Market Discipline

Disclosure on Risk Based Capital Adequacy under Pillar-III of Basel III for the year 2020

A) Scope of Application

Qualitative Disclosure	
(a) The name of the top corporate entity in the group to which this guidelines applies	Social Islami Bank Limited
(b) An outline of difference in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated;(ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	The quantitative disclosures are made on the basis of both solo & consolidated basis. SIBL has two subsidiaries and an offshore banking unit; i) SIBL Securities Ltd & ii) SIBL Investment Ltd. Both solo & consolidated financial statements have been prepared under applicable financial reporting standard & related instructions/ circulars issued by Bangladesh Bank from time to time. The assets, liabilities, revenues & expenses of the Subsidiaries are combined with the parent company (SIBL) on consolidated basis. So assets of the subsidiaries & offshore banking unit are risk weighted and equities of the subsidiaries are crossed out with the investment of SIBL while consolidating.
c) Any restrictions, or other major impediment, on transfer of funds or regulatory capital within the group.	Not applicable

Quantitative Disclosures	
d) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and name(s) of such subsidiaries.	Not applicable

B) Capital Structure

Qualitative Disclosures	
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier I (CET-1, AT-1) and Tier 2.	As per Bangladesh Bank BASEL-III guidelines; **Tier I capital is divided into:** **a)** Common Equity Tier I (CET-1) Capital **b)** Additional Tier I (AT-1) Capital **a) Common Equity Tier-I capital of the Bank consist of -** **Paid up capital:** Issued, subscribed and fully paid up share capital of the Bank. **Statutory reserve:** As per Section 24 of the Bank Company Act, 1991, an amount equivalent to 20% of the profit before taxes for each year of the Bank has been transferred to the Statutory Reserve Fund. **Retained earnings:** Amount of profit retained with the banking company after meeting up all expenses, provisions and appropriations. b) Additional Tier-I capital: **Instruments issued by the banks that meet the qualifying criteria for AT1:** Issued, subscribed and fully paid perpetual subordinated debt/ bond, or other instrument if any which meet the qualifying criteria for AT1 as stipulated in guidelines on Risk Based Capital Adequacy. **Tier-II capital consists of –** **General Provisions:** As per Bangladesh Bank directive, amount of provision maintained against unclassified loans and off-balance sheet exposures as of the reporting date has been considered. **Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital:** Outstanding amount of subordinated debt as of the reporting date. **Assets revaluation reserves:** As per Bangladesh Bank's instruction, until 31 December 2014, 50% of incremental value of Bank's assets has been considered. Revaluation Reserve (RR) based on the position as of 31 December 2014 will be deducted @ 20% on yearly basis from 2015 to 2019 under Basel III guideline.

Quantitative Disclosures		
	As on December 31, 2020 (in million taka)	
	Solo	Consolidated
Tier-1 Capital (Going Concern Capital):		
Common Equity Tier-1 (CET-1)		
Fully Paid-up Capital	9,380.08	9,380.08
Statutory Reserve	7,030.39	7,030.39
General Reserve	0.00	11.31
Retained Earnings	1,056.77	1,103.50
Total CET-1	**17,467.24**	**17,525.28**
Additional Tier-1 Capital (AT-1)	1,500.00	1,500.00
Total Admissible Tier-1 Capital	**18,967.24**	**19,025.28**
Tier-2 Capital (Gone Concern Capital) :		
General Provision	5,441.65	5,441.65
Subordinated debt	5,960.00	5,960.00
Revaluation Reserves	0.00	0.00
Total Tier-2 Capital	**11,401.65**	**11,401.65**
Total Admissible Tier-2 Capital	**11,401.65**	**11,401.65**
Total Capital	**30,368.90**	**30,426.94**
Regulatory Adjustments:	0.00	0.00
Total Eligible Capital	**30,368.90**	**30,426.94**

C) Capital Adequacy

Qualitative Disclosures	
(a) A summary discussion of the bank's approach to assess the adequacy of its capital to support current and future activities.	SIBL has adopted standardized approach for computing capital charge for investment (credit) risk & market risk and basic indicator approach for operational risk. Assessment for capital adequacy is carried out in conjunction with the guidelines and regulations by Bangladesh Bank from time to time. Assessing regulatory capital in relation to overall risk exposures of a bank is an integrated and comprehensive process. SIBL, through its SRP team, is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to. Assessment of Regulatory Capital will be in alignment with the findings of these exercises.

