REPORT OF THE
BOARD OF DIRECTORS

In the name of Allah
The Most Gracious, the Most Merciful

Dear Shareholders,
Assalamu Alaikum Wa Rahmatullah Wa Barakatuhu.

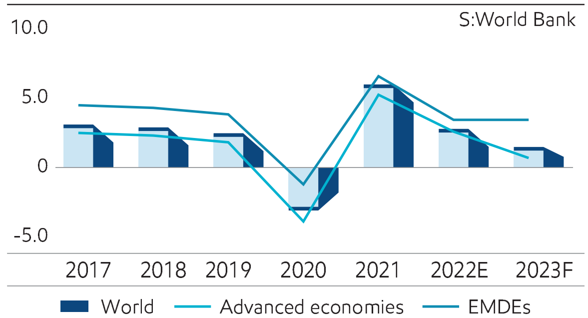
The Board of Directors of Shahjalal Islami Bank Limited (SJIBL) extends a cordial welcome to all of you to the 22nd Annual General Meeting (AGM). We are pleased to present the Directors' Report, Audited Financial Statements, and Auditors' Report for the year ending December 31, 2022. We have also included a summary of the bank's performance and financial position for the same year, as well as information on key elements of the global and Bangladesh economies. The year 2022 was exceptional from both global and Bangladesh's perspectives, with the ongoing Russia-Ukraine war and the prolonged impact of the COVID-19 pandemic affecting economies worldwide, including Bangladesh. Furthermore, the foreign exchange market experienced unprecedented volatility, and Bangladesh faced its highest inflation rate in a decade. If the current situation persists, the exchange rate may fall under further pressure, impacting foreign exchange reserves.

We take pride in our unique strategy, on-the-ground knowledge, empathy, and expertise, which have enabled us to manage the toughest situations. Despite the challenges we have faced, we have continued to step up and deliver for our customers. Our aim is to serve as a trusted partner to our customers by responsibly providing financial services that enable growth and economic progress. We carried good business momentum into 2022 in almost all areas of our business. We are confident that our expertise, combined with the bank's strong foundations, will enable us to continue creating long-term value for all stakeholders in the current year and beyond.

World Economy

The prolonged pandemic and the Russia-Ukraine war have had a significant economic impact, resulting in a sharp deceleration in global economic activity. The war is leading to high commodity prices, adding to supply chain disruptions, increasing food insecurity and poverty, exacerbating inflation, magnifying financial vulnerability, and heightening policy uncertainty. Growth in emerging markets and developing economies (EMDEs) this year has been downgraded to 3.4 percent as negative spillovers from the war more than upset any near-term boost to some commodity exporters from higher energy prices. Moreover, the IMF has already revised the global growth forecast downward for 2023, with a declining inflation forecast in 2023, while maintaining tight monetary and fiscal policy to restore global financial stability.

GLOBAL GROWTH (Percent)



The global food price in 2022 was significantly higher than the previous year, which, combined with the large increases seen in 2021, caused significant strains and food security concerns for lower-income food-importing countries. Although world trade rebounded in tandem with global economic activity in the second half of 2021 after the heavy shocks of early 2020 due to the pandemic, it lost momentum in the second half of 2022. Emerging and developing countries are facing a multi-year period of slow growth, driven by heavy debt burdens and weak investment, as global capital is absorbed by advanced economies dealing with extremely high government debt levels and rising interest rates. The weakness in growth and business investment will compound the already devastating setbacks in education, health, poverty, and infrastructure, as well as the increasing demands of climate change.

Global Economic Outlook

Given how fragile the economic conditions are, any new adverse development such as higher-than-expected inflation, abrupt rises in interest rates to contain it, a resurgence of the COVID-19 pandemic, or escalating geopolitical tensions could push the global economy into a recession. If this were to happen, it would mark the first time in over 80 years that two global recessions have occurred within the same decade.

In 2023, world trade may remain subdued as multiple shocks continue to weigh on the global economy. According to WTO economists, the predicted increase in global merchandise trade volumes for 2023 is only 1 percent, which is down sharply from the previous estimate of 3.4 percent.

The World Bank's projection shows that the global economy may grow by 1.7 percent in 2023 and 2.7 percent in 2024. The sharp downturn in growth, due to elevated inflation, higher interest rates, reduced investment, and disruptions caused by Russia's invasion of Ukraine, is expected to be widespread. In fact, forecasts for 2023 have been revised down for 95 percent of advanced economies and nearly 70 percent of emerging and developing economies.

However, there is a ray of hope on the horizon as world food prices dropped for the ninth consecutive month in December 2022.

Bangladesh economy

At the beginning of 2022, businesses held an optimistic outlook, believing that the worst of the coronavirus pandemic's impact was behind them. However, this sentiment was short-lived, as Russia's invasion of Ukraine in February 2022 caused another crisis to emerge. This changing global environment had a severe impact on Bangladesh due to spillover effects.

The war between Ukraine and Russia and associated geopolitical tensions created a challenging macro-financial landscape, leading to significant stress on Bangladesh's external sector. This was primarily due to rising energy prices and supply chain disruptions, which resulted in Bangladesh's deficit in transactions with the rest of the world widening due to the soaring import payments for higher energy and commodity prices. A power and gas crisis further exacerbated the situation in the middle of 2022, causing power cuts for citizens and reduced factory capacity.

Despite lower than expected monetary growth, Bangladesh has experienced growing inflationary and exchange rate pressures since the second half of FY22. The spillover effect of unexpectedly high global inflation rates, along with excessive current account deficits, contributed to this situation. As a result, disposable income dropped due to higher inflation, leading to an overall decline in consumption.

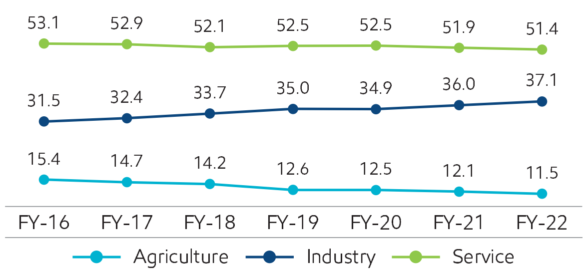
However, Bangladesh still possesses a growing middle-income population and a high overall GDP growth rate. Furthermore, with almost half of the population being considered "young" and technologically adaptable, the country has ample opportunities for massive expansion and growth in the information technology sector.

Growth Driver

Growth drivers and rates in different sectors and sub-sectors were not the same, and to some extent they were unequal.

SECTOR WISE GDP CONTRIBUTION (Percent)

Source: BB



Agricultural sector

The agriculture sector, which is the most important sector in the Bangladesh economy in terms of employment and employs about 39 percent of the country's total labor force, continuously loses its position in overall GDP. The share of the sector in GDP, according to the provisional estimate of the National Accounts Statistics, was 11.50 percent in FY22, compared to 12.07 percent in the previous fiscal year. During this period, the growth of the animal farming and forest and related services sub-sectors increased slightly compared to the previous year. However, the growth in crops, horticulture, and fishing sub-sectors fell dramatically to 1.06 percent and 2.08 percent, respectively, in FY22 from 2.29 percent and 4.11 percent in FY21.

Industrial sector

The industrial sector contributed 37.07 percent of GDP in FY22 and grew by 10.44 percent, higher than the 10.29 percent growth in FY21. But rising energy costs and supply constraints saw industrial production contract in the second half of 2022. This sector growth in FY22 was mainly supported by the growth of the manufacturing; water supply, sewerage, waste management, and remediation activities, and construction sub-sectors. On the other hand, the electricity, gas, steam, and air conditioning supply sub-sector recorded lower growth of 5.96 percent, while the mining and quarrying sector exhibited negative growth of (1.94) percent in FY22 as compared to the previous year.

Service sector

The services sector accounts for the majority of GDP. In 2022, there was an upward trend in service sector-related activities. The service sector benefited from the notable growth in the commodity-producing sectors and international trade and commerce. This sector contributed 51.44 percent of GDP in FY22, slightly lower than the 51.92 percent in FY21. The services sector grew by 6.31 percent in FY22, higher than the 5.73 percent growth in FY21. The components of the services sector, such as wholesale and retail trade, and repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities; financial and insurance activities; real estate activities; education; arts, entertainment, and recreation; and other service activities, exhibited higher growth rates in FY22 than those of the previous year.

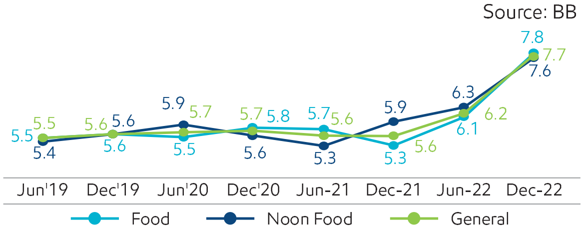
Inflation

The overall price level in Bangladesh has experienced a gloomy scenario in the calendar year 2022, as consumers face a cost-of-living crisis since March. The prices of almost all commodities have risen due to supply disruptions caused by COVID-19, the Russia-Ukraine war, and the global energy crisis. Higher inflation has become a common phenomenon worldwide, fueled by pent-up demand from stimulus and pandemic disruptions, as well as global factors such as higher food and energy prices and soaring shipping costs. The dearth in dollar supply has made the greenback costlier, and import costs keep mounting, ultimately raising inflationary pressure that burns a hole in commoners' pockets. In August, overall inflation surged to a 10-year high of 9.52 percent before easing to 8.71 percent in December 2022. The oil price hike, increased transportation and communication costs, and high imports also added to inflation in the country as commodity prices increased sharply amid global inflation.

Headline inflation (point to point) increased to 8.71 percent in December 2022 from 6.05 percent in December 2021. On the other hand, headline inflation (the twelve-month average) increased to 7.70 percent in December 2022 from 5.54 percent in December 2021.

12 MONTHS AVERAGE INFLATION RATE TREND

(Percent)



Money Supply and Credit Growth

The monetary and credit programs for FY22 were intended to ensure necessary liquidity in the local and foreign currency markets, continue the economic recovery momentum, stabilize the interest rate and exchange rate movements, and contain inflation. Some policy measures taken by BB were: allowing a low cash reserve and high loan distribution ratio; keeping a low level of various policy interest rates; purchasing government securities from banks' holdings; continuing different low-cost refinance lines and moratorium facilities; extending the time for realizing export receipts and import payments, and offering credit guarantee facilities for cottage, micro, small, and medium enterprises (CMSMEs). In addition, BB increased the repo rate thrice by 25 basis points to 5.00 percent from 4.75 percent in May 2022, by 50 basis points in June 2022, by 25 basis points in September, and again to 6.00 percent in January 2023.

Broad money (M2) growth decelerated to 8.4 percent in H1FY23 from 9.6 percent in H1FY22, much lower than the programmed ceiling of 12.1 percent. The deceleration in broad money was driven by negative growth in net foreign assets (NFA), which grew by a negative 22.6 percent during CY22. Net domestic assets (NDA) grew by 18.05 percent in H1FY23. The BB's NFA growth was significantly negative due to huge net sales of foreign currency to the banks, induced by very strong import demands. On the other hand, the BB's NDA growth was also very strong due to BB's huge liquidity support to the banks and the development of government securities to BB.

However, the movement of domestic credit remained strong owing to strong private sector credit growth accompanied by steady growth in public sector growth. Driven by the increased commodity prices and steep exchange rate depreciation, private sector credit increased strongly by 12.76 percent in December 2022, compared to growth of 10.68 percent in December 2021.

