

Bank Alfalah Limited
Bangladesh Operations
Disclosures on Risk Based Capital (Basel III) for the year ended December 2018

These qualitative and quantitative Disclosures have been made in accordance to Bangladesh Bank regulations for Implementation of Basel III vide BRPD Circular No. 18 dated December 21, 2014. The purpose is to comply with the requirement for having adequate capital and ensuring Supervisory Review Process under Pillar II. These disclosures are intended to assess information about Bank's exposure to various risks.

Market Discipline Disclosures

Bank Alfalah Bangladesh Operations (BAFL) has migrated to Basel III framework from January 2015 as per Bangladesh Bank guidelines where "Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel II)" issued vide BRPD Circular No. 35/2010 has been replaced with the "Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)" issued vide BRPD Circular no. 18/2014 with subsequent supplements/revisions.

Capital Management

The objective of managing capital is to safeguard the Bank's ability to run its business as a going concern so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of level of capital on shareholder's return is also recognized where Bank distinguishes the need to maintain a balance between the higher returns, which should be possible with greater gearing, advantages and security afforded by a sound capital position.

Goals of managing capital

The bank manages its capital to attain the following objectives & goals:

- An appropriately capitalized status, as defined by Banking regulations by the central bank;
- Acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- Cover all risks underlying business activities; and
- To retain flexibility to harness future investment opportunities, build and expand even in stressed times.

Risk Management

The variety of business activities undertaken by the Bank requires effective identification, measurement, monitoring, integration and management of different financial and non-financial risks that are constantly evolving in response to concurrent internal and external developments. The Board Risk Management Committee (BRMC) is appointed and authorized by the Board of Directors (BoD) to assist in designing, regular evaluation and timely updating of the risk management framework of the Bank. BRMC has further authorized management committees such as Central Management Committee (CMC), Central Credit Committee (CCC) and Assets & Liabilities Committee (ALCO) to supervise risk management activities within their respective scope.

The risk management framework endeavors to be comprehensive and evolving guidelines to cater to changing business dynamics. The framework includes:

- Clearly defined risk management policies and procedures.



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- Well constituted organizational structure in the form of a separate risk management department, which ensures that individuals responsible for risk approval are independent from risk taking units i.e. Business Units.
- Mechanism for ongoing review of credit policies, procedures and risk exposures.

The primary objective of this architecture is to inculcate risk management into the organization flows to ensure that risks are accurately identified, assessed, properly documented, approved and adequately monitored & managed in order to enhance long term earnings as to protect the interests of the Bank's depositors and shareholders.

The Bank's risk management framework has a well-defined organizational structure for effective management of credit risk, market risk, liquidity risk, operational risk, IT security risk.

In terms of Guidelines on RBCA, the Bank has adopted the Standardized Approach for Credit Risk & Market Risk while Basic Indicator Approach has been adopted for Operational Risk. In addition to regulatory capital requirement of computation as per Pillar-I, the Bank also assesses Interest Rate Risk, Equity Risk, and Foreign Exchange Risk on a regular basis to assess adequacy of the capital available as a cushion to withstand shocks from business environment adversities.

Under Pillar-III of the framework, "Basel III Disclosures" of Bank Alfalah Bangladesh Operations as on December 31, 2018 are as under:

a) Scope of Application

Bank Alfalah Bangladesh Operations (BAFL) has no subsidiaries or significant investments and hence, Basel III disclosure shall apply to the Bank level only.

BAFL is branch of Bank Alfalah Limited (the parent company) incorporated in Pakistan. The Bank is domiciled in Bangladesh with its Country Office at 168 Gulshan Avenue, Dhaka-1212. BAFL started its operation in Bangladesh on May 16, 2005 by acquiring Shamil Bank of Bahrain's Dhaka operation as a branch of the parent company. It is operating with 7 branches as on December 31, 2018 including one Islamic Banking Branch.

b) Capital Structure

Qualitative Disclosures

BAFL's capital structure consists of Tier 1 and Tier 2 capital. Under Basel III regime the regulatory capital is broadly classified into two categories: Tier 1; & Tier 2. Tier I capital has been bifurcated into Common Equity Tier 1 (CET1); and Additional Tier 1. CET1 includes funds from head office for capital adequacy purpose & retained earnings after regulatory adjustments for deferred tax assets. The bank does not have any Additional Tier 1 capital.

Tier 2 capital includes general provisions and revaluation reserve for government securities, which would follow phase in deductions as per audited revaluation reserve for securities amount as on December 2014 by 20% every year from 2015 till the time it fully phased out in 2019.

The computation of the amount of CET1, AT1, and Tier 2 capital shall be subject to the following conditions as per the phase-in arrangement for implementation of minimum capital requirements:

1. CET1 should be at least 4.5% of the total Risk Weighted Assets (RWA)
2. Tier 1 capital should be at least 6.0% of the total RWA till 2019
3. Minimum Capital to Risk-weighted Asset ratio (CRAR) should be 10% of the total RWA
4. AT1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher
5. Tier 2 capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET1,



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whichever is higher

6. In addition to minimum CRAR, 0.625% of the total RWA is to be maintained as Capital Conservation Buffer (CCB) in the form of CET1 every year up to 2019

Quantitative Disclosures

Bank Alfalah Limited's capital structure is being enumerated as under:

	2018	2017
	Figures in BDT	
Common Equity Tier 1 (CET1) Capital		
Fund Deposited with BB	4,445,949,318	4,440,842,391
Retained Earnings	1,084,920,397	1,108,655,530
	5,530,869,715	5,549,497,921
Regulatory adjustments / Deductions from Capital		
Goodwill and all other Intangible Assets	3,368,018	4,703,798
Deferred Tax Assets	10,173,240	8,273,856
	13,541,258	12,977,654
Total CET1 Capital	5,517,328,457	5,536,520,267
Additional Tier 1 (AT1) Capital	-	-
Total Tier-1 Capital	5,517,328,457	5,536,520,267
Tier 2 Capital		
General Provision (Limited to 1.25% of credit RWA)	133,995,061	146,392,781
Revaluation Reserve for Securities (with 20% phase-in deductions)	35,075,770	35,075,770
	169,070,831	181,468,551
Regulatory adjustments / Deductions from Capital		
Deduction of 20% of revaluation reserve for securities each year	28,060,616	21,045,462
Total Admissible Tier 2 Capital	141,010,215	160,423,089
Total Regulatory Capital	5,658,338,672	5,696,943,356

c) Capital Adequacy

Qualitative Disclosures

BAFL is subjected to the capital adequacy guidelines stipulated by Bangladesh Bank, which are based on the framework of the Basel Committee on Banking Supervision. As per the revised capital adequacy guidelines of December 2014, the Bank is required to maintain a minimum Capital to Risk Weighted Asset Ratio (CRAR) of 10.00% with regard to Credit Risk, Market Risk and Operational Risk; and a Capital Conservation Buffer (CCB) of 0.625% commencing from 2016. In addition to this, capital adequacy ratio has to be maintained as per phase-in arrangements stipulated in the revised guidelines under Basel III by Bangladesh Bank vide BRPD Circular no. 18/2014 dated December 21, 2014 which is as under:

