Disclosures on
Risk Based Capital (Basel-III)

The public disclosure of prudential information is an important component of Basel Committee on Banking Supervision's framework of capital measurement and capital adequacy, known as Basel III. Bangladesh Bank has specified the standard of disclosure through Guidelines on Risk Based Capital Adequacy (December 2010) which revised in Basel III Guideline on December 2014 with effect from January2015.The standard aims to enhance the transparency in Bangladeshi financial market by setting minimum requirement for the disclosure of information on the risk management practice and capital adequacy.

To cope up with the international best practices and to make the bank's capital shock absorbent 'Guidelines on Risk Based Capital Adequacy(RBCA) for banks'(Revised Regulatory Capital Framework in line with Basel II) was introduced from January 01, 2009 as a parallel run with BRPD Circular No. 10, dated November 25,2002 (Basel I). At the end of parallel run, Basel II regime started from January 01, 2010 and the guidelines on RBCA came fully into force with its subsequent supplements/revisions. After that Bangladesh Bank issued 'Guidelines on Risk Based Capital Adequacy (RBCA) for banks' (Revised Regulatory Capital Framework in line with Basel III) vide its BRPD Circular 18 dated December 21, 2014 that Basel III reporting start from January 2015 and full implementation will start from January 2020. Instructions regarding Minimum Capital Requirement (MCR), Adequate Capital and Disclosure requirement as stated in the guidelines had to be followed by all scheduled banks for the purpose of statutory compliance.

An Action Plan/Roadmap was issued by Bangladesh Bank for implementation of Basel-III in Bangladesh vides BRPD Circular No: 18 Dated: 21December, 2014. For effective implementation of Basel-III, the Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework in line with Basel III) has been issued by Bangladesh Bank.

Action Plan/Roadmap Action

Action	Deadline
Issuance of Guidelines on Risk Based Capital Adequacy	December 2014
Commencement of Basel III Implementation process	January 2015
Capacity Building of the Banks	January 2015- December 2019
Initiation of Full Implementation of Basel III	January 2020

Phase-in Arrangements

The phase-in arrangements for Basel III implementation will be as follows:

	2015	2016	2017	2018	2019	2020
Minimum Common Equity Tier-1(CET-1) Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	-	0.625%	1.25%	1.875%	2.50%	2.50%
Minimum CET-1 plus Capital Conservation Ratio	4.50%	5.125%	5.75%	6.375%	7.00%	7.00%
Minimum T-1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%	6.00%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00%	10.625%	11.25%	11.875%	12.50%	12.50%

The Basel III framework consists of three-mutually reinforcing pillars:
Pillar 1 : Minimum capital requirements for credit risk, market risk and operational risk
Pillar 2 : Supervisory review process(SRP)
Pillar 3 : Market discipline
Market discipline (Pillar 3) comprises a set of disclosures on the Capital Adequacy and Risk Management framework of the Bank. Pillar 3 disclosures as per BB circular on Basel-III Capital Regulations are set out in the following sections for information.

The disclosures (qualitative and quantitative) under the revised Risk Based Capital Adequacy (RBCA) framework as advised by Bangladesh Bank based on the audited financial position of the bank as of 31st December, 2018 are presented below:

