Bank Alfalah

Bank Alfalah Limited
Bangladesh Operations
Disclosures on Risk Based Capital (Basel III) for the year ended December 2022

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 as business activities change 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 the risk management framework of the Bank. BAFL Bangladesh Operations has further authorized committees such as Management Committee (MANCOM), Country Credit Committee Bangladesh (CCCB), Assets & Liabilities Committee (ALCO), Executive Risk Management Committee (ERMC), Information Technology Steering Committee (ITSC), Information Technology Security Committee, and Central Compliance Committee (CCC) 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
- 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 and 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, information security risk, trade pricing, environmental & social 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, 2022 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.

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 1 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. However, revaluation reserve for G.Sec has been followed 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, hence, general provisions remains as the only item as Tier 2 Capital.

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
3. Minimum Capital to Risk-weighted Asset ratio (CRAR) should be 10% of the total RWA
4. Additional Tier 1 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, whichever is higher

6. In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.5% of the total RWA is to be maintained in the form of CET1

Quantitative Disclosures

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

	2022	2021
	Figures in BDT	
Common Equity Tier 1 (CET1) Capital		
Fund Deposited with BB	4,528,498,538	4,454,035,286
Retained Earnings	1,332,802,132	1,398,461,164
	5,861,300,670	**5,852,496,450**
Regulatory adjustments / Deductions from CET1 Capital		
Goodwill and all other Intangible Assets	282,918	549,069
Deferred Tax Assets	100,121,173	91,820,597
	100,404,091	**92,369,666**
Total CET1 Capital	**5,760,896,579**	**5,760,126,784**
Additional Tier 1 (AT1) Capital	-	-
Total Tier-1 Capital	**5,760,896,579**	**5,760,126,784**
Tier 2 Capital		
General Provision (Limited to 1.25% of credit RWA)	181,198,572	169,920,242
	181,198,572	**169,920,242**
Total Admissible Tier 2 Capital	**181,198,572**	**169,920,242**
Total Eligible Capital	**5,942,095,151**	**5,930,047,026**

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 2.50% in the form of CET1 Capital. 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	2019
Minimum Common Equity Tier 1 (CET1) Capital Ratio	4.50%
Capital Conservation Buffer	2.50%
Minimum CET1 plus Capital Conservation Buffer	7.00%
Minimum T-1 Capital Ratio	6.00%
Minimum Total Capital Ratio	10.00%
Minimum Total Capital plus Capital Conservation Buffer	12.50%

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.

The Bank has a capital adequacy ratio (CRAR) of 48.69% as against the regulatory requirement of 10% MCR, of which Tier 1 capital adequacy ratio is 47.20% against regulatory minimum requirement of 6.0%; and Tier 2 capital adequacy ratio is 1.48%. 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

	2022	2021
	Figures in BDT	
RWA for on-balance sheet credit risk	10,263,707,262	8,338,259,633
RWA for off-balance sheet credit risk	112,652,078	764,671,996
Total Credit Risk RWA	10,376,359,340	9,102,931,629
Market Risk RWA	218,166,054	507,633,454
Operational Risk RWA	1,609,755,408	1,628,833,033
Total Risk Weighted Assets	**12,204,280,802**	**11,239,398,116**
Amount of Regulatory Capital to meet unforeseen loss		
Capital requirement for Credit Risk	1,037,635,934	910,293,163
Capital requirement for Market Risk	21,816,605	50,763,345
Capital requirement for Operational Risk	160,975,541	162,883,303
Total Capital requirement	**1,220,428,080**	**1,123,939,811**
Common Equity Tier 1 Capital	5,760,896,579	5,760,126,784
Total Tier 1 Capital	5,760,896,579	5,760,126,784
Total Tier 2 Capital	181,198,572	169,920,242
A. Total Regulatory Capital	**5,942,095,151**	**5,930,047,026**
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]	**1,942,095,151**	**1,930,047,026**
Capital Conservation Buffer requirement (effective from Jan'16)	305,107,020	280,984,953
Capital Adequacy Ratio		
CET1 Capital to Risk-weighted Asset Ratio	47.20%	51.25%
Tier 1 Capital to Risk-weighted Asset Ratio	47.20%	51.25%
Tier 2 Capital to Risk-weighted Asset Ratio	1.48%	1.51%
Capital to Risk-weighted Asset Ratio (CRAR)	**48.69%**	**52.76%**