Phase-in arrangement	2018
Minimum Common Equity Tier 1 Capital Ratio	4.50%
Capital Conservation Buffer	1.875%

Minimum CET1 plus Capital Conservation Buffer	6.375%
Minimum Tier 1 Capital Ratio	6.00%
Minimum Total Capital Ratio	10.00%
Minimum Total Capital plus Capital Conservation Buffer	11.875%

BAFL has adopted Standardized Approach for Credit Risk, Standardized (rule based) Approach for Market Risk and Basic Indicator Approach (BIA) for Operational Risk for computing CRAR.

Bank has a capital adequacy ratio (CRAR) of 62.62% as against the regularity requirement of 10% MCR, of which Tier 1 capital adequacy ratio is 61.06% against regularity minimum requirement of 6.0%; and Tier 2 capital adequacy ratio is 1.56%. The capital adequacy ratio is achieved by the Bank through improvement in the capital base, asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Basel III framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the Bank. As BAFL carries on the business with limited area network, it is desired for the Bank to continuously monitor the exposure across the organization under various risks as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to various operations. The Bank remained compliant with all externally imposed capital requirements throughout the year. Further, there has been no material change in the Bank's management of capital during the year.

Quantitative Disclosures

	2018	2017
	Figures in BDT	
RWA for on-balance sheet credit risk	6,232,575,316	7,311,636,991
RWA for off-balance sheet credit risk	860,272,969	826,266,728
Total Credit Risk RWA	<u>7,092,848,285</u>	<u>8,137,903,719</u>
Market Risk RWA	384,412,641	123,612,903
Operational Risk RWA	1,558,744,206	1,549,321,993
Total Risk Weighted Assets	<u><u>9,036,005,132</u></u>	<u><u>9,810,838,615</u></u>
Amount of Regulatory Capital to meet unforeseen loss		
Capital requirement for Credit Risk	709,284,828	813,790,372
Capital requirement for Market Risk	38,441,264	12,361,290
Capital requirement for Operational Risk	155,874,421	154,932,199
Total Capital requirement	<u>903,600,513</u>	<u>981,083,861</u>
Common Equity Tier 1 Capital	5,517,328,457	5,536,520,267
Total Tier 1 Capital	5,517,328,457	5,536,520,267
Total Tier 2 Capital	141,010,215	160,423,089
A. Total Regulatory Capital	<u>5,658,338,672</u>	<u>5,696,943,356</u>
B. Total Minimum Capital Requirement (MCR) (10% of RWA or BDT 4,000,000,000 whichever is higher)	4,000,000,000	4,000,000,000
Capital Surplus / (Shortfall) [A-B]	<u><u>1,658,338,672</u></u>	<u><u>1,696,943,356</u></u>



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Capital Conservation Buffer requirement (effective from Jan'16) 169,425,096 122,635,483

Capital Adequacy Ratio

CET1 Capital to Risk-weighted Asset Ratio	61.06%	56.43%
Tier 1 Capital to Risk-weighted Asset Ratio	61.06%	56.43%
Tier 2 Capital to Risk-weighted Asset Ratio	1.56%	1.64%
Capital to Risk-weighted Asset Ratio (CRAR)	62.62%	58.07%

Capital Conservation Buffer maintained 1,658,338,672 1,696,943,356

Available Capital under Pillar 2 Requirement:

A. Total Eligible Regulatory Capital	5,658,338,672	5,696,943,356
B. Minimum Capital Requirement under Pillar 1	4,000,000,000	4,000,000,000
C. Capital Conservation Buffer (CCB)	169,425,096	122,635,483
D. Minimum Capital Requirement incl. CCB [B+C]	4,169,425,096	4,122,635,483
E. Available Capital for Pillar 2 [A-D]	1,488,913,576	1,574,307,873

Assets

Bank's assets comprise of cash, balance with other banks, investments in treasury bills and bond, loans and advances, physical assets and other assets.

Loans and advances represented 47.36% of total assets of the Bank. The classified loan ratio was 3.32% indicating efficient asset management of the Bank.

Nature of Assets

Assets of BAFL are categorized as per the following:

- Banking Book Asset
- Trading Book Asset

In general, banking book assets comprise of assets and liabilities, which are contracted primarily on account of relationship for steady income and statutory obligations generally held till maturity. On the contrary, trading book assets refer to the book of financial instruments held with the intention for short-term trading. It refers to those assets held primarily for generating profit on short-term differences in prices/yields.

Banking book and trading book assets represent 98.16% and 1.84% respectively of the total assets.

The major components of the earning assets and non-earning assets for the bank are as follows:

Earning Assets

- Loans & advance
- Investments in securities
- Money at call & short notice
- Balance with other banks and FIs

Non-Earning Assets

- Cash in hand
- Balance with Bangladesh Bank for CRR maintenance
- Fixed Assets



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- Other assets

Assets are monitored under the purview of ALCO on a regular basis to cope with unexpected risks and are classified as per the directives of Bangladesh Bank. Classified assets are the Default Loans in respect to which recipient/beneficiary fails to make timely payment of interest or principal as per the agreed repayment schedule.

The Bank categorized classified loans in following three (03) categories following Bangladesh Bank guidelines:

- Sub-standard
- Doubtful
- Bad/Loss

Addition/Reduction of Classified Assets

Classified loans stood at BDT 34.23 crore as on December 31, 2018 whereas it was BDT 25.43 crore as on December 31, 2017 representing an increase of BDT 8.80 crore.