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

1. Scope of application:

a. Qualitative Disclosures

The name of the top corporate entity to which this framework applies	Al-ArafahIslami Bank Limited
An outline of differences 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)	Consolidated financial statements are the financial statements of a group (parent and subsidiaries) presented into one. This offers the benefit of viewing the whole group's combined financial information together to see how all companies are doing jointly. The bank has an approved disclosure policy to observe the disclosure requirements set out by the Bangladesh Bank and International Financial Reporting Standard (IFRS) and International Accounting Standards (IAS) as adopted by the Institute of Chartered Accounts of Bangladesh (ICAB) into Bangladesh Financial Reporting Standards (BFRS) and Bangladesh Accounting Standards (BAS) where relevant to the bank A group consists of a parent entity and all its subsidiaries. The control exercised by the parent entity is the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits from its activities. Consolidated financial statements represent combination of the financials of all subsidiaries of the parent entity. This consolidation is required when a parent owns 50 percent or more shares in the subsidiaries with controlling authority. **Procedures** In preparing consolidated financial statements, an entity combines the financial statements of the parent entity and its subsidiaries and the items covered are mainly assets, liabilities, equity, income and expenses. However intra group balances, transactions, income and expenses are eliminated in full. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are of the same date. Consolidated financial statements are prepared using uniform accounting policies for both the parent entity and the subsidiaries. Minority interest is presented in the consolidated statement of financial position within equity segment but separately from the equity of the owners of the parent entity. **Consolidation for regulatory purposes** Banks having subsidiaries have been advised to consolidate their financial statements following accounting standards as set by the regulators to assess capital adequacy. As such the bank has prepared capital adequacy report on Solo basis as well as on consolidated basis. If subsidiaries financials are not consolidated with that of the Bank, investments in subsidiaries by the bank will be deducted at 50% from Tier 1 and 50% from Tier 2 capital of the bank. The assets representing the investments in subsidiaries whose capital had been deducted from that of the parent would not be included in total assets for the purposes of computing CAR. **Off-Shore Banking Unit (OBU)** The Bank obtained the Off-shore Banking Unit ("the Unit") License on 17 February'14 vide letter # BRPD (P-3)744(121)/2014-934 from Bangladesh Bank. The Bank commenced operation of this unit from 22 may 2014. The Off-shore Banking Unit is governed under the rules and guidelines of the Bangladesh Bank. Its office is located at AIBL Motijheel Branch, 161,Motijheel Commercial Area , Dhaka 1000. Al-ArafahIslami Bank Limited has 4 (Four) subsidiaries viz. a. AIBL Capital Market Services Ltd. b. AIBL Capital Management Ltd. c. AIBL Asset Management Co. Ltd. d. Millennium Information Solution Limited (MISL). Al-ArafahIslami Bank holds 60.50%, 98%,98% and 51% AIBL Capital Market Services Ltd. AIBL Capital Management Ltd. AIBL Asset Management Co. Ltd. Millennium Information Solution Limited (MISL). A brief description of the Bank and its subsidiary are given below: **a. AIBL Capital Market Services Limited** AIBL Capital Market Services Limited was incorporated as subsidiary company of Al-ArafahIslami Bank Limited with an authorized capital of Tk. 10 billion and paid-up capital of Tk. 4 billion of which AIBL holding is 60.50%. The main objectives of the company are to carry out the business of Stock Broker and Dealer in the Capital Market. **b. AIBL Capital Management Limited** AIBL Capital Management Limited, a subsidiary company of Al-ArafahIslami Bank Limited, was incorporated with an authorized capital of Tk. 2 billion and paid-up capital of Tk. 500 million. The main objectives of the company are to carry out the business of Merchant Banking in all its aspects including Issue Management (IPO, Right Share Issue, Bond Issue etc.), Portfolio Management, Underwriting, Corporate Advisory Services, Pre-IPO Placement, Investment Analysis and Research etc. **c) AIBL Asset Management Co. Ltd.** Another subsidiary company in the name of AIBL Asset Management Co. Ltd. has already been incorporated with Authorized Capital of Tk. 500 million and Paid up Capital of Tk. 100 million to carry out the business of Asset Management, Portfolio Management, Capital Market Operation and other financial services. The shareholding ratio of AIBL and its another subsidiary AIBL Capital Market Services Limited is 9:1. We hope that the company will start its functioning very soon. **d) Millennium Information Solution Limited (MISL)** Al-ArafahIslami Bank Ltd. owned 51% shares of Millennium Information Solution Limited a subsidiary company of Al-ArafahIslami Bank Limited. Millennium Information Solution Limited, a private limited Company was incorporated in Bangladesh under the Companies Act 1994 on February 11, 2001. The main objective of company is to carry on activities relating to developing software products and providing maintenance and support services both the domestic and international clients. Over the years, MILS has established itself as the leading software developer, implementation and service provisioning company in Bangladesh which adheres to the rules of Islamic Shariah.

c) Any restrictions, or other major impediments on transfer of funds or regulatory capital within the group.	Not Applicable
b.Quantitative Disclosures	
The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to and alternative method) included in the capital of the consolidated group.	Not Applicable

2) Capital structure:

1. 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 CET 1, Additional Tier 1 or Tier 2	For the purpose of calculating capital under capital adequacy framework, the capital of banks shall be classified into two tiers. The total regulatory capital will consist of sum of the following categories: 1) Tier 1 Capital (going-concern capital): a) Common Equity Tier 1 b) Additional Tier 1 2) Tier 2 Capital (gone-concern capital)
	Common Equity Tier 1 Capital: It is called 'Core Capital' comprises of highest quality of capital elements consists of – I. Fully Paid-up Capital II. Statutory Reserve III. Non-Repayable Share Premium Account IV. General Reserve V. Retained Earnings VI. Minority Interest in Subsidiaries VII. Dividend Equalization Account VIII. Less: Regulatory adjustments applicable on CET1
	Additional Tier 1: i) Non-cumulative irredeemable preference share ii) Instruments issued by the banks that meet the qualifying criteria for AT1 iii) Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties as specified in Annex-4 of Basel III Guidelines (For Consolidated Reporting) Less:Regulatory adjustments applicable on AT1
	Tier-2 Capital : It is called 'gone-concern capital' represents other elements which fall short of some of the characteristics of the core capital consists of- i) General Provision ii) All other preference shares iii) Subordinated debt iv) Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties (For Consolidated reporting only) v) Revaluation Reserves as on 31st December, 2017 (50% of Fixed Assets and Securities and 10% of equities) vi) Other (if any item approved by Bangladesh Bank) Less: Regulatory adjustments applicable on Tier-2 capital
	Compliance status ofAIBLas per condition for maintaining regulatory capital:

1	Common Equity Tier 1 of at least 4.5% of the Total RWA	Complied
2	Tier 1 will be at least 6.00 % of the Total RWA	Complied
3	Minimum CRRA will be 10.00 % of the Total RWA	Complied
4	Additional Tier 1 Capital can be admitted maximum up to 1.5% of the Total RWA or 33.33% of CEFI whichever higher	Complied
5	Tier 2 Capital can be admitted maximum up to 4% of the Total RWA or 88.89% of CEFI whichever higher	Complied
6	Addition to Minimum CRRA, Capital Conservation Buffer (CCB) of 2.50% of the Total RWA is being introduced which will be maintain in the form of CETI.	Complied

2. Quantitative Disclosures:

The amount of Regulatory Capital 2018 as follows:

(Figure In million)