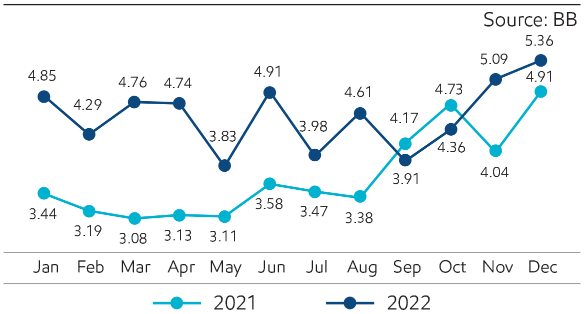
Export

The export sector of Bangladesh displayed its prowess in 2022, despite facing several challenges, such as the devastating Russia-Ukraine war, unprecedented freight costs, an energy crisis, record inflation, and the risk of a recession that loomed throughout the outgoing year. In 2022, Bangladesh retained its position as the second-largest apparel exporter globally after China. This impressive export performance was attributed to the US-China tariff war, competitive prices, and recent improvements in workplace safety conditions.

Thanks to robust export earnings, overall exports grew by 24 percent year-on-year, reaching USD54.69 billion in 2022, up from USD44.22 billion in 2021. Almost every month, exports have set fresh records due to higher shipments of goods, especially garment items. However, only two major exports, namely apparel and leather and leather goods, performed well in the first half of the current fiscal year, as global demand for non-garment items has fallen due to high inflation stemming from the Russia-Ukraine war. The export earnings of other goods that had shown growth over the past few years started shrinking due to lower demand abroad.

Export earnings from apparel remained high despite global volatility as unit prices increased following the hike in raw material costs. In addition, Bangladesh started exporting high-end, value-added garments, for which international retailers and brands are paying better prices. The rise in freight costs by more than 500 percent dealt another blow to the export sector, while the record climb in the exchange rate amid the fast depletion of foreign currency reserves drove the price of the US dollar to as high as BDT. 110.

EXPORT TREND (Billion USD)



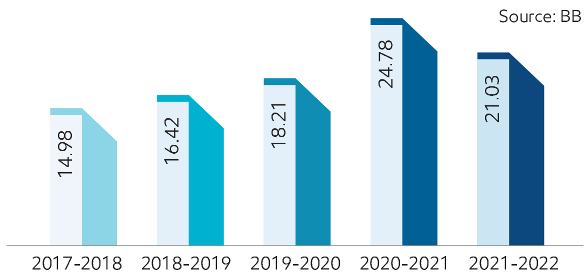
Remittance

In 2022, Bangladesh received USD21.29 billion in remittances, which was almost unchanged from the previous year, despite a record number of workers going abroad for jobs. This amount was 3.57 percent lower than the USD22.07 billion received in 2021. The remittances sent by more than 1.2 crore Bangladeshis living abroad represent 4.6 percent of the gross domestic product and are a vital pillar of the economy. Bangladesh ranks as the seventh-highest recipient of money transferred by migrant workers.

The funds transferred by migrant workers grew tepidly, despite 2022 likely seeing the highest number of migrant workers leaving the country as oil-rich economies rebounded strongly due to higher commodity prices. The remittance has not picked up proportionately, as workers reportedly send half of their money to beneficiaries back home using informal channels, owing to the better rates of the US dollar offered by hundi operators, depriving the country of much-needed American greenback.

To encourage remittances through legal channels, the government raised the rate of incentives by 0.5 percentage points to 2.5 percent in January 2022.

REMITTANCE INFLOW (US Dollar in Billion)



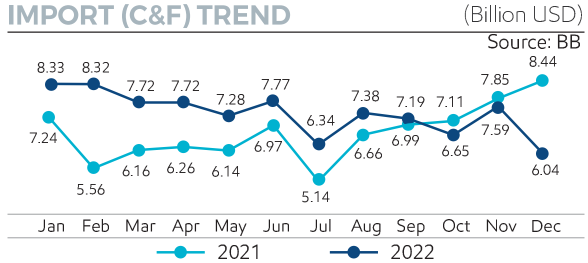
Import

In the calendar year 2022, imports (L/C openings) saw minimal negative growth (0.83%), and in H1FY23, it was 2.2 percent, which was a significant drop from the 54.47 percent positive growth observed during the same period the previous year. This decline was due to the higher base of the previous period, BDT depreciation, and import restrictions on luxury items. During July-Dec. 22, the import growth of edible oil, raw cotton, fertilizer, iron, steel, and capital machinery contributed more to the total import growth.

The settlement of import LCs increased by 7.71 percent during July–December 2022. However, due to a dollar shortage, the opening of letters of credit (LCs) also declined as the central bank tightened rules to discourage the import of non-essential and luxury items. LC opening fell by 23 percent year-on-year in July–December 2022, and settlement declined by 8 percent.

Capital machinery imports also decreased. LC opening for capital machinery, which reflects entrepreneurs' expansion or new ventures, plummeted by 65 percent to USD1.27 billion in the first half of 2022-23. Intermediate goods also declined by 34 percent in the six months to December.

IMPORT (C&F) TREND (Billion USD)



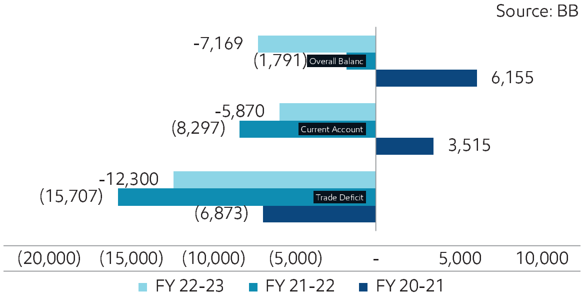
Balance of Payments

A continued current account deficit has been observed in Bangladesh's external sector since FY17. The balance of payment (BoP) has been negative in recent months of 2022, leading to a decline in foreign exchange reserves and a sharp depreciation of the exchange rate. The negative overall balance is mainly due to higher import growth, negative growth of remittances, and less inflow in the capital and financial accounts (significant repayment of trade credit).

Bangladesh has been experiencing exchange rate volatility as foreign currency reserves came under pressure to pay for escalated import bills. The country's trade deficit decreased to USD12.30 billion in July–December of FY23 from USD15.7 billion in the same period of the previous year. The current account deficit also narrowed to USD5.2 billion in the first half of the current fiscal year, compared to USD8.2 billion in the same period of the previous year. During the last six months of FY 2022, the financial account was USD6.89 billion, but at the end of December of the current fiscal year, it stood at USD1.098 billion (negative). Bangladesh has lost USD14 billion from its financial account over the last one year, where the financial account was USD14.06 billion in surplus in the last financial year and USD13.77 billion in 2021–22. The financial account of the BoP remained a matter of concern as it continued to worsen. A decline in the financial account surplus resulted in a rise in the overall balance of payments deficit, exerting considerable depreciating pressure on the exchange rate during 2022. However, the overall balance of the BoP worsened to USD7.2 billion (negative) compared to USD1.8 billion in negative arithmetic during the same period a year earlier.

BALANCE OF PAYMENTS (July-Dec in million USD)

Source: BB

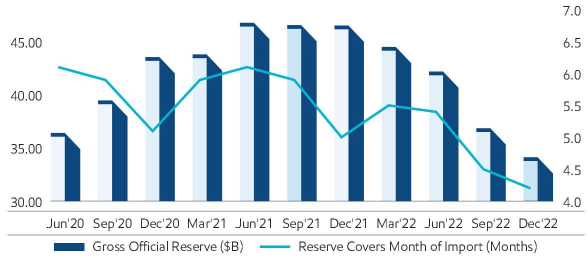


Foreign Exchange Reserve

As of December 29, 2022, foreign exchange reserves had decreased to USD 33.77 billion from USD 46.15 billion on December 30, 2021. Despite the decline, the foreign exchange reserves in December 2022 were still sufficient to cover import liabilities for 5.5 months. Additionally, the gross foreign exchange balances held by commercial banks at the end of December 2022 decreased by 10.84 percent.

FX RESERVE OF BB & IMPORT COVERAGE

Source: BB



Exchange Rate Movement

Bangladesh has experienced exchange rate volatility due to pressure on foreign currency reserves caused by increased import bills as a result of the war. Since Russia's war in Ukraine began in February last year, the taka has lost about 25 percent of its value against the American dollar, and nearly 14 percent from July to December. The appreciation of the dollar will most impact foreign debt repayments. As of September 2022, Bangladesh's foreign debt was USD92.69 billion, which had increased from USD93.23 billion in June to USD95.23 billion at the end of June. In June 2021, the foreign debt was USD81.57 billion.

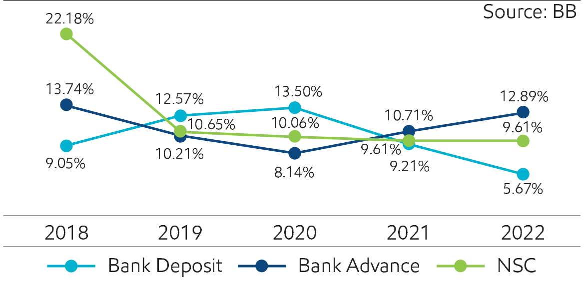
Banking Sector:

The banking sector in Bangladesh has faced a challenging year in 2022, with a series of loan scams, rising default loans, and weak performance of bank stocks on the stock exchanges. The second half of 2022 has seen great volatility in the value of the taka against the US dollar, with the market seeing two or even three exchange rates, while central bank policies have been working in the opposite direction. High informal market transactions and rates have empowered 'Hundi,' resulting in a significant drop in inward remittances.

Businesses have been adversely affected by the depreciation of the dollar and commodity prices in the international market. With the surge in prices, bank loans to the entities have proliferated. According to the Bangladesh Bank, private sector credit growth reached 13.97 percent in December 2022. In contrast, deposit growth in the banking sector has almost halved. Banks have been forced to borrow liquidity at a higher rate to maintain their cash deposit reserve ratio (CRR) and statutory deposit ratio (SLR). A rise in domestic credit growth amid falling bank deposit growth has contributed to a decline in liquidity in the banking system. Consequently, interest rates in the call money and inter-bank repo markets have risen markedly.