	2018	2017
	Figures in BDT	
1. Cash in Hand & Balance with BB (Excluding Fcy)	954,218,157	1,077,789,555
2. Balance with BB (Fcy as part of Capital)	357,059,318	351,952,391
3. Claims on Other Banks	4,014,390,088	4,420,927,875
a) Balance with other banks	3,284,390,088	4,420,927,875
b) Money at Call & Short Notice	730,000,000	-
4. Investment (HTM)	4,528,115,701	4,811,237,130
a) Government (under lien with BB as part of Capital)	4,528,115,701	4,811,237,130
b) Qualifying (banks, etc)	-	-
c) Others	-	-
5. Loans & Advances	10,304,402,741	10,068,764,023
a) Classified	342,282,489	254,281,153
SS	28,372,508	-
DF	69,769,165	-
BL	244,140,816	254,281,153
b) Unclassified	9,962,120,252	9,814,482,870
6. Risk Weighted Assets	7,092,848,285	8,137,903,720
a) Below 100% RW	3,585,099,238	2,903,870,973
b) 100% RW	2,286,747,196	1,570,819,621
c) Above 100% RW	1,221,001,851	3,663,213,126
7. Rated Status	7,092,848,285	8,137,903,720
a) Rated Assets	3,902,650,011	3,026,206,530
b) Unrated Assets	3,190,198,274	5,111,697,190
8. Other assets (Including Fixed Assets)	1,200,048,666	982,827,453
A. Total Banking Book Assets (1+2+3+4+5+8)	21,358,234,671	21,713,498,427
B. Trading Book Assets		
1. FC held in Hand	5,367,251	4,707,449
2. FC held in BB & Nostro Account	198,162,491	128,408,963
3. Investment (Trading)	196,579,706	18,452,153
a) Govt. (Part of Govt. HTM, if held above required SLR)	96,400	28,300
b) HFT	196,483,306	18,423,853
c) AFS (if any)	-	-
B. Total Trading Book Assets (1+2+3)	400,109,448	151,568,565
Total Assets (A+B)	21,758,344,119	21,865,066,992



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d) Credit Risk

Overview of the Bank's Credit Risk Management Policy

Credit risk is the identification of probability that can cause a financial loss to the Bank by the counterparty due to its inability or unwillingness to meet its contractual obligation. Credit risk arises mainly from both direct lending activities as well as contingent liabilities. Credit risk management processes encompass identification, assessment, measurement, monitoring and control of Bank's exposure. The Bank's credit risk management philosophy is based on overall business strategy / direction established by the Board. The Bank is committed to conduct appropriate level of due diligence to ensure that credit risks have been properly analyzed, fully disclosed to the approving authorities, appropriately rated and also to ensure that credit commitments are adequately structured, priced (in line with market practices) and documented.

The Bank, as per Central Bank Guidelines, has migrated to Basel III from January 2015 with the standardized approach. For credit risk, procedural manual has been developed, which also incorporates a comprehensive system of cross-checks for data accuracy. Simultaneously, processes have been set for fine-tuning systems & procedures, information technology capabilities and risk governance structure to meet the requirements of the advanced approaches as well.

The Bank has built and maintained a sound loan portfolio in terms of well-defined credit policy approved by BOD. Its credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. In order to have an effective and efficient risk assessment, and to closely align its functions with Business, Credit Division has separate units for corporate banking, Islamic banking, commercial & SME banking, agricultural financing, and overseas operations.

The Bank manages its portfolio of loan assets with a view to limit concentrations in terms of risk quality, industry, maturity and large exposure. Internal rating based portfolio analysis is also conducted on regular basis. This portfolio level oversight is maintained by Risk Management Division.

A sophisticated internal credit rating system has been developed by the Bank, which is capable of quantifying counter-party & transaction risk in accordance with the best practices. The system takes into consideration qualitative and quantitative factors of counter-party, transaction structure & security and generates an internal rating vis-à-vis anticipated customer behavior. The system is continuously reviewed for best results in line with the Bangladesh Bank's guidelines for Internal Credit Rating. Moreover, the system is backed by secured database with backup support and is capable of generating MIS providing snapshot of the entire portfolio for future strategy and decision making. The System now also has the capability to auto-generate alerts on accounts showing weakness in financials and hence requiring a more vigilant monitoring.

A Centralized Credit Administration Division under Operations Group is working towards ensuring that terms of approval of credit sanctions and regulatory stipulations are complied with and all documentation including security documentation is regular & fully enforceable where disbursements of approved facilities are made only after necessary authorization by CAD. CAD keeps a watch on the quality of the credit portfolio in terms of borrowers' behavior, identifies weak relationships and reports it to the appropriate authority with a view to arrest deterioration. Special attention is paid by the management in respect of Non-performing Loans (NPLs). The Risk Management Division also monitors the NPL portfolio of the Bank and reports the same to BRMC.

Proactive credit-risk management practices in the form of Integrated Bank-wide Risk Management, Internal Control Framework and adherence to Basel III accord constitute important risk management measures, the bank is engaged in for mitigating these exposures. The current focus is on augmenting Bank's abilities to quantify risk in a consistent, reliable and valid fashion, which ensures advanced level of sophistication in the Credit Risk measurement and management in the years ahead.



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Qualitative Disclosures

BAFL is using The Standardized Approach (TSA) of BB Basel III accord for the purpose of estimating Credit Risk Weighted Assets. Under TSA, Banks are allowed to take into consideration external rating(s) of counter-party's for the purpose of calculating Risk Weighted Assets. A detailed procedural manual specifying return-based formats, methodologies and processes for deriving Credit Risk Weighted Assets in accordance with the BB Basel III Standardized Approach is in place and firmly adhered.

External Ratings

Bangladesh Bank Basel III guidelines require banks to use ratings assigned by specified External Credit Assessment Agencies (ECAIs) namely CRAB, CRISL, ECRL, NCRL, ACRSL, Alpha Credit Rating Limited (ACRL), WASO Credit Rating Company (BD) Limited, The Bangladesh Rating Agency Limited, Moody's, Fitch, and Standard & Poor's (S&P). The Bank uses these ECAIs to rate its exposure denominated in Bangladeshi currency on all corporates and banks based in Bangladesh.

The Bank uses external ratings for the purposes of computing the risk weights as per the Basel III framework. For exposures with a contractual maturity of less than or equal to one year, short-term rating given by approved Rating Agencies is used, whereas for long-term exposure with maturity of greater than one year, long-term rating is used. In case there are two ratings available, the lower rating is considered and where three or more ratings are available, the second - lowest rating is considered.

Credit Risk Mitigation Policy

BAFL defines collateral as the assets or rights provided by the borrower or a third party in order to secure a credit exposure. Bank would have the right of secured creditor in respect of the assets/contracts offered as security for obligations of the borrower/obligor.

Collateral Valuation and Management

As stipulated in the BB Basel III guidelines, the Bank uses the comprehensive approach for collateral valuation. Under this approach, the Bank reduces its credit exposure to counterparty while calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified in the Basel III guidelines. In line with Basel III guidelines, the Bank makes adjustment in eligible collaterals received for possible future fluctuations in value of the collateral in line with the requirements specified by BB guidelines. These adjustments, also referred to as 'haircuts', to produce volatility-adjusted amounts for collateral, are reduced from the exposure to compute the capital charge based on the applicable risk weights.