Capital Conservation Buffer maintained	1,942,095,151	1,930,047,026

Available Capital under Pillar 2 Requirement:

A. Total Eligible Regulatory Capital	5,942,095,151	5,930,047,026
B. Minimum Capital Requirement under Pillar 1	4,000,000,000	4,000,000,000
C. Capital Conservation Buffer (CCB)	305,107,020	280,984,953
D. Minimum Capital Requirement incl. CCB [B+C]	4,305,107,020	4,280,984,953
E. Available Capital for Pillar 2 [A-D]	1,636,988,131	1,649,062,073

d) Credit Risk

Qualitative Disclosures

Overview of the Bank's Credit Risk Management Policy

Credit risk is the identification of probability that counterparty will 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 lending, hedging, settlement and other financial transactions. Credit risk management processes encompass identification, assessment, measurement, monitoring and control of Bank's exposure to credit risk. The Bank's credit risk management philosophy is based on its overall business strategy / direction as established by the Board. The Bank is committed to the appropriate level of due diligence to ensure that credit risks have been properly analyzed, fully disclosed to the approving authorities and appropriately quantified, also ensuring that the credit commitment is appropriately 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.

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 Credit & Risk Management Group.

A sophisticated internal credit rating system is in place, which is capable of quantifying counter-party and transaction risk in accordance with the best practices. The system takes into consideration qualitative and quantitative factors of the counter-party, transaction structure & security and generates internal rating at obligor and facility levels. The system is regularly reviewed for improvements as per 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 reports providing snapshot of the entire portfolio for strategizing 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 Credit & Risk Management Group is working towards ensuring that terms of approval of credit sanctions and regulatory stipulations are complied, all documentation including security documentation is regular and fully enforceable and all 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 weakening accounts relationships and reports it to the appropriate authorities with a view to address further deterioration. Special attention is paid by the management in respect of Non-performing Loans (NPLs).

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.

BAFL is using Standardized Approach (SA) of BB Basel III accord for the purpose of estimating Credit Risk Weighted Assets. Under SA, Banks are allowed to take into consideration external rating(s) of counter-parties for the purpose of calculating Risk Weighted Assets.

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. Where exposure is rated by two or more rating agencies – the 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 facility. Bank would have the rights of secured creditor in respect of the assets/contracts offered as security for the 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 a 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 the 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 / borrowers are also obtained generally by the Bank. 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 approved by the Central Credit Committee (CCC) under its delegation powers. 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 (capital adequacy 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 and T-Bonds, certain debt securities rated by recognized credit rating agencies, and guarantees from certain specified entities (Government of Bangladesh, Banks etc.).

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. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, BB has prescribed regulatory limits on banks' maximum exposure to single borrower, group borrowers and related parties. 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 industry. Additionally, the Internal Rating System allows the Bank to monitor risk rating concentration of borrowers against different grades / scores ranging from 1—12 (1 being the best and 12 being loss category).

Quantitative Disclosures

Total Exposures of Credit Risk	**2022**	**2021**
	Figures in BDT	
1. Funded	**32,385,260,229**	**27,794,011,494**
a) Domestic	32,385,260,229	27,794,011,494
b) Overseas	-	-
2. Non-Funded	**190,515,791**	**1,560,096,262**
a) Domestic	190,515,791	1,560,096,262
b) Overseas	-	-
3. Distribution of Risk Exposure by Claims		
Cash & Cash Equivalents	265,320,157	219,963,026
Claims on Sovereigns and Central Banks	8,273,158,678	8,038,323,264
Claims on Banks and Securities Firms	3,304,957,687	3,621,677,770
Claims on Corporate (excl Medium Enterprise loan)	15,511,698,896	10,620,271,706
Claims on the Retail & Small Enterprises (excl consumer loan)	375,330,463	528,587,076
Investments in premises, plant, equipment & fixed assets	134,912,714	154,004,583
All other assets	3,303,006,485	3,430,772,114
Other Categories:	305,511,789	1,685,902,031
Past due Loans / NPL	114,995,998	125,805,769
Off-Balance Sheet Items	190,515,791	1,560,096,262
4. Credit Risk Mitigation		
Claims Secured by Financial Collateral	1,101,879,151	1,054,606,187
Net Exposure after the Application of Haircuts.	16,787,748,233	12,088,698,924