1.Common Equity Tier-1(Going Concern Capital):	Solo Basis	Consolidated Basis
Fully Paid-up Capital	10,440.22	10,440.22
Statutory Reserve	8,388.04	8,388.04
Retained Earnings	1,783.06	1,908.96
Non Controlling Interest	-	1,768.42
Less: Deferred Tax Assets (DTA)	-	-
	20,611.32	22,505.64
Good will and other Insensible assets	(125.71)	(125.71)
Total Common Equity Tier-1 Capital	20,485.61	22,379.93
2. Tier-2 Capital :		-
General Provision	2,580.80	2,580.80
Subordinated debt	7,400.00	7,400.00
Revaluation Reserves for Securities up to 50%	488.78	488.78
Less: 80%of Revaluation Reserves for Fixed Assets, Securities & Equity Securities.60%	(391.02)	(391.02)
Total Admissible Tier-2 Capital	10,078.56	10,078.56
Total eligible capital	30,564.17	32,458.49

3) Capital Adequacy:

Qualitative Disclosures:	
a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities	The Bank is subject to the Capital adequacy norms as per Master Circular on Basel-III Capital regulations issued by the Bangladesh Bank. The Basel III capital regulation is being implemented from 2015. In line with the guidelines of the Bangladesh Bank, the Bank has adopted the following approaches for computing the capital charge. For Credit Risk – Standardized Approach For Market Risk – Standardized Approach Operational Risk – Basic Indicator Approach The Bank has a policy on Internal Capital Adequacy Assessment Process (ICAAP) as stipulated by Bangladesh Bank. The ICAAP also details the Risk Appetite of the Bank, assessment of material risks, the process for capital adequacy assessment to support business projections, adequacy of risk control framework, capital raising plans and Bank-wide stress testing. The periodic assessment of bank's performance against the Risk Appetite defined under ICAAP and results of stress testing are reported to the Board of Directors for their review. CRAR has been computed based on the Basel III guidelines and it is well above the regulatory minimum level of 10%.

(Figure In million)

Quantitative Disclosures :		
Capital requirement under following Risk:	**Solo Basis**	**Consolidated Basis**
a) Capital requirement for Credit Risk	194,063.49	202,708.57
b) Capital requirement for Market Risk	1,058.63	1,313.82
c) Capital requirement for Operational Risk	1,7457.93	17,117.71
d)Total Capital Requirement (b+c+d)	**212,580.05**	**221,140.10**
e) Capital to Risk –weighted Asset Ratio:	14.38%	14.68%
1.Common Equity Tier 1 (CET 1) Ratio	9.64%	10.12%

Tier 1 Capital Adequacy Ratio	9.64%	10.12%
Tier-2 Capital Adequacy Ratio	4.74%	4.56%
Capital to Risk-weighted Asset Ratio (CRAR)	14.38%	14.68%
f) Capital Conservation Buffer	1.875%	1.875%
Available Capital under Pillar 2 Requirement	**9,306.20**	**10,344.50**
Minimum Capital Requirement (MCR)	**21,258.00**	**22,114.00**

4) Credit Risk

1. Qualitative Disclosures:

a) Definition of past due and impaired assets (for accounting purposes)

A loan payment that has not been made as of its due date is termed as past due. Payment may be made for repayment/ renewal/rescheduling or as an installment of a claim.

The past due claims are discussed below:

Special Mention Accounts (SMA):

A claim which is overdue for 90 days or more will be classified as Special Mention Account. When a loan is classified as SMA, it needs constant monitoring and supervision as the repayment probability decreases.

Sub-Standard (SS):

The repayment of the loan has been put in doubt but the recovery is not unlikely.

Doubtful (DF):

There is less possibility of recovery of the overdue amount and probability of loss is high.

Bad /Loss (B/L):

These are the loans which have almost turned unrecoverable.

Approaches followed for specific and general allowances:

i) Specific provision:

a) Substandard : 20%

b) Doubtful : 50%

c) Bad/Loss : 100%

ii) General Provision:

a) 0.25% to 5% on different categories of unclassified loans.

b) 1% on Off Balance sheet exposure.

c) 5% on the outstanding amount of loans kept in the 'Special Mention Account' after netting off the amount of Interest Suspense.

For classification of loan, specific and general allowances the bank follows Master Circular-Loan Classification and Provisioning vide BRPD circular no. 06 dated June 14, 2012; and as advised by Bangladesh Bank from time to time.

In addition to the above mentioned objective criteria, loans can be classified on the basis of subjective judgment taking into consideration the factors such as uncertainty or doubt of repayment, continuous loss of capital, adverse situation, decrease of value of securities, legal suit etc.

However, Bangladesh Bank can classify any claim on the basis of their subjective judgment as well as can ask the Bank to buildup additional provision on non-performing loans.

Credit Risk Management Policy

The bank has established Credit Risk Management framework as directed by Bangladesh Bank through introduction or Risk Management (CRM) policy guide along with implementation of the Credit Risk Grading (CRG). This framework defines CRM structure, role, responsibilities and the processes to identify, quantify, and manage risk within the framework under the given policy .The CRM policy is reviewed from time to time for adoption of new techniques/policies for measurement and management of risk in line with the socio-economic scenario and investment environment of the country.