Types of Collateral taken by the Bank

BAFL determines the appropriate collateral for each facility based on the type of product and counterparty. In case of small and medium enterprises financing, fixed assets are generally taken as security for long tenor loans and current assets for working capital finance; usually backed by mortgage. In case of working capital facilities for large corporate relationships, facilities are generally allowed against creation of charges over current & fixed floating assets of the respective companies to mitigate any eventuality. For project finance, security of the assets of the borrower and assignment of the underlying project contracts is generally obtained. Other security such as cash collateral, TDRs, charges on receivables are also obtained by the Bank. Moreover, in order to cover the entire exposure Personal Guarantees of Directors are also obtained by the Bank barring few exceptions. The valuation of the properties is carried out by an approved independent valuation agency.

The decision on the type and quantum of collateral for each transaction is taken by the credit approving authority as per the credit approval authorization given by BoD. For facilities provided as per approved product policies (retail products, loan against shares etc.), collateral is taken in line with the policy.

**Types of Eligible Financial Collateral**

For credit risk mitigation purposes, the Bank considers all types of financial collaterals that are eligible under BB Basel III accord. This includes Cash/TDRs, securities issued by Government of Bangladesh such as T-Bills & T-Bonds, certain debt securities rated by a recognized credit rating agency, and guarantees from certain specified entities. In general, for capital calculation purposes, Bank recognizes only eligible financial collaterals as mentioned in the BB Basel III accord.

In addition to collaterals, transactions are also secured against guarantees thus reducing credit risk. Where guarantees are direct, explicit, irrevocable and unconditional, banks may consider such credit protections in calculating capital requirements through a substitution approach e.g., lower rating/risk weight of guarantor than the counterparty will lead to reduced capital charges.

Credit Concentration Risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz-a-viz industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudent measure aimed at better risk management and avoidance of concentration of risks, BB has prescribed regulatory limits on banks' maximum exposure to single borrower and group borrowers. Moreover, in order to restrict the industry concentration risk, BAFL's annual credit plan spells out the maximum allowable exposure it can take on specific industries. Additionally, the newly developed Internal Rating System allows the Bank to monitor risk rating concentration of counterparties against different grades/scores ranging from 1 – 12 (1 being the best and 10 – 12 for defaulters).

Quantitative Disclosures

Total Exposures of Credit Risk	2018	2017
	Figures in BDT	
1. Funded	22,467,736,154	22,362,124,702
a) Domestic	22,467,736,154	22,362,124,702
b) Overseas	-	-
2. Non-Funded	1,874,210,715	1,312,853,533
a) Domestic	1,874,210,715	1,312,853,533
b) Overseas	-	-
3. Distribution of Risk Exposure by Claims		
Claims on Sovereigns and Central Banks	5,927,115,589	6,154,483,622
Claims on Banks and Securities Firms	4,455,450,399	4,985,089,331
Claims on Corporate (excl Medium Enterprise loan)	8,079,280,529	7,990,239,405
Claims on the Retail & Small Enterprises (excl consumer loan)	318,629	38,754,034
Claims secured by residential property	-	-
Other Categories:	1,997,205,159	1,373,404,555
Past due Loans / NPL	122,994,444	60,551,022
Off-Balance Sheet Items	1,874,210,715	1,312,853,533
4. Credit Risk Mitigation		
Claims Secured by Financial Collateral	954,971,595	909,949,577
Net Exposure after the Application of Haircuts.	9,117,241,552	8,714,408,681
Claims Secured by Eligible Guarantee	-	-

Maturity wise Classification of Loans and advances:

**Bank Alfalah****With a residual maturity of BDT**

Re-payable on Demand	3,344,708,195	4,517,806,196
Not more than 3 months	5,061,982,931	2,629,561,238
Over 3 months but not more than 1 year	1,167,832,512	1,905,549,844
Over 1 year but not more than 5 years	691,049,947	964,373,271
Over 5 years	38,829,156	51,473,474
	10,304,402,741	10,068,764,023

Country-wise Classification of Loans and advances:**Inside Bangladesh****Conventional Banking**

Current Finance	3,344,890,883	3,041,582,617
Term Finance	2,910,732,504	3,406,108,548
Finance Against Foreign Bill	-	6,574,485
Finance Against EDF	108,783,681	-
Staff Loan	67,126,981	72,608,898
Loan against trust receipts	122,669,976	287,257,311
	6,554,204,025	6,814,131,859

Islamic Banking

Morabaha (LPO)	3,165,767,940	2,859,560,095
Trust Receipts	232,267,446	168,787,701
Finance Against Foreign Bill	35,489,952	32,109,868
Morabaha Manual	3,948,329	5,053,916
	3,437,473,667	3,065,511,580

Outside Bangladesh

	-	-
	9,991,677,692	9,879,643,439

Bills purchased and discounted (Morabaha export bills) :

Inside Bangladesh	312,725,049	189,120,584
Outside Bangladesh	-	-
	312,725,049	189,120,584
	10,304,402,741	10,068,764,023

Geography-wise distribution of Loans and advances:

Dhaka	8,300,519,636	7,914,611,584
Chittagong	1,821,729,702	1,928,148,928
Khulna	-	-
Rajshahi	-	-
Barisal	-	-
Sylhet	182,153,403	226,003,511
Rangpur	-	-
	10,304,402,741	10,068,764,023

Maturity wise Classification of Bills Purchased and discounted:

Re-payable:-		
Within 1 month	117,586,351	62,230,401
Over 1 month but less than 3 months	157,750,257	91,904,046
Over 3 months but less than 6 months	37,388,441	34,986,137
6 months or more	-	-
	312,725,049	189,120,584

Sector-wise Classification of loans and advances:

Agri Business	370,666,121	269,845,557
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Automobile dealers	120,645,971	89,335,216
Cement	880,323,248	661,717,179
Chemicals	29,890,983	53,025,375
Financial Institutions & MFIs	1,388,849,936	1,533,825,409
Food & Personal Care Products	831,113,187	822,700,676
Glass & Ceramics	33,524,701	31,841,196
Leather & Tanneries	205,517,349	195,504,010
Manufacturing & sale of Domestic Appliances	432,495,587	700,050,000
Metal & Allied	1,388,029,783	1,626,251,679
Oil & Gas Marketing Companies	324,180,502	203,580,000
Others/Miscellaneous	408,829,900	482,608,232
Paper & Board	51,425,538	42,873,846
Pharmaceuticals	329,667,315	300,625,603
Power Generation & Distribution- Non GoP	405,104,167	301,300,000
Printing & Publishing	98,838,075	28,572,093
Real Estate/Construction	53,867,222	81,616,546
Refinery	28,553,573	28,553,573
Services	848,262,046	908,778,679
Textile Composite / Garments Manufacturing	409,698,699	375,080,987
Textile Spinning	918,320,408	324,568,386
Textile Weaving	-	17,041,399
Tobacco	-	40,146,437
Trading	178,619,681	367,429,257
Transport	22,020,449	35,736,471
Vanaspati & Allied Industries	545,958,300	546,156,217
	10,304,402,741	10,068,764,023