Claims Secured by Eligible Guarantee	-	-

Maturity-wise grouping of Loans & advances:

Repayable on Demand	542,327,320	2,505,783,683
Not more than 3 months	14,131,593,080	5,043,846,262
Over 3 months but not more than 1 year	2,163,792,111	4,431,372,021
Over 1 year but not more than 5 years	520,957,723	501,220,476
Over 5 years	37,734,031	146,880,812
	17,396,404,265	**12,629,103,254**

Country-wise Classification of Loans and advances:
Inside Bangladesh

Conventional Banking		
Current Finance	5,531,419,244	3,303,055,923
Term Finance	7,169,011,488	5,561,183,284
Agriculture Finance	294,013,486	242,986,167
Staff Loan	61,401,451	65,038,465
Finance against EDF	331,615,448	164,079,051
Loan against trust receipts	47,062,109	19,327,747
	13,434,523,226	**9,355,670,637**
Islamic Banking		
Murabaha (LPO)	3,289,272,735	3,228,397,453
Trust Receipts	31,018,658	-
Finance Against Foreign Bill	-	-
Advance against Murabaha	-	472,282
Diminishing Musharkah	-	-
Finance Against EDF	70,913,151	40,910,638
Spot Murabaha	564,625,000	-
	3,955,829,544	**3,269,780,373**
Outside Bangladesh	-	-
	17,390,352,770	**12,625,451,010**
Bills purchased and discounted (Murabaha export bills):		
Payable in Bangladesh	6,051,495	3,652,244
Payable outside Bangladesh	-	-
	6,051,495	**3,652,244**
	17,396,404,265	**12,629,103,254**

Geographical location-wise distribution of Loans & advances:

Dhaka Division	12,480,263,711	10,340,132,723
Chittagong Division	4,836,633,847	2,195,784,034
Khulna Division	-	-
Rajshahi Division	-	-
Barisal Division	-	-
Sylhet Division	79,506,707	93,186,497
Rangpur Division	-	-
	17,396,404,265	**12,629,103,254**

Maturity-wise grouping of Bills Purchased and discounted:

Payable within 1 month	6,051,495	3,652,244
Over 1 month but less than 3 months	-	-
Over 3 months but less than 6 months	-	-
6 months or more	-	-
	6,051,495	**3,652,244**

Industry-wise classification of Loans & Advances:

Agri Business	1,524,082,941	1,343,888,962
Automobile dealers	100,672,003	115,301,658
Cement	522,106,435	634,918,536
Chemicals	557,330,833	139,740,308
Financial Institutions & MFIs	1,614,140,528	1,391,907,024
Food & Personal Care Products	1,198,084,804	1,249,198,178
Glass & Ceramics	29,523,968	28,473,013
Leather & Tanneries	202,846,667	204,255,606
Manufacturing & sale of Domestic Appliances	1,107,651,001	1,158,787,622
Metal & Allied	4,066,200,242	1,426,457,528
Oil & Gas Marketing Companies	579,017,114	305,536,428
Others/Miscellaneous	741,265,722	324,467,010
Paper & Board	-	51,028,206
Pharmaceuticals	1,244,945,541	982,293,339
Power Generation & Distribution- Non GoP	-	291,071,389
Printing & Publishing	70,695,292	78,362,868
Real Estate/Construction	43,046,537	23,057,827
Refinery	27,781,573	27,781,573
Services	573,148,291	710,731,263
Textile Composite / Garments Manufacturing	395,155,610	477,676,439
Textile Spinning	1,046,028,766	948,159,457
Textile Weaving	103,978,772	61,425,446
Tobacco	-	-
Trading	79,716,858	127,538,498
Transport	113,514,954	12,671,540
Jute Mills	621,200,000	-
Vanaspati & Allied Industries	834,269,813	514,373,536
	17,396,404,265	**12,629,103,254**

Grouping of Loans and advances as per Classification Rules of Bangladesh Bank:		
Unclassified:		
Standard including staff loan	17,056,046,069	12,272,155,678
Special Mention Account (SMA)	-	1,697,541
	17,056,046,069	**12,273,853,219**
Classified:		
Substandard	16,737,118	16,143,791
Doubtful	68,058,520	-
Bad or loss	255,562,558	339,106,244
	340,358,196	**355,250,035**
Total	**17,396,404,265**	**12,629,103,254**

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. As of December 31, 2022, Bank has provided BDT 22.54 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.