2) Quantitative Disclosures:

(Figure In million)

a) Funded:	
General Investment	
Murabaha Investment	74,671.52
Bai-Muazzal Investment	89,934.86
Hire Purchase Investment	79,644.81
Quard	130.41
Other Investment	3,809.03
Sub Total	**248,190.63**
Outside Bangladesh	-
	248,190.63
Less: Unearned profit on Investment	8,040.36
	240,150.27
Bill Purchased & Discounted	
Payable in Bangladesh	12,809.62
Payable outside Bangladesh	4,132.21
Sub Total	**16,941.83**
Total Funded:	**257,092.10**
b) Total Non- Funded:	**73,047.95**

c) Geographical distribution of exposures	
Region Based	
Dhaka Region	199,507.20
Chittagong Region	31,285.08
Sylhet Region	1,226.50
Rajshahi Region	8,002.35
Khulna Region	1,728.01
Rangpur Region	7,674.23
Barisal Region	4,736.28
Total	257,092.10
d) Country based funded	
Domestic	257,092.10
Overseas	-
e) Country based Non-funded	**73,047.95**
Domestic	73,047.95
Overseas	-
f) Major Industry wise distribution of exposures	
Agriculture, Fishing and Forestry	3,210.5
Industry	145,937.35
Construction	12,842.56
Water works & Sanitary Service	411.23

Transport & communication	1,536.30
Storage	1,182.00
Trade Finance	61,253.40
Miscellaneous	38,759.12
Total	265,132.46
Less Unearned Profit on Investment	8,040.36
Total	257,092.10
g) Distribution of risk exposure by claims	
a) Claims on sovereigns and central banks	22,042.50
b) Claims on PSE -	-
c) Claims on banks and securities firms	21,866.60
d) Claims on corporate	123,318.20
e) Claims included in the retail portfolio & small enterprises	65,911.00
f) Claims secured by residential property	9,403.60
g) Claims secured by commercial real estate	9,323.60
h) Consumer Investment	573.00
i) Off-balance sheet items	25,404.30
h) Credit risk mitigation	
Claims secured by financial collateral	1,678.70
Net exposure after the application of haircuts	509.80
Claims secured by eligible guarantee	-
g) Residual contractual maturity breakdown of the whole portfolio	
Repayable on demand	-
Up to 1 month	39,511.00
More than 1 month but less than 3 months	81,906.80
More than 3 months but less than 1 year	91,666.30
More than 1 year to less than 5 year	29,879.80
More than 5 year	14,128.20
Total	257,092.10
Gross Non Performing Assets- (NPAs)	
Non-performing assets to outstanding Investment (loans and advances)	12,690.72
Movement of Non Performing Assets (NPAs)	
Opening balance	9,921.51
Additions	14,146.11
Less Cash Recovery	(3,149.20)
Less RSDL from CL	(6,081.00)
Less Written Off	(2,146.70)
Closing balance	**12,690.72**

(Figure In million)

Movement of specific provisions for NPAs	
Provision held at the begining of the year	3,096.15
Fully provision debt written off	(1,177.95)
Recoveries of amount previously written off	164.88
Specific provision for the year	1,863.00
Closing balance	**3,946.09**

5) Equities: Disclosures for Banking Book Positions

a) Qualitative Disclosures:
The bank holds unquoted equities intent of which is not trading and the same are shown as banking book asset in balance sheet. As these securities are not quoted or traded in the bourses they are shown in the balance sheet at the cost price and no revaluation reserve has been created against these equities.

b) Quantitative Disclosures:

Values of investments (for unquoted securities) as disclosed in the Balance Sheet:

(Figure In million)

Name of the Scrip	value
Central Depository Bangladesh Ltd	310.59
Total	**310.59**

c) As investment in unquoted equities does not have any maturity, we have calculated capital charge on the basis of its risk weight which is 125% of investment value.

6) Interest Rate Risk in the Banking Book (IRRBB)

a) Qualitative Disclosures:
Interest rate risk is the exposure of a bank's financial condition due to adverse movements in interest rates. Changes in interest rates affect a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating income. Changes in interest rates also affect the underlying value of the bank's assets, liabilities and off-balance-sheet instruments because the economic value of future cash flows changes when interest rates change.
1. Interest rate risk in the banking book can be measured on the basis of:
2. Economic value perspective- net interest income measured in a given point in time such as Economic Value of Capital

b) Quantitative Disclosures:

Maturity GAP on Banking Book Assets & Liabilities
As on December 31, 2018

(Figure In million)

Particulars	Up to 1 month	1 to 3 month	3 to 12 month	I to 5 years	Above 5 years	Total
Asset						
Cash in hand	25,710.01	-	-	-	-	25,710.01
Balance with other banks & Financial Institute	6,034.76	2,650.00	400.00	-	1,224.20	10,308.96
Placement with other banks & Finan-cial Institute	-	8,200.00	-	-	-	8,200.00
Investment in Sharea & Securities (only HTM)	-	-	67.60	11,300.01	-	11,367.61
Investment (Loans and Advances)	39,511.00	81,906.80	91,666.30	29,879.80	14,128.20	257,092.10
Fixed Assets	-	-	-	-	4,305.86	4,305.86
Non Banking Asset					50.88	50.88
Other Assets	1,233.26	32.50	3.20	-	14,957.60	16,226.56
Total	**72,489.03**	**92,789.30**	**92,137.10**	**41,179.81**	**34,666.74**	**333,261.98**
Liabilities						