BANK DEPOSIT,ADVANCE & NSC YOY GROWTH

(Percent)
Source: BB



Non-performing loans (NPLs)

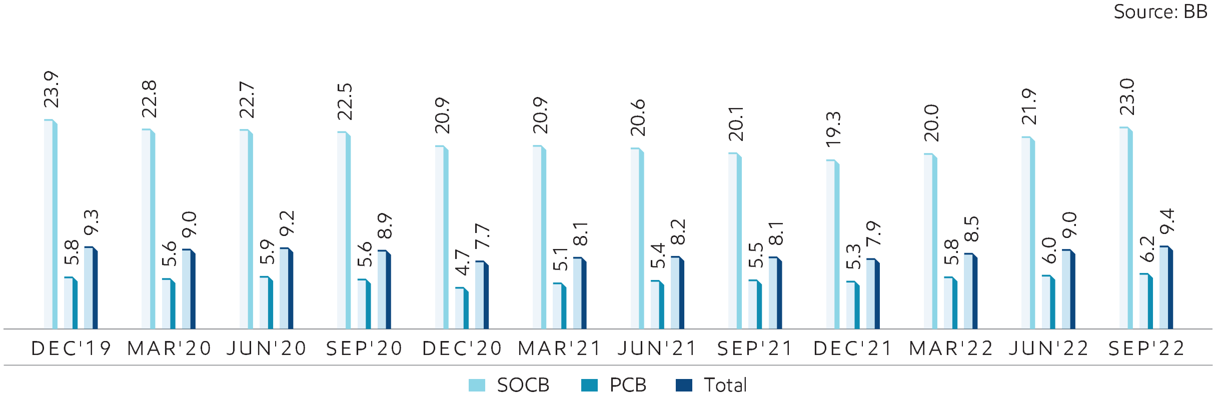
The International Monetary Fund has identified the high volume of defaulted loans in Bangladesh's banking system as one of the three domestic risks that could derail the economy in the short- to medium-term. Last year, default loans in the country's banking sector jumped 17 percent year-on-year to BDT 120,656 crore due to a lack of corporate governance and the ongoing business slowdown. As a result, the ratio of bad loans rose to 8.16 percent of the outstanding loans in December, compared to 7.93 percent in the same month in 2021. Despite the forbearance for loan repayments and the relaxed loan rescheduling policy offered by the central bank, the upward trend of non-performing loans (NPLs) has not been curbed.

In July, the Bangladesh Bank allowed defaulters to reschedule term loans with a repayment tenure of over a year by paying only 2.5–6.5 percent of their total NPLs instead of the previous 10–30 percent. Similarly, the down payment for NPLs related to working capital or demand loans was reduced from 5–15 percent to 2.5–5 percent. However, these measures have not been effective, and in December, borrowers were allowed to avoid being classified as defaulters if they cleared only 50 percent of installments payable in the final quarter, compared to the previous requirement of 75 percent.

NPLs in state-run banks rose 25 percent year-on-year to BDT 61,169 crore last year, while forty-one private commercial banks held defaulted loans of BDT 56,439 crore, up 9 percent from a year ago. The NPLs in nine foreign banks increased to BDT 3,048 crore, compared to BDT 2,785 crore in the previous year.

GROSS NPL MOVEMENT

(Percent)
Source: BB



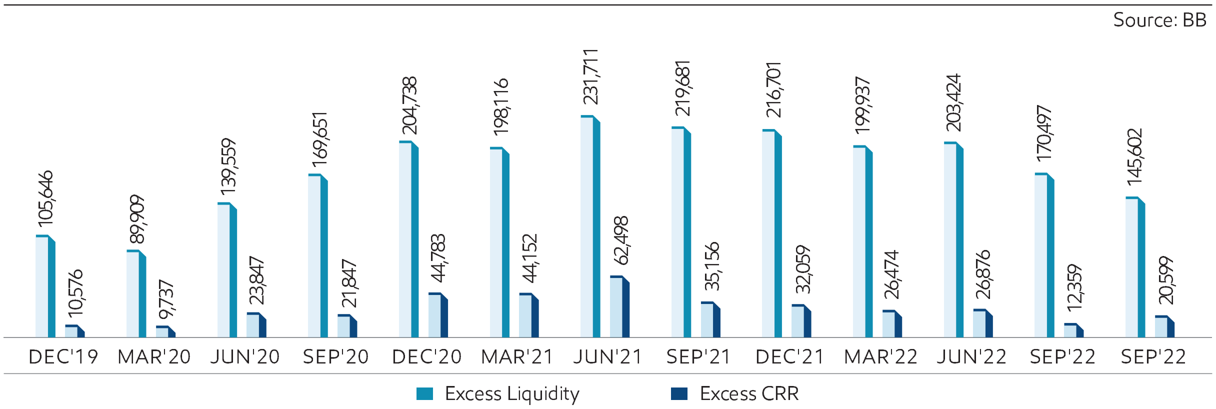
Banking Sector Liquidity Condition

The liquidity situation in the banking system of Bangladesh has been on a declining trend in the last couple of months of 2022. Surplus liquidity in the banking sector has shrunk to BDT 1.46 trillion at the end of December 2022, from BDT 2.17 trillion at the end of 2021. The decline in surplus liquidity started after the country's import payments escalated due to global supply chain obstacles, along with pent-up demand as the economy recovered from the pandemic-induced slowdown. Liquid assets in the banking industry decreased heavily over the second half of 2022 due to lower deposit growth, an increase in private sector and public sector credit flow, excessively higher import costs, and mainly the parking of huge amounts of local currency into Bangladesh to buy USD.

However, total liquidity has been gradually trending downward since the second half of 2021 due to higher credit growth, decelerated deposit growth, and the mopping up of some liquidity through foreign exchange market intervention. The share of excess reserves (excess of CRR) to total excess liquidity has decreased from 10.81 percent at the end of December 2020 to 7.17 percent at the end of December 2021.

The current liquidity crunch has appeared as commercial banks have been buying dollars from the central bank in exchange for liquid money. The liquidity crunch may be intensified further with the government borrowing from commercial banks.

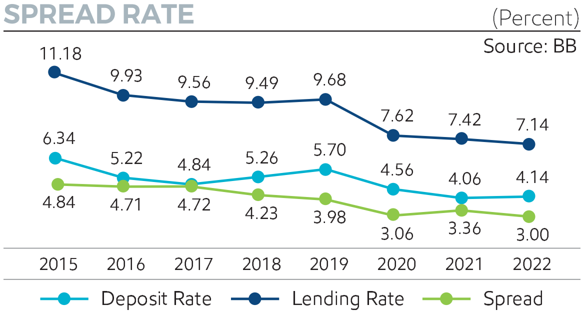
BANKING LIQUIDITY SCENARIO (BDT Crore)



Interest (Profit) Rate Outlook

In 2022, the growth of deposits experienced a continued decline, while the growth of domestic credit rose steadily. This contributed to a moderate amount of liquidity in the banking system. Consequently, interest rates in the call money and inter-bank repo markets increased significantly, while interest rates in the retail market only saw a slight uptick. Additionally, yields on government securities experienced a slight increase due to declining budget deficits and reduced deficit financing from the banking system. Additionally, yields on government securities experienced a slight increase as budget deficits decreased and deficit financing from the banking system also declined. It's worth noting that the spread between the weighted average interest rate on advances and deposits of all banks significantly decreased from 3.36 percent in December 2022 to 2.99 percent.

WEIGHTED DEPOSIT,ADVANCE & SPREAD RATE (Percent)

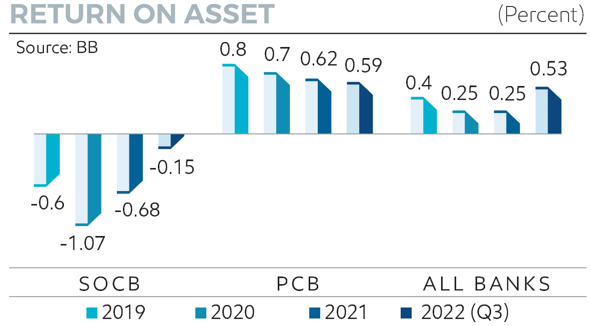


Banks Profitability

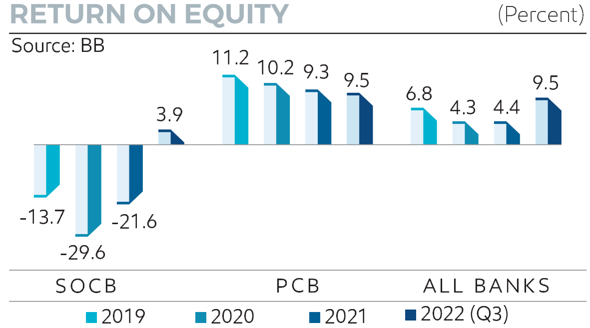
By the end of 2022, a number of private and state-owned banks had recorded operating profits, thanks to the significant year-on-year growth in their foreign exchange profit during the first half of 2022, the central bank's relaxed policy on unrealized interests, and credit growth in the private sector. Despite a sluggish economy, the income from foreign exchange business rose due to the surge in the US dollar price against the taka. In this volatile situation, the profits of several banks increased from the dollar market.

Although there was slower growth in credit disbursement by the banks, their profitability improved during 2022 compared to 2021, as reflected by an uptick in both Return on Assets (RoA) and Return on Equity (RoE). In the first quarter of FY23, the net profit of the banking industry increased to BDT 92.91 billion from BDT 72.29 billion in the same period of FY22. Additionally, the overall Return on Assets (RoA) marginally increased to 0.53 percent in Q1FY23 from 0.44 percent in Q1FY22, while the Return on Equity (RoE) increased to 9.48 percent in Q1FY23 from 7.42 percent in Q1FY22.

RETURN ON ASSET (Percent)



RETURN ON EQUITY (Percent)



Banking Sector outlook

The financial sector includes an underdeveloped banking sector with low operational efficiency, weak internal risk management, and high NPL levels.

The overall outlook of the banking sector shows a mixed picture as asset risks grow and liquidity tightens amid deteriorating economic conditions on the one hand and historical resilience on the other. Foreign currency liquidity in the system will remain tight as the outflows of dollars for settlement of import bills will outpace the inflows from export receipts and remittances. Further, high inflation will hamper deposit growth as rising costs of living erode households' savings. The tightened liquidity conditions will intensify competition for funding among banks, which in turn will impact banks' profitability.

State-owned banks will remain undercapitalized because of their weak earning capacity resulting from high levels of NPLs and the absence of government capital infusions.

But exports will increase as trade businesses, to which banks have large exposures, show increasing external demand as a result of tame inflation in key export markets, despite rising costs due to high import prices.

Government borrowing from commercial banks can put further strain on the banking sector, already hit by a liquidity crunch. It also can negatively impact the sector's ability to meet deposit and loan obligations, which can lead to a further tightening of credit and a reduction in economic activity.

BD Economic outlook 2023

The apparel suppliers of Bangladesh to the international market are cautiously optimistic about the upcoming year's export performance, with a moderate recovery expected as sales in the Western world gradually gain momentum. The new normal resulting from the Russia-Ukraine conflict and falling petroleum prices is subsiding inflationary pressure in the West, leaving consumers with more disposable income to spend on clothing items.

Some variant of the crude oil was selling at USD79.56 per barrel in international markets at the end of 2022, whereas it had surpassed USD123 at one point in 2022 because of the severe fallout of the war. On the contrary, going forward into 2023, the impact of the economic recession in Europe and America will become more prominent and certainly create downward pressure on the demand for clothing exports from supplying countries such as Bangladesh.

Containing inflation at tolerable levels and maintaining the stability of the exchange rate would be a critical challenge for Bangladesh in the coming days. The inflation outlook in the coming months will depend on further spillover of price from the supply-demand mismatch, the ongoing Russia-Ukraine war, the volatility in the exchange rate, and the commodity price hike in the international markets. Besides, the budget deficit is widening, and government borrowing from the banking system, particularly from the Bangladesh Bank, has witnessed a sharp increase recently, which could create upward pressure on the inflation outlook.

The country has been facing a problem regarding LC opening for the last couple of months. It is breaking the supply chain, and production for domestic and export-oriented markets is being hampered. If the import situation does not improve, the situation will be tougher in the coming months. From July 2023, the Central Bank plans a market-based exchange rate, which will result in an innate downward adjustment of the local currency against the dollar.

