Market Discipline **Annexure-'A'**

Disclosures on Risk Based Capital (Basel III) as on 31.12.2016

The purpose of Market Discipline in (Basel- III) 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 III)" 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 comprise the financial statements of (i) Shahjalal Islami Bank Limited including Off-Shore Banking Unit (OBU) and (ii) Shahjalal Islami Bank Securities Limited. A brief description of the Bank including OBU (Main Operation) and its subsidiary are given below:
	Shahjalal Islami Bank Limited 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 10 May 2001 with the permission of Bangladesh Bank. Presently the Bank is operating its business through head office having 103 branches, Central Processing Center (CPC), Off-shore Banking Unit (OBU), 59 (Fifty 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 Shari'ah.

	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 21 December, 2008 and the same is located at Uday Sanz, SE(A), 2/B, Gulshan South Avenue, Gulshan-1, Dhaka-1212.
	Shahjalal Islami Bank Securities Limited(SJIBSL) 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 vides certification of incorporation no. C - 86917/10 dated 06 September 2010 and commenced its operation on the 25 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.
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 Common Equity Tier- 1 or Tier - 2.	As per the guidelines of Bangladesh Bank, Common Equity Tier-1 Capital of SJIBL consists of (i) 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 Provisions (against un-classified Investments, Off-Balance Sheet exposures & Off-Shore Banking Unit).

Quantitative Disclosures		
b) Common Equity Tier-1 capital, with separate disclosure		**Taka in million**
Particulars	**Solo**	**Consolidated**
i. Paid-up Capital	7,346.88	7,346.88
ii. Statutory Reserve	4,403.56	4,403.56
iii) Non-repayable Share Premium Account	-	-
iv General Reserve	-	-
v Retained Earnings	1,106.13	1,253.80
vi Minority Interest in Subsidiaries	-	239.47
vii. Non-cumulative Irredeemable Preference Shares	-	-
viii. Dividend Equalization Account	-	-
ix Other (if any item approved by Bangladesh Bank)	-	-
A) Common Equity Tier-1 Capital	12,856.58	13,243.71
Less: Regulatory adjustments	-	-
B) Eligible Tier-1 Capital (Going-Concern Capital)	12,856.58	13,243.71
C) Eligible Tier-2 Capital (Gone-Concern Capital)	1,529.50	1,953.12
D) Total Eligible Capital (B+C)	14,386.08	15,196.83

3. Capital Adequacy

Qualitative Disclosures	
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 to Risk Weighted Assets (RWA) Ratio at 11.68% & 11.54% on the basis of "Consolidated" and "Solo" respectively as against the minimum regulatory requirement of 10%. Common Equity Tier-I Capital to RWA Ratio under "Consolidated" basis is 10.18% which "Solo" basis is 10.31% as against the minimum regulatory requirement of 5.50%. The Bank's policy is to manage and maintain strong Capital to RWA 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.

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Quantitative Disclosures		Taka in million
Particulars	**Solo**	**Consolidated**
a) Capital requirements for Investment (Credit) Risk:	11,181.92	11,442.58
b) Capital requirements for Market Risk	444.67	700.33
c) Capital requirements for Operational Risk	843.80	871.52
d) Total and Common Equity Tier-1 capital ratio:		
Minimum capital requirement	12,470.38	13,014.43
Total Risk Weighted Assets (RWA)	124,703.80	130,144.30
Total and Common Equity Tier-1 capital ratio:		
Common Equity Tier-1 to RWA	10.31%	10.18%
Tier-2 to RWA	1.23%	1.50%
Total Regulatory Capital to RWA (CRAR)	11.54%	11.68%

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):** The Investment/loan accounts in which transactions may be made within certain limit and have an expiry date for full adjustment will be treated as Continuous Investment/ Loan. Examples are: Cash Credit, Overdraft, etc. (b) **Demand Investment/ (Loan):** The Investment/ loans that become repayable on demand by the bank will be treated as Demand Investment. If any contingent or any other liabilities are turned to forced loan (i.e. without any prior approval as regular investment) those too will be treated as Demand Investment/ Loan. Such as: Forced Loan against Imported Merchandise, Payment against Document, Foreign Bill Purchased and Inland Bill Purchased, etc. (c) **Fixed Term Investment/ (Loan)**: The Investment/ loans, which are repayable within a specific time period under a specific repayment schedule, will be treated as Fixed Term Loan. (d) **Short term Agricultural & Micro Investment/ (Loan)**: Short-term Agricultural Investment/ Credit will include the short-term credits as listed under the