Quantitative Disclosures			
Particulars		**As on December 31, 2020 (in million taka)**	
		Solo	Consolidated
b)	Capital requirements for Investment (Credit) Risk	20,305.69	20,159.25
c)	Capital requirements for Market Risk	178.28	234.74
d)	Capital requirements for Operational Risk	2,018.08	2,035.89
	Total capital requirement	22,502.05	22,429.88
e)	Capital to Risk Weighted Asset Ratio	13.50%	13.57%
	CET-1 Capital Ratio	7.76%	7.81%
	Tier-I Capital Ratio	8.43%	8.48%
	Tier-II Capital Ratio	5.07%	5.08%

f)	Capital Conservation Buffer	As per BB roadmap for implementation of Basel III, creation of Capital Conservation Buffer (CCB) has been made effective from January, 2016. As on 31.12.2020 SIBL maintained the capital conservation buffer as presented below:

Particulars	Solo	Consolidated
Required CCB	2.50%	2.50%
Maintained CCB	2.43%	2.48%
Required CET-1 Ratio including CCB	7.00%	7.00%
Maintained CET-1 Ratio	7.76%	7.81%
Required CRAR Ratio including CCB	12.50%	12.50%
Maintained CRAR Ratio	13.50%	13.57%

g)	Available Capital under Pillar 2 Requirement	Solo	Consolidated
	Total Eligible Regulatory Capital **[A]**	**30,368.90**	**30,426.94**
	Minimum Capital Requirement under Pillar 1 **[B]**	22,502.05	22,429.88
	Capital Conservation Buffer **[C]***	5,625.51	5,607.47
	Minimum Capital Requirement including Capital Conservation Buffer **[D=B+C]**	28,127.56	28,037.35
	Available Capital for Pillar 2 **[E=A-D]**	2,241.34	2,389.59

D) Investment Risk

Qualitative Disclosures

a) The General Qualitative disclosures requirement with respect to investment (credit) Risk, including:	As per Bangladesh Bank guidelines, any investment if not paid within the fixed expiry date will be treated as Past due/ Overdue. Bangladesh Bank issued circulars from time to time for strengthening Investment discipline. All Investments are categorized into four for the purpose of classification namely (i) Continuous Investment (ii) Demand Investment (iii) Fixed Term Investment and (iv) Short-term Agriculture & Micro Investment. Classification rules for the above 4 categorized Investments are as under: **Continuous and Demand Investments are classified as:** 'Sub-Standard'- if it is past due / overdue for 3 months or beyond but less than 6 months. 'Doubtful'- if it is past due / overdue for 6 months or beyond but less than 9 months. 'Bad/Loss'- if it is past due / overdue for 9 months or beyond from the date of expiry or claim by the bank or from the date of creation of forced investment. **Fixed Term Investments are classified as:** (a) In case of any Installment(s) or part of a Fixed Term Investment amounting up-to Taka 10 lac is not repaid within the due date, the amount of unpaid installment(s) will be termed as past due / overdue investment In such a case following classification rules will be applied: 'Sub-Standard'- if the amount of past due/overdue installment(s) is equal or more than the amount of installment(s) due within 6 months; the entire Investment amount will be classified as 'Sub-Standard'. 'Doubtful'- if the amount of past due/overdue installment(s) is equal or more than the amount of installment(s) due within 9 months, the entire Investment amount will be classified as 'Doubtful'. 'Bad/Loss'- if the amount of past due/overdue installment(s) is equal or more than the amount of installment(s) due within 12 months, the entire Investment amount will be classified as 'Bad/loss'.
	(b) In case of any Installment(s) or part of a Fixed Term Investment amounting more than Taka 10 lac is not repaid within the due date, the amount of unpaid installment(s) will be termed as past due / overdue investment In such a case following classification rules will be applied: 'Sub-Standard'- if the amount of past due/overdue installment(s) is equal or more than the amount of installment(s) due within 3 months; the entire Investment amount will be classified as 'Sub-Standard'.