	2022	2021
	Figures in BDT	
A. Gross Non Performing Assets (NPAs)		
Non Performing Assets (NPAs) to Outstanding Loans & Advances	1.96%	2.81%
B. Movement of Non Performing Assets (NPAs)		
Opening Balance	355,250,035	339,888,725
Additions	68,886,842	16,743,791
Reductions	3,532,295	1,382,481
Write-off	80,246,386	-
Closing Balance	**340,358,196**	**355,250,035**
C. Movement of Specific Provisions for NPAs		
Opening Balance	231,141,808	233,567,886
Provisions made during the period	73,453,869	286,540
Write-off	67,056,797	-
Write-back of Excess Provisions/Reversal of Provision	12,176,682	2,712,618
Closing Balance	**225,362,198**	**231,141,808**

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 in the banking book ultimately arises from the differential in the proportion and tenor of fixed rate contracts between the asset and liability side. Banking book interest rate risk measurements thus should start with a look at the mismatches or gaps between interest bearing assets and liabilities. These are expressed in terms of re-pricing and maturity intervals or as "duration", i.e. a refined measure of effective average maturity which captures the interest rate sensitivity of fixed rate contracts. Hence, interest rate risk is the possibility that changes in the prevailing market interest rate levels produce an adverse impact on net income and on the value of assets and liabilities and consequentially on the economic value of equity.

Interest rate risk in the banking book refers to the earnings and asset value exposures as they relate to assets and liabilities from traditional lending and deposit taking, as opposed to debt securities and other loan claims held for trading purposes.

BAFL BD is exposed to interest rate risk primarily as a result of mismatches in the amounts of assets, liabilities and off-balance sheet interest sensitive instruments within a certain range of maturity or re-pricing (whichever is earlier). It has approved category-wise G. Sec portfolio level PV01 (price value per basis point) limits to manage interest rate risk within the approved risk appetite. Treasury is primarily responsible for management of interest rate risk on a daily basis, and the Asset and Liability Committee (ALCO) oversees the interest rate risk. Market Risk Unit of Risk Management Division independently monitors, analyses and reports various limits including management action point limits and re-pricing of the assets and liabilities on a regular basis.

For estimating the IRRBB both changes in Net Interest Income (ΔNII) assuming a constant balance sheet and changes in Economic Value of Equity (ΔEVE) assuming a run-off balance sheet. For this purpose cash flow are slotted among 19 time buckets for the common products with behavioral optionalities and interest rate shocks are applied based on six standardized shock scenarios i.e., Parallel shock up; Parallel shock down; Steepener shock (short rates down and long rates up); Flattener shock (short rates up and long rates down); Short rates shock up; and Short rates shock down.

Quantitative Disclosures

Interest rate risk in banking book as of Dec 31, 2022 is calculated as change in Market Value (MV) of equity under Duration Gap analysis and Simple Sensitivity analysis in following manner –

		2022	2021
		Figures in BDT Crore	
Market Value of Assets		3,073.81	2,636.20
Market Value of Liabilities		2,507.73	2,043.53
Weighted Average Duration of Assets (in years)		0.53	1.13
Weighted Average Duration of Liabilities (in years)		0.64	0.49
Duration Gap (in years)		0.01	0.76
Yield to Maturity (YTM) for Assets		6.82%	4.74%
Yield to Maturity (YTM) for Liabilities		0.77%	1.32%
Fall in Market Value of Equity		(20.39)	(1.70)
Changes in Market Value of Equity due to an increase in Interest Rate	1%	(0.31)	(19.04)
	2%	(0.62)	(38.07)
	3%	(0.93)	(57.11)
Stress Testing:			
Regulatory capital (after shock)	Major	593.42	536.22
RWA (after shock)	Major	1,201.95	1,122.28
CAR (after shock)	Major	49.37%	47.78%

Under the sensitivity analysis the impact on change in interest rate on the economic value of equity and net interest income is applied through six shock scenarios.

Figures in BDT Crore

Shock Scenarios	Δ EVE	Δ NII
Parallel up	0.59	(14.94)
Parallel Down	(0.59)	14.94
Steepener	(1.25)	
Flattener	(1.25)	
Short rate up	0.27	
Short rate down	(0.27)	
Maximum	(1.25)	14.94
Tier 1 capital	576.09	

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.