Placement from other banks & Financial Institute	5,511.84	4,438.00	10,443.50	-	-	20,393.34
Deposits and Other accounts	45,804.41	106,886.00	75,471.90	31,584.00	6,600.30	266,346.61
Provision and other liabilities	2.00	-	2.00	-	17,360.63	17,364.63
Deferred Tax Liabilities/Assets	-	-	-	-	168.49	168.49
AIBL Subordinate Bond	-	-	-	-	7,400.00	7,400.00
Total	**51,318.25**	**111,324.00**	**85,917.40**	**31,584.00**	**31,529.42**	**311,673.07**
GAP	**21,170.78**	**(18,534.70)**	**6,219.70**	**9,595.81**	**3,137.32**	**21,588.91**
Cumulative Gap	**21,170.78**	**2,636.08**	**8,855.78**	**18,451.59**	**21,588.91**	**-**

Impact of Upward Interest Rate on Banking Book for One Year in Different Time Buckets:

(Figure In million)

Particular/ shock	Minor	Moderate	Major
Increase in interest rate	1.00%	2.00%	3.00%
Period	**Up to 1 month**		
GAP	21,170.78	21,170.78	21,170.78
Impact on NII (Net Interest Income)	17.64	35.28	52.93
Applicable tax rate	37.50%	37.50%	37.50%
Tax adjusted impact on Net Interest Income	6.62	13.23	19.85
Period	**1 to 3 month**		
GAP	(18,534.70)	(18,534.70)	(18,534.70)
Impact on NII(Net Interest Income)	(30.89)	(61.78)	(92.67)
Applicable tax rate	37.50%	37.50%	37.50%
Tax adjusted impact on Net Interest Income	(11.58)	(23.17)	(34.75)
Period	**3 to 12 month**		
GAP	6,219.70	6,219.70	6,219.70
Impact on NII(Net Interest Income)	46.65	93.30	139.94
Applicable tax rate	37.50%	37.50%	37.50%
Tax adjusted impact on Net Interest Income	17.49	34.99	52.48

Impact of Downward Interest Rate on Banking Book for One Year in Different Time Buckets

(Figure In million)

Particular/ shock	**Minor**	**Moderate**	**Major**
Decrease in interest rate	(1.00%)	(2.00%)	(3.00%)
Period	**Up to 1 month**		
GAP	21,170.78	21,170.78	21,170.78
Impact on NII (Net Interest Income)	(17.64)	(35.28)	(52.93)
Applicable tax rate	37.50%	37.50%	37.50%
Tax adjusted impact on Net Interest Income	(6.62)	(13.23)	(19.85)
Period	**1 to 3 month**		
GAP	(18,534.70)	(18,534.70)	(18,534.70)
Impact on NII (Net Interest Income)	30.89	61.78	92.67
Applicable tax rate	37.50%	37.50%	37.50%
Tax adjusted impact on NII	11.58	23.17	34.75
Period	**3 to 12 month**		
GAP	6,219.70	6,219.70	6,219.70
Impact on NII(Net Interest Income)	(46.65)	(93.30)	(139.94)
Applicable tax rate	37.50%	37.50%	37.50%
Tax adjusted impact on NII	(17.49)	(34.99)	(52.48)

Impact of Upward Interest Rate on Banking Book for up to One Year (Cumulative)

(Figure In million)

Particular/shock	Minor	Moderate	Major
Increase in interest rate	1.00%	2.00%	3.00%
GAP	8,855.78	8,855.78	8,855.78
Period(Year)	**1 Year**		
Impact on NII (Net Interest Income)	88.56	177.12	265.67
Applicable tax rate	37.50%	37.50%	37.50%
Tax adjusted impact on NII	33.21	66.42	99.63

Impact of Downward Interest Rate on Banking Book for up to One year (Cumulative)

(Figure In million)

Particular/shock	Minor	Moderate	Major
Decrease in interest rate	(1.00%)	(2.00%)	(3.00%)
GAP	8,855.78	8,855.78	8,855.78
Period(Year)	**1 Year**		
Impact on NII (Net Interest Income)	(88.56)	(177.12)	(265.67)
Applicable tax rate	37.50%	37.50%	37.50%
Tax adjusted impact on NII	(33.21)	(66.42)	(99.63)

7) Market Risk:

a) Qualitative Disclosures:

Views of BOD on trading/ investment activities	The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance asset growth and trade related transactions. Trading book consists of positions in financial instruments held with trading intent or in order to hedge other elements of the Trading Book. The portfolio of investment includes Government Treasury Bills and Bonds, Prize Bonds, Shares of listed Public Limited Companies etc. Bank always desires to invest in high yield areas and also has ensured maintenance or Statutory Liquidity Requirements (SLR) as fixed by Bangladesh Bank.
Methods used to measure Market Risk.	Market risk is the possibility of losing assets in the balance sheet and off- balance sheet positions due to volatility in the market variables viz. interest rate, foreign exchange rate, reinvestment and price. The bank measures impact on profitability and impact on asset prices under market risk through Maturity GAP Analysis, Sensitivity Analysis, VAR, and Mark to Market and has adopted Standardized Measurement approach for measuring Market Risks under Basel-III. Standardized approach has been used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. The methodology to calculate capital requirement under Standardized Approach for each of these market risk categories is as follows: a) Capital charges for interest rate risk= Capital Charge for General Market Risk b) Capital charges for Equity Position Risk= Capital Charge for Specific Risk+ Capital Charge for General Market Risk c) Capital charges for Foreign Exchange Risk=Capital Charge for General Market Risk d) Capital charges for Commodity Position Risk=Capital Charge for General Market Risk
Market Risk Management System:	The Bank has its own Market Risk Management System which includes Asset Liability Risk Management (ALM) and Foreign Exchange Risk Management under core risk management guidelines. The Treasury Division manage market risk covering liquidity, interest rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meets at least once in a month.