	'Doubtful'- if the amount of past due/overdue installment(s) is equal or more than the amount of installment(s) due within 6 months; the entire Investment amount will be classified as 'Doubtful'. 'Bad/Loss'- if the amount of past due/overdue installment(s) is equal or more than the amount of installment(s) due within 9 months, the entire Investment amount will be classified as 'Bad/Loss'.
	Short-term Agricultural and Micro-Investment are classified as under: 'Sub-Standard'-If the investment not repaid within the due date as stipulated in the agreement and if such irregular continues, the investment will be classified as 'Sub-Standard' after a period of 12 month, as 'Doubtful' after the period of 36 months and as "Bad/loss' after a period of 60 months from due date.
	Continuous Investment, Demand Investment or Term Investment which will remain overdue for a period of 2 month or more will be put into 'Special Mention Account'.
	The rates of provisions are as under: a) General Provisions-will be maintained: i) @ 0.25% against all unclassified investments of SME (Small and Medium Enterprise) as defined by Bangladesh Bank, @ 1.00% against all unclassified investments except Consumer Financing, Investment to Brokerage House-Merchant Banks-Stock Dealer. ii) @ 1% on the Off Balance Sheet exposure. iii) @5% on unclassified investment amount of consumer financing, @ 1% on unclassified investment amount of House building finance, @ 1% on unclassified investment amount of Investment to professionals under consumer financing for setting up business, Investment to Brokerage House-Merchant Banks-Stock Dealer. iv) @ 5% on the outstanding amount of 'Special Mention Account'.
	b) Specific Provisions-will be maintained: i) Sub-standard: @ 20% ii) Doubtful: @ 50% i) Bad /Loss: @ 100% c) Provision for Short-term Agricultural and Micro Investment: i) All Investment except bad/loss: 5% ii) Bad/Loss: @ 100%
ii) Description of approaches followed for specific and general allowances and statistical method;	Social Islami Bank Limited has a well defined Investment Risk Management Manual duly approved its Board of Directors which is reviewed annually. Investment risk is one of the major risks faced by the bank and such investment risk management of the bank has been designed to address all risks associated with investments.
	The Bank has segregated duties of the Officers / Executives involved in investment related activities. A separate Corporate Division has been formed at Head Office, which is entrusted with the duties of maintaining effective relationship with the customer, marketing of Investment products, exploring new business opportunities etc. Moreover, investment approval, administration, monitoring and recovery functions have been segregated. For this purpose, two separate units have been formed. These are (a) Investment Risk Management Division, (b) Investment Administration Division. Investment Administration Division includes investment monitoring unit. Investment Risk Management Unit is entrusted with the duties of maintaining asset quality, assessing risk in lending to a particular customer, sanctioning investment (credit), formulating policy / strategy for lending operation etc. A thorough assessment is done before sanctioning of investment facility at Investment Risk Management Unit. The risk assessment includes borrower risk analysis, financial analysis, industry analysis, historical performance of the customer, security of the proposed Investment facility etc. The assessment process starts at Corporate Division by the Relationship Manager/Officer and ends at Investment Risk Management Unit. Proposal beyond their delegation are approved / declined by the Executive Committee and / or the Management. In determining single borrower / large investment limit, the Bangladesh Bank instructions are strictly followed. Internal audit is conducted on periodical interval to ensure compliance of Bank's and regulatory policies. Investments are classified as per Bangladesh Bank's guidelines.

Quantitative Disclosures

<table>
<tr>
<td>b) Total gross Investment/ Credit Risk exposures broken down by major types of Investment exposures.</td>
<td>
In million Tk.

Type of Investment	As on 31.12.2020
Musharaka	221.69
Murabaha	7,087.22
Mudaraba	4,308.10
Bai-Muazzal	1,98,926.80
Hire-Purchase Sirkatul Meelk	62,882.33
Quard	10,565.22
Bai-Salam	905.73
Staff Loan	2,308.72
Ijarah	530.41
Visa Card	758.65
In land Bill Purchase	2,458.10
Foreign Bill Purchased	60.42
Murabaha Bill of Exchange	1,517.48
Baim-Wes bills	8,087.08
Total	**3,00,617.94**

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<td>b) Geographical Distribution of exposures, broken down in significant areas by major types of investment (credit) exposure.</td>
<td>
In million Tk.

Name of the Division	As on 31.12.2020
Dhaka	2,19,164.57
Chittagong	62,316.54
Sylhet	559.85
Rajshahi	6,443.70
Khulna	6,429.54
Rangpur	2,390.99
Barisal	1,434.31
Mymensingh	1,878.44
Total	**3,00,617.94**

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d) Industry or counterparty type distribution of exposures, broken down by major types of Investment/credit exposure.

In million Tk.

Mode of Investment	As on 31.12.2020
Commercial lending	63,085.99
Export Financing	7,421.29
House Building Investment	4,016.75
Investment against Scheme & MTDR	5,291.70
Small and Medium Enterprises	61,920.98
Micro Investment	678.56
Other Investments	15,673.86
Off-shore Banking Unit	4,308.10
Executives & Staffs of SIBL	2,333.64
Agricultural Industries	3,123.14
Textile & Allied Industries	41,971.32
Food & Allied Industries	13,678.73
Pharmaceutical Industries	1,756.70
Leather, Chemical, Cosmetic etc.	4,215.66
Construction Industries	9,140.14
Cement and Ceramic Industries	5,027.40
Service Industries	16,686.79
Transport and Communication Industries	4,143.13
Other Industries	36,144.08
Total	3,00,617.94

e) Residual contractual maturity break down of the whole portfolio, broken down by major types of investment/credit exposure.

In million Tk.

