

Market Discipline
Disclosures on Risk Based Capital
(Pillar 3 of Basel-III)

Shahjalal Islami Bank Limited
For the Year Ended December 31, 2020



Market Discipline

Disclosures on Risk Based Capital (Pillar 3 of Basel III)

Background and Purpose

Basel III is an internationally agreed new set of capital and liquidity standards developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09. The objective of the reforms was to manage use of excessive on and off-balance sheet leverage, gradual erosion of level and quality of capital base, insufficient liquidity buffer, pro-cyclicality and excessive interconnectedness among systematically important institutions. These factors are identified for reasons of bank failure. Through its reform package, BCBS also aims to improve risk management and governance as well as strengthen banks' transparency and disclosures.

To cope up with the international best practices and to make the bank's capital shock absorbent, Bangladesh Bank issued 'Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III) in December 2014 with the instructions to maintain the minimum capital requirement under pillar 1, additional capital requirement under pillar 2 and market disclosure requirement under pillar 3. Shahjalal Islami Bank has also adopted Basel-III framework as part of its capital management strategy in line with the revised guideline.

As part of Basel-III compliance, Market Discipline (pillar 3) is formulated with a view 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, Shahjalal Islami Bank Limited has developed a set of disclosure framework containing the key pieces of information on the assets, risk exposures, risk assessment processes, and hence the capital adequacy to meet the risks.

Components of Disclosure Framework

As per Bangladesh Bank's guidelines, the following components are the disclosure requirement under Pillar 3 of Basel framework:

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

Consistency and Validation

The quantitative disclosures on Risk Based Capital (Basel-III) are made on the basis of audited consolidated financial statements of Shahjalal Islami Bank Limited (Sjibl) and its subsidiaries for the year ended December 31, 2020 and prepared under the historical cost convention in accordance with International Financial Reporting Standards (IFRSs) and as per provisions of the "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15