Policies and processes for mitigating market risk:	Risk Management and reporting is based on parameters such as Duration, PV, Exposure and Gap Limits, VaRetc, in line with the global best practices. Risk Profiles are analyzed and mitigating strategies/ processes are suggested by the Asset Liability Committee (ALCO). Their effectiveness is monitored on an on-going basis.Forex Open Position limits (Day limit / Overnight limit), Deal-wise cut-loss limits, Stop-loss limit, Profit / Loss in respect of cross currency trading are properly monitored and exception reporting is regularly carried out. Holding of equities is monitored regularly so that the investment remains within the limit as set by Bangladesh Bank. Asset liability management committee (ALCO) analyzes market and determines strategies to attain business goals. Reconciliation of foreign currency transactions.

b) Quantitative Disclosures:

The capital requirements for Market Risk:

(Figure In million)

	SOLO Basis	Consolidated Basis
Interest rate risk	-	-
Equity position risk	109.00	364.20
Foreign exchange risk	949.63	949.62
Commodity risk	-	-
Total	1,058.63	1,313.82

8) Operational risk:

a) Qualitative Disclosures:

i) Views of BOD on system to reduce operational Risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The way operational risk is managed has the potential to positively or negatively impact a bank's customers,its financial performance and reputation. The Bank has put in place Board approved governance and organizational structure with clearly defined roles and responsibilities to mitigate operational risk arising out of the Bank's business and operations.
ii) Performance gap of executives and staffs	The bank offers competitive pay package to its employees based on performance and merit. It always tries to develop corporate culture where employees can exert their highest involvement and commitment to work and organization with high ethical standards in order to build a congenial atmosphere. The bank believes that training and knowledge sharing is the best way to reduce knowledge gap. Therefore, it arranges trainings on a regular basis for its employees to develop their expertise. The bank offers competitive pay package to its employees based on performance and merit. It always tries to develop a culture where all employees can apply his/her talent and knowledge to work for the organization with high ethical standards in order to add more value to the company and for the economy.
iii) Potential external events	No potential external events are expected to expose the Bank to significant operational risk

iv) Policies and Processes for mitigating operational risk:	The Bank has adopted policies which deal with managing different Operational Risk. Bank strongly follows KYC norms for its customer dealings and other banking operations. The Internal Control and Compliance Division of the Bank, the inspection teams of Bangladesh Bank and External Auditors conduct inspection of different branches and divisions at Head Office of the Bank and submit reports presenting the findings of the inspections. Necessary control measures and corrective actions have been taken on the suggestions or observations made in these reports. In 2015 ICC Division conducted following No. of audit:

Nature of Audit	No of Frequencies
Compressive & Risk based Internal Audit Annually	154 branches i.e 100% as per Audit Plan
Surprise Inspection	31 branches i.e 119% as per Audit Plan

For audit purpose, we have segregated the branches into 05 (Five) risk categories as per level of Composite Risk by fixing of a reasonable Inherent Business & Control Risk Score. Risk gradation/category of the branches is summarized below:

Nature of Risk	No of Branches
Extremely High Risk	11
Very High Risk	31
Extremely High Risk	41
High Risk	57
Medium Risk	14
Total	154

v) Approach for calculating capital charge for operational risk	The Bank follows the Basic Indicator Approach (BIA) in terms of BRPD Circular No. 18 dated 21 December 2014 Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III). The BIA stipulates the capital charge for operational risk is a fixed percentage, denoted by α(alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula: $K = [(GI\ 1 + GI2 + GI3)\ \alpha]/n$

b) **Quantitative Disclosures:**

(Figure In million)

b) The capital requirements for operational risk (Basic Indicator Approach)			
Year	**Gross Income (GI)**	**Average GI**	**15% of Average GI**
December-2018	12,195.36		
December-2017	11,804.19		
December-2016	10,751.43		
Total GI	34,750.98	11,583.66	1,737.55

9. Liquidity Ratio:

a) Qualitative Disclosures:

i) Views of BOD on system to reduce liquidity Risk	The Bank manages liquidity risk in accordance with its ALM Policy. This policy is framed as per regulatory guidelines and is approved by the Board of Directors. The ALM Policy is reviewed periodically to incorporate changes as required by regulatory stipulation or to realign with changes in the economic landscape. The ALCO of the Bank formulates and reviews strategies and provides guidance for management of liquidity risk within the framework laid out in the ALM Policy.