Grouping of Loans and advances as per Classification Rules of Bangladesh Bank:

Unclassified:

Standard including staff loan.	9,962,120,252	9,814,482,870
Special Mention Account (SMA)	-	-
	9,962,120,252	9,814,482,870

Classified:

Substandard	28,372,508	-
Doubtful	69,769,165	-
Bad or loss	244,140,816	254,281,153
	342,282,489	254,281,153

Total	10,304,402,741	10,068,764,023
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Maintenance of Specific Provision

BAFL follows BB guidelines regarding loan classifications, provisioning and any other issues related to Non-Performing Loan (NPL). Bank's internal credit guidelines also directs on managing of NPL, loan provisioning review procedure, debt write-off, facility grading, reporting requirements, interest recognitions etc. While dealing with NPLs, bank's decision is always complied by local rules and regulations as well as group guidelines, which are more conservative than the local regulations.

Specific provision for all classified loan i.e. Sub-standard, Doubtful, and Bad/Loss are maintained by the bank as per Bangladesh Bank guideline. During the year, Bank has provided BDT 21.93 crore for specific provisions.

**Policies and processes for maintaining specific provision**

Bank mainly maintains specific provision against classified loan according to Bangladesh Bank BRPD Circular No. 08 "Loan Classification and Provisioning" dated August 02, 2015 and BRPD Circular No. 14 "Master Circular: Loan Classification and Provisioning" dated September 23, 2012 and other guidelines issued from time to time by Bangladesh Bank.

The Bank maintains specific provision at the following rates in respect of classified Continuous, Demand and Fixed Term Loans:

1. Sub-standard 20%
2. Doubtful 50%
3. Bad/Loss 100%

At the time of determining Gross Income for calculating operational risk, specific provision and other items are grossed up with Net Profit.

	2018	2017
	Figures in BDT	
A. Gross Non-Performing Assets (NPAs)		
Non-Performing Assets (NPAs) to Total Loans & Advances	3.32%	2.53%
B. Movement of Non-Performing Assets (NPAs)		
Opening Balance	254,281,153	269,763,154
Additions	88,001,336	2,743,183
Reductions	-	18,225,184
Write-off	-	-
Closing Balance	<u>342,282,489</u>	<u>254,281,153</u>
C. Movement of Specific Provisions for NPAs		
Opening Balance	193,730,131	180,727,296
Provisions made during the period	36,758,890	21,220,795
Write-off / Reversal during the period	11,200,976	8,217,960
Write-back of Excess Provisions/Prov. Reversed	-	-
Closing Balance	<u>219,288,045</u>	<u>193,730,131</u>

e) Equities: Disclosures for Banking Book Positions**Qualitative Disclosures**

BAFL does not hold any trading position in equities (neither quoted nor unquoted).

f) Interest Rate Risk in the Banking Book (IRRBB)**Qualitative Disclosures**

Interest rate risk arises from the fluctuation in the value of financial instruments consequent to changes in market interest rates. The Bank is exposed to interest rate risk primarily as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments within a certain range of maturity due to re-pricing (whichever is earlier). The Bank has formulated a separate Interest Rate Risk Management framework, which establishes aggregate and tenor-wise balance sheet level PV01 (Price Value of 1 bps) limits to manage interest rate risk within the Board's approved risk appetite. Treasury is primarily responsible for management of interest rate risk on daily basis where Asset & Liability



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Committee (ALCO) oversees the interest rate risk at Bank level. In order to ensure that this risk is managed within acceptable limits, RMD independently monitors, analyses & reports various gap limits including management action point and re-pricing of the assets and liabilities on regular basis. BAFL pursues maturity method for measuring interest rate risk in respect of securities in trading book. The capital charge for entire market risk is computed under the standardized approach using the maturity method and in accordance with the guidelines issued by Bangladesh Bank.

Quantitative Disclosures

Interest rate risk in banking book as of Dec 31, 2018 is calculated as change in Market Value (MV) of equity in following manner -

		2018	2017
Figures in BDT Crore			
Market Value of Assets		2,226.80	2,230.50
Market Value of Liabilities		1,644.90	1,646.25
Weighted Average Duration of Assets (in years)		0.62	0.58
Weighted Average Duration of Liabilities (in years)		0.50	0.54
Duration Gap (in years)		0.25	0.18
Yield to Maturity (YTM) for Assets		5.76%	5.24%
Yield to Maturity (YTM) for Liabilities		2.85%	2.28%
Fall in Market Value of Equity		24.93	26.27
Changes in Market Value of Equity due to an increase in Interest Rate by Interest Rate Change	1%	(5.29)	(3.77)
	2%	(10.57)	(7.54)
	3%	(15.86)	(11.31)
Regulatory capital (after shock)	Major	551.39	556.54
RWA (after shock)	Major	902.48	976.31
CAR (after shock)	Major	61.10%	57.00%

The above result implies that bank may lose more value in its interest rate sensitive assets than its liabilities and thus an increase in interest rate may cause a decline in the economic value of bank's capital.

g) Market Risk

Qualitative Disclosures

Market risk exposes the Bank to the risk of financial losses resulting from movements in market prices. This risk is associated with changes in the interest rates, foreign exchange rates, equity prices and commodity prices.

To manage and control market risk, a well-defined risk management structure under Board approved Market & Liquidity Risk Management Policy is already in place. The policy outline methods to measure and control market risk, which are carried out at the portfolio level. Moreover, it also includes controls which are applied, wherever necessary, to individual risk types, particular books and to specific exposures. These controls include limits on exposure to individual market risk variables as well as limits on concentrations of tenors and issuers. This structure is reviewed, adjusted and approved periodically.

Trading book consists of positions in financial instruments held with trading intent. A capital charge is applicable for financial instruments which are free from any restrictive covenants on tradability in line with Basel-III guidelines issued by Bangladesh Bank. Generally, investments in 'Held for Trading' portfolio are focal parts of the Trading Book. In addition, other positions should be valued prudently.