Views of BOD on trading/investment activities

To manage and control market risk, a comprehensive BoD approved Market & Liquidity Risk Policy is in place. The policy outlines a well-defined risk control structure, responsibilities of relevant stakeholders with respect to market risk management and methods to measure and control market risk carried out at a portfolio level. Moreover, it also includes controls which are applied, where necessary, to individual risk types, to 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.

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 BD 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. Furthermore, the Bank carries out risk assessment via diversified tools including Value at Risk (VaR), PV01 (price value per basis point) and Duration on a regular basis. The Bank also ascertains the impact of market risk on relevant factors through stress testing and Internal Capital Adequacy Assessment processes.

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

Foreign exchange (FX) risk arises from the fluctuation in the value of financial instruments due to the changes in foreign exchange rates. FX risk is mainly managed through matched positions.

BAFL BD also manages FX risk by setting and monitoring dealer and currency-wise limits. Foreign Exchange Gap limits are also in place for evaluating the bank's long or short position in currencies applicable for forward transactions. The currency risk is regulated and monitored against the regulatory/statutory limits enforced by the Bangladesh Bank. The foreign exchange exposure limits in respective currencies are managed against the prescribed limits. Risk Assessment with respect to FX risk is also conducted on a regular basis through VaR analysis.

Market Risk Management system

BAFL BD has well defined Market & Liquidity Risk Policy which covers important areas of market risk management. The bank has set risk appetites for market risk factors keeping its balance sheet size, profitability under consideration. The management also has set market risk management action triggers which is monitored by the Market Risk Management Unit and presented to the ERMC on a regular basis.

Policies and processes for mitigating market risk

The Bank's Asset and Liability Committee (ALCO) is primarily responsible for the oversight of the market risk, supported by Market Risk Unit. The Bank has developed various tools for market risk measurement and its mitigation thereof i.e. Value at Risk (VaR), Duration, Price Value of a Basis Point (PVBP), Re-pricing Gaps, etc. It carries out stress tests, using both internal and regulatory scenarios. Moreover, it has a comprehensive risk control limit framework, which defines exposure limits (on a portfolio/ /tenor/), PVBP limits, money market gap limits, FX gap limits, currency-wise NOP limits, stop loss limits, tolerance limits, counterparty limits, dealer limits, etc.

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" 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.

Quantitative Disclosure

	2022	2021
	Figures in BDT	
Capital Requirements for -		
Interest Rate Risk	17,571,956	36,607,958
Equity Position Risk	-	-
Foreign Exchange Risk	4,244,649	14,155,387
Commodity Risk	-	-
	21,816,605	**50,763,345**

h) Operational Risk

Qualitative Disclosures

Operational Risk is the risk of loss resulting from inadequate internal processes, people and systems, or from external events, including legal risk. This excludes strategic and reputational risk.

Views of BOD on system to reduce Operational Risk

Embedding a sustainable risk culture remains our core objective, which includes effective management of operational issues and emerging risks across the Bank via deployment of required resources, tools and continuous supervision. The new Operational Risk Framework, Policy and Standards, duly approved by the Board, have been rolled out along with new system platforms (Operational Risk System) for recording and tracking of risk events, including non-financial risks. The documents address the processes, structure and functions of the operational risk management and provide guidelines to identify, assess, monitor, control and report operational risk in a consistent and transparent manner across the Bank. Furthermore, new and amended products, systems, activities and processes are subject to comprehensive operational risk assessments before implementation and launch. The Operational Risk representatives engage with bank's business / support units and regularly collaborates in determining and reviewing the risks, and suggests controls on need basis. KRI system is deployed whereby breaches, if any, are reported on a quarterly basis. The actual loss report and KRI breaches are submitted to the Operational Risk Division - Head Office and Executive Risk Management Committee of Bangladesh.

Performance gap of executives and staffs

The bank's management has set policies in providing a competitive packages vis-à-vis strong corporate culture couples with suitable working environment so that quality people can be retained. Excellent working environment has been playing a very important role in motivating the employees. Hence, no considerable performance gap was evident.

Potential external events

BAFL has not exposed to any kind of significant operational risk which is attributable to potential external events. The bank has in place a proper "Business Continuity Plan (BCP) / Disaster Recovery Plan (DRP)" to address any sort of Business continuity risk which may incur losses resulting from the interruption of normal business activities, i.e., interruptions to our infrastructure as well as to the infrastructure that supports its businesses. Besides, the bank also has set out Information Security Risk Management Framework under which the IT Division conducts awareness programs on IT security risks which may emanate from unauthorized use, loss, damage, password leakage, cyber threats through phishing etc. that may expose the bank into operational risk.

