Disclosure on Market Discipline under Pillar-III of BASEL-II

Background