

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

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

**1. Scope of Application**

**Qualitative Disclosures**

a) The name of the top corporate entity in the group to which this guidelines applies:

Shahjalal Islami Bank Limited (SJIBL)

b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk - weighted).

The Financial Statements of the bank comprise the financial statements of (i) Shahjalal Islami Bank Limited including Off-Shore Banking Unit (OBU) and (ii) Shahjalal Islami Bank Securities Limited.

A brief description of the Bank including OBU (Main Operation) and its subsidiary are given below:

**Shahjalal Islami Bank Limited**

The Shahjalal Islami Bank Limited (hereinafter called ‘the Bank’-‘SJIBL’) was established as a Public Limited Company (Banking Company) as on the 1st day of April 2001 under the Companies Act 1994 as interest free Islamic Shari’ah based commercial bank and commenced its operation on the 10 May 2001 with the permission of Bangladesh Bank. Presently the Bank is operating its business through head office having 103 branches, Central Processing Center (CPC), Off-shore Banking Unit (OBU), 59 (Fifty Nine) ATM booths all over Bangladesh. The Bank is listed with both the Stock Exchanges of the country, i.e. Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. The principal activities of the bank all kinds of commercial banking services to its customers through its branches following the provisions of the Bank Companies Act 2013 (Amended), Bangladesh Bank’s Directives and the principles of the Islamic Shari’ah.



	<p><b><u>Off-shore Banking Unit (OBU)</u></b></p> <p>Off-shore Banking Unit is a separate business unit governed by the applicable rules &amp; regulations and guidelines of Bangladesh Bank vide letter no. BRPD (P-3)744(99)/2008-2800 dated 24 July 2008. The Bank opened its Off-shore Banking Unit on 21 December, 2008 and the same is located at Uday Sanz, SE(A), 2/B, Gulshan South Avenue, Gulshan-1, Dhaka-1212.</p>
	<p><b><u>Shahjalal Islami Bank Securities Limited(SJIBSL)</u></b></p> <p>Shahjalal Islami Bank Securities Limited is a subsidiary company of Shahjalal Islami Bank Limited (SJIBL) incorporated as a public limited company under the Companies Act 1994 vide certification of incorporation no. C - 86917/10 dated 06 September 2010 and commenced its operation on the 25 May 2011. The main objective of the company is carry on business of stock broker/dealers in relation to shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the Company.</p>
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not applicable.
<b>Quantitative Disclosures</b>	
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.
<b>2. Capital Structure</b>	
<b>Qualitative Disclosures</b>	
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Common Equity Tier- 1 or Tier - 2.	<p>As per the guidelines of Bangladesh Bank, Common Equity Tier-1 Capital of SJIBL consists of (i) Paid-up Capital, (ii) Statutory Reserve, (iii) Retained Earnings and (iv) Minority Interest in Subsidiaries.</p> <p>Tier-2 Capital consists of applicable amount of (i) General Provisions (against unclassified Investments, Off-Balance Sheet exposures &amp; Off-Shore Banking Unit).</p>



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

### **3. Capital Adequacy**

#### **Qualitative Disclosures**

A summary discussion of the bank's approach to assess the adequacy of its capital to support current and future activities.

The Bank has adopted Standardized Approach (SA) for computation of capital charge for investment risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank.

The Bank has maintained Capital to Risk Weighted Assets (RWA) Ratio at 11.68% & 11.54% on the basis of "Consolidated" and "Solo" respectively as against the minimum regulatory requirement of 10%. Common Equity Tier-I Capital to RWA Ratio under "Consolidated" basis is 10.18% which "Solo" basis is 10.31% as against the minimum regulatory requirement of 5.50%. The Bank's policy is to manage and maintain strong Capital to RWA Ratio with high rating grade of investment clients. The Bank maintains adequate capital that is sufficient to absorb all material risks associated with the Bank. The Bank also ensures that the levels of capital comply with regulatory requirements and satisfy the external rating agencies and other all stakeholders including depositors.



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

#### 4. Investment (Credit) Risk

Qualitative Disclosures	
	a) The general qualitative disclosure requirement with respect to credit risk, including:
i) Definitions of past due and impaired (for accounting purposes)	As per Bangladesh Bank guidelines, any Investment if not repaid within the fixed expiry date will be treated as Past Due/Overdue.
	<ul style="list-style-type: none"> <li>• Bangladesh Bank issued Circulars from time to time for strengthening Investment (Credit) discipline and brings provisioning. All Investments/ loans &amp; advances will be grouped in to four (4) categories for the purpose of classification, namely               <ol style="list-style-type: none"> <li>a) <b>Continuous Investment/ (Loan):</b> 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.</li> <li>(b) <b>Demand Investment/ (Loan):</b> The Investment/ loans that become repayable on demand by the bank will be treated as Demand Investment. If any contingent or any other liabilities are turned to forced loan (i.e. without any prior approval as regular investment) those too will be treated as Demand Investment/ Loan. Such as: Forced Loan against Imported Merchandise, Payment against Document, Foreign Bill Purchased and Inland Bill Purchased, etc.</li> <li>(c) <b>Fixed Term Investment/ (Loan):</b> The Investment/ loans, which are repayable within a specific time period under a specific repayment schedule, will be treated as Fixed Term Loan.</li> <li>(d) <b>Short term Agricultural &amp; Micro Investment/ (Loan):</b> Short-term Agricultural Investment/ Credit will include the short-term credits as listed under the</li> </ol> </li> </ul>



Annual Credit Programme issued by the Agricultural Credit and Financial Inclusion Department (ACFID) of Bangladesh Bank. Credits in the agricultural sector repayable within 12 (twelve) months will also be included herein. Short-term Micro-Credit will include any micro-credits not exceeding an amount determined by the ACFID of Bangladesh Bank from time to time and repayable within 12 (twelve) months, be those termed in any names such as Non-agricultural credit, Self-reliant Credit, Weaver's Credit or Bank's individual project credit.