The heady cocktail of rising inflation and its negative impact on household incomes and firms' input costs, as well as energy shortages, import restrictions, and monetary policy tightening, means growth is expected to slow down in 2023 but pick up again and return to its potential pace in fiscal year 2023–2024.

Growth and recovery largely depend on the withdrawal of the lending rate cap to check inflation, restore stability in the foreign exchange market, support desired economic growth, and ensure the necessary flow of funds to productive and employment-generating activities.

The United Nations (UN) has trimmed its forecast on Bangladesh's economic growth to 6 percent for 2023 from its previous projection of 6.4 percent as the country's economic situation has significantly deteriorated due to high food and energy prices, monetary tightening, and fiscal vulnerabilities.

Based on the current external and internal macroeconomic challenges, it is anticipated that Bangladesh's growth performance in 2023 will experience a slight reduction. The prevailing uncertainties may stem from the slowdown of major economies and the persistence and escalation of cost-of-living inflationary pressures. Moreover, the devaluation of the BDT, the upward movements of interest rates in advanced and emerging market economies, and the stringent global financial conditions could heighten the cost of foreign borrowings and the debt burden. Nevertheless, the present devaluation of the BDT, along with several policy initiatives aimed at increasing exports and remittance inflows and curbing luxury and unnecessary imports, are likely to enhance the current account balance and stabilize the exchange rates of the BDT in the upcoming months.

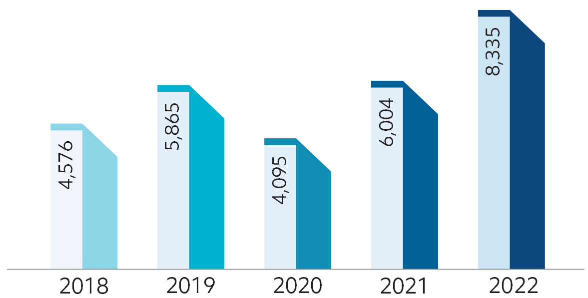
A general review of the Performance of Shahjalal Islami Bank Limited

In 2022, the banking sector faced several challenges, such as the ongoing Russia-Ukraine war, the prolonged impact of the COVID-19 pandemic, volatility in the foreign exchange market, and the highest inflation rate in a decade caused by soaring prices of both food and non-food items. Despite these challenges, Shahjalal Islami Bank Limited demonstrated resilience and delivered an admirable performance. This report provides a general review of the bank's performance, including a description of the major financial indicators.

Operating Profit

The operating profit of the bank has increased significantly by 38.83% in 2022. Operating profit increased to Taka 8,334.64 million in 2022 from Taka 6,003.69 million in 2021, and net profit after tax increased to Taka 3,525.06 million in 2022 from Taka 2,585.24 million in 2021. During 2022, the bank's operating result has significantly improved due to impressive foreign exchange business, dynamic capital market operations, and effective management of surplus funds.

OPERATING PROFIT



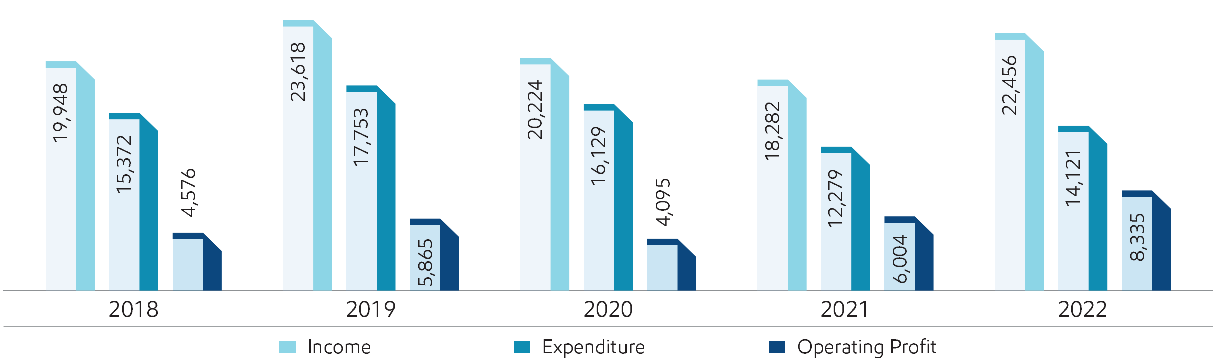
A summary of operating result of the bank as on 31December 2022 and 31December 2021 is shown below:

(Amount in Million Taka)

Particulars	2022	2021
Total Income	22,455.95	18,282.37
Less: Total Expenditure	14,121.31	12,278.67
Net Profit before Provision & Taxation	**8,334.64**	**6,003.69**
Less: Provision for Investment, Off Balance Sheets Items, Shares & others	1,108.37	1,167.03
Net profit before Taxation	**7,226.28**	**4,836.67**
Less: Provision for Taxation	3,701.22	2,251.43
Net Profit after Tax	**3,525.06**	**2,585.24**

The operating result of last five years:

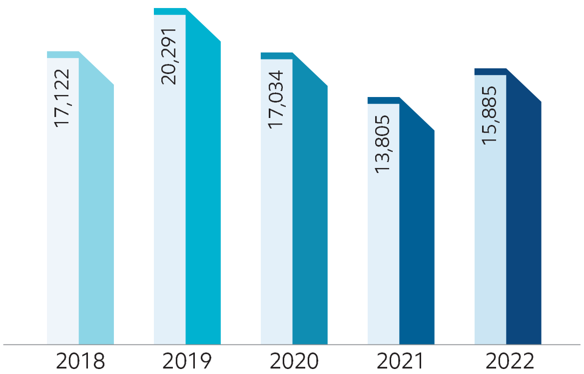
OPERATING RESULT



Investment Income

Total Investment Income of the Bank stood at Tk 15,885.44 million as of December 31, 2022, as compared to Tk 13,805.19 million in 2021. Investment income increased by Tk. 2,080.25 million due to an increase in investment of 9.53%. The yield on investment decreased slightly to 6.36% in 2022 from 6.76% in 2021. The amount of investment income represents 70.74% of the total income of the year 2022, as opposed to 75.51% of the year 2021. The trend of investment income is given below:

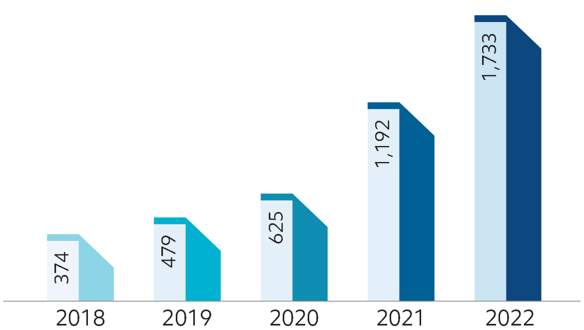
INVESTMENT INCOME



Income from investments in shares and securities

Income from investment in shares and securities increased to Tk. 1,732.56 million in 2022 from Tk. 1,192.32 million in 2021, showing a growth of 45.31% over last year. As part of our liquidity management strategy, the surplus liquidity was utilized to invest in the capital market, the Mudaraba Subordinated Bond, and the Bangladesh Government Investment Sukuk, which resulted in a significant increase in income during the year under review. The progress of income from investment in shares and securities is given below:

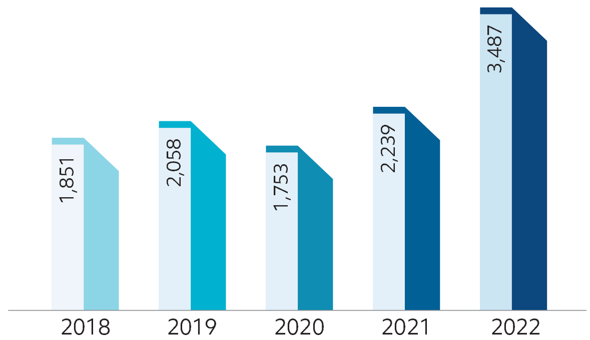
INCOME FROM SHARES & SECURITIES



Commission, Exchange, and Brokerage

Commission, Exchange and Brokerage income increased to Tk 3,486.72 million in 2022 from Tk 2,239.19 million in 2021, exhibiting a growth of 55.71% over the previous year. Despite the ongoing Russia–Ukraine war and prolonged effects of the COVID-19 pandemic, both our import and export business increased significantly. As a result, Commission, Exchange and Brokerage income increased during the year under review. The position of Commission, Exchange and Brokerage income for the last five years is given below:

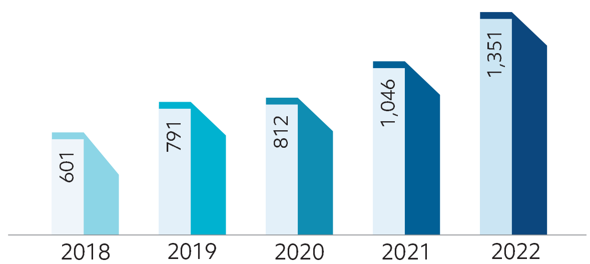
COMMISSION EXCHANGE & BROKERAGE



Other Operating Income

Other Operating Income stood at Tk. 1,351.23 million for the year 2022 as against Tk. 1,045.66 million in 2021, representing a growth of 29.22% over 2021. The trend of Other Operating Income is given below:

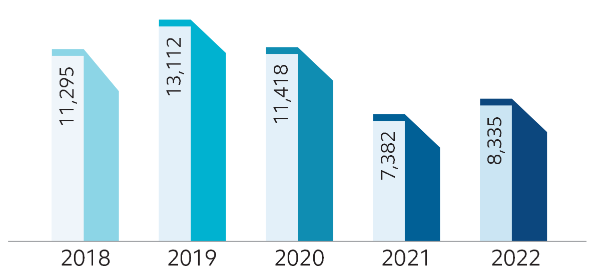
OTHER OPERATING INCOME



Profit Paid on Deposits

The bank distributed a profit of Tk 8,335.13 million among the Mudaraba depositors in the year 2022, compared with Tk 7,381.65 million in the year 2021, which is 84.73% of the distributable investment income earned from the deployment of the Mudaraba Fund and 59.03% of the total expenditure for the year 2022. The adjustment of the profit rate of deposits with the inflation rate from time to time is one of the key reasons for the increase in profit paid on deposits. The profit paid on deposits for the last five years is given below:

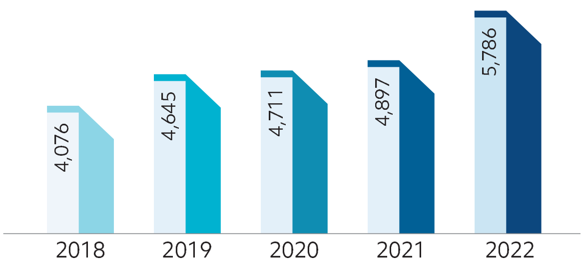
PROFIT PAID ON DEPOSITS



Operating Expenses

The total operating expenses for the year 2022 were Tk. 5,786.18 million, compared to Tk. 4,897.03 million in 2021. In 2022, the total operating expenses accounted for 40.97% of the total expenditure, whereas in 2021, it was 39.88%. A graphical presentation of operating expenses is given below:

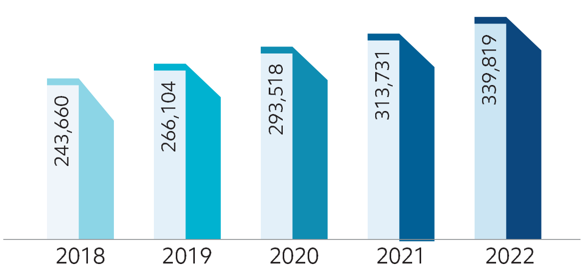
OPERATING EXPENSES



Total Assets

The bank's total assets as of December 31, 2022, stood at Tk 339,818.87 million, which was Tk 313,731.10 million as of December 31, 2021, registering a growth of Tk 26,087.77 million, or 8.32%, from 2021. Investment growth, growth of Cash and Bank Balance, as well as other asset growth, were all key factors in this increase. The growth of total assets is shown below:

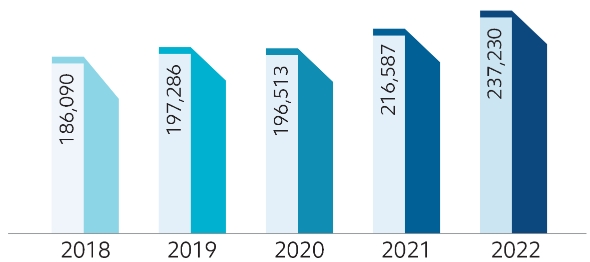
TOTAL ASSETS



Investments

The total investments of the bank stood at Tk 237,229.98 million as of December 31, 2022, as compared to Tk 216,586.58 million as of December 31, 2021, registering an increase of Tk 20,643.39 million, which is a 9.53% increase from 2021. Due to the ongoing Russia-Ukraine war and the prolonged impact of COVID-19, there was a lower appetite for investment in the market, and SJIBL was more cautious about disbursing the investment, which resulted in the overall slower investment growth during 2022. The trend of the investment portfolio for the last five years is given below:

INVESTMENTS

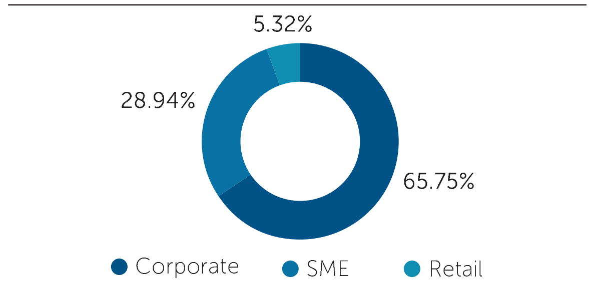


As part of the bank's diversification strategy, the bank has been developing a balanced portfolio of corporate, retail, SME, and agribusiness investments. SJIBL placed focus on the retail and SME segments of businesses as these segments are becoming more important for the growth of the economy, as well as the competition in corporate banking is becoming ever more intense. The segment-wise investment as of December 31, 2022, is given below:

Taka in million

Sl. No.	Particulars	Total	Mix
1	Corporate	155,971	65.75%
2	SME	68,647	28.94%
3	Retail	12,612	5.31%
Total		**237,230**	**100.00%**

INVESTMENT MIX



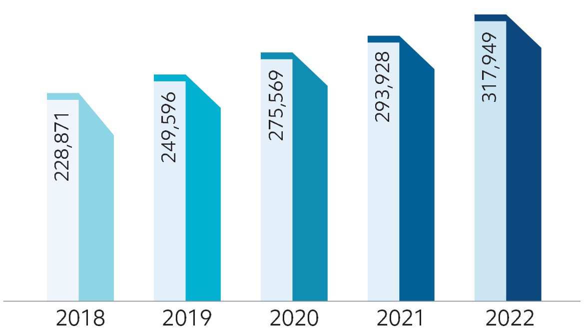
Non-performing Investments (NPI)

As of December 31, 2022, the non-performing investment rate in the banking sector of Bangladesh was 8.16%, while SJIBL's non-performing investment rate was significantly lower at 4.78%. The NPI of SJIBL stood at TK 11,332.83 million as of December 31, 2022. This reflects the bank's strengthened lending discipline and streamlined recovery process. SJIBL is continuing to take initiatives to realize and regularize non-performing investments and further reduce NPIs. Additionally, SJIBL has maintained provisions against investments that do not fall under classification to enhance the bank's financial health.

Total Liabilities

Total liabilities of the bank stood at Tk 317,948.73 million at the end of 2022, up from Tk 293,928.11 million at the end of 2021, which was 8.17% higher than that of the previous year. Total liabilities increased mainly due to an increase in placements from other banks and financial institutions, deposits and other accounts, and other liabilities. Liability growth in the last five years is shown below:

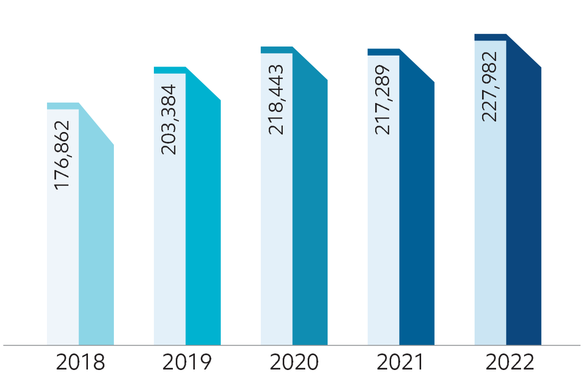
TOTAL LIABILITIES



Deposit

The total deposit was Tk 227,982.06 million as of December 31, 2022, compared to Tk 217,288.99 million as of December 31, 2021, an increase of Tk 10,693.07 million. As part of the bank's fund management strategy, we released some of our corporate deposits as well as some high-cost deposits, resulting in a lower growth of total deposits. In the year 2022, the bank focused on individual deposits, and as a result, individual deposits increased significantly. The bank places a strong emphasis on deposit mobilization by offering popular and innovative products. The deposits that have been mobilized are reinvested in the economy through profitable and secure ventures. The following graph depicts the deposit's growth:

DEPOSITS



Deposit Mix

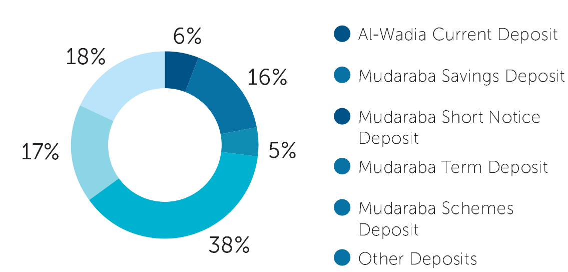
SJIBL placed the utmost emphasis on achieving the optimal deposit mix, which resulted in a 4.14% increase in the low-cost no-cost deposit from Tk. 98,482.66 million in 2021 to Tk. 102,557.63 million in 2022. In 2022, the bank focused on rebalancing its deposit base with the goal of increasing its low-cost transaction-based deposit portfolio. This strategy allowed SJIBL to reduce the high-cost deposit base slightly and consolidate the deposit mix in a favorable manner.

The Deposit-mix of the Bank as on 31 December 2022

Sl. No	Nature of Deposit	Taka in million	Percentage of Total Deposit
1	Al-Wadia Current Deposit & Other Accounts	48,293.09	21.16%
2	Mudaraba Savings Deposit	36,934.79	16.21%
3	Mudaraba Short Notice Deposit	11,532.76	5.06%
4	Mudaraba Term Deposit	86,817.23	38.09%
5	Mudaraba Schemes Deposit	38,531.97	16.91%
6	Other Deposits	5,872.22	2.58%
Total		**227,982.06**	**100.00%**

Mix of deposit as on 31 December 2022

DEPOSIT MIX



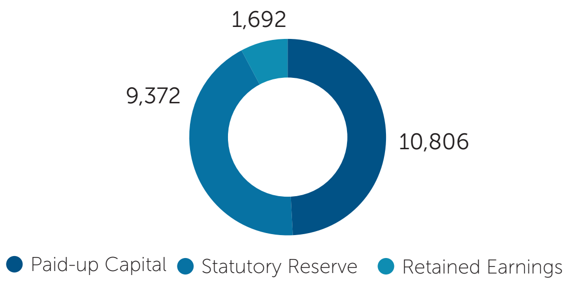
Placements from other Banks and Financial Institutions

Total placements from other banks and financial institutions stood at Tk 42,036.65 million as of December 31, 2022, compared to Tk 32,436.45 million as of December 31, 2021, resulting in a growth of Tk 9,600,19 million.

Shareholders Equity

Total Shareholders Equity stood at Tk 21,870.14 million at the end of 2022, up from Tk. 19,802.99 million in 2021, which is 10.44% higher than that of the previous year. Shareholders' equity increased mainly due to an increase in paid-up capital, the statutory reserve, and retained earnings. Paid-up capital increased due to the payment of a 5% stock dividend for the year 2021. The composition of shareholders' equity as of December 31, 2022, is given below:

SHAREHOLDERS EQUITY



Regulatory Capital

As part of its risk management strategy, it is the policy of SJIBL to maintain a strong capital-to-risk-weighted asset ratio to have a sufficient cushion to absorb any unforeseen shock arising from any potential risk. A strong capital base is maintained to ensure the long-term solvency of the bank and to help the bank achieve sustainable business growth that can maximize value for stakeholders.

Total Regulatory Capital of the Bank stood at Tk. 34,064.48 million as of December 31, 2022, compared to Tk. 33,778.03 million as of December 31, 2021, with a growth of Tk. 286.45 million from 2021. The bank maintained sound regulatory capital throughout the year 2022. The regulatory capital maintained was 14.38%, much higher than the required capital of 12.50%. The bank will keep focusing on the retention of profit by issuing bonus shares and raising Tier-II capital further by issuing Mudaraba Subordinated Bonds to strengthen its capital adequacy position.

The Regulatory Capital and Risk-Weighted Asset of the bank is shown in the table below:

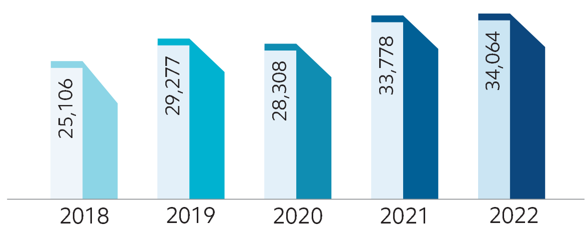
(Amount in million Taka)

Particulars	2022	2021
	Tk. In Million	Tk. In Million
Regulatory Capital:		
1. Tier-1 (Going-Concern Capital)	26,846.54	24,531.74
2. Tier-2 (Gone-Concern Capital)	7,217.94	9,246.29
Total Regulatory Capital (1+2)	**34,064.48**	**33,778.03**
Total Risk Weighted Assets (RWA)	**236,937.49**	**224,653.54**

Particulars	2022	2021
	Tk. In Million	Tk. In Million
Capital to Risk Weighted Assets Ratio (CRAR)	**14.38%**	**15.04%**
Tier-I Capital to RWA	11.33%	10.92%
Tier-II Capital to RWA	3.05%	4.12%
Minimum Capital Requirement (MCR)	**23,693.75**	**22,465.35**

Five years trend of regulatory capital is given below:

REGULATORY CAPITAL



Net Asset Value (NAV) per Share

Shahjalal Islami Bank Limited's net asset value per share is Tk 20.79, much higher than the face value of its shares. This indicates that the bank has created more value for its shareholders. As a result, investors' confidence is increasing day by day, and they are investing more in the bank's shares. The trend of NAV for the last five years is given below:

Year	Net Asset Value (NAV)
2022	20.24
2021	18.33
2020	17.44
2019	16.84
2018	15.84

