securities and investment monitoring and recovery division for monitoring and recovery of irregular investments. Internal control & compliance division Independently assess quality of investments and compliance status of investments at least once in a year. Adequate provision is maintained against classified investments as per Bangladesh Bank guidelines. Status of investments is regularly reported to the Board /Executive Committee of the Board.

Quantities Disclosures	
b) Total gross investment risk exposures broken down by major types of investment exposures.	Major type of investment exposures as per disclosure in the audited financial statements as of 31st December 2012 of the Bank

	Particulars	**Taka in million**
	Agriculture & Fishing	757.9
	Cotton & Textile	10,254.50
	Garments	14,850.13
	Cement	752.93
	Pharmaceuticals & Chemicals	2,711.63
	Real Estate	8,816.94
	Transport	2,265.75
	Information Technology	185.92

	Non Banking Financial Institutions	4,204.79
	Steel & Engineering	5,436.98
	Paper & Paper Products	1,751.92
	Services Industries	3,018.12
	Trading	13,162.64
	Import Financing	754.55
	Consumer Financing	179.96
	Share business	3,389.96
	Staff Investment	596.49
	Others	23093.69
	Total	**96,184.80**

c)Geographical distribution of exposures, broken down in significant areas by major types of investment exposure.	**Geographical distribution of exposures, broken down in significant areas by major types of investment exposure**.	
	Particulars	**Taka in million**
	Area-wise:	
	Urban	91,087.31
	Rural	5,097.49
	Total	**9,6184.80**
	Division- wise:	
	Dhaka	78,842.30
	Chittagong	11,662.75
	Sylhet	1,438.51
	Rajshahi	785.58
	Khulna	2,395.10
	Barisal	273.43
	Rangpur	787.13
	Total	**96,184.80**

d) Industry or counterparty type distribution of exposures, broken down by major types of investment exposure.	Industry or counterparty type distribution of exposures, broken down by major types of investment exposure.	
	Particulars	**Taka in million**
	Investments to allied concern of Directors	602.14
	Investments to Executives/Officers	596.49
	Investments to	40,695.66

	Customer Groups	
	Industrial Investment	47,230.30
	Others	7,060.21
	Total	**96,184.80**

e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of investment exposure.	Residual contractual maturity break down of the whole portfolios, broken down by major types of investment exposure of the Bank:	
	Particulars	**Taka in million**
	Repayable on Demand	-
	Up to 1 month	13,943.56
	Over 1 month but not more than 3 months	10,812.09
	Over 3 months but not more than 1 year	35,744.06
	Over 1 year but not more than 5 years	22,456.17
	Over 5 years	13,228.92
	Total	**96,184.80**

Quantities Disclosures		
f) By major industry or counterparty type:	Particulars	Taka in million
	Amount of impaired investments and if available, past due investments, provided separately	2,842.27
	Specific and general provisions	2,481.99
	Charges for specific allowances and charge – offs during the period	792.50
g) Gross Non Performing	Assets (NPAs)	2,842.27
	Non Performing Assets (NPAs) to outstanding Investments	2.96%
Movement of Non Performing Assets (NPAs)	Opening balance	1,522.50
	Additions	1,319.77
	Reductions	-
	Closing balance	**2,842.27**
Movement of specific	Opening balance	423.00

provisions for NPAs	Provisions made during the period	650.00
	Write-off/Write-back of excess provisions	-
	Recovery from write-of	-
	Closing Balance	**1,073.00**

5. Equities: Disclosures for Banking Book Position **Qualitative Disclosures**	
a)The general qualitative disclosures requirement with respect to equity risk, including:	
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and	Investment in equity securities are broadly categorized into two parts:
	i) Quoted Securities that are traded in the secondary market (Trading Book Assets).
	ii) Unquoted securities are categorized as banking book equity exposures which are further sub-divided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future i.e. Held to maturity (HTM). And securities those are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities Unquoted securities are valued at cost.

Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices	The primary objective is to investment in equity securities for the purpose of capital gain by selling them in future or held for dividend income. Dividends received from these equity securities are accounted for as and when received and right to receive when established. Both Quoted and Un-Quoted equity securities are valued at

	cost and necessary provisions are maintained if the prices fall below the cost price.

