Market Discipline
Disclosures on Risk Based Capital (Pillar 3 of Basel III)
For the year ended 31 December 2017

Background:

The disclosure of prudential information is a most important component of Basel Committee on Banking Supervision's framework of capital measurement and capital adequacy, known as Basel III. Bangladesh Bank has specified the standard of qualitative and quantitative disclosures through Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for Banks in line with Basel III) on December 2014 with effect from January 2015.

Purpose:

- To complement the Minimum Capital Requirement (MCR) under Pillar 1 and the Supervisory Review Process (SRP) under Pillar 2 of Basel III;
- 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.

Relations with Accounting Disclosures:

- The disclosure framework does not conflict with requirements under accounting standards as set by Bangladesh Bank from time to time.
- Under Minimum Capital Requirement (MCR), Bank use specified approaches/ methodologies for measuring the various risks.
- The disclosures should be subject to adequate validation. Since information in the annual financial statements would generally be audited, the additionally published with such statements must be consistent with the audited statements.

Disclosure Framework:

Bangladesh Bank set out the following components in the the disclosures under Pillar 3 of Basel framework.

1. Scope of Application
2. Capital Structure
3. Capital Adequacy
4. Investment (Credit) Risk
5. Equities: Disclosures for Banking Book Positions
6. Profit (Interest) Rate Risk in the Banking Book (PRRBB)
7. Market Risk
8. Operational Risk
9. Liquidity Ratio
10. Leverage Ratio
11. Remuneration

This "Disclosures on Risk Based Capital (Basel III)" is prepared for the year ended December 31, 2017 as per Bangladesh Bank's Guideline.

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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 Consolidated Financial Statements of the Bank include 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 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 May 10, 2001 with the permission of Bangladesh Bank. Presently the Bank is operating its business through Corporate Head Office having 113 Branches, Central Processing Center (CPC), Off-shore Banking Unit (OBU), 73 own 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 are to provide 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.
	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. The Bank obtained the permission for conducting the operations of OBU from Bangladesh Bank vide letter no. BRPD (P-3) 744(99)/2008-2800 dated July 24, 2008. The Bank opened its Off-shore Banking Unit on December 21, 2008 and the unit is located at Shahjalal Islami Bank Tower, Plot-4, Block-CWN(C), Gulshan Avenue, Gulshan, Dhaka-1212.

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	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 September 06, 2010 and commenced its operation on the May 25, 2011. The main objective of the company is to carry on business of stock broker/dealers in relation to shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the Company. It has corporate membership of Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited.
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, Additional Tier-1 or Tier -2.	As per the Guidelines on Risk Based Capital Adequacy of Bangladesh Bank, the regulatory capital of Bank is classified into two tiers which will consist of sum of the following categories: i. **Tier-1 Capital** (going-concern capital) a) Common Equity Tier-1 capital of SJIBL consists of Paid-up Capital, Statutory Reserve, Retained Earnings and Minority Interest in Subsidiaries. b) Additional Tier-1 capital (There are no such capital components in the capital portfolio of SJIBL since the Bank did not issue any instruments that meets the qualifying criteria for Additional Tier-1 Capital). ii. **Tier-2 Capital** (gone-concern capital) of SJIBL consists of General Provisions and Mudaraba Subordinated Bond/Debt issued by the Bank that meets the qualifying criteria for Tier-2 Capital.