Dividend

The Board of Directors of the Bank has recommended a dividend of 15%, of which 12% is cash and 3% is stock, for the year 2022. Over recent years, the Board of Directors has declared dividends out of profit to shareholders at attractive rates. The rates of dividends declared by the bank since 2018 are shown below:

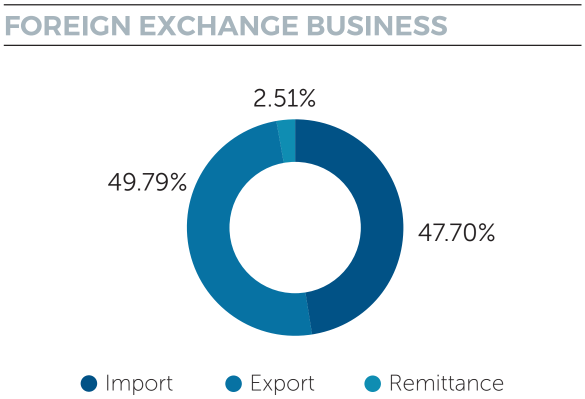
Year	Dividend (%)
2022 (proposed)	15 (12 Cash & 3 Stock)
2021	15 (10 Cash & 5 Stock)
2020	12 (7 Cash & 5 Stock)
2019	10 (5 Cash & 5 Stock)
2018	10 Stock

Foreign Exchange Business

In the year 2022, the total foreign exchange business handled amounted to Tk 534,109 million, showing an increase of Tk 81,389.08 million, or 17.98%, from the previous year's figure of Tk 452,722 million. Despite the volatility caused by the Russia-Ukraine war in the foreign exchange market, the bank prioritized foreign exchange business, leading to a substantial rise in business volume. The details of the foreign exchange business are outlined below:

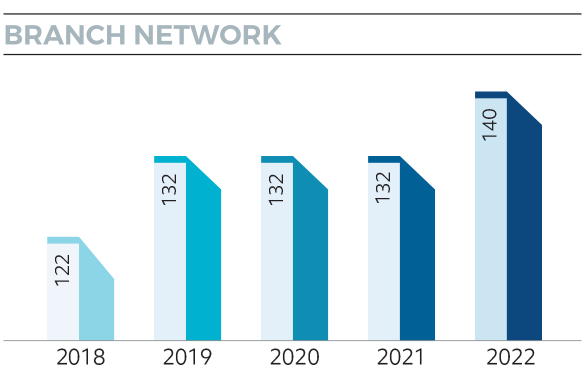
Particulars	2022	
	Amount in Million Taka	Composition
Import	254,756	47.70%
Export	265,942	49.79%
Foreign Remittance	13,411	2.51%
Total	**534,109**	**100.00%**

Mix of Foreign Exchange Business of 2022



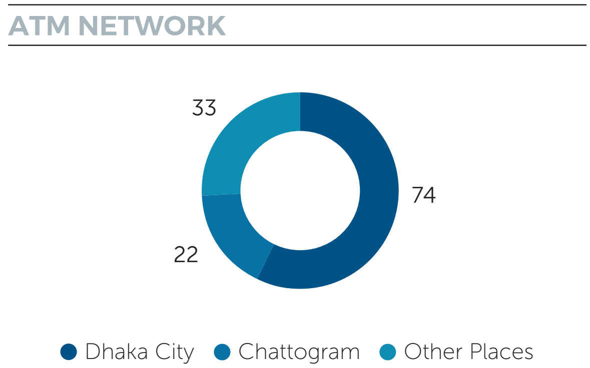
Branch Network

The bank has been operating with a network of 140 branches and 1 sub-branch around the country. In order to spread its footprint, the bank has opened 7 new branches and plans to convert one sub-branch into a branch in the year 2022. Moreover, the bank has been evaluating the performance of its existing branches and strengthening them further. We are focusing on reducing loss-making branches, and as a result, the number of loss-making branches has decreased during the year 2022. The growth of the branch network in the last five years is given below:



Automated Teller Machine (ATM) Network

The bank currently offers services through 129 own ATM booths and 3,203 shared ATM booths, up from 119 own ATM booths and 2,852 shared ATM booths in 2021. Customers can use our ATM for cash withdrawals, balance inquiries, mini statements, mobile recharges, and bKash cash withdrawals. A significant amount of cash transactions were conducted by the customers of the bank through its 129 own ATMs and 3,203 shared ATMs across the country. The bank intends to invest consistently in order to expand and widen its ATM network further. The locations of ATM booths are depicted in the graph below:



Correspondent Relationship

Shahjalal Islami Bank has established a correspondent relationship across the world with major foreign banks. The total number of correspondent banks stood at 437 as of December 31, 2022, across 57 countries. The bank is successfully maintaining such relationships around the world to facilitate international trade transactions. The bank maintains 35 Nostro accounts in 9 major currencies with reputed international banks around the world in all of the important global financial centers. The bank is also enjoying sufficient credit lines from correspondent banks to add confirmation to the Letter of Credit to facilitate international trade.

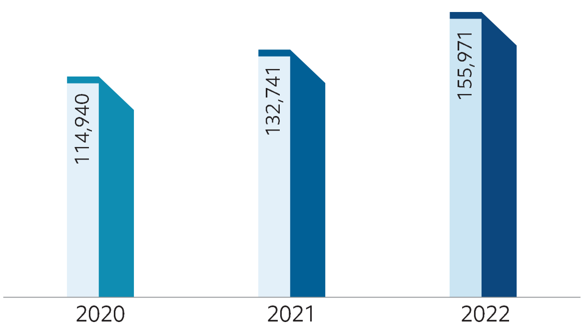
Review of performance of various segments

Corporate Banking

Shahjalal Islami Bank Limited acknowledges the diversity of customers' needs and understands that tailor-made solutions are vital for their businesses to prosper. To cater to the domestic and international requirements of corporate houses, the bank offers a wide range of corporate finance products, including traditional working capital finance, project finance, and customized financing services. The bank's product basket encompasses everything from short-term financing to long-term investments to support business expansion, and dedicated relationship managers provide various facilities to assist with various business activities.

As of December 31, 2022, the total outstanding corporate investment for the bank was Tk 155,971 million, reflecting a significant increase of Tk 23,230 million from Tk 132,741 million in 2021. The ongoing war between Russia-Ukraine and the prolonged impact of the pandemic created a significant strain on the bank's corporate clients and their supply chains, necessitating additional support. Consequently, the bank increased its corporate investment during the year under review. Additionally, the bank participated in the government's declared stimulus packages for the corporate sector and disbursed a substantial amount of packages to its corporate customers. The corporate investment for the past three years is given below:

CORPORATE INVESTMENT

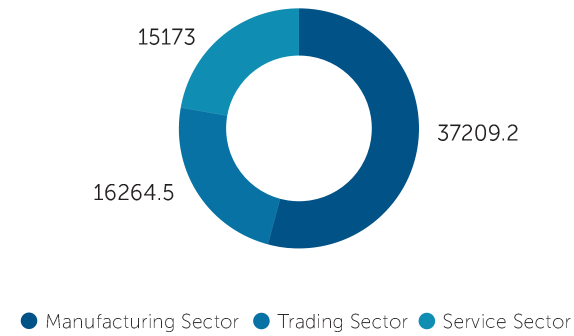


SME Banking

Small and Medium Enterprises (SMEs) are the engines of growth, innovation, and employment worldwide, including Bangladesh. The sector provides a major thrust to the economy, providing commercial stabilization as well as directly contributing to the grassroots development of the nation. SJIBL strongly believes that the SME sector is one of the main driving forces of economic growth and that there is a market with huge potential. In order to facilitate the SMEs in our country, the bank has been financing the SME sector since its inception. The SME Division has been strengthened to further reinforce SME financing and bring grass-root entrepreneurs into the main stream of economic growth.

SME investment portfolio stood at Tk 72,704 million in 2022. Overall, business activity and investment demand have become slower due to the ongoing Russia-Ukraine war. As a result, the growth of SMEs was slow during the year under review. During the year 2022, the bank disbursed a total SME investment of Tk. 87,095.70 million, which was Tk. 84,525 million in the year 2021.

SME INVESTMENT



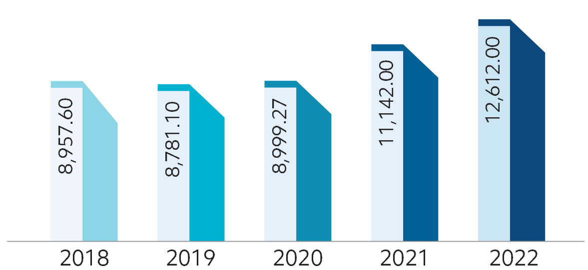
The bank places the utmost importance on creating women entrepreneurs. As such, it has disbursed Tk 2,613.10 million to women entrepreneurs during the year 2022, compared to Tk 2,903.80 million in the year 2021.

Retail Banking

The bank is committed to enhancing the living standards of people, which include people from diverse classes and professions as well as society as a whole. To meet consumer demand promptly, it has established a Retail Investment Department that offers a range of specialized investment products. These include house-building investments for purchasing new flats, household durables investments for purchasing household goods, education investments for higher studies, marriage investments for financial assistance during marriage, and car investments for vehicle purchases. Additionally, the bank has a Semi-Pacca Housing Investment scheme that caters to the special needs of middle- and lower-income-class people in society.

The bank's retail investment portfolio grew from Tk 11,142.00 million in 2021 to Tk 12,612.00 million in 2022, indicating a 13.19% increase. Going forward, the bank will continue to focus on expanding its retail portfolio to better serve the needs of the middle- and lower-middle-class people of Bangladesh. The diagram below shows the position of retail investment over the last five years.

RETAIL INVESTMENT

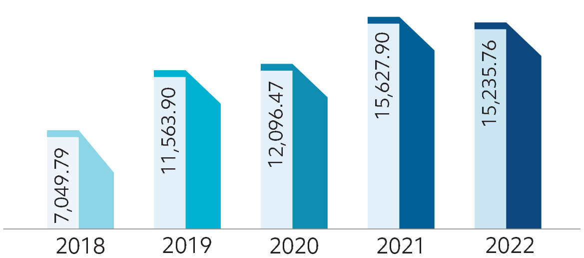


Offshore Banking Unit

Shahjalal Islami Bank Limited operates the Offshore Banking Unit (OBU) as a distinct business unit that adheres to the regulations and guidelines set forth by Bangladesh Bank. Through effective communication, competitive pricing, and a commitment to exceptional customer service, SJIBL has succeeded in attracting a significant number of customers in a short amount of time, establishing a robust and satisfying presence.

As of December 31, 2022, the total investment of the Offshore Banking Unit was Tk 15,235.76 million, which represents a decrease of Tk 392.14 million or 2.51% negative growth compared to the previous year's investment of Tk 15,627.90 million. The investment portfolio trend of the OBU is presented below:

INVESTMENTS OF OFF SHORE BANKING UNIT



Agent Banking

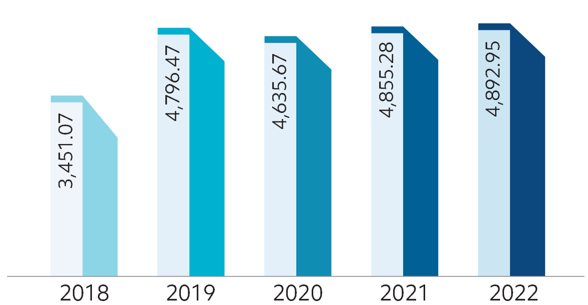
SJIBL is expanding its banking services throughout the country with Agent Banking, offering customers an extended range of products and services. Secure technology and real-time banking are among the features of Shahjalal Islami Bank's agent banking structure, which allows customers to enjoy real-time transactions. The Agent Banking System is integrated with the Core Banking System, providing customers with an instant SMS notification and a system-generated money receipt for each transaction.