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The Bank's Asset and Liability Committee (ALCO) is primarily responsible for the oversight of the market risk, supported by the Risk Management Division (RMD). BAFL has a comprehensive Treasury and Investment Policy, which inter alia covers assessment, monitoring and management of all the above market risks.

Methods used to measure Market risk

BAFL defines market risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market prices. Under market risk management, interest rate risk, equity price risk and foreign exchange risk are monitored. BAFL uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel III. Currently, BAFL calculates 'Value at Risk (VaR)' on a regular basis. Moreover, it also carries out stress testing with regular intervals by applying shocks on fixed income, equity and foreign exchange positions.

Interest Rate Risk

The possibility of reduction in the value of a security (especially T-Bills & T-Bonds) resulting from a rise in interest rates. This risk can be reduced by diversifying the durations of the fixed-income investments, which are held at a given time.

Foreign Exchange Risk

The Bank has fixed maximum overnight exposure for foreign exchange exposures (NOP) in various currencies. Stop loss limit and single deal limits are also in place for monitoring the forex operation of the Dealers. Foreign Exchange Gap limits are also in place for evaluating the bank's long or short position in currencies applicable for forward transactions. VaR analysis is conducted on a daily basis to measure and monitor the FX risk.

Market Risk Management system

Bank has well defined Risk Management Policy, Investment Policy, Asset-Liability Management Policy etc. which covers important areas of market risk management.

Policies and processes for mitigating market risk

Detailed policies are operational manuals for Investment Management, Asset Liability Management and Market Risk Management, which deal in the various strategies and processes for monitoring Market Risk. In order to evaluate market risk issues, Bank has in place a "Treasury and Funds Management Policy", "Interest Risk Rate Policy" and "Market Liquidity Risk Policy". These policies provide details on various tools and guidelines for market risk identification, market risk measurement and risk mitigation. Bank has constituted Asset Liability Management Committee to oversee the Risk Management and ALM functions to monitor the progress in its implementation.

Besides, following tools are also used for market risk management / mitigation:

- (a) Delegation of Powers - Bank has well-defined discretionary powers for different level of authorities for taking investment decisions.
- (b) Prudential Limits - Various limits e.g., exposure limit, stop loss limits, duration etc. have been fixed.
- (c) Asset Liability Management Committee (ALCO) - Under Risk Management architecture of Bank, ALCO committee of executives is constituted, which monitors liquidity management and interest rate risk on regular basis. Support group of executives / officers has also been constituted to help ALCO.

The table given below shows 1-day VaR & Market value for the Fixed Income Securities and Foreign Exchange portfolios as on December 31, 2018.

Figures in BDT

Category	Market Value	VaR @ 99% CI	VaR @ 95% CI	VaR @ 90% CI
T-Bill	-	-	-	-
T-Bond	196,483,307	77,608,246	54,873,223	42,753,266
Equity	-	-	-	-
Forex	1,523,285	2,006,218	1,418,504	1,105,196
Total	198,006,592	79,614,464	56,291,727	43,858,462

On December 31, 2018 there was 1% chance of loss (more than BDT 7.96 crore), 5% chance of loss (more than BDT 5.62 crore) & 10% chance of loss (more than BDT 4.38 crore) on a given day due to market movement against the three portfolios of BDT 19.80 crore.

	2018	2017
	Figures in BDT	
Capital Requirements for -		
Interest Rate Risk	22,033,926	9,081,247
Equity Position Risk	-	-
Foreign Exchange Risk	16,407,338	3,280,044
Commodity Risk	-	-
	38,441,264	12,361,291

h) Operational Risk

Qualitative Disclosures

Basel III defines Operational risk as, “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. This definition includes legal risk but excludes strategic and reputation risk.

Policies and processes for mitigating operational risk

Bank has put in place the following measures to control and mitigate operational risks:

- Instructions, circulars, job descriptions, training programs etc. for Operational & Other Manuals
- Delegation of financial powers at various levels for different type of financial transactions
- Inputs on operational risk are included in the relevant training programs
- Bank obtains insurance coverage for potential operational risks
- System of prompt submission of reports on frauds is also in place
- A Key Risk Indicator (KRI) module is in place to gauge operational risk against set parameters
- An automated Operational Loss Database (OPLDB) module provides early warning signals about occurrence of risk events that enable modeling of future operational loss events.

BAFL adopted Basic Indicator approach for calculating operational risk, which is as under:

Quantitative Disclosures

	2018	2017
	Figures in BDT	
Capital Requirements for Operational Risk	155,874,421	154,932,199



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i) Liquidity Ratio

Qualitative Disclosures

Liquidity risk is potential loss to the bank arising from either through inability to meet its obligations or to fund the increase in assets as they fall due without incurring an unacceptable cost.

The Bank's Asset and Liability Committee (ALCO) is primarily responsible for formulation of overall strategy and oversight of the asset liability function including liquidity management. The BoD has approved a comprehensive Market & Liquidity Risk Management Policy, which stipulates various parameters to monitor and control liquidity risk including maintenance of various liquidity ratios. RMD is responsible for independent monitoring of overall liquidity risk in line with regulatory requirements as well as BoD approved Risk Framework. It also monitors & reports the maintenance of liquidity buffer in form of excess Govt. securities over regulatory requirement, liquidity ratios and depositors' concentration both in terms of the overall funding mix and avoidance of undue reliance on large volume deposits. As core retail deposits form a considerable part of the Bank's overall funding mix, significant importance is being given to stability and growth of these deposits. Maturity gaps and sources of funding are also reviewed in order to ensure diversification in terms of tenor, currency and geography. Moreover, bank also prepares a 'Contingency Funding Plan' (CFP) to address liquidity issues in times of stress / crisis situations containing early warning indicators to pre-empt unforeseen liquidity crisis. In addition to this, bank has designed different scenarios of cash outflows to stress test adequacy of its liquid assets.

Since difficulties experienced by some banks during the financial crisis were due to lapses in basic principles of liquidity risk management, the bank has already implemented regulatory ratios pertaining to liquidity management as per Basel III accord i.e. the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days. NSFR 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 with minimum acceptable value of more than 100 percent, indicating that available stable funding (ASF) should be greater than required funding (RSF).

In addition to regulatory liquidity standards, the bank also uses number of ratios on daily basis to assess the liquidity. The most important being Advances to Deposits ratio. Other ratios include large volume deposits (LVD) to Total Deposits, Liquid Assets to Total Demand and Time liabilities, Unencumbered T-Bills, T-Bonds to Liquid Assets, etc. These ratios are monitored as per predefined caps set by the ALCO however; the limits are subject to change in line with external & internal regulatory environment duly approved by the relevant authorities. The bank also monitors Maturity Gaps with percentage of bucket-wise gap to total assets and conducts liquidity stress testing on daily basis to gauge liquid resources available after cash outflows.