Quantitative Disclosures			
b)	The Amount of Tier 1 Capital with break-up	Taka in Million	
	Particulars	Solo	Consolidated
A.	**Common Equity Tier (CET1) Capital:**		
i.	Fully paid-up capital	7,714.23	7,714.23
ii.	Statutory reserve	4,819.26	4,819.26
iii.	Non-repayable share premium account	-	-
iv.	General reserve	-	-
v.	Retained earnings	784.29	1,079.87
vi.	Dividend equalization reserve	-	-
vii.	Minority interest in subsidiaries	-	251.44
viii.	Others (if any item approved by Bangladesh Bank)	-	-
Sub-Total of CET1 Capital (i to viii)		13,317.78	13,864.80
B.	**Additional Tier 1 (AT1) Capital**	-	-
i.	Instruments issued by the bank that meet the qualifying criteria for AT1	-	-
ii.	Minority interest i.e. AT1 issued by the consolidated subsidiaries to third parties (for consolidated reporting only)	-	-
iii.	Others (if any item approved by Bangladesh Bank)	-	-
Sub-Total of AT1 Capital (i to iii)		-	-
C.	**Total Tier 1 Capital (Going-Concern Capital) (A+B)**	**13,317.78**	**13,864.80**
D.	**Tier 2 Capital (Gone-Concern Capital)**		
i.	General provision against unclassified investments/loans and off balance sheet exposures (including OBU)	2,058.20	2,481.82
ii.	Subordinated debt/instruments issued by the banks that meet the qualifying criteria for Tier 2 capital	4,000.00	4,000.00
iii.	Others (if any item approved by Bangladesh Bank)	-	-
Sub-Total of Tier 2 Capital (i to iii)		**6,058.20**	**6,481.82**
E.	**Regulatory Adjustments/Deductions from Capital**		
i.	Shortfall in provision against NPIs and Investments	-	-
ii.	Deferred tax assets (DTA)	-	-
iii.	Others	-	-
Sub-Total of Regulatory Deductions (i to iii)		-	-
F.	**Total Regulatory Capital (C+D-E)**	**19,375.98**	**20,346.62**

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.

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	The Bank has maintained Capital to Risk Weighted Assets (RWA) Ratio at 12.44% & 12.19% on the basis of "Consolidated" and "Solo" respectively as against the minimum regulatory requirement of 10% plus capital conservation buffer of 1.25% totaling of 11.25%. Tier-I Capital to RWA Ratio under "Consolidated" basis is 8.48% which "Solo" basis is 8.38% as against the minimum regulatory requirement of 6.00%. 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.

Quantitative Disclosures	**Taka in Million**	
Particulars	**Solo**	**Consolidated**
b) Capital requirements for Investment (Credit) Risk:	14,638.36	14,879.91
c) Capital requirements for Market Risk	311.06	491.19
d) Capital requirements for Operational Risk	944.23	986.45
Minimum Capital Requirement (b+c+d)	15,893.65	16,357.55
Total Regulatory Capital	19,375.98	20,346.62
Total Risk Weighted Assets (RWA)	158,936.53	163,575.51
e) Capital to Risk-weighted Asset Ratio (CRAR) (iii to iv)	12.19%	12.44%
i. CET 1 capital ratio	8.38%	8.48%
ii. AT 1 capital ratio	-	-
iii. Total Tier 1 capital ratio (i to ii)	8.38%	8.48%
iv. Tier-2 capital ratio	3.81%	3.96%
f) Capital Conservation Buffer (1.25%)	1,986.71	2,044.69
g) Available Capital under Pillar 2 Requirement*	1,495.62	1,944.44
*After deduction of Minimum Capital Requirement and Capital Conservation Buffer from Total Regulatory Capital.		

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.

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	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 Investments (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 investment (i.e. without any prior approval as regular investment) those too will be treated as Demand Investment (Loan). Such as: Forced Investment (Loan) against Imported Merchandise, Payment against Document, Foreign Bill Purchased and Inland Bill Purchased, etc. (c) **Fixed Term Investment (Loan)**: The Investments (Loans), which are repayable within a specific time period under a specific repayment schedule, will be treated as Fixed Term Investment (Loan). (d) **Short term Agricultural & Micro Investment (Loan)**: Short-term Agricultural Investment (Credit) will include the short-term investments (credits) as listed under the Annual Credit Programme issued by the Agricultural Credit and Financial Inclusion Department (ACFID) of Bangladesh Bank. Investments (Credits) in the agricultural sector repayable within 12 (twelve) months will also be included herein. Short-term Micro-Credit will include any micro-credit 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: i. **Sub-standard:** if it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months; ii. **Doubtful:** if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months; iii. **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.

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	Fixed Term Investment (Loan) is classified as: (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 Investments (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 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 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.