Policies and processes for mitigating operational risk

The Bank's Operational Risk Framework duly approved by the Board addresses all the significant areas of Operational Risk Management within the Bank, including Control Self-Assessment (CSA), Key Risk Indicators (KRIs), Operational Loss Data Management, and Operational Risk Reporting. The Bank is using Control Self -Assessment, KRIs, capturing operational incidents as tools for identification, monitoring, measuring and management of operational risk. Key Risk Indicators and operational loss incidents are captured in our Operational Risk and Key Risk Indicators (KRI) systems.

Approach for calculating capital charge for operational risk

BAFL adopted Basic Indicator Approach (BIA) for calculating operational risk, which is based on 15% of the average positive gross income from last three years. However, on bank wide basis Alternative Standardized Approach (ASA) is being used including income and respective assets aspects of Bangladesh as allowed under Basel.

Quantitative Disclosures

	2022	2021
	Figures in BDT	
Capital Requirements for Operational Risk	160,975,541	162,883,303

i) Liquidity Ratio

Qualitative Disclosures

Liquidity is a financial institution's capacity to meet its obligations as they fall due without incurring losses. Liquidity risk is the risk to an institution's earnings, capital and reputation arising from its inability (real or perceived) to meet its contractual obligations in a timely manner without incurring unacceptable losses when they come due.

Views of BoD on system to reduce liquidity Risk

The Bank manages and controls liquidity risk through a detailed risk management framework, which includes BoD approved policy and Asset & Liability Committee (ALCO) level guidelines. Under this framework, various liquidity metrics are implemented and monitored on a regular basis.

At BAFL, BoD approves the Market & Liquidity Risk Policy. Further, BoD also approves the overall liquidity risk appetite and broad liquidity risk strategy through Annual Business Plan. The Bank's ALCO is primarily responsible for the implementation of BoD's strategy through oversight of the asset liability function including liquidity management. Treasury front office manages the Bank's liquidity on day-to-day basis and is the Bank's first line of defense against liquidity risk. Under Risk Management Division, Market & Liquidity Risk Management Unit is responsible for independent monitoring of the overall liquidity risk in line with regulatory requirements and bank's own risk appetite.

Methods used to measure Liquidity risk

The Bank's overall funding strategy is based on the principles of diversification and stability. BAFL has a diverse funding base, which includes stable funding in the form of equity, retail, small business and corporate deposits and non-stable funding in form of large volume depositors. The Bank has in place internally approved limits to monitor and manage risk emanating from volatile funding concentration. Moreover, the Bank is fully compliant with Basel III LCR and NSFR which are calculated on a monthly and quarterly basis respectively, which ensure sufficient stock of high-quality liquidity assets in relation to its liability profile. These two minimum standards aim to achieve two separate but complementary objectives. The objective of LCR is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have an adequate stock of unencumbered high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for 30 calendar days. The objective of second liquidity standard, i.e. NSFR is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding on an ongoing basis.

In addition to regulatory liquidity standards, the bank also uses number of ratios on daily basis to assess the liquidity. These ratios are monitored on daily basis and annually reviewed by the ALCO - Head Office, 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.

At BAFL, stress testing is used in an attempt to highlight the vulnerability of the Bank's balance sheet to hypothetical stress events and scenarios. Under the same, liquidity risk factors are given major shocks and their resulting impact on the balance sheet is calculated. BAFL carries out the stress testing based on internal defined scenarios to gauge the potential impacts of different liquidity stress scenarios on the Bank's stock of liquid assets. The results are shared with the senior management.

Liquidity risk management system

Contingency Funding Plan (CFP) is also in place to address liquidity issues in times of stress/crisis situations. The plan covers triggers (systematic and bank specific) and action plans along with roles and responsibilities in the event of liquidity crisis. Treasury prepares the CFPs on annual basis for identifying the stress scenarios and the funding plan for such scenarios along with early warning indicators. These plans are reviewed by the Risk Management Division, and are approved by the ALCO annually.

