Market Discipline

Disclosures on Risk Based Capital (Basel II) as on 31.12.2013

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 92 branches, 06 (six) SME centers and 39 (Thirty Nine) ATM booths 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 2013 (Amended), Bangladesh Bank’s Directives and the principles of the Islamic Shariah.

	<u>Shahjalal Islami Bank Securities Limited (SJIBSL).</u> Shahjalal Islami Bank Securities Limited is subsidiary companies 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. **Off-shore Banking Unit (OBU)** 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 UDAY SANZ, SE(A), 2/B Gulshan South Avenue, Gulshan-1, 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, Off-Balance Sheet exposure & Off-Shore Banking Units),

Quantitative Disclosures			
b) The amount of Tier-1 capital, with separate disclosure of			
Particulars		**Solo**	**Consolidated**
		Taka in million	
i.	Fully paid-up Capital	6,678.98	6,678.98
ii.	Statutory Reserve	3,435.59	3,435.59
iii	Non-repayable Share Premium account		
iv	General Reserve		
v	Retained Earnings	836.71	852.70
vi	Minority interest in Subsidiaries		226.88
vii	Non-cumulative irredeemable preference shares		
viii	Dividend equalization account		
	Sub-Total	**10,951.28**	**11,194.15**
Less: Provision shortfall against Classified Assets		**(1,000.00)**	**(1,000.00)**
A)	Sub Total (Tier-1)	**9,951.28**	**10,194.15**
B)	**Tier-2 (Supplementary Capital)**	**1,188.82**	**1,331.82**
C)	**Total amount of Tier-1, Tier-2 and Tier-3 capital**	**11,140.10**	**11,525.97**
D)	Other deductions from capital	-	-
E)	**Total Eligible Capital (C-D)**	**11,140.10**	**11,525.97**

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 12.77% & 12.56% 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 11.29% which "Solo" basis is 11.22% 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		Solo	Consolidated
	Particulars	Taka in million	
b)	Capital requirements for Investment (Credit) Risk:	7,744.65	7,634.43
c)	Capital requirements for Market Risk	317.00	558.42
d)	Capital requirements for Operational Risk	808.50	832.61
e)	**Total and Tier-1 capital ratio:**		
	Minimum capital requirement	8,870.20	9,025.50
	Total Risk Weighted Assets (RWA)	88,701.50	90,254.60
	Total and Tier-1 capital ratio:		
	Tier-1 CAR	11.22%	11.29%
	Tier-2 CAR	1.34%	1.48%
	Total CAR	**12.56%**	**12.77%**

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/(Loan). **The above Investment (Loan) 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.

(A) In case of any installment(s) or part of installment(s) of a Fixed Term Investment/(Loan) amounting upto Tk. 10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of such types of Fixed Term Loans:-

i. **Sub-standard:** if the amount of 'past due Installment is equal to or more than the amount of installment(s) due within 6(six) months, the entire Investment (loan) will be classified as "Sub-standard";
ii. **Doubtful**:if the amount of past due installment is equal to or more than the amount of installment (s) due within 9 (Nine) months. the entire Investment (loan) will be classified as "Doubtful";
iii. **Bad/Loss:** if the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12(Twelve) months, the entire Investment/loan will be classified as "Bad/Loss".

(B) In case of any installment(s) or part of installment(s) of a Fixed Term Investment (Loan) amounting more than Tk. 10.00 Lakh is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of such types of Fixed Term Investment(Loans):

i. **Sub-Standard:** If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loan will be classified as ''Sub-standard''.
ii. **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 loan will be classified as ''Doubtful".
iii**. Bad/Loss:** If the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as ''Bad/Loss''.

Explanation: If any Fixed Term Loan is repayable on monthly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 06 monthly installments. Similarly, if the loan is repayable on quarterly installment basis, the amount of installment(s) due within 06 (six) months will be equal to the sum of 2 quarterly installments."

	Short-term Agricultural and Micro-Investment are classified as: If not repaid within the due date as stipulated in the Investment (loan) agreement. i. **<u>Sub-Standard:</u>** If the said irregular status continues, the Investment (Loan) will be classified as 'Substandard' after a period of 12 months. ii. **<u>Doubtful:</u>** if the irregular status continue after a period of 36 (thirty six) months, the Credits are classified as “Doubtful”. iii. **<u>Bad/Loss:</u>** if the irregular status continue after a period of 60 (sixty) months, the credits are classified as “Bad/Loss” 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)**'. The Bank is following the general and specific provision for investments on the basis of Bangladesh Bank guidelines issued from time to time. **<u>Rates of provision are noted below:</u>** **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 Program 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. 4) 5% on the outstanding amount of Investments/loans kept in the '**Special Mention Account''**
ii) **Description of approaches followed for specific and general allowances and statistical methods.**	

	5)**a)** 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 (EWS). 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 during their audit 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 by the Division.