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	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 continues after a period of 36 (thirty-six) months, the Credits are classified as "Doubtful". iii. **Bad & Loss:** if the irregular status continues 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 @ 1% on the unclassified amount for Housing Finance and 2% on 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%

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	c) Provision for Short-term Agricultural and Micro-Investments: (i) All Unclassified Investment : 1% (ii)Sub-standard & Doubtful : 5% (iii)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 the Chief Risk Officer (CRO) for mitigation of investment risk, separate Investment Administration Division (IAD) for ensuring perfection of securities and Recovery Unit for monitoring and recovery of irregular investments. Internal Control & Compliance Division (IC&CD) 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 Risk Management Committee (RMC)/Executive Committee (EC) of the Board by the concerned Division.

Quantitative Disclosures

a) Total gross investment risk exposures broken down by major types of investment exposures.	Total gross Investment risk exposures broken down by major types of Investment exposure of the Bank are as under:	
	Particulars	**Taka in million**
	Murabaha	14,197.54
	Bi-Muazzal	86,302.58
	Hire Purchase under Shirkatul Meelk	35,159.20
	Ijara	1,288.40
	Bi-Salam	3,504.01
	Quard	70.85
	Investment for EDF	7,847.21
	General Investment	0.41
	Bills Purchased and Discounted	10,303.97
	Total	**158,668.16**

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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 of the Bank are as under:	
	Particulars	**Taka in million**
	i. Area-wise:	
	Urban	148,205.43
	Rural	10,462.73
	Outside Bangladesh	0.00
	Total	**158,668.16**
	ii. Division- wise:	
	Dhaka	117,797.82
	Chittagong	26,888.85
	Sylhet	2,002.44
	Rajshahi	4,738.58
	Khulna	5,417.49
	Barisal	572.20
	Rangpur	1,250.78
	Total	**158,668.16**
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 of the Bank are as under:	
	Particulars	**Taka in million**
	i. Industry-wise:	
	Agriculture & Fishing	5,234.40
	Cotton & Textile	13,742.25
	Garments	19,129.24
	Cement	1,292.70
	Pharmaceuticals & Chemicals	2,169.87
	Real Estate	8,074.51
	Transport	2,581.48
	Information Technology	399.68
	Non Banking Financial Institutions	2,404.26
	Steel & Engineering	9,085.34
	Food Processing & Beverage	11,229.54
	Power & Energy	4,349.75
	Paper & Paper Products	1,927.73
	Plastic & Plastic Products	3,690.07
	Electronics	4,022.94
	Services Industries	5,414.80
	Trading	26,668.70
	Import Financing	7,060.70
	Consumer Financing	420.50
	Share business	1,042.01
	Staff Investment	1,460.30
	Others	27,267.39
	Total	**158,668.16**

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	Particulars	Taka in million
	ii. Counterparty-wise:	
	Investments to allied concern of Directors	343.10
	Investments to Executive/Officers	1,460.30
	Investments to Customer Groups	97,186.42
	Industrial Investment	57,764.63
	Others	1,913.71
	Total	**158,668.16**
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 are as under:	
	Particulars	**Taka in million**
	Repayable on Demand	30,781.62
	Over 1 month but not more than 3 months	52,535.03
	Over 3 month but not more than 1 year	48,457.25
	Over 1 year but not more than 5 years	20,547.53
	Over 5 years	6,346.73
	Total	**158,668.16**
e) By major industry or counterparty type:	i. Amount of impaired investments and if available, past due investments provided separately	
	Particulars	**Taka in million**
	Past Due	
	Special Mention Account (SMA)	1,567.89
	Sub Standard	549.66
	Doubtful	211.76
	Bad & Loss	5,539.08
	Total	**7,868.39**
	ii. Specific and general provisions	
	Unclassified Investment	1,165.90
	Classified Investment	1,415.06
	Off-Balance Sheet Exposure	892.30
	Total	**3,473.26**
	iii.Charges for specific allowances during the period	
	Provision on Unclassified Investment	269.70
	Provision on Classified Investment	664.80
	Provision on Off-Balance Sheet Exposure	259.00
	Total	**1,193.50**