Policies and processes for mitigating liquidity risk

The Market & Liquidity Risk Management Unit of RMD performs independent monitoring and reporting of the overall liquidity position in line with regulatory requirements and the Bank's own risk appetite at the bank level and operations level. The Bank is fully compliant with Basel III liquidity standards, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), with a considerable cushion over regulatory requirement. Therefore, BAFL always focuses to keep LCR and NSFR ratio over and above regulatory threshold level. To maintain sufficient liquidity, the bank has set a strategy to keep margin of excess liquidity in terms of LCR and NSFR of minimum 20% and 10%, respectively, over regulatory requirement where liquidity needs should be estimated in variety of scenarios in the CFP and in stress testing conducted by the RMD. Stress Tests are performed (both the BB and internal for at the bank level) under which liquidity risk factors are given major shocks to check the vulnerability on the Bank's balance sheet to those hypothetical shocks in various stress scenarios.

Quantitative Disclosures

	2022	2021
	Figures in BDT	
Liquidity Coverage Ratio (LCR)	382.81%	168.10%
Net Stable Funding Ratio (NSFR)	144.21%	120.01%
Stock of high-quality liquid assets	4,018,310,006	3,479,615,235
Total net cash outflows over the next 30 calendar days	1,049,696,556	2,070,015,517
Available amount of stable funding (ASF)	24,356,278,178	19,492,347,013
Required amount of stable funding (RSF)	16,888,945,907	16,242,327,212

j) Leverage Ratio

Qualitative Disclosures

Leverage ratio is defined as ratio of Bank's Eligible Tier 1 Capital to Total Exposure (after related deductions) of the Bank (not risk-weighted), which has been set at minimum 3%.

Views of BOD on system to reduce excessive leverage

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. The BoD always puts special emphasis on the bank's capital strength and asset quality so that the core capital has the capacity to withstand the excessive shock arising out of leverage. For that matter the bank's BoD always remains cautious in maintaining sufficient level of core capital (Tier 1) and focused on growing On-and Off Balance Sheet Exposures at desired level.

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

Policies and processes for managing excessive on and off-balance sheet leverage

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.

Approach for calculating exposure

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
- Netting of loans & deposits is not allowed
- OBS items are converted into credit exposure equivalents through credit conversion factors (CCFs). Depending on the risk category of the exposure a CCF of 20%, 50% or 100% is applied. Commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is applied

Quantitative Disclosures

	2022	2021
	Figures in BDT	
Tier 1 capital (considering all regulatory adjustments)	5,760,896,579	5,760,126,784
On-balance sheet exposure	30,865,894,939	26,227,420,594
Off-balance sheet exposure	190,515,791	1,560,096,262
Regulatory adjustments made to Tier 1 capital	100,404,090	92,369,666
Total Exposure	30,956,006,640	27,695,147,190
Leverage Ratio	18.61%	20.80%

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 5 Members of Board of Directors 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 the Management Committee (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 10 Senior Management staff comprise of Country Head, Country Operations Head, Chief Risk Officer Bangladesh, Head of Retail, Head of Treasury, Head of Finance, Head of Compliance, Head of Corporate Banking, Head of IT and Head of Operations.

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	• Basic Salary • Other Allowances
	Variable	• Cell Phone Allowance • Fuel Facility
Annual	Fixed	• Leave Fare Assistance • Festival Bonuses
	Variable	• Performance Bonuses
Other	Incidental	• Spot / Cash Rewards • Travel Allowance
	Loans Facility	• 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:

- Life Insurance Benefits
- Mortgage Insurance Benefits
- Medical Insurance Benefits
- Provident Fund
- Gratuity Fund
- Paid / Unpaid leave Facility
- Education supplement benefits

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

Non-Financial Compensation

In a competitive market while all banks offer 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,

Bank Alfalah

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 trough 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:

	2022	**2021**
	Figures in BDT	
Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	3 nos. Remuneration amount n/a	3 nos. Remuneration amount n/a
Number of employees having received a variable remuneration award during the financial year.	142 Nos.	149 Nos.
Number and total amount of guaranteed bonuses awarded during the financial year.	2 Nos. 36,031,376/-	2 Nos. 33,891,615/-
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.	307,396,554/-	288,533,257/-
- Deferred and non-deferred.	NIL	NIL
- Different forms used (cash, shares and share linked instruments, other forms).	NIL	NIL

Quantitative information about employees' exposure to implicit (e.g., fluctuations in the value of shares or performance units) and explicit adjustments (e.g., claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:	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