An effective MIS is the backbone of liquidity management. The procedure adopted to support liquidity management include: reporting of heavy withdrawal (BDT 100 mln or above) by the branches to the Treasury Division at least one working day in advance; reporting of maturity mismatch in various time bands GAP; report on contingent liabilities on quarterly basis; and credit portfolio, overdue schedule and NPLs on monthly basis. For periodic monitoring and controlling liquidity risk within limits, a Funds Flow Analysis (FFA) is prepared and tolerance limits are assigned for gaps identified. FFA estimates all the cash inflows and outflows of the Bank and thus determines the net deficit or surplus, which shall be broken down into appropriate time-bands after considering the behavior of assets, liabilities and off-balance sheet items included in these time-bands. To maintain sufficient liquidity, the bank has set a strategy to keep margin of excess liquidity of minimum 5% over regulatory requirement where liquidity needs should be estimated in variety of scenarios in the CFP and in stress testing conducted by the RMD.

The bank remains stringent in maintaining the ratios with a considerable cushion over and above the



regulatory requirement to be able to mitigate liquidity risk. Therefore, BAFL always focuses to keep LCR and NSFR ratio over and above regulatory threshold level. The RMD proactively calculates these two ratios with regular interval and assists ALCO in setting strategies to keep the ratios at a considerable level to comply with the Basel regulations.

Quantitative Disclosures

	2018	2017
	Figures in BDT	
Liquidity Coverage Ratio (LCR)	251.01%	225.69%
Net Stable Funding Ratio (NSFR)	133.09%	141.98%
Stock of high-quality liquid assets	1,950,087,035	2,297,428,260
Total net cash outflows over the next 30 calendar days	776,882,622	1,017,962,472
Available amount of stable funding (ASF)	18,068,700,298	17,503,052,386
Required amount of stable funding (RSF)	13,576,783,073	12,327,915,035

j) Leverage Ratio

Qualitative Disclosures

Building up excessive on & off-balance sheet leverage in the banking system was widely believed to have contributed to the global financial crisis in 2008. With a view to address this, international community has proposed the adoption of a non-risk-based capital measure i.e., the leverage ratio, as an additional prudential tool to complement minimum capital adequacy requirements. Hence, leverage ratio had been introduced under Basel III. Leverage ratio is the relative amount of Tier 1 capital to total exposure (after related deductions) of the Bank (not risk-weighted), which has been set at minimum 3%.

Under Basel III, a simple, transparent and non-risk based regulatory leverage ratio has been introduced to achieve the following objectives:

- Constrain leverage in the banking sector, thus helping to mitigate the risk of the destabilizing deleveraging processes, which can damage the financial system and the economy
- Introduce additional safeguards against model risk and measurement error by supplementing the risk-based measure with a simple, transparent and independent measure of risk

The Risk Management Division regularly reviews the leverage ratios and advice the management to strictly monitor the same in addition to the Pillar 1 Minimum Capital Requirement.

The bank reviews its leverage position as per the Guidelines on Risk Based Capital Adequacy (revised regulatory capital framework for banks in line with Basel III). In addition, the bank has Risk Appetite as per Credit Risk Management Policy and Risk Appetite Framework of the Bank. It also employs annual budget plan and capital growth plan for managing excessive on and off-balance sheet leverage.

The bank calculates the exposure under standardized approach as per Basel III guidelines. The capital measure for the leverage ratio is based on the new definition of Tier 1 capital with relevant deductions of items, which do not contribute to leverage. The exposure measures the leverage ratio will generally follow the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following are applied by the bank:

- On balance sheet, non-derivative exposures will be net of specific provisions & valuation adjustments (e.g. surplus/deficit on HFT positions).
- Items deducted from Tier 1 capital also applies here (e.g. DTA)
- Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure.



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- Netting of loans & deposits is not allowed.

Quantitative Disclosures

	2018	2017
	Figures in BDT	
Tier 1 capital (considering all regulatory adjustments)	5,517,328,457	5,536,520,267
On-balance sheet exposure	21,539,056,074	21,671,336,861
Off-balance sheet exposure	1,874,210,715	1,312,853,533
Regulatory adjustments made to Tier 1 capital	13,541,258	12,977,654
Total Exposure	23,399,725,531	22,971,212,740
Leverage Ratio	23.58%	24.10%

k) Remuneration

Qualitative Disclosures

Information relating to the bodies that oversee remuneration

Bank has a group specified remuneration policy, which is designed to positively reward the achievement of long-term sustainable performance to keep the quality resources motivated. BAFL remains committed to its assigned role towards achieving organizational goals and meeting all stakeholders' expectations; as well as to attract the best of quality resources from the market, whenever required. Group has a dedicated Board Human Resources & Nomination Committee (BHR&NC) consisting of 3 Members of Board of Directors and President/CEO of the bank. The committee periodically reviews competitiveness of bank's remuneration, compensation & benefits package in line with industry and initiates systematic measures to bring necessary changes in the remuneration policy to ensure fairness and competitiveness in rewarding, motivating and retaining Bank's valued resources. The proposals of committee therefore, get reviewed and approved by the Board of Directors, ensuring due consideration and effective mitigation of possible associated risks (if any) arising out of the proposal under review. The BOD and all its committees are stationed at our Head Office in Karachi-Pakistan and liaison with Bangladesh management from time to time in this regard.

During the period, bank had not sought advice of any external consultant with regard to remuneration of senior staff specifically. Moreover, the Bank Alfalah - Bangladesh Operations does not have any foreign subsidiaries and branches, thus scope of region or business line wise separate remuneration policy is not in place.

The operation of the bank in Bangladesh is managed mainly by Management Committee Team (MANCOM), which is chaired by Country Head of Bangladesh. The MANCOM operates under a controlled function and requires Head Office approval for taking significant risk exposure in excess of their respective functional limit. Thus, there is no significant risk taker in the bank that can cause inflated material effect. The MANCOM consists of 7 Senior Management staff comprise of Country Head, Country Credit Head, Country Operations Head, Head of Treasury, Head of Finance and Administration, Head of Compliance, and National Manager - Corporate Banking.

Information relating to the design and structure of remuneration processes.