<table>
<tr><td rowspan="16">f) Gross Non Performing Assets (NPAs)</td><td>i. Non Performing Assets (NPAs) to outstanding Investments</td><td>3.97%</td></tr>
<tr><td colspan="2">ii. Movement of Non Performing Assets (NPAs)</td></tr>
<tr><td>Particulars</td><td>Taka in million</td></tr>
<tr><td>Opening Balance</td><td>5,781.70</td></tr>
<tr><td>Additions</td><td>518.80</td></tr>
<tr><td>Reductions</td><td>0.00</td></tr>
<tr><td>Closing Balance</td><td>6,300.50</td></tr>
<tr><td colspan="2">iii. Movement of specific provisions for NPAs</td></tr>
<tr><td>Opening Balance</td><td>1,431.47</td></tr>
<tr><td>Recovery amount previously written-off</td><td>18.60</td></tr>
<tr><td>Provisions made during the period</td><td>664.80</td></tr>
<tr><td>Fully provided Investment write-off</td><td>(773.14)</td></tr>
<tr><td>Adjustment and Provision transferred</td><td>73.33</td></tr>
<tr><td>Closing Balance</td><td>1,415.06</td></tr>
<tr><td colspan="3">5. Equities: Disclosures for Banking Book Position</td></tr>
<tr><td colspan="3">Qualitative Disclosures</td></tr>
<tr><td colspan="3">a)The general qualitative disclosures requirement with respect to equity risk, including:</td></tr>
<tr><td rowspan="3">Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</td><td colspan="2">Investment in equity securities are broadly categorized into two parts:</td></tr>
<tr><td colspan="2">i) Quoted Securities that are traded in the secondary market (Trading Book Assets).</td></tr>
<tr><td colspan="2">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.</td></tr>
<tr><td>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</td><td colspan="2">The primary objective is to invest 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 time to time as per instruction of Bangladesh Bank if the prices fall below the cost price.</td></tr>
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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.	1,233.54	2,134.18
c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	60.83	170.57
d) Total un-realised gains (losses)	(465.16)	(477.58)
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	1,233.54	2,134.18
• General Market Risk	1,233.54	2,134.18

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 (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).	

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Quantitative Disclosures	**Taka in million**			
Particular	1-90 Days	91-180 Days	181-365 Days	Above 1 Year
Rate Sensitive Assets **(A)**	79,913.69	23,281.30	46,562.60	37,273.49
Rate Sensitive Liabilities **(B)**	70,171.65	16,698.11	33,396.21	30,462.96
GAP **(A-B)**	9,742.04	6,583.19	13,166.39	6,810.53
Cumulative Gap	9,742.04	16,325.24	29,491.62	36,302.15
Profit Rate Change (PRC)*	1%	1%	1%	1%
Quarterly Earning Impact (GAP x PRC)	24.36	16.46	32.92	17.03
Cumulative Earning Impact	24.36	40.81	73.73	90.76
*Assuming 1% rise in interest rates for both asset and liability portfolio of the Bank.				

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 Investment (credit) to 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	246.71	426.84
Foreign Exchange risk and	64.35	64.35
Commodity risk	-	-
Total Capital Requirement	**311.06**	**491.19**

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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 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	Performance of employees is the most important factor to achieve organizational goals. Bank has put in place a well defined performance management process which aims to clarify what is expected from its different level of employees as well as how it is to be achieved. At the begaining of a year's objectives is communicated to the employees who includes what are expected from him/her during the ensuring period through their direct reporting heads. A yearly performance appraisal practice is in place to review achievements based on which rewards and recognition decisions are made. Bank has a special focus on: • Ensuring a balanced diversity, • Promoting human capital development, • Providing competitive compensation and benefits • Protecting human rights, • Ensuring workplace health and safety, • Ensuring equal opportunity. SJIBL's strong brand image also plays an important role in employee motivation.
iii) Potential external events	By its nature, Operational Risk cannot be totally eliminated. Like other banks, SJIBL also operates its business with few potential external events that may significantly affect the bank into operational risks are as follows: • General business and political condition, • Inflation, • Changes in taxation rules, • The risk of litigation process, • Changes in credit quality of borrowers,

	• Damage of physical asset, • Volatility in equity market, • Digital security, • External fraud, • Business disruption and system failure 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. 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 (BIA) was used for calculating of capital charge for operational risk as per Guidelines on Risk Based Capital Adequacy of Bangladesh Bank. Under BIA, the capital charge for operational risk is a fixed percentage, denoted by α (alpha) of average positive annual gross income of the bank over past three years. Figures for any year in which annual gross income is negative or Zero, should be excluded from both the numerator and denominator when calculating the average.