	Annual Credit Programme issued by the Agricultural Credit and Financial Inclusion Department (ACFID) of Bangladesh Bank. Credits in the agricultural sector repayable within 12 (twelve) months will also be included herein. Short-term Micro-Credit will include any micro-credits not exceeding an amount determined by the ACFID of Bangladesh Bank from time to time and repayable within 12 (twelve) months, be those termed in any names such as Non-agricultural credit, Self-reliant Credit, Weaver's Credit or Bank's individual project credit. **The above Investments (Loans) 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 (six) 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 Lac 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 instalment is equal to or more than the amount of instalment (s) due within 9 (Nine) months. the entire Investment (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 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 Invesment(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 Investment (loan) will be classified as "Bad/Loss". **Explanation**: If any Fixed Term Investment (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. Sub-Standard: If the said irregular status continues, the Investment (Loan) will be classified as 'Substandard' after a period of 12 months. ii. Doubtful: if the irregular status continue after a period of 36 (thirty six) months, the Credits are classified as "Doubtful". iii. Bad/Loss: 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)".

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 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) Rate of provision on the outstanding amount of loans kept in the 'Special Mention Account' will be same as the rates stated in (1), (2), (3). 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 unclassified Investment (irregular and regular) : 2.5% (ii)Sub-standard & DF : 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) under CRO for mitigation of investment risk, separate Investment Administration Division for ensuring perfection of securities and Recovery Unit 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 reported periodically to the RMC /Executive Committee of the Board by the concerned Division.

Quantitative Disclosures

a) 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 31 December 2016 of the Bank

Particulars	Taka in million
Agriculture & Fishing	5,981.90
Cotton & Textile	9,619.75
Garments	14,473.18
Cement	1,289.01
Pharmaceuticals & Chemicals	2,344.90
Real Estate	8,326.12
Transport	2,640.29
Information Technology	340.72
Non Banking Financial Institutions	2,554.05
Steel & Engineering	5,783.37
Food Processing & Beverage	9,320.06
Power & Energy	3,029.22
Paper & Paper Products	1,531.74

	Plastic & Plastic Products	2,934.82
	Electronics	2,797.08
	Services Industries	3,425.27
	Trading	20,317.30
	Import Financing	3,811.50
	Consumer Financing	181.60
	Share business	1,448.70
	Staff Investment	1,294.75
	Others	19,553.04
	Total	**122,998.38**
b) 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	115,606.89
	Rural	7,391.49
	Total	**122,998.38**
	Division- wise:	
	Dhaka	93,240.84
	Chittagong	20,012.23
	Sylhet	1,454.74
	Rajshahi	2,753.44
	Khulna	4,062.59
	Barisal	355.90
	Rangpur	1,118.64
	Total	**122,998.38**
c) 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	757.48
	Investments to Executives/Officers	1,294.75
	Investments to Customer Groups	61,267.82
	Industrial Investment	57,764.63
	Others	1,913.70
	Total	**122,998.38**

d) 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	23,861.69
	Over 1 month but not more than 3 months	40,724.76
	Over 3 month but not more than 1 Year	37,563.70
	Over 1 year but not more than 5 years	15,928.29
	Over 5 years	4,919.94
	Total	**122,998.38**

Quantitative Disclosures		
e) By major industry or counterparty type:	**Particulars**	**Taka in million**
	Amount of impaired investments and if available, past due investments, provided separately	5,781.70
	Specific and general provisions	2,327.67
	Charges for specific allowances during the period	1,431.47
f) Gross Non Performing Assets (NPAs)	Non Performing Assets (NPAs) to outstanding Investments	4.70%
Movement of Non Performing Assets (NPAs)	Opening balance	6,261.01
	Increase/(Decrease) during the year	(479.31)
	Closing balance	**5,781.70**
Movement of specific provisions for NPAs	Opening balance	1,850.06
	Provisions made during the period	497.50
	Write-off/Write-back of excess provisions	(938.67)
	Recovery from write-of	22.58
	Closing Balance	**1,431.47**

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	Investment in equity securities are broadly categorized into two parts:
	i) Quoted Securities that are traded in the secondary market (Trading Book Assets).