**The above Investments ( Loans) are classified as follows:**

Continuous and demand Investment/Loan are classified as:

**'Sub-standard'** if it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months;

**'Doubtful'** if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months;

**'Bad/Loss'** if it is past due/overdue for 09 months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan.

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

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



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

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

ii. **Doubtful:** If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire 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 09 (nine) months, the entire Investment (loan) will be classified as "Bad/Loss".

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

Short-term Agricultural and Micro-Investment are classified as: If not repaid within the due date as stipulated in the Investment (loan) agreement.

i. Sub-Standard: If the said irregular status continues, the Investment (Loan) will be classified as 'Substandard' after a period of 12 months.

ii. Doubtful: if the irregular status continue after a period of 36 (thirty six) months, the Credits are classified as “Doubtful”.

iii. Bad/Loss: if the irregular status continue after a period of 60 (sixty) months, the credits are classified as “Bad/Loss” from the stipulated due date as per Investment (loan) agreement'.

A continuous Investment, Demand or a Term Investment which will remain overdue for a period of 02 (two) months or more will be put into the “Special Mention Account (SMA)”.



<p>ii) Description of approaches followed for specific and general allowances and statistical methods;</p>	<p>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:</p> <p>a) General Provision: The Bank maintains General Provision in the following way :</p> <ol style="list-style-type: none"> <li>1) @ 0.25% against all unclassified Investment of Small and Medium Enterprise(SME) as defined by the SME &amp; 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').</li> <li>2) @ 5% on the unclassified amount for Consumer Financing where as it has to be maintained @ 2% on the unclassified amount for (i) Housing Finance and (ii) Investments/Loans for Professionals-to set up business under Consumer Financing Scheme.</li> <li>3) @ 2% on the unclassified amount for Investments/Loans to Brokerage House, Merchant Banks, Stock dealers etc.</li> <li>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).</li> <li>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.)</li> </ol> <p>b) Specific Provision: Banks will maintain provision at the following rates in respect of classified Continuous, Demand and Fixed Term Investments/Loans:</p> <ol style="list-style-type: none"> <li>(i) Sub-standard : 20%</li> <li>(ii) Doubtful : 50%</li> <li>(iii) Bad/Loss : 100%</li> </ol> <p>c) Provision for Short-term Agricultural and Micro-Investments:</p> <ol style="list-style-type: none"> <li>(i) All unclassified Investment (irregular and regular) : 2.5%</li> <li>(ii) Sub-standard &amp; DF : 5%</li> <li>(ii) Bad/Loss : 100%</li> </ol>
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<p>iii) Discussion of the Bank's investment risk management policy</p>	<p>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).</p> <p>There is a separate Investment Risk Management (IRM) under CRO for mitigation of investment risk, separate Investment Administration Division for ensuring perfection of securities and Recovery Unit for monitoring and recovery of irregular investments. Internal Control &amp; Compliance Division independently assess quality of investments and compliance status of investments during their audit at least once in a year. Adequate provision is maintained against classified investments as per Bangladesh Bank guidelines. Status of investments is reported periodically to the RMC /Executive Committee of the Board by the concerned Division.</p>
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**Quantitative Disclosures**

<p>a) Total gross investment risk exposures broken down by major types of investment exposures.</p>	<p>Major type of investment exposures as per disclosure in the audited financial statements as of 31 December 2016 of the Bank</p>
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	<b>Particulars</b>	<b>Taka in million</b>
	Agriculture & Fishing	5,981.90
	Cotton & Textile	9,619.75
	Garments	14,473.18
	Cement	1,289.01
	Pharmaceuticals & Chemicals	2,344.90
	Real Estate	8,326.12
	Transport	2,640.29
	Information Technology	340.72
	Non Banking Financial Institutions	2,554.05
	Steel & Engineering	5,783.37
	Food Processing & Beverage	9,320.06
	Power & Energy	3,029.22
	Paper & Paper Products	1,531.74



	Plastic & Plastic Products	2,934.82
	Electronics	2,797.08
	Services Industries	3,425.27
	Trading	20,317.30
	Import Financing	3,811.50
	Consumer Financing	181.60
	Share business	1,448.70
	Staff Investment	1,294.75
	Others	19,553.04
	<b>Total</b>	<b>122,998.38</b>

b) Geographical distribution of exposures, broken down in significant areas by major types of investment exposure.	<b>Geographical distribution of exposures, broken down in significant areas by major types of investment exposure:-</b>	
	<b>Particulars</b>	<b>Taka in million</b>
	<b>Area-wise:</b>	
	Urban	115,606.89
	Rural	7,391.49
	<b>Total</b>	<b>122,998.38</b>
	<b>Division- wise:</b>	
	Dhaka	93,240.84
	Chittagong	20,012.23
	Sylhet	1,454.74
	Rajshahi	2,753.44
	Khulna	4,062.59
	Barisal	355.90
	Rangpur	1,118.64
	<b>Total</b>	<b>122,998.38</b>

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.	
	<b>Particulars</b>	<b>Taka in million</b>
	Investments to allied concern of Directors	757.48
	Investments to Executives/Officers	1,294.75
	Investments to Customer Groups	61,267.82
	Industrial Investment	57,764.63
	Others	1,913.70
	<b>Total</b>	<b>122,998.38</b>