Quantitative Disclosures	**Solo**	**Consolidated**
Particular	**Taka in million**	
b) The capital requirements for :		
Operational risk	944.23	986.45

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

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	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 December 31, 2017 in this ratio is as follows: $\text{LCR} = \frac{\text{Tk21,044.59 Million}}{\text{Tk20,925.32 Million}} \times 100$ LCR = **100.57%**
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%, indicating that available stable funding (ASF) should be at least equal to required stable funding (RSF). However, the bank's status as on December 31, 2017 in this ratio is as follows: $\text{NSFR} = \frac{\text{Tk 157,694.47 Million}}{\text{Tk132,554.54 Million}} \times 100$ NSFR = **118.97%**

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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 January 01, 2015.

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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. 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*	13,317.78	13,864.80
On Balance Sheet Exposure*	206,471.31	209,581.63
Off-Balance Sheet Exposure*	35,406.93	35,406.93
Total Exposure	241,878.24	244,988.56
Leverage Ratio	5.51%	5.66%
* Considering all regulatory adjustments		

11. Remuneration

Qualitative disclosures	
a) Information relating to the bodies that oversee remuneration.	
i. Name, composition and mandate of the main body overseeing remuneration.	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 Human Resourse Division. 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.

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<table>
<tr><td>ii. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.</td><td>Bank does not seek advice from any external consultant in any step of remuneration process and therefore, no commission is paid to this effect. The bank does not make any differentiation in offering compensation/salary & allowance.</td></tr>
<tr><td>iii. A description of the scope of the bank's remuneration policy (e.g. by regions, business lines) including the extent to which it is applicable to foreign subsidiaries and branches.</td><td>SJIBL follows the uniform remuneration policy. However, 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.

As on December 31, 2017, the Bank had no foreign subsidiaries and branches outside Bangladesh.</td></tr>
<tr><td>iv. A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.</td><td>The bank has not categorized any group or grade of employees as material risk taker. The risks in different operational events of the bank are borne by the concerned employees of those particular areas as a team. However, the members of senior management, senior most branch managers and Head of the functional division at Head Office are considered as senior managers. As such, a number of 62 Executives of the Bank up to the rank of Vice President as on December 31, 2017 has been considered as senior managers as follows:
<table>
<tr><th>Designation</th><th>Number</th></tr>
<tr><td>Managing Director</td><td>1</td></tr>
<tr><td>Additional Managing Director</td><td>1</td></tr>
<tr><td>Deputy Managing Director</td><td>4</td></tr>
<tr><td>Senior Executive Vice President</td><td>9</td></tr>
<tr><td>Executive Vice President</td><td>9</td></tr>
<tr><td>Senior Vice President</td><td>13</td></tr>
<tr><td>Vice President</td><td>25</td></tr>
<tr><td>Total</td><td>62</td></tr>
</table></td></tr>
<tr><td colspan="2">b) Information relating to design and structure of remuneration process.</td></tr>
<tr><td>i. An overview of the key features and objectives of remuneration policy.</td><td>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.</td></tr>
</table>

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	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 includes basic pay, house rent, medical allowance, enoveyance allowance etc. The basic pay & other allowances like house rent, medical allowance are increased at a fixed rate annually subject to satisfactory performance of past year. The employees are also rewarded by way of special promotion, increment for their outstanding performance. Other than monthly remuneration bank offers a number of facilities/benefits like Leave Fare Assistance (LFA); Executive Car Facility; Corporate Mobile Phone facility, Maternity benefits for female employees; Employees' House Building Investment Facility; Employees' House building Safety Scheme; House Furnishing Allowance, Super Annuation & Disability & Death benefits etc. Besides, a very attractive retirement/separation benefit is paid in the form of Gratuity; Contributory Provident Fund; Leave encashment, Social Security fund etc. The employees are paid two festival bonus and boishaki bonus per year. Incentive bonus is also paid on the basis of performance for annual profit of the bank.
ii. Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.	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.
iii. A discussion of how the bank ensures that risk and compliance employees are remunerated independently	The officials working in the Risk and Compliance areas have got their specific job descriptions & job allocations like professionals of other functional areas and performing their responsibilities independently as