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including for relationship and strategic reasons; and	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 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.	1,389.00	2,667.30
c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	44.94	84.79
d) Total un-realised gains (losses)	(605.71)	(650.00)
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	1,389.00	2,667.30
• General Market Risk	1,389.00	2,667.30

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,	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

and frequency of PRRBB measurement.	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 (Profit) 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 (decrease) 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 1 Year	Above 1(one) Year
RSA*	76,289.30	17,014.30	34,028.70	24,082.90
RSL*	67,446.50	17,117.40	34,234.70	11,598.80
GAP	8,842.80	(103.00)	(206.10)	12,484.10
Cumulative Gap	**8,842.80**	**8,739.80**	**8,533.70**	**21,017.80**

*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, setting of limits and review on Core Risk 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**	
Profit rate risk	-	-
Equity position risk	277.80	533.50
Foreign Exchange risk and	166.90	166.90
Commodity risk	-	-
Total Capital Requirement	**444.70**	**700.30**

8. Operational risk

Qualitative disclosures	
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 offers competitive salary & benefits, along with congenial working environment to attract and retain the talented and skilled officials available in the industry. SJIBL's strong brand image also plays an important role in employee motivation.
iii) Potential external events	Banking business operates in an umbrella of inter-related between socio-economic and political environment. There are certain risk factors which are external in nature and can affect directly or indirectly the business of the bank. The risk factors are mentioned below:

	i. Macro-economic condition, ii. Regulatory changes, iii. Change in demand, iv. Volatility in equity market, v. Changes in market conditions, vi. Political instability and vii. Threat of vandalism to the bank's sophisticated physical outlets including IT equipment's etc.
iv) Policies and processes for mitigating operational risk	To mitigate the day to day Operations Manual including internal control & compliance risk Mannual 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 Audit & Inspection Unit of IC & CD. 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	843.80	871.52

9. Liquidity Ratio

Qualitative disclosures	
Liquidity Risk	Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or when a bank is unable to fulfill its commitments. Thus, liquidity risk can be of two types: (i) Funding liquidity risk and (ii)Market liquidity risk.
Views of Board of Directors on system to reduce liquidity Risk	Shahjalal Islami Bank Limited maintains diversified and stable funding base comprising of core retail, corporate and institutional deposits to manage liquiduty risk. The

	responsibility of managing the liquidity risk of the bank lies with Treasury Front Office. Different key ratios including LCR and NSFR are regularly discussed in monthly meeting of ALCO. The committee meets at least once in a month to review Asset-Liability and Liquidity position of the Bank. Treasury maintains liquidity based on current liquidity position, anticipated future funding requirement, sources of fund, options for reducing funding needs and ALCO monitors present and anticipated asset quality, present and future earning capacity, present and planned capital position, etc.
Methods used to measure Liquidity Risk	A sound liquidity risk management employed in measuring, monitoring and controlling liquidity risk is critical to the viability of the bank. The measurement tools those are used to assess liquidity risks are: i. Cash Reserve Requirement (CRR); ii. Statutory Liquidity Ratio (SLR); iii. Investment to Deposit Ratio (IDR); iv. Structural Liquidity Profile (SLP); v. Maximum Cumulative Outflow (MCO); vi. Liquidity Coverage Ratio (LCR); vii. Net Stable Funding Ratio (NSFR); viii. Volatile Liability Dependency Ratio; ix. Liquid Asset to Total Deposit Ratio; x. Liquid Asset to Short Term Liabilities etc.
Liquidity risk management system	The Asset Liability Committee (ALCO) meets at least once in a month to discuss and monitor overall position of the Bank including Liquidity. Treasury closely monitors liquidity requirements on daily basis by appropriate coordination among funding activities. Besides, monthly fund flow projection is reviewed in ALCO meeting regularly in order to manage liquidity risk of the bank.
Policies and processes for mitigating liquidity risk	In order to develop comprehensive liquidity risk management framework, the Bank has Board approved Contingency Funding Plan (CFP), a set of policies and procedures that serves as a blueprint for the bank, to meet its funding needs in a planned manner at reasonable cost. Thus, CFP is an extension of ongoing liquidity management that formalizes the objectives of liquidity management by ensuring: a) Reasonable liquid assets being maintained;