ii) Methods used to measure Liquidity risk	**1) Liquidity risk is measured and monitored through two approaches-1) Time Bucket Analysis:** Time Bucket Analysis involves comprehensive tracking of cash flow mismatches and is done through preparation of Structural liquidity statement on a regular basis. Appropriate tolerance levels/prudential limits have been stipulated for mismatches in different time buckets. **2) Ratio Analysis**: Under Ratio Analysis various balance sheet ratios are prescribed with appropriate limits. The compliance of ratios to the prescribed limits ensures that the Bank has managed its liquidity through appropriate diversification and kept it within the sustainable limit. The Bank also assess its short-term liquidity mismatches and reports the same in the short term dynamic liquidity report which represents the cash flow plans of various asset and liability generating units and seasonal variation of cash flow patterns of assets and liabilities of the bank over a period of 1-90 days. **3) Liquidity Risk Management System :** A liquidity risk management involves not only analyzing banks on and off balance sheet positions to forecast future cash flows but also how the funding requirement would be met. The later involves identifying the funding market the bank has access, understanding the nature of those markets, evaluating banks current and future use of the market and monitor signs of confidence erosion. Al-ArafahIslami Bank Limited has well organized liquidity risk management system as enumerated in ALM Policy which is approved by the Board. The Asset Liability Management Committee (ALCO) of the Bank monitors & manages liquidity and interest rate risk in line with the business strategy. ALM activity including liquidity analysis & management is conducted through coordination between various ALCO support groups residing in the functional areas of Balance Sheet Management, Treasury Front Office, Budget and Planning etc.
iii) Liquidity Risk Management System	A liquidity risk management involves not only analyzing banks on and off balance sheet positions to forecast future cash flows but also how the funding requirement would be met. The later involves identifying the funding market the bank has access, Understanding the nature of those markets, evaluating banks current and future use of the market and monitor signs of confidence erosion. Al-ArafahIslami Bank Limited has well organized liquidity risk management system as enumerated in ALM Policy which is approved by the Board. The Asset Liability Management Committee (ALCO) of the Bank monitors & manages liquidity and interest rate risk in line with the business strategy. ALM activity including liquidity analysis & management is conducted through coordination between various ALCO support groups residing in the functional areas of Balance Sheet Management, Treasury Front Office, Budget and Planning etc.
iv) Policies and Processes for mitigating Liquidity risk	An effective liquidity risk management process should include systems to identify measure, monitor and control its liquidity exposures. To mitigate the liquidity risk, Management of our bank identifies and quantifies the primary sources of a bank's following risk in a timely manner. By proper identify of the sources, management understand both existing as well as future risk that the bank can be exposed to. Our Management always alert for new sources of liquidity risk at both the transaction and portfolio levels. Key elements of an effective risk management process include an efficient MIS to measure, monitor and control existing as well as future liquidity risks and reporting them to senior management and the board of directors.

b) Quantitative Disclosures:

(Figure In million)

Liquidity Coverage Ratio	101.88%
Net Stable Funding Ratio (NSFR)	118.89%
Stock of High quality liquid assets	35,648.00
Total net cash outflows over the next 30 calendar days	34,968.00
Available amount of stable funding	279,603.70
Required amount of stable funding	235,182.30

10. Leverage Ratio:

a) Qualitative Disclosures:

i) Views of BOD on system to reduce excessive leverage	Excessive leverage by banks is widely believed to have contributed to the global financial crisis. Thus Basel III rules have introduced leverage ratio as a non-risk-based backstop measure, to supplement risk-based capital requirements. Board of Directors of our Bank continuously is monitoring the exposure limit of lending, capital strength of our Bank in order to avoid building-up excessive on- and off-balance sheet leverage.
ii) Policies and processes for managing excessive on and off balance sheet leverage	Many regulators are considering raising the leverage ratio. This means that banks will have to keep more capital reserves. To increase capital reserves in order to meet higher leverage ratios requires selling assets to get cash or reducing lending. Higher leverage ratio can decrease the profitability of banks because it means banks can do less - profitable lending. However, increasing the leverage ratio means that banks have more capital reserves and can more easily survive a financial crisis. In view of the impact of leverage into the business, our bank management takes decision about future investment. Considering the financial strength, Bank also make Capital planning and business budget to go on a right way.
iii) Approach for calculating exposure	The leverage ratio is a volume-based measure and is calculated as Basel III Tier I capital divided by total on and off-balance sheet exposures. A minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level. Tier-1 Capital (after related deductions) Leverage Ratio = --- Total Exposure (after related deductions)

b) Quantitative Disclosures:

(Fig In Million)

	Solo	Consolidated
Leverage Ratio	5.77%	6.16%
On Balance Sheet Exposure	329,507.46 329,507.46	337,777.33
Off- Balance Sheet Exposure	25,811.31	25,811.31
Total Deduction	(125.71)	(125.71)
Total Exposure	**355,193.06**	**363,462.93**

11. Remuneration:

The following remuneration disclosures have been prepared in accordance with 'Guidelines on Risk Based Capital Adequacy (RBCA) for banks' provided by Bangladesh Bank. The prudential disclosures require that all banks meet the minimum requirements for public disclosure of qualitative and quantitative information of the remuneration practices. The qualitative remuneration disclosures are broader in scope and cover all the individuals included whereas the quantitative information relates to senior managers and material risk takers of the Al-ArafahIslami Bank Limited, for the financial year ended December 31, 2018.

a) Qualitative Disclosures:

	a) **Information relating to the bodies that oversee remuneration:** Managing Director, MANCOM & Head of Human Resources division governs the remuneration related policies and practices in alignment of the banks' short & long term objectives. They plays an independent role, operating as an overseer; and if required, makes recommendation to the Board of Directors of the Bank for its consideration and final approval for any remuneration related policy. The main work includes presenting recommendations to the Board regarding remuneration, compensation packages of senior Management, incentive schemes and retirement benefits. They also assist the Board of Directors to ensure that all employees are remunerated fairly and get performance based compensation by ensuring effective remuneration policy, procedures and practices aligned with the Banks' strategy and applied consistency for all employee levels. A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to all branches.