This service aims to eliminate the barriers of time and distance for customers. SJIBL provides full-fledged banking services at customers' doorsteps, making it convenient to channel remittances, deposits, and cash withdrawals. Even people in remote areas of the country can receive structured banking facilities with comfort, ease, and security. Currently, the bank operates 111 agent banking outlets with 25,612 accounts of different categories and a total deposit balance of Tk. 440.68 million as of December 31, 2022.

Shahjalal Islami Bank Securities Limited

Shahjalal Islami Bank Securities Limited (SJIBSL) is a subsidiary company of Shahjalal Islami Bank Limited, incorporated as a public limited company under the Companies Act 1994, and commenced its operations on May 25, 2011. The main objective of the company is to carry on the business of stock brokers and dealers, share and securities dealings, and other services as mentioned in the Memorandum and Articles of Association of the company. It has corporate memberships with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. Shahjalal Islami Bank Limited holds 91.79% of the shares of Shahjalal Islami Bank Securities Limited. The total operating income of SJIBSL stood at Tk. 577.08 million for the year 2022, decreasing from Tk 714.04 million in 2021, exhibiting a negative growth rate of 19.18%. The outstanding margin investment stood at Tk. 4,892.95 million in December 2022, which was Tk. 4,855.28 million in December 2021. The margin of investment for the last five years is given below:

MARGIN INVESTMENT



Risk Management

The Risk Management Division (RMD) of SJIBL was established to oversee, monitor, and report on all risks in line with the appetite for risk set by the Risk Management Committee (RMC) of the Board. The RMC of the Board reviews and monitors the overall risk management system of the bank and provides updates to the board from time to time. The bank has a comprehensive risk management policy that addresses all the risks managed by the bank and ensures compliance with all regulatory requirements. The Board has overall responsibility for the establishment and oversight of the bank's risk management framework. The resulting strategic, financial, and operational risk mitigation activities that have been implemented reinforce the bank's operations and sustainability, thus reducing the potential for unexpected losses and assisting in managing volatility better.

a) Investment (Credit) Risk Management

Investment (credit) risk is the risk of potential loss resulting from the failure of a customer or counterparty to honor its financial or contractual obligations to the bank. It may arise from direct investment activities as well as from commitments and contingencies. The investment risk management function ensures that appropriate policies are established and ensures compliance with the related sanctions, monitoring procedures, and controls at the business unit level. Investment exposures are aggregated across individual business units and monitored regularly. Effective management of investment risk requires the establishment of an appropriate investment risk culture. The Board of Directors, either directly or through the Risk Management Committee of the Board, reviews and approves the bank's investment risk appetite annually and reviews the investment policy manual from time to time. The concerned officials are monitoring and following up on investment risk management regularly.

b) Foreign Exchange Risk Management

The foreign exchange risk arises from transactions involving foreign currencies. The risk is that adverse fluctuations in exchange rates may result in a loss in earnings. As per the guidelines of Bangladesh Bank, SJIBL has developed a detailed foreign exchange risk management policy to minimize different types of risks associated with foreign exchange transactions. The Foreign Exchange Desk of the Treasury Division is involved in need-based foreign exchange dealing activities with different counterparty banks. The Treasury Back Office is engaged in the transfer of funds and the passing of the transaction entries in the books of accounts; the Mid Office is responsible for the verification of the deals. All foreign exchange assets and liabilities are revalued at market rates as per the directive of the Bangladesh Bank. All nostro accounts are reconciled on a monthly basis, and outstanding entries beyond 30 days are reviewed by the management for settlement.

c) Asset Liability Risk Management

Asset Liability Management is a process of addressing liquidity risk and profit rate risk that may arise due to maturity mismatches between assets and liabilities as a consequence of changes in profit rates or liquidity. The Asset Liability Management Committee (ALCO) that is formed with the senior executives and headed by the managing director is mainly responsible for managing asset liability risk. To manage balance sheet risk properly, the bank has already prepared an Asset Liability Management policy according to the guidelines of the Bangladesh Bank. The bank has been complying with all the applicable rules, regulations, and guidelines regarding asset liability risk management and has taken appropriate measures in line with industry best practices.

d) Money Laundering Risk Management

Money laundering risk is defined as the loss of reputation and expenses incurred as a penalty for being negligent in the prevention of money laundering. To mitigate the risks, Shahjalal Islami Bank Limited has been taking preventive measures against money laundering and terrorist financing in line with the amended Money Laundering Prevention Act 2012, the amended Anti Terrorism Act 2013, and guidelines issued by Bangladesh Bank from time to time. The bank applies risk-sensitive customer due-diligence measures and monitors business relationships and records in line with regulations. The bank regularly collects the correct and full documentation of Know Your Customer (KYC), which enables the prudential prevention of money laundering. Shahjalal Islami Bank has formed a committee on anti-money laundering headed by the Deputy Managing Director as Chief Anti-Money Laundering Compliance Officer. The committee regularly monitors and ensures compliance on issues relating to money laundering through the trained personnel of the head office and branches. The bank arranges regular training on Money Laundering Prevention and Anti Terrorism activities for all employees of the bank to develop awareness and skills for identifying suspicious activities and transactions.

e) Internal Control & Compliance Risk Management

The banking industry has diversified and complex financial activities that involve high risk in different modes of operation. Consequently, the issues of the internal control system have become the most significant in the banking industry, through which a bank identifies its weaknesses and takes appropriate measures to overcome these risks. The Bank has formulated ICC guidelines in compliance with the Bangladesh Bank Guidelines. In order to have an efficient and effective internal control system, Shahjalal Islami Bank Limited has segregated its Internal Control and Compliance Division into three separate units, i.e., Audit, Monitoring, and Compliance, based on the relative guidelines framed by Bangladesh Bank.

f) Information and Communication Technology Security Risk Management

ICT risk is a business risk, specifically the business risk associated with the use, ownership, operation, involvement, influence, and adoption of information and communication technology within the bank. It consists of IT-related events that could potentially cause a negative impact on the banking business. It might occur with both uncertain frequency and magnitude and might create challenges in meeting strategic goals and objectives. Managing ICT risk is therefore an element of sustaining a secure environment, a detailed process of identifying factors that could damage or disclose data, evaluating those factors in light of data value and countermeasure cost, and implementing cost-effective solutions for mitigating or reducing risk. For effective management of information and communication technology risk, the Bank has already formulated a Policy Guideline. Moreover, the bank has been arranging internal IT audits and training on IT security regularly.

g) Liquidity Risk Management

Liquidity risk is the risk that the bank may not be able to meet its financial obligations as they become due. The policy of the bank is to maintain enough liquid assets to meet its short-term, medium-term, and long-term obligations. The bank has set various limits for its liquidity management, such as the liquidity coverage ratio, investment deposit ratio, commitment limit, wholesale borrowing limit, etc. SJIBL maintains a diversified and stable funding base comprised of retail, corporate, and institutional deposits. The principal responsibility for the liquidity risk management of the bank rests with the Treasury Division, which maintains liquidity based on historical requirements, current liquidity position, anticipated future funding requirements, sources of funds, options for reducing funding needs, present and anticipated asset quality, present and future earning capacity, and present and planned capital position.

Future Prospect/Outlook

Considering the overall macroeconomic and geopolitical outlook, significant pressure is expected on banking sector profitability due to the volatile foreign exchange market, low benchmark rates, and limited financing opportunities due to the ongoing Russia-Ukraine war and the prolonged impact of the COVID-19 pandemic. Accordingly, the bank intends to focus on building and maintaining a quality investment portfolio, while enhancing its focus on customer service quality and cost rationalization initiatives through continuous improvement in automation and product innovations. The bank takes special care to ensure the flow of foreign currency, including remittance flow, for its trade finance business.

Similarly, the bank intends to focus on a low-cost and no-cost core deposit mix by effectively utilizing its extensive branch network, sub-branch network, and agent banking operations. The bank is confident that the above initiatives will enable it to maintain a stable performance trend going forward.

From the bank's perspective, the focus will be given to value-added services via operational efficiency and technological improvements. Effectiveness of the bank's risk management systems, hunting of low-cost or no-cost deposits, rationalization of operating expenses, strengthening of the capital base, and a streamlined corporate culture are primary factors in demonstrating continued strong financial soundness. Effective leadership with a clear vision is the key element of long-term sustainability, leading to the highest levels of employee satisfaction. We aim to build cohesive teams with strong ethical standards. We will strive to enhance our domestic and global image to go from strong to stronger.

Outlined below are the major steps that the bank will take to manage upcoming challenges:

- Maintain strong relationships with existing export-oriented clients and establish relationships with new export-oriented customers to increase the flow of foreign currency, including remittance flow to the bank.
- Retain existing deposits and collect new deposits from the market by offering deposit campaigns throughout the year to mitigate the potential worsening of the banking industry's liquidity position due to rising inflation and increased spending on buying dollars.
- Prioritize rigorous monitoring of classified and unclassified investments to improve asset quality and enhance cash recovery from written off, classified, and unclassified investments.
- Continuously analyze the bank's business processes to rationalize costs and improve profitability.
- Place emphasis on employee productivity, profitability, and compliance.
- Strengthen the bank's presence in SME and retail banking, as these sectors are emerging and have low concentration risk.
- Diversify corporate banking in line with changing customer demands.
- Adopt the latest technology to remain competitive in the market.
- Strengthen the bank's capital base by issuing Mudaraba Subordinated Bonds.
- Prioritize research and innovation of products to face cutting-edge marketing competition in existing and new markets.
- Promote Green Finance and social integration through Corporate Social Responsibility (CSR) and Financial Inclusion initiatives to achieve the Sustainable Development Goals (SDGs) of the United Nations (UN).

Responsibilities towards Employees

A highly skilled, motivated, and committed team of human resources is the driving force behind providing better, faster, and more coordinated services to clients and contributing to the success of the organization. With this in mind, SJIBL places a high priority on the health and safety of its employees, taking several steps to ensure their well-being. These measures include providing medical benefits as a percentage of basic salary, partnering with Progati Life Insurance Company Limited to cover medical expenses for employees, their spouses, and children, and granting six months of maternity leave with medical allowance for the first two issues to female employees.

SJIBL also equips all its offices, including the head office and branches, with modern facilities like air conditioning and generators for backup power, firefighting equipment, and multiple emergency exit points to provide a sophisticated and encouraging work environment. The Corporate Head Office is a LEED-certified green building, further demonstrating the bank's commitment to sustainability and employee well-being.

To attract, retain, and motivate highly skilled personnel, SJIBL offers a competitive compensation package and a healthy, secure, and forward-thinking work environment. The bank is committed to taking care of its employees, building trust and relationships over time. As a result, SJIBL provides its employees with long-term benefits, including a Provident Fund, Gratuity Fund, Superannuation Fund, Benevolent Fund, Incentive Bonus, and Career Prospects and Training Programs.