Quantitative Disclosures	Solo	Consolidated
Particulars	Taka in million	
b) Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	1,705.53	3,113.16
c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	1,023.47	1,070.81
d) Total un-realised gains (losses)	(499.70)	(596.42)
Total latent revaluation gains (losses)	-	-
Any amounts of the above included in Tier – 2 capital.	-	-
e) Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.		
• Specific Market Risk	120.60	196.90
• General Market Risk	120.60	196.90

6. Profit (Interest) Rate Risk in the Banking Book (PRRBB)	
Qualitative disclosures	
a) The general qualitative disclosure requirement including the nature of PRRBB and key assumptions, including assumptions regarding investment prepayments and behavior of non-maturity deposits, and frequency of PRRBB measurement.	Profit rate risk is the risk where changes in market profit rates might adversely affect bank's financial condition. Changes in profit rates affect both the current earnings (earnings perspective) as well as the net worth of the bank (economic value perspective). Re-pricing risk is often the most apparent source of profit rate risk for a

	bank and is often gauged by comparing the volume of a bank's assets that mature or re-price within a given time period with the volume of liabilities that do so.
	The short term impact of changes in profit rates is on the bank's Net Interest Income (NII). In a longer term, changes in profit rates impact the cash lows on the assets, liabilities and off-balance sheet items, giving rise to a risk to the net worth of the bank arising out of all re-pricing mismatches and other profit rate sensitive position.

Profit Rate Risk Analysis
Quantitative Disclosures
b)The increase (decline) in earnings or economic value (or relevant measure Used by management) for upward and downward rate shocks according to management's method for measuring PRRBB, broken down by currency (as relevant).

Quantitative Disclosures			**Taka in million**	
Particular	1-90 days	Over 3 month upto 6 months	Over 6 months upto 9 months	Over9 months upto 1 Years
RSA	5,398.34	1,406.32	605.00	800.00
RSL	5,309.30	1,125.63	540.00	1,000.00
GAP	89.04	280.69	65.00	(200.00)
Cumulative Gap	89.04	369.73	434.73	234.73
Adjusted profit rate changes (PRC)	1.00%	1.00%	1.00%	1.00%
Quarterly earnings impact (Cum. Gap*PRC)	22.26	92.43	108.68	58.68
Accumulate earning impact to date	22.26	114.69	223.37	282.05
Earning impact/ Avg. Quarterly Net	1.28%	5.30%	6.23%	3.36%

Profit				

RSA: Rate Sensitive Assets
RSL: Rate Sensitive Liabilities

7. Market risk	
Qualitative disclosures	
a) i) Views of BOD on trading / investment activities	The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance asset growth and trade related transactions.
ii) Methods used to measure Market risk	Standardized approach has been used to measure the Market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for "specific risk" and "general market risk".
iii) Market Risk Management system	The Treasury Division manage market risk covering liquidity, profit rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meets at least once in a month.
iv) Policies and processes for mitigating market risk	There are approved limits for credit deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items and borrowing from money market and foreign exchange position. The limits are monitored and enforced on a regular basis to protect the market risks. The exchange rate of the Bank is monitored regularly and reviews the prevailing market Condition, exchange rate, foreign exchange position and transactions to mitigate foreign exchange risks.

Quantitative Disclosures		
b)The capital requirements for	Solo	Consolidated
Particulars	**Taka in million**	
Interest rate risk	-	-
Equity position risk	241.20	393.80
Foreign Exchange risk and	125.90	125.90
Commodity risk	-	-
Total Capital Requirement	**367.10**	**519.70**

8. Operational risk	
Qualitative disclosures	
a) i) Views of BOD on system to reduce Operational Risk	Operational risk is the risk of loss or harm resulting from inadequate or failed of internal processes, people and systems or from external events. Capability to carry out a large number of transactions effectively and accurately while complying with applicable laws and regulations constitute operational risk management activities of the bank. The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control & Compliance to protect against all operational risk.
ii) Performance gap of executives and staffs	SJIBL has a policy to provide competitive package and best working

	environment to attract and retain the most talented people available in the industry. SJIBL's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.
iii) Potential external events	No potential external events are expected to expose the Bank to significant operational risk.
iv) Policies and processes for mitigating operational risk	The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Policy guidelines on Risk Based Internal Audit (RBIA) system is in operation As per RBIA branches are rated according to their risk grading/ scoring audit procedure and required frequent audit to the Branches are operating by the Audit Division. Bank's Anti - Money laundering activities are headed by CAMLCO and their activities are devoted to protect against all money laundering and terrorist finance related activities. Apart from that, there is adequate check & balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.
v) Approach for calculating capital charge for operational risk	Basic Indicator Approach was used for calculating of capital charge for operational risk as per guideline of Bangladesh Bank.

Quantitative Disclosures	Solo	Consolidated

Particular	**Taka in million**	
b) The capital requirements for :		
Operational risk	798.60	813.40