A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.
Risk Takers are senior employees who can take, or influence the taking of, material risk for Al-ArafahIslami Bank or for a material business unit:

Managing Director	:	01
Deputy Managing Director	:	04
Executive Vice President	:	19
Senior Vice President	:	30

b) Information relating to the design and structure of remuneration processes: Key features of remuneration policy:
We target a fair human resources management by using a performance based system. Our salary policy is the same in all branches and service points for the beginner level. In addition, to drive further development of individual skill sets and competencies, speaking foreign languages is compensated. There is no incident of discrimination has been occurred in terms of remuneration provided to male and female employees.
Al-ArafahIslami Bank compensation program focuses on individual short-term goals vis-a-vis long-term success and overall profitability of the Bank. Both our short-term annual incentive and long-term compensation plans promote our pay-for-performance philosophy, as well as our goal of having a meaningful amount of pay at-risk, and we believe both plans provide us a competitive advantage in talent acquiring and retaining.
Objectives of remuneration policy:
The overall objective of the Bank's remuneration policy is to establish a framework for attracting, retaining and motivating employees, and creating incentives for delivering long-term performance within established risk limits. Performance is judged, not only on what is achieved, but also on how it is achieved as well as alignment to the Bank's values.
Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made:
The remuneration committee reviewed the firm's remuneration on 2018 and revised the remuneration by conducting a survey considering the following facts:
a. Oversee Banks remuneration position and revise the structure according to the Competitive market.
b. Align compensation strategy with business strategy
c. Determine the percentage of increment at each job grade
d. Get acquaint with the economy inflation.
Based on the survey, Bank changes the remuneration on COMPA-Ratio based of its existing employees.
A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee :
Control function of internal control and compliance directly respond of Audit Committee of the Board and dotted report to the President and Managing Director. Credit Risk Officer report to President and Managing Director directly.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes.
The Bank's remuneration practices are carefully managed takes into account the following key risks when implementing remuneration measures:
• Financial Risks
• Compliance Risks
Risk and compliance requirements represent a gateway to whether an incentive bonus payment is made and the size of the payment. Despite, if the individual does not me et or only partially meets compliance requirements, no award or a reduced award may be made.

d) Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration:
Employees' performance is appraised annually in line with the achieved objectives, which have a positive and direct impact in their pay package. So, individual's remuneration may vary according to their performance. The payment is dependent on the Board's discretion, taking into account the recent performance of the Bank.

e) Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance:
The Bank's remuneration system is designed to reward long-term as well as short-term performance, encourage retention and recognize special performance in the organization. The Bank provides reasonable remuneration for short-term performance besides for long-term performance the bank has some deferred payment options (i.e. incentive bonus, gratuity, superannuation etc.).In case of following situation remuneration can be adjusted before vesting:
• Disciplinary Action (at the discretion of Enquiry committee)
• Resignation of the employee prior to the payment date.
At the same time previously paid or already vested variable pay can also be recovered under the case of disciplinary action.

	f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms: A summary of Short-term and Long-term compensation plan are as follows: Total Compensation = Fixed Pay (Salary)+Variable Pay (Bonus)+Variable Pay (Long term incentive) Form of variable remuneration offered by Al-ArafahIslami Bank: **Cash Form:** Short-Term Incentives / Rewards 1. Yearly Increment 2. Yearly fixed and incentive bonus 3. Car, fuel and car maintenance allowance for executives 4. Accelerated promotion/Special increment for especial assignments/ accomplishment; 5. Cash Risk allowance for cashier; 6. Charge allowance for Head of Branches 7. Leave Encashment. **Long-Term Incentives / Rewards** 1. Provident fund; 2. Gratuity; 3. Social Security& Benevolent(SSBF) fund 4. Staff House building Investment Scheme(SHBIS) reduce profit rate 5. Provident fund Quard(Investment) with zero profit rate 6. 6. Yearly professional membership fees for professional certificates holder **Non-Cash Form:** Short-Term Incentives / Rewards 1. Accelerate promotion for top talents; 2. Study leave. Long-Term Incentives / Rewards 1. Foreign training award;

b) Quantitative Disclosures:

	g) Number of meetings held by the main overseeing remuneration during the financial year and remuneration paid to its member : Meeting regarding overseeing the remuneration was held on as and when it required
	h) Number of employees having received a variable remuneration award during the financial year . - Nil Number and total amount of sign-on award made during the financial year. - Nil Number and total amount of severance payments made during the financial year. - Nil
	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. - Nil Total amount of deferred remuneration paid out in the financial year: - Nil
	j) Breakdown of amount of remuneration awards for the financial year to show. Fixed and Variable: deferred and non-deferred different forms used (cash, shares, share linked instruments, other forms)- - Nil - All the remunerations are provided in the form of cash
	k) Quantitative Information about employees' exposure to implicit(e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. clawbacks or similarreversals or downward revaluation of awards) of deferred remuneration and retained remuneration: All the remunerations are provided in the form of cash i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments. - Nil ii) Total amount of reductions during the financial year due to ex post explicit adjustments. - Nil iii) Total amount of reduction during the financial year due to ex post implicit adjustments - Nil