The Provident Fund is managed by the Board of Trustees and funded equally by the bank and its employees. The Gratuity Fund is authorized by the National Board of Revenue as a recognized gratuity fund and is managed by a separate Board of Trustees. Employees are entitled to gratuity benefits after completing at least five years of service with the bank. The Superannuation Fund provides medical and death-related survival benefits instead of group insurance and is funded monthly by both employees and the bank. The Benevolent Fund covers substaff's marriage ceremonies and provides short-term grants for unexpected and certain needs of SJIBL staff and their families.

The bank typically pays an incentive bonus to retain high-quality and competent human resources and increase employee productivity. The bonus amount is distributed among employees in accordance with the bank's regulations. SJIBL also offers various training and development programs throughout the year at its training centers and arranges training for its employees at well-known institutions both domestically and abroad to enhance employee efficiency and productivity.

Contribution to the National Exchequer

As a responsible and law-abiding corporate citizen, the bank ensures timely payment of corporate tax, sometimes even before it falls due, by withholding tax and VAT and transferring it to the government exchequer. For the year 2022, the bank has provisioned Tk 3,781.77 million for corporate tax, compared to Tk 2,251.43 million in 2021. In addition, the bank has created employment opportunities for 2,835 full-time employees, thereby contributing to the economy. In 2022, the bank paid Tk. 6,432.68 million to the government exchequer as source tax, salary tax, VAT, excise duty, and other taxes and VAT realized against various services. During the intermediation process, the bank mobilized resources worth Tk. 227,906.83 million from surplus economic units and deployed Tk. 237,229.98 million. Over the years, the bank has generated a significant number of direct and indirect employment opportunities. Through its tax payments and investments in the network, the bank is making a noteworthy contribution to the development and growth of the nation.

Brand Positioning

The establishment of Shahjalal Islami Bank Limited on April 1, 2001, as an Islamic Shariah-based commercial bank, has set it apart from other banks by providing exceptional customer service and innovative products and services that comply with shariah guidelines. The bank has created shareholder value and extended help to the underprivileged through Corporate Social Responsibility (CSR) and Zakat. From the outset, the bank distinguished itself as one of the top banks among the third generation of Islami banks, focusing on asset quality, shariah compliance, social welfare, CSR activities, and technology-based automated banking solutions. In its 21 years of operation, the bank has expanded its physical, digital, and virtual channels and platforms, including 140 branches, 1 Sub-branch, 111 agent outlets, 129 own ATMs, 3203 shared ATMs, and App-based banking services, while continuing to introduce unique and innovative products and services. As a result of these efforts, the bank has positioned itself as the most attractive bank and established a distinct brand value in the banking industry.

Customer Right

Shahjalal Islami Bank Limited considers its customers' rights as a high priority. The bank does not judge its performance by looking at its profit figures; rather, the bank considers that it is the right of customers to get high-quality modern services. The bank considers that customers' perceptions and satisfaction ultimately determine the success or failure of an organization. As such, the bank always protects its customers' rights in all of its business activities.

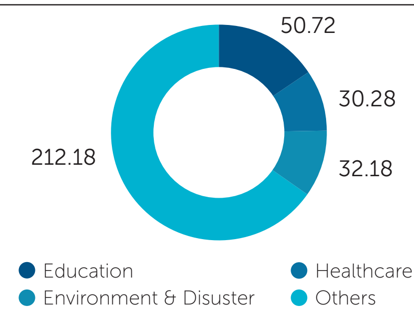
Corporate Governance

The Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank have issued notifications or circulars on corporate governance for listed companies or banks from time to time. Shahjalal Islami Bank Limited has established a set of good corporate governance practices in line with industry best practices and the regulatory requirements of the Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank. The bank is ensuring transparency, accountability, and good governance at every step of its operations. The details of the Corporate Governance Report are given in this Annual Report.

Corporate Social Responsibility (CSR)

Shahjalal Islami Bank Limited has been expending a substantial amount of its annual profit each year to conduct its CSR activities in different areas such as education, health care, disaster management, environment, empowerment, human resources development, etc. to develop the backward sectors of Bangladesh. The bank has been paying more respect to social and public welfare than to a profit maximization strategy. The CSR expenses were Tk. 325.36 million in 2022, which was Tk. 232.93 million in 2021. A sector-wise CSR contribution is given below:

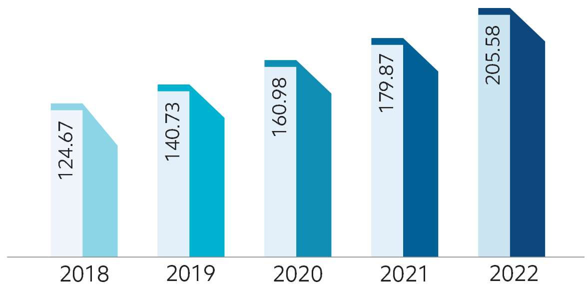
CSR



Zakat

Shahjalal Islami Bank Limited, as a shariah-based Islami bank, is paying zakat as outlined under the rules of Islamic Shariah. The main purpose of zakat is to discourage the accumulation of wealth by a group of people in society and to impair the tendency of an uneven distribution of wealth in society. Zakat is paid by the bank at a rate of 2.58% of the closing balance of the statutory reserve, general reserve, and retained earnings of the previous year. Zakat is charged in the profit and loss account of the bank as set out in the "Guidelines for Islamic Banking" issued by the Bangladesh Bank through BRPD Circular No. 15 dated November 9, 2009. Zakat is paid to underprivileged people as per the Shariah principle. During the year 2022, the bank paid Tk 205.58 million as Zakat, which was Tk 179.87 million in 2021. Zakat expenses for the last five years are given below:

ZAKAT EXPENSES



Green Banking

Shahjalal Islami Bank Limited is a pioneer in sustainable banking practices and has been actively involved in several green initiatives. The bank has implemented proactive measures across multiple areas, such as green finance, policy formulation, environmental and social risk management (ESRM), online banking, and energy efficiency. It has also set a significant example for the corporate sector in Bangladesh by constructing a LEED-certified green building at its head office. The bank achieved a notable milestone in 2022 by disbursing a significant amount of green finance. As of December 31, 2021, the total outstanding amount of green finance was Tk. 770.37 million, and the bank has been consistently increasing its green financing year on year.

Financial Inclusion

Financial inclusion is emerging as one of the most effective tools among policymakers around the globe to ensure inclusive and sustainable economic development. Recognizing the importance of financial inclusion, SJIBL has been exploring and promoting innovative and successful initiatives to bring the financially excluded under the financial inclusion umbrella. It has worked tirelessly to provide formal banking services to the poor and underprivileged segments of society through low-cost digital financial services. SJIBL has been opening No-Frill Accounts (NFAs) for farmers, readymade garment workers, workers in small footwear and leather product industries, and physically challenged people. The bank has school banking facilities for students up to 18 years of age. They can open a school banking account through their parents or legal guardians by depositing a minimum of BDT 100. Moreover, the bank is working with banking for street urchins, working children, lactating and working mothers, etc. Moreover, Agent Banking under SJIBL will be an emerging financial inclusion tool that will provide unhindered access to tailor-made financial products for the underprivileged, underserved, and poor segments of the population, especially those from geographically remote locations.

Preparation of Financial Statements

The financial statements of the bank prepared by the management present fairly its state of affairs, the result of its operations, cash flows and changes in equity under the historical cost convention and following the First Schedule (Section-38) of the Bank Companies Act 1991 (as amended), related Bangladesh Bank circulars, International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs), the Companies Act 1994, the listing regulations of the stock exchanges, the Securities and Exchange Rules 1987, the Financial Reporting Act 2015 and other laws and rules applicable in Bangladesh.

The financial statements for 2022 have been reviewed by the Audit Committee of the Bank and then referred to the Board of Directors for its consideration. The external auditor, M/s. Hoda Vasi Chowdhury & Co., Chartered Accountants appointed by the shareholders, has certified the fairness of the financial statements for the year ended December 31, 2022.

Maintaining Proper Books of Account

Shahjalal Islami Bank Limited always maintains proper books of account for its financial transactions, including in 2022. The external auditor, M/s. Hoda Vasi Chowshury & Co., Chartered Accountants, has reviewed the books of account and provided an opinion that they have been maintained as required by law.

Appropriate Accounting Policies

The bank has selected appropriate accounting policies and consistently applied them in preparing the financial statements. Accounting estimates are made using reasonable and prudent judgment. The bank records financial transactions on an accrual basis, including required disclosures. Financial statements are prepared accordingly.

Internal Control and Compliance

Internal control refers to the tools that provide reasonable assurance regarding the achievement of the bank's objectives. These include effectiveness and efficiency of operation, safeguarding the assets of the bank, compliance with applicable laws and regulations, and compliance with policies and procedures issued by the bank and the regulators. To recognize the significance of internal control, Shahjalal Islami Bank Limited has strengthened and segregated its Internal Control and Compliance Division into three separate units, in line with guidelines from Bangladesh Bank. The bank has also created an Internal Control and Compliance Manual, which is updated regularly. This manual includes the Risk Assessment Methodology, designed to conduct Risk-Based Internal Audits, among other significant issues.

Statement of Directors' Responsibility to establish an appropriate system of internal control

The Board of Directors recognizes their general responsibilities for the bank's internal control system. They are aware of their duties to establish efficiency, effectiveness, reliability, timeliness, and compliance with relevant laws and regulations in all of the bank's operations. To ensure this, they have confirmed that a system of internal control is in place throughout the year, following best financial reporting practices.

Going Concern

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

Credit Rating

Shahjalal Islami Bank Limited has been rated by Emerging Credit Rating Limited (ECRL). ECRL performed the rating surveillance based on audited financial statements of December 31, 2022 and other relevant information and the report was issued on 16 April 2023. They have upgraded the rating of the bank as "AA+" under the "Long Term" category and "ST-2" under the "Short Term" category. An institution rated as "AA+" under the "Long Term" category has a very strong capacity to meet its financial commitments. These institutions typically have a good track record and have no readily apparent weaknesses. An institution rated as "ST-2" under the "Short Term" category has a strong capacity to meet its financial commitments in a timely manner.

Auditor's Report

An auditor of a listed company cannot be appointed for more than three consecutive years, according to BSEC notification no. BSEC/CMRRCD/2006-158/208/Admin/81, dated June 20, 2018, and Dhaka Stock Exchange (Listing) Regulation, 2015, dated June 30,

2015. M/s Hoda Vasi Chowdhury & Co., Chartered Accountants, was the auditor of the bank for the year 2022. As 2022 was their first year of auditing the bank, the firm is therefore eligible for reappointment.

Section 210 of the Companies Act of 1994 empowers shareholders to appoint the auditor and set their remuneration. Hence, the board recommends appointing M/s Hoda Vasi Chowdhury & Co., Chartered Accountants, as the auditors of the bank for the year 2023, subject to the approval of the shareholders at the upcoming Annual General Meeting.

Vote of Thanks

The Board of Directors expresses its profound gratitude to Almighty Allah (SWT) for enabling the Bank to achieve growth and progress during the year 2022. The Board extends thanks to the Ministry of Finance, Bangladesh Bank, Bangladesh Securities & Exchange Commission, and the Government Agencies for providing assistance, guidance, support, and cooperation at various stages of operation of the Bank. The Board appreciates the support and cooperation received from foreign correspondents of the Bank all over the world.

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

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

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

Ameen.

On behalf of the Board of Directors

Mohammed Younus
Chairman