Bank maintains a well designed and competitive remuneration and compensation plan as an integral part of its organization strategy to ensure that employees remain focused and motivated toward achievement of organization goals. Bank Alfalah, in order to succeed in this increasingly competitive banking industry, stress to ensure a well-designed compensation plan for its staff ensuring internal & external equity to keep them motivated on long term basis. At the same time, bank also ensures that remuneration cost remain aligned with forecasted return thus mitigating the associated managerial,



financial and regulatory risks. Bank is not in practice of following any separate remuneration and compensation structure for senior executives of the bank. The remuneration structure of bank's senior executives also comprises of same component as other staff; mainly consists of 3 major differentials as below:

- Direct Financial Compensation
- Indirect Financial Compensation
- Non-Financial Compensation

Direct Financial Compensation

The major portion of the direct financial compensation components are governed by the monthly remuneration paid to each staff member based on their Job Description, Job Role Evaluation and contribution towards the overall goals. Other components are either fixed or variable or incidental in nature and different loan facilities granted to staff. The major components of the Direct Financial Benefits are:

Period	Nature	Particulars
Monthly	Fixed	<ul style="list-style-type: none"> • Basic Salary • Other Allowances
	Variable	<ul style="list-style-type: none"> • Cell Phone Allowance • Fuel Facility
Annual	Fixed	<ul style="list-style-type: none"> • Leave Fare Assistance • Festival Bonuses
	Variable	<ul style="list-style-type: none"> • Performance Bonuses
Other	Incidental	<ul style="list-style-type: none"> • Spot / Cash Rewards • Travel Allowance
	Loans Facility	<ul style="list-style-type: none"> • Personal Loan • Car Loan • House Loan

All components of financial compensations are reviewed at individual / organizational level on periodic basis to remain aligned with market practices, ensure internal and external equity, cost of living adjustment, job-role change, merit increase and promotion to higher responsibility.

Indirect Financial Compensation

The compensation plan of the bank also consists of number of indirect financial components for their staff through which the bank clearly differentiates its compensation plan competitiveness within the industry and amongst its competitors. The major components of the banks indirect Financial Benefits are:

- Medical Benefits
- Life Insurance Benefits
- Mortgage Insurance Benefits
- Provident Fund
- Gratuity Fund
- Paid / Unpaid leave Facility
- Education supplement benefits
- Subscription payments for newspaper, magazines and other publications related to job roles

Such benefits are also subject to review from time to time to ensure its competitiveness.



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Non-Financial Compensation

In a competitive market while all banks offers market equitable financial benefits, the span of competitive edge of financial benefits tend to shorten with time. Thus, the non-financial components play a vital role to attract and retain competent human resources on long term basis. These particular components of the bank's compensation plan had always remained the key factors of management's focus point to stress on, while devising long-term HR strategy to achieve organizational goals. Some of the key components of the same are as below:

- Professional development opportunities
- Career opportunities
- Organizational culture
- Systematic job sharing and rotation
- Career counseling and mentorship
- Periodic and systematic participatory performance review system
- Transparent succession planning process
- Professional work environment
- Employee empowerment
- Performance acknowledgement & recognition system etc.

There is no Corporate Incentive Plan or equity Program in vogue for the senior management in Bangladesh Operations.

Description of ways in which current and future risks are taken into account in the remuneration process.

The remuneration / compensation plan initiates with identification of individual goals / objectives on 5 major broad performance areas in line with the organization's overall goals / objective. The approach is to tie compensation components with performance ensuring internal and external equity. The 5 major broad performance areas are as below:

- Financial Objective
- Managing for Values (both in term of business initiative and Operations Objectives)
- Audit, Compliance and Control
- Personal Development and
- People Development

While assigning individual goals / objectives, adequate measures are ensured to cover all material risk factors under 5 broad categories and recorded in terms of goals and objectives for the year. Failure to mitigate said risks during the year effects appraisal, which has direct link with the yearly remuneration revision and award of performance bonuses for the year under question. Thus, by linking risk factors with performance measurement / evaluation vis-à-vis remuneration fixation criterion; risk mitigation measures by senior management gets ensured / covered.

Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.

The major portion of senior management remuneration is governed by the fixed portion of the total compensation package. The absence of intense variable salary components (other than annual performance bonus) constitutes overall low risk factor since fixation of performance bonus and remuneration revision falls beyond the scope of controlled function of senior management.

The Compensation and reward plan of Bank Alfalah is governed by the compensation philosophy to remain aligned & competitive with the market and reward performance appropriately. The basic philosophy of this plan is to retain and motivate its core staff on long term basis to perform at a desired



level and provide reward to the performers. At the same time, it also sets standards for others to have a clear understanding of what to expect from them in order to improve their performance to the desired level.

Depending upon the performance of an individual during a year, each executive gets rated on a scale of 1 to 5 where 5 is considered as the highest rating. Based on the financial performance of the bank, Board of Directors approves a bonus pool and remuneration review / revision pool, which in turn gets distributed amongst executives in the form of performance bonus and increments; depending upon individual and unit / department performance. Thus, performing individuals of different departments gets justified reward as opposed to less performing individuals / units. Accordingly, senior management staffs are also getting rewarded following the similar process i.e., based on their performance. Through annual performance exercise, BAFL ensures that link between remuneration and performance is established through a transparent and justifiable process.

Description of ways in which bank seeks to adjust remuneration to take account of longer-term performance.

BAFL is currently not offering variable incentive plans to the likes of Corporate Incentive Plan or Equity Participation Program to its senior management staff. This section is therefore, not applicable to the bank.

Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.

BAFL is currently not offering variable incentive plans to the likes of Corporate Incentive Plan or Equity Participation Program to its senior management staff. This section is therefore, not applicable to the bank.

Quantitative Disclosures:

	2018	2017
	Figures in BDT	
Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.		
Number of employees having received a variable remuneration award during the financial year.	120 Nos.	109 Nos.
Number and total amount of guaranteed bonuses awarded during the financial year.	2 Nos. 27,640,804/-	2 Nos. 26,606,842/-
Number and total amount of sign-on awards made during the financial year.	NIL	NIL
Number and total amount of severance payments made during the financial year.	NIL	NIL
Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	N/A	N/A
Total amount of deferred remuneration paid out in the financial year.	N/A	N/A
Breakdown of amount of remuneration awards for the financial year to show:		
- Fixed and variable.	211,649,698/-	211,600,474/-



- Deferred and non-deferred.	N/A	N/A
- Different forms used (cash, shares and share linked instruments, other forms).	N/A	N/A
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 similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:	N/A	N/A
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	N/A	N/A
Total amount of reductions during the financial year due to ex post explicit adjustments.	N/A	N/A
Total amount of reductions during the financial year due to ex post implicit adjustments.	N/A	N/A