	b) Measurement and projection of funding requirements during various scenarios; and c) Management of access to sources of find. Maturity ladder of cash inflows and outflows are effective tool to determine the bank's cash position. A maturity ladder estimates a bank's cash inflows and outflows and thus net deficit or surplus (GAP) on a day to day basis in different time buckets (e.g. call, 2-7 days, 1 month, 1-3 months, 3-12 months, 1-5 years, over 5 years).
Quantitative Disclosures	
Liquidity Coverage Ratio (LCR)	Liquidity Coverage Ratio aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days. $\text{LCR} = \frac{\text{Stock of High Quality Liquid Assets}}{\text{Total net cash outflows over the next 30 calendar days}} \times 100$ The minimum standard for LCR is greater than or equal to 100. However, the bank's status as on 31 December 2016 in this ratio is as follows: $\text{LCR} = \frac{\text{Tk. 15,620.75 Million}}{\text{Tk. 15,437.05 Million}} \times 100$ LCR = 101.19%
Net Stable Funding Ratio (NSFR)	Net Stable Funding Ratio is another new liquidity standard introduced by the Basel Committee. The NSFR aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourages better assessment of liquidity risk across all on and off-balance sheet items. $\text{NSFR} = \frac{\text{Available amount of stable funding (ASF)}}{\text{Required amount of stable funding (RSF)}} \times 100$ The minimum acceptable value of this ratio is 100 percent, indicating that available stable funding (ASF) should be at least equal to required stable funding (RSF). However, the bank's status as on 31 December 2016 in this ratio is as follows: $\text{NSFR} = \frac{\text{Tk. 127,333.05 Million}}{\text{Tk. 125,771.33 Million}} \times 100$ NSFR = 101.24%

10. Leverage Ratio	
Qualitative disclosures	
Views of Board of Directors on system to reduce excessive leverage	The responsibility of monitoring excessive leverage of the Bank lies with the Concerned Divisions under the guidance of the Board of Directors of the bank. The Board delivers policies and processes from time to time for managing the Bank's leverage ratio up to the mark.
Policies and processes for managing excessive on and off –balance sheet leverage	The leverage ratio was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced by the Bangladesh Bank. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives: • Constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and • Reinforce the risk based requirements with an easy to understand and a non-risk based measure.
Approaches for calculating exposure	The exposure mesure for the leverage ratio generally follows the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following approaches are applied by the bank: i. On balance sheet, non-derivative exposures are being net of specific provisions and valuation adjustments (e.g. surplus/ deficit on Available for sale (AFS)/ Held-for-trading (HFT) positions). ii. Physical or financial collateral, guarantee or investment risk mitigation purchased is not allowed to reduce on-balance sheet exposure. iii. Netting of investments and deposits is not allowed. The Bank has calculated the regulatory leverage ratio as per the guideline of Basel III. The numerator, capital measure is calculated using the new definition of Common Equity Tier I capital applicable from 01 January 2015.

Quantitative Disclosures	
Leverage Ratio	A minimum Tier 1 leverage ratio of 3% is being prescribed by Bangladesh Bank both at solo and consolidated basis. The bank maintains leverage ratio on quarterly basis. The status of leverage ratio at the end of each calendar quarter is submitted to Bangladesh Bank showing the average of the month based on capital and total exposures. The formula of Leverage Ratio is as under: $$\text{Leverage Ratio} = \frac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$$

Particular	Solo	Consolidated
	Taka in million	
Common Equity Tier 1 Capital*	12,856.58	13,243.71
On Balance Sheet Exposure*	165,813.64	169,521.86
Off-Balance Sheet Exposure*	27,059.13	27,059.13
Total Exposure	192,872.77	196,580.99
Leverage Ratio	6.67%	6.74%
* Considering all regulatory adjustments		

11. Remuneration

Qualitative disclosures	
Query	**Reply**
Information relating to the bodies that oversee remuneration. 1.1. Name 1.2. Composition 1.3. Mandate of the Main body overseeing remuneration 1.4. Remuneration Policy regarding External Consultants (if any) 1.5. Scope of the Bank's remuneration policy 1.6. Types of employees considered as material risk takers and as senior managers	**1.1 to 1.5:** Human Resources Division of the Bank deals with the remuneration related issues of employees with the assistance of Financial Administration Division as per specific provisions laid down in the Employees' Service Rules of the Bank and Pay structure duly approved by the Board of Directors, while the same is governed and oversight by the Managing Director, Management Committee and Head of HR. The Bank has a well defined Employees' Service Rules approved by the Board of Directors, which includes remuneration/compensation packages, retirement benefits of regular employees and incentive schemes etc. The board has also approved a very competitive and rewarding scale of pay for the Employees. The Service Rules and Remuneration policies/Pay Structure is reviewed and revised from time to time by

	the management constituting high powered committee and got approved by the board. While reshuffling the pay structure/ compensation packages, the inflation & price hike of commodities, industry best practices and peer banks' status etc. are taken into consideration. The bank does not do any differentiation in offering compensation/salary & allowance to the employees of same grade, rank and profile. Rather, management ensures extremely fair and performance based compensation to all employees. Further, the remuneration of higher Management, Consultants, and contractual appointments are determined and oversight by the Board of Directors on case to case basis and as per requirement. The retirement/separation benefit is also very attractive which includes contributory provident fund, gratuity, leave encashment, social security fund etc. Other than monthly remuneration the bank offers a number of facilities/benefits to the employees like Leave Fare Assistance allowance, Executive car facility scheme, corporate cell phones, maternity benefits for the female employees, employees' house building investment facility, house furnishing/furniture allowances, super annuation & disability and Death benefits etc. **1.6:** The Senior Executives of the Bank are considered as material risk takers. As on 31 December 2016 a number of 61 Executives of the Bank has been considered as material risk takers as follows:

Designation	Number
Managing Director	1
Deputy Managing Director	3
Senior Executive Vice President	9
Executive Vice President	9
Senior Vice President	13
Vice President	26
Total	**61**

Information relating to design and structure of remuneration process. 2.1. Key features of Remuneration Policy 2.2. Objectives of Remuneration Policy 2.3. Any changes of remuneration Policy 2.4. How the Bank ensures that risk and compliance employees are remunerated independently of the business they oversee.	The bank has a well structured, competitive and rewarding scale of pay for the regular employees of the bank duly approved by the board of Directors. The pay package of all employees other than Managing Director and Contractual Employees are determined by the management in accordance with the approved scale of pay. The compensation package of Managing Director is determined by the Board of Directors and subject to the subsequent approval of the Central Bank, i.e. Bangladesh Bank. Remuneration Package of Contractual Employees, as and when required, are determined and approved by Board of Directors on case to case basis prior to appointment. The annual increment and incentive bonuses for the eligible employees are paid on the basis of performances under the purview of Board approved policies in this regard. The main objective of the remuneration policy of the bank is to retain the existing human resources, attract/hire the talented & experienced professionals and to motivate the workforce to put their best efforts for sustainable growth of the Bank. The remuneration policy and pay structure for the employees of the Bank is reviewed and revised/reshuffled from time to time by management and subsequently got approved by the Board of Directors. The officials working in the Risk and Compliance areas have got their specific job descriptions & job allocations and performing their responsibilities independently as per standing guidelines of the regulators as well as the bank management. But, their service and remuneration are governed under the approved Employees' Service Rules of the Bank and pay structure and there is no differentiation with other employees of the Bank.
Description of the ways in which current and future risks are taken into account in the remuneration process:	The Management takes into consideration the compensation package of risk taking officials by way of incentives, accelerated promotions etc. for their effective contributions and performances.

Description of the ways in which the Bank seeks to adjust remuneration to take account of longer-term performance.	Promotions, annual increments, incentives etc. of employees are completely based on individual performance appraisal. Bank evaluates performance of all employees on yearly basis which includes qualitative and quantitative judgments. Achieving of business targets are also rated and appraised. The performing employees are remunerated by way of effecting annual grade increment, promotion, incentives etc. which in turn accelerates their belongingness to the organization.
Description of the various forms variable remuneration that the bank utilizes and the rationale for using these different forms. 5.1 The forms of variable remuneration offered • Number of Employees Having variable remuneration during the financial year; • Number and total amount guaranteed bonuses awarded during the financial year. • Breakdown of amount of remuneration awards for the financial year to show: (i) Fixed and variable; (ii) Deferred and non-deferred; (iii) Different forms used.	Bank mostly offers cash form of remuneration/compensation which includes monthly salary & allowances, bonuses, increments, fixation of salaries upon promotion etc. on current/recurring in nature and future in nature as follows: **Current/recurring nature:** 1. Monthly salary and allowances 2. Annual increment 3. Festival bonus 4. Incentive bonus 5. Special increment 6. Executive Car maintenance allowance 7. Annual Leave Fare Assistance allowance 8. Corporate mobile phone facility 9. Furniture/Home furnishing allowance 10. Financial award for business target achievements 11. Financial Award for successful completion of Banking Diploma **Future:** 1. Provident Fund 2. Gratuity 3. Super annuity 4. Leave Encashment 5. Social Security Fund 6. Employees' House Building Investment facility with simple profit rate. Besides, promotion/accelerated promotions are considered as non-cash reward for performing and extra-ordinary performing employees. Management also selects the performing officials for foreign tours/training and provides

certificates for outstanding achievements, which are also considered as non-cash award.

- Number of Employees Having variable remuneration during the financial year:
- Number and total amount guaranteed bonuses awarded during the financial year:

No. of Guaranteed Bonus	Total Amount (Tk. in Lac)
3 festival bonuses	1,358.53

- Breakdown amount of remuneration awards for the financial year ended on 31 December 2016:

i.	Fixed and variable	Tk. 17,557.21 Lac
ii.	Deferred and non-deferred	Nil
iii.	Different forms used	Cash