Particulars	As on 31.12.2020
Re-payable on Demand	35,752.99
Not more than 3 months	64,247.34
Over 3 months but not more than 1 year	1,25,502.82
Over 1 year but not more than 5 years	62,813.15
Over 5 years	12,301.65
Total	**3,00,617.94**

f) By major industry or counterparty type

Amount of impaired investments and if available, past due investments

Particulars	As on 31.12.2020
Past Due	-
Special Mentioned Account	12,960.00
Substandard	2,123.97
Doubtful	415.59
Bad or Loss	15,661.60
Total	31,161.16

	Specific and general provisions:
	Specific Provisions: 7,812.08
	General Provision: 5,441.65
	Total: 13,253.73
	Charges for specific allowances and charge-offs during the period
	Provision on classified investment: 230.21
	Provision on unclassified investment: 329.52
	Special General Provision-COVID-19 (As per BRPD Circular letter No.56 dt. 10.12.2020): 732.16
	Provision on Off-Balance Sheet items: (19.84)
	Other provisions (note: 36): 30.71
	Total: 1,302.77
g) Gross Non Performing Assets (NPAs)	Gross Non Performing Assets of the bank is 18,201.16 Million
Non Performing assets to outstanding investment	Non Performing assets to outstanding investment is 6.05%
Movement of non performing assets	Opening balance: 17,533.30
	Addition: 667.86
	Reduction: -
	Closing Balance: 18,201.16
Movement of Specific provisions for Non performing assets	Opening Balance: 7,595.56
	Add: Provision made during the year: 239.86
	Less: Write-off: 23.33
	Add: Write back of excess provision:
	Closing balance: 7,812.08

E. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

a) The general Qualitative Disclosures requirement with respect to equity risk, including:

a) Differences between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons ;and	Social Islami Bank limited has two categories of equity investments namely (i) Quoted Shares- traded in the secondary market of DSE & CSE like common stock, mutual fund, bond etc. and (ii) Unquoted Shares- currently not tradable in the secondary market. Unquoted shares include shares and securities which are characterized and categorized as (i) Held to maturity (ii) long term investment i.e. the Bank does not have any intention to sell securities immediately or in the near future (iii) Securities acquired under private placement which will be traded in the secondary market only after completion of required legal formalities with the BSEC (Bangladesh Securities & Exchange Commission), DSE, CSE as per prevailing laws etc.
b) Discussion of important policies covering the valuation and accounting of equity holdings in the banking book, This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.	Investment in Shares and Securities are for gaining dividend income or capital gain. Dividend income are recognized in the books of accounts of the bank as and when such dividend is received or right to receive such dividend is established. Both Quoted shares and unquoted shares are valued at cost and necessary provisions are maintained if the price falls below the cost. At the time of calculation of unrealized gain or loss of quoted shares, sufficient provisions on shares & securities are made in the books of accounts after netting off the values of the portfolios but however unrealized gains are not accounted for. As per Bangladesh bank guidelines, HTF (Held for Trading) securities are revalued once in a week using marking to market concept and all such securities are revalued once in a year according to the Bangladesh bank guidelines.

Quantitative Disclosures			
As on December 31,2020 (In million taka)			
	Particulars	**Solo**	**Consolidated**
a)	Value disclosed in the balance sheet of investments, as well as the fair value of those investments, for quoted securities a comparison to publicly quoted share values where the share price is materially different from fair value.	510.98	735.45
b)	The cumulative realized gains (losses) arising from sales & liquidations in the reporting period.	-	-
c)	Total unrealized gains (losses)	42.17	42.17
d)	Total latent revaluation gains (losses)	-	-
	Any amounts of the above included in tier-2 capital	-	-
e)	Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.		
	Specific Market Risk	553.15	693.26
	General Market Risk	553.15	693.26

F. Profit Rate Risk in the Banking Book

Qualitative Discloser	
a) The general qualitative discloser requirement including the nature of Profit Rate Risk in the Banking Book (PRRBB) and key assumptions, including assumptions regarding Investment prepayments and behavior of non-maturity deposits, and frequency of PRRBB measurement	Profit rate risks in the banking book are taken into account as one of the most potential risk. Sources and types of profit rate risks in banking book are (i) Gap or mismatch risk (ii) basic risk (iii) Net position risk (iv) embedded option risk etc. Changes in Profit rate in the market may adversely affect the financial matters of a bank such as Current Earnings, Net Investment Income, Net Worth etc. In the long run, impact on cash flows of the earning assets is mostly visible which may lead to asset liability mismatch.
Quantitative Discloser	
(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant)	

Figure in Million

Particulars	1-90 Days	Over 3 Month-Up to 6 Months	Over 6 Months - Up to 1 Year
RSA	1,29,999.50	32,477.90	38,468.60
RSL	1,28,815.40	40,706.30	59,300.70
Gap	1,184.10	-8,228.40	-20,832.10
Cumulative Gap	1,184.10	-7,044.30	-29,060.50
Adjusted Profit Rate Change (PRC)	1.00%	1.00%	1.00%
Earnings Impact (Cum. Gap*PRC)	11.84	-70.44	-290.61
Accumulated Earnings Impact to Date	11.84	-58.60	-361.05

G. Market Risk

Qualitative Discloser	
a) i) Views of BOD on trading / investment activities	The board of Directors of Social Islami bank Limited approves policies related to market risks by setting up limits and reviews of compliance status regularly.
ii) Method used to measure market risk	Standardized approach is being used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for "specific risk" and "general market risk".
iii) Market risk management system	The Treasury Division manages market risk covering liquidity, profit rate and foreign exchange risks with oversight from asset-liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meets at least once a month.
iv) Policies and processes for mitigating market risk	There are approved limits for Investment deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items and borrowing from money market and foreign exchange position. The limits are monitored and enforced regularly to protect the market risks. The exchange rate of the Bank is monitored regularly and the prevailing market condition, exchange rate, foreign exchange position and transactions are reviewed to mitigate foreign exchange risks.