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of the businesses they oversee.	per standing guidelines of the regulators as well as the bank management. 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.
c) Description of the ways in which current and future risks are taken into account in the remuneration process.	
i. An overview of the key risks that the bank takes into account when implementing remuneration measures.	The remuneration is measured taking into consideration of the following two risk factors: • Financial risks and • Compliance risk. If the financial losses is made for non-compliance of any of that rules & regulations by any employee the bonus, increment etc. are held.
ii. An overview of the nature and type of the key measures used to take account of these risks including risks difficult to measure.	SJIBL follows financial capacity of the bank to measure remuneration packages. Besides, it considers operational impacts, cost of living adjustments, relevants compliances, industry-competitives remuneration in relation to the market reputation and other effective risk-adjusted measures in determing remuneration.
iii. A discussion of the ways in which these measures affect remuneration.	SJIBL approaches the employee's remuneration arrangements, especially periodic fixed remuneration enhancements and variable compensation through an integrated risk, finance, compensation and performance management framework. Annual salary increment and potential variable benefits are rewarded at the end of each year.
iv. A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.	The realistic grounds has considered by the Bank's management to revise and measure the remuneration arrangement from time to time in order to ensure risk adjusted business operations and employee satisfaction simultaneously.
d) Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.	
i. An overview of main performance metrics for bank, top-level business lines and individuals.	• Net Profit (Income) Margin (NIM) • Return on Investment (ROI) • Return on Assets (ROA) • Return on Equity (ROE) • RAROC (Risk adjusted Return on Capital) • Classified Investment Ratio • Earning Per Share (EPS) • Capital to Risk-weighted Asset Ratio (CEAR) • Operating Efficiency (cost control)

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ii. A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.	Annual performance bonus, salary increment and promotion are directly linked with employee's individual performance.
iii. A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.	Not Applicable
e) Description of the ways in which the Bank seeks to adjust remuneration to take account of longer-term performance.	
i. A discussion of the bank's policy on deferral and vesting of variable remuneration and, if thefraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative impotance.	Currently SJIBL does not offer any variable remuneration that may be deferred or vested either in the form of cash, shares or share-linked instruments. However, employees are eligible for variable remuneration arrangement in the form of Incentive Bonus (non-deferred cash awards), applicable to their positions.
ii. A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.	Not Applicable
f) Description of the different forms variable remuneration that the bank utilizes and the rationale for using these different forms.	
i. An overview of the forms of variable remuneration offered (i.e. cash, share and share-linked instrument and other forms.	The structure of remuneration arrangements for all employees primarily consists of a fixed remuneration component, which is made up of basic salary, allowances and other benefits. Employees are also eligible for variable remuneration arrangements applicable to their position. Variable remuneration consists of Incentive Bonus (cash awards) for most of SJIBL's employees.

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ii. A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that dermine the mix and their relative importance.	The following variable remunerations are provided by the Bank on the basis of employee's individual performance. • Annual performance bonus and • Salary increment.
Quantitative Disclosures	
g) Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	Not Applicable
h)i.Number of employees having received a variable remuneration award during the financial year.	Not Applicable
h)ii.Number and total amount of guaranteed bonuses awarded during the financial year.	No. of Guaranteed Bonus: 3 festival bonuses; Total Amount (Tk. in million): 161.24
h)iii.Number and total amount of sign-on awards made during the financial year.	Not Applicable
h)iv.Number and total amount of severance payments made during the financial year.	Not Applicable
i) i.Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Not Applicable
i) ii.Total amount of deferred remuneration paid out in the financial year.	Not Applicable
j) 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 (cash, shares and share linked instruments, other forms).	See table below

No. of Guaranteed Bonus	Total Amount (Tk. in million)
3 festival bonuses	161.24

Sl.	Particulars	Total Amount (Tk. in million)
i.	Fixed and variable	2,065.09
ii.	Deferred and non-deferred	Nil
iii.	Different forms used	Cash

k)i. Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	Not Applicable
k)ii. Total amount of reductions during the financial year due to ex post explicit adjustments.	Not Applicable
k)iii. Total amount of reductions during the financial year due to ex post implicit adjustments.	Not Applicable

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