Quantitative 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 2013 of the Bank	
	Particulars	**Taka in million**
	Agriculture & Fishing	744.95
	Cotton & Textile	7,360.71
	Garments	12,515.63
	Cement	454.51
	Pharmaceuticals & Chemicals	1,369.01
	Real Estate	7,593.43
	Transport	1,798.71
	Information Technology	213.14
	Non Banking Financial Institutions	4,888.54
	Steel & Engineering	4,115.91
	Paper & Paper Products	1,366.33
	Services Industries	3,187.41
	Trading	10,847.73
	Import Financing	4,989.64
	Consumer Financing	79.70
	Share business	2,629.21
	Staff Investment	758.02
	Others	20,794.03
	Total	**85,706.60**

Quantitative Disclosures		
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	80,293.88
	Rural	5,412.73
	Total	**85,706.61**
	Division- wise	
	Dhaka	67,887.10
	Chittagong	12,154.66
	Sylhet	1,199.71
	Rajshahi	948.36
	Rangpur	881.18
	Khulna	2,482.28
	Barisal	153.31
	Total	**85,706.61**

Quantities Disclosures		
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	2,585.08
	Investments to Executives/Officers	758.02
	Investment to customer group	41,017.60
	Industrial Investment	39,870.75
	Others	1,475.16
	Total	**85,706.61**
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	3,428.26
	Over 1 month but not more than 3 months	38,533.70
	Over 3 months but not more than 1 year	30,845.81
	Over 1 year but not more than 5 years	8,570.67
	Over 5 years	4,328.18
	Total	**85,706.62**

Quantitative Disclosures		
f) By major industry or counterparty type:	**Particulars**	**Taka in million**
	Amount of impaired investments and if available, past due investments, provided separately	5,542.69
	Specific and general provisions	2,246.32
	Charges for specific allowances and charge – offs during the period	205.33
g) Gross Non Performing Assets (NPAs)		**5,542.69**
Non Performing Assets (NPAs) to outstanding Investments		6.47%
Movement of Non Performing Assets (NPAs)	Opening balance	2,842.26
	Additions	2,700.43
	Reductions	-
	Closing balance	**5,542.69**
	Opening balance	1,073.00

Movement of specific provisions for NPAs	Provisions made during the period	438.84
	Write-off/Write-back of excess provisions	-
	Recovery from write-off	-
	Closing Balance	**1,511.84**

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). i) 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 as per time to time instruction of Bangladesh Bank 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.	1,139.33	2,185.54
c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	83.90	1,070.85

	Total unrealized gains (losses).	(557.38)	(718.37)
d)	Total latent revaluation gains (losses)	-	-
	Any amounts of the above included in Tier – 2 capitals.	-	-
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**	1,188.10	2,395.20
	• **General Market Risk**	1,188.10	2,395.20

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 flows 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 – Up to 6 months	Over 6 month - Up to 1 Year	Above one (1)year
RSA	51,792.90	18,600.20	15,330.00	18,106.50
RSL	51,697.10	18,524.50	15,138.00	7,991.60
Net GAP	95.80	75.70	192.00	10,114.90
Cumulative Gap	95.80	171.50	361.50	10,478.40

RSA: Rate Sensitive Assets
RSL: Rate Sensitive Liabilities

7. Market risk	
Qualitative disclosures	**Particulars**
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 review the prevailing market Condition, exchange rate, foreign exchange position and transactions to mitigate foreign exchange risks.

Quantitative Disclosures:		
Particulars	**Solo**	**Consolidated**
b) The capital requirements for:	**Taka in million**	
Interest rate risk	-	-
Equity position risk	237.60	479.00
Foreign Exchange risk and	79.40	79.40
Commodity risk	-	-
Total Capital Requirement	**317.00**	**558.40**

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 yet to place to the Board of the Bank for getting approval. On the basis of routine audit, 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	Taka in million	
b) The capital requirements for:	Solo	Consolidated
Operational risk	808.50	832.60