Quantitative Disclosure	Figure in Million	
	As on December 31, 2020	
b) The capital requirements for	Solo	Consolidated
Profit rate risk	-	-
Equity position risk	110.63	167.09
Foreign exchange risk	67.65	67.65
Commodity risk	-	-
Total Capital Requirement	178.28	234.74

H. Operational Risk

Qualitative Disclosures	
i) Views of BOD on system to reduce operational risk	Operational risk implies the risk of loss of harm resulting from inadequate or failure of internal processes, people and systems or from external events. Capability to carry out a large number of transactions effectively and accurately while complying with applicable laws and rules constitutes operational risk management activities of the bank. The policy for operational risks including internal control & compliance risk is approved by the board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of internal control & Compliance to protect against all operational risk.
ii) Performance gap of executive and staffs	SIBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. SIBL's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.
iii) Potential external events	No potential external events are expected to expose the Bank to significant operational risk.
iv) Policies and process for mitigating operational risk	The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh Bank. Policy guidelines on Risk Based Internal Audit (RBIA) system is in operation. As per RBIA branches are rated according to their risk grading/ scoring audit procedure and required frequent audit to the Branches are operated by the Audit Division. In addition, there is a Vigilance Cell established in the Bank to reinforce operational risk management of the Bank and to minimize the same. Bank's anti-money laundering activities are headed by (Chief Anti Money Laundering Compliance Officer) CAMLCO and their activities are devoted to protect against all money laundering and terrorist finance related activities. Apart from that, there is adequate check & balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.
v)Approach to calculating capital charges for operational risk	Basic indicator Approach is used for calculating capital charge for operational risk as of the reporting date.

Quantitative Disclosures

As per risk based capital adequacy guidelines, capital charge for operational risk is equivalent to 15% of average annual gross income of three previous years where negative figures are excluded.

As per risk based capital adequacy guidelines Social Islami bank Limited follows the Basic Indicator Approach for computing capital charge for operational risk.

As on 31.12.2020	Amount in million Taka	
Capital Requirement for	Solo	Consolidated
Operational Risk	2,018.08	2,035.89

I. Liquidity ratio

In line with the provisions of liquidity risk management under Basel III, Bangladesh Bank on the basis of the relevant guideline of Bank for International Settlements (BIS) has identified the (i) Liquidity Coverage Ratio (LCR); (ii) Net Stable Funding Ratio (NSFR); and (iii) Leverage under the purview of 'Liquidity' ratio vide BRPD Circular No. 18 dated 21 December 2014 and DOS Circular No. 1 dated 1 January 2015.

Qualitative Disclosures		
a)	i) Views of Board of Directors (BOD) on system to reduce Liquidity Risk	The Board of Directors reviews the liquidity risk of the Bank on quarterly rest while reviewing the Quarterly Financial Statements, Stress Testing Report etc. Besides, the EC of the Board also reviews the liquidity position while reviewing the management information system (MIS) report on monthly basis. Upon reviewing the overall liquidity position along with the outlook of SIBL funding need, investment opportunity, market/industry trend, the Board takes its strategic decision regarding deposits, funding, investments, loans as well as interest rates polices etc. The Board of SIBL always strives to maintain adequate liquidity to meet up Bank's overall funding need for the huge retail depositors, borrowers' requirements as well as maintain regulatory requirements comfortably.
	ii) Methods used to measure Liquidity Risk	The maintenance of Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR) are considered as the fundamental methods/tools to measure the liquidity position/risk of SIBL. However, under Basel III, the following methods and tools are mandated for measuring the liquidity risk. **a) Liquidity coverage ratio (LCR):** Liquidity Coverage Ratio ensures to maintain an adequate level of stock of high quality liquid assets that can be converted into cash to meet its liquidity needs (i.e. total net cash outflows) over the next 30 calendar days. **b) Net Stable Funding ratio (NSFR):** Net Stable Funding Ratio aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items. The minimum acceptable value of this ratio is 100 percent, indicating that, available stable funding (ASF) should be at least equal to required stable funding (RSF). ASF consists of various kinds of liabilities and capital with percentage weights attached given their perceived stability. RSF consists of assets and off-balance sheet items, also with percentage weights attached given the degree to which they are illiquid or "long-term" and therefore requires stable funding. In addition to the above, the following measures have been put in place to monitor the liquidity risk management position of the Bank on a continued manner: a) Asset-Liability Maturity Analysis (Liquidity profile); b) Whole sale borrowing capacity; c) Maximum Cumulative Outflow (MCO); Besides the above, the following tools are also used for measuring liquidity risk: a) Stress Testing (Liquidity Stress); b) Net open position limit - to monitor the FX funding liquidity risk;
	iii) Liquidity risk management system	In SIBL, at the management level, the liquidity risk is primarily managed by the Treasury Division (Front Office) under oversight of ALCO which is headed by the Managing Director & CEO along with other senior management. Treasury Division (Front Office) upon reviewing the overall funding requirements on daily basis sets their strategy to maintain a comfortable/adequate liquidity position taking into consideration of Bank's approved investment (credit) deposit ratio, liquid assets to total assets ratio, asset-liability maturity profile, Bank's earning/profitability as well as overall market behavior and sentiment etc. Apart from the above, Risk Management Division also monitors & measures the liquidity risk in line with the Basel III liquidity measurement tools, namely, LCR, NSFR, Leverage Ratio. RMD addresses the key issues and strategies to maintain the Basel III liquidity ratios to the respective division (s) on regular interval.

	iv) Policies and processes for mitigating Liquidity Risk	The Asset-Liability (ALCO) policy leads the process & procedures for mitigation of liquidity risk of SIBL. ALCO works under specific Terms of References (functions) approved by the Board. Treasury Division (Front Office) and ALM desk under regular supervision of Top Management reviews the overall liquidity position of SIBL and takes appropriate strategy, process in line with the industry position for managing liquidity risk of the Bank.

Quantitative Disclosures

i) Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) under Liquidity Ratios of Basel III of Social Islami Bank Limited as of 31 December 2020 was as under:

Liquidity Coverage Ratio (LCR) =Stock of High quality liquid assets /Net cash outflows over the next 30 calendar days

particulars	Ratio (%)	
	BB requirement	**SIBL's position**
Liquidity Coverage Ratio (LCR)	≥ 100%	152.77%

ii) Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio (NSFR) under Liquidity Ratios of Basel III of Social Islami Bank Limited as of 31 December 2020 was as under:

Net Stable Funding Ratio (NSFR) =Available amount of stable funding (ASF) /Required amount of stable funding (RSF)

particulars	Ratio (%)	
	BB requirement	**SIBL's position**
Net Stable Funding Ratio (NSFR)	≥ 100%	128.51%

iii) Stock of High Quality Liquid Assets (SHQLA)

As stipulated by BB vide DOS Circular Letter No. 1 dated 1 January 2015, the Stock of High Quality Liquid Assets (SHQLA) of Social Islami Bank Limited as of 31 December 2020 is Tk. 47,392.00 million.

iv) Total net cash outflows over the next 30 calendar days

As stipulated by BB vide DOS Circular Letter No. 1 dated 1 January 2015, total net cash outflows over the next 30 calendar days of Social Islami Bank Limited based on the position as of 31 December 2020 is Tk. 31,022.20 million.

v) Available amount of stable funding

As stipulated by BB vide DOS Circular Letter No. 1 dated 1 January 2015, the available amount of stable funding (ASF) of Social Islami Bank Limited as of 31 December 2020 was as under:

Particulars	**Amount (in million)**
Available amount of Stable Funding (ASF)	3,24,337.20
Total	3,24,337.20

vi) Required amount of stable funding

As stipulated by BB vide DOS Circular Letter No. 1 dated 1 January 2015, the required amount of stable funding (RSF) of Social Islami Bank Limited as of 31 December 2020 was as under:

Particulars	**Amount (in million)**
Required amount of Stable Funding (RSF)	2,52,391.10
Total	2,52,391.10

J. Leverage Ratio

Qualitative Disclosures

	i) Views of BOD on system to reduce excessive leverage	The Board of Directors of SIBL primarily views on the growth of On and Off balance sheet exposures commensurate with its expected capital growth so that the excessive leverage is reduced. Within the On-balance components, again, the Board emphasizes on the growth of the prime component i.e. the loans and advances and maintaining good asset quality so as to maximize the revenue as well as the capacity to generate capital internally (in the form of retained earnings) to trade-off the excessive leverage supposed to be caused by asset growth. At the outset of asset growth, the Board also views the growth of its sources of fund i.e. deposit growth taking into consideration of projected business growth so that the investment (credit)-deposit ratio is maintained at a sustainable basis as well as to reduce the mismatches of asset- liability gap within the tolerable limit to manage the liquidity risk.
	i) Policies and processes for managing excessive on and off-balance sheet leverage	First and foremost, Bank's policy is to maintain the Leverage Ratio (Tier 1 capital as proportion to total adjusted On and Off balance sheet asset) well above the regulatory requirement. To this end, the striking components of balance sheet, namely, the deposits & borrowing, loans & advances, other liquid assets (treasury bills, bonds, fund placements) are analyzed on monthly basis. Measures are taken to contain the growth of overall size of balance sheet (On and Off balance sheet exposures aggregately) considering short term outlook of the industry indicators as well as possible growth of equity (Tier 1 capital) of the Bank on quarterly rest. With regard to managing the excessive leverage, the regulatory stance through the monetary policy initiatives i.e. the scope of expected business potential (growth), estimated money supply, inflation, resulting the estimated overall liquidity of the industry as well as the Bank in particular is also considered.
	iii) Approach for calculating exposure/Leverage	The exposures of balance sheet representing the overall position of the Bank as of the reporting date are calculated and presented in terms of applicable relevant accounting standards, i.e., IASs (BASs), IFRSs (BFRSs), etc. The accounting values of assets and liabilities are also presented and measured at gross. Netting of assets and liabilities are also made where permitted in compliance with the respective accounting standards and the regulatory instruction. For calculating "leverage", SIBL follows the 'Leverage Ratio' approach/method as suggested by Bangladesh Bank

Quantitative Disclosures

<table>
<tr><td></td><td>i) Leverage Ratio</td><td>Leverage Ratio (LR) under Basel III of Social Islami Bank Limited as of 31 December 2020 was as under:
Leverage Ratio (LR) =Tier 1 Capital (after related adjustment)/Total Exposure (after related deductions)
<table>
<tr><td rowspan="2">Particulars</td><td colspan="2">Ratio (%)</td></tr>
<tr><td>BB requirement</td><td>SIBL's position</td></tr>
<tr><td>Leverage Ratio (LR)</td><td>> 3%</td><td>4.82%</td></tr>
</table></td></tr>
<tr><td></td><td>ii) On balance sheet exposure</td><td>Total On-balance Sheet exposure for calculating Leverage Ratio under Basel III of Social Islami Bank Limited as of 31 December 2020 is Tk. 3,76,475.70 million.</td></tr>
<tr><td></td><td>iii) Off balance sheet exposure</td><td>Total Off-balance Sheet exposure for calculating Leverage Ratio under Basel III of Social Islami Bank Limited as of 31 December 2020 is Tk 16,727.51 million.</td></tr>
<tr><td></td><td>iv) Total exposure</td><td>Total Exposures for calculating Leverage Ratio under Basel III of Social Islami Bank Limited as of 31 December 2020 is Tk. 3,93,203.22 million.</td></tr>
</table>

K. Remuneration

Qualitative Disclosures		
a	Information relating to the bodies that oversee remuneration	
	i) Name of the bodies that oversee remuneration	Board of Directors of the Bank is actually the main body to oversee the remuneration. The Board, however, generally suggest the management to place proposal for revision of remuneration from time to time. At the management level, primarily the Human Resources Division oversees the 'remuneration' in line with its HR management strategy/policy under direct supervision and guidance of the Board of Directors.
	ii) Composition of the main body overseeing remuneration	Board of Directors of the Bank form a special committee consisting of competent directors for reviewing the proposal of the MANCOM regarding remuneration. The MANCOM is headed and chaired by the Managing Director& CEO of the Bank; along with other members of top executives and the Heads of different functional divisions of Head Office.
	iii) Mandate of the main body overseeing remuneration	The mandate of MANCOM as the main body for overseeing the Bank's remuneration is to review the position of remuneration and associated matters and recommend to the Board of Directors for approval of its restructuring, rearrangement and modification commensurate with the industry best practices as per requirement.
	iv) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.	The Bank has no External Consultant permanently regarding 'remuneration' and its process. However, experts' opinion may have been sought in case to case basis regarding income tax matter, lawyers' opinion for settlement of employees' dues in case of death, penalty etc. if required, by the management.
	v) A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.	The Bank does not differentiate the 'Pay Structure' and 'employee benefits' by regions.
	vi) A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	We consider the members of the senior management, branch managers and the employees engaged in different functional divisions at Head Office (except the employees involved in internal control, risk management and compliance) as the material risk takers.

b	Information relating to the design and structure of remuneration processes.	
	i) An overview of the key features and objectives of remuneration policy.	Remuneration and other associated matters are guided by the Bank's Service Rule as well as instruction, guidance from the Board from time to time in line with the industry practice with the objectives of retention/hiring of experienced, talented workforce focusing on sustainable growth of the Bank.
	ii) Whether the remuneration committee reviewed the bank's remuneration policy during the past year, and if so, an overview of any changes that were made.	Yes. A committee was formed to review the bank's remuneration policy under supervision of board of directors to revise the pay scale in line with the industry practice and accordingly bank allowed a revised pay scale to the employee of SIBL with effect from 01.02.2017.
	iii) A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	The risk and compliance employees are carrying out the activities independently as per specific terms of references, job allocated to them. Regarding remuneration of the risk and compliance employees, Human Resources Division does not make any difference with other mainstream/ regular employees and sets the remuneration as per the prevailing rule of the Bank primarily governed by the employees' service rule of the Bank.
c	Description of the ways in which current and future risks are taken into account in the remuneration processes.	
	i) An overview of the key risks that the bank takes into account when implementing remuneration measures.	The business risk including investment (credit)/default risk, compliance & reputational risk are mostly considered when implementing the remuneration measures for each employee/group of employee. Financial and liquidity risk are also considered.

	ii) An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure.	Different set of measures are in practice based on the nature & type of business lines/segments etc. These measures are primarily focused on the business target/goals set for each area of operation, branch vis-à-vis the actual results achieved as of the reporting date. The most vital tools & indicators used for measuring the risks are the asset quality (NPL ratio), Net Interest Margin (NIM), provision coverage ratio, credit- deposit ratio, cost-income ratio, growth of net profit, as well the non-financial indicators, namely, the compliance status with the regulatory norms, instructions has been brought to all concerned of the Bank from time to time. While evaluating the performance of each employee annually, all the financial and non-financial indicators as per pre-determined set criteria are considered; and accordingly the result of the performance varies from one to another and thus affect the remuneration as well.
	iii) A discussion of the ways in which these measures affect remuneration.	While evaluating the performance of each employee annually, all the financial and non-financial indicators as per pre-determined set criteria are considered; and accordingly the result of the performance varies from one to another and thus affect the remuneration as well.
	iv) A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration	Considering industry practice and competitiveness the Board of Directors of the bank revised pay scale to the employee of SIBL with effect from 01.02.2017.
d	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.	
	i) An overview of main performance metrics for bank, top-level business lines and individuals.	The Board sets the Key Performance Indicators (KPIs) while approving the business target/budget for each year for the Bank and business lines/segments. The management sets the appropriate tools, techniques and strategic planning (with due concurrence/approval of the Board) towards achieving those targets. The most common KPIs are the achievement of loan, deposit and profit target with the threshold of NPL ratio, cost-income ratio, cost of fund, yield on loans, provision coverage ratio, capital to risk weighted asset ratio (CRAR), ROE, ROA, liquidity position (maintenance of CRR and SLR) etc.
	ii) A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.	The remuneration of each employee is paid based on her/his individual performance evaluated as per set criteria. And, accordingly, the aggregate amount of remuneration of the Bank as a whole is linked/ impacted to the same extent.
	iii) A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining "weak" performance metrics.	The Bank follows remuneration process as per set criteria with no in general adjustment in the event of weak performance metrics/scorecard.
e	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.	
	i) A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.	The Bank pays variable remuneration i.e. annual increment based on the yearly performance rating on cash basis with the monthly pay. While the value of longer term variable part of remuneration i.e. the amount of provident fund, gratuity fund are made provision on aggregate/individual employee basis; actual payment is made upon retirement, resignation etc. as the case may be, as per rule.
	ii) A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.	Not Applicable

f	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.	
	i) An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms. A description of the elements corresponding to other forms of variable remuneration (if any) should be provided.	The Bank pays variable remuneration on cash basis (i.e. direct credit to the employee Bank account and/or Payment Order/ Cheque), as the case may be, as per rule/practice.
	ii) A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.	The following variable remuneration has been offered by SIBL to its employees: Annual Increment Bank provides annual increments based on performance to the employees with the view of medium to long term strategy and adherence to SIBL values.
Quantitative Disclosures		
g	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	There were 4 (Four) meetings of the MANCOM held during the year 2020. All the members of MANCOM are from the core banking area/operation of the Bank. No additional remuneration was paid to the members of the MANCOM for attending the meeting except their regular remuneration.
h	i) Number of employees having received a variable remuneration award during the financial year.	The following Number of Employees were received a variable remuneration during the year 2020: Particulars | Number Number of employees having received a variable remuneration award during the year 2020 | Not Applicable
	ii) Number and total amount of guaranteed bonuses awarded during the financial year.	The following number and total amount of Guaranteed bonuses awarded during the year 2020: All employee of SIBL get two festival bonuses.
	iii) Number and total amount of sign-on awards made during the financial year.	There was no sign-on awards made in 2020.
	iv) Number and total amount of severance payments made during the financial year.	There was no severance payment made during the year 2020.
i	i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Not Applicable
	ii) Total amount of deferred remuneration paid out in the financial year.	Not Applicable
J	Breakdown of amount of remuneration awards for the financial year to show:	i) Fixed and variable remuneration paid in 2020 are as follows: Amount in Million Taka Fixed pay | 3,553.99 Variable pay | - Total fixed and variable pay | 3,553.99

		ii) Deferred and non-deferred (paid during the year). Not Applicable
		iii) Different forms used (cash, shares and share linked instruments, other forms).Remuneration is paid on cash basis (i.e. direct credit to the employee Bank account and/or Payment Order/ Cheque), as the case may be, as per rule/practice.
k	Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:	
	i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	Not Applicable
	ii) Total amount of reductions during the financial year due to ex post explicit adjustments.	Not Applicable
	iii) Total amount of reductions during the financial year due to ex post implicit adjustments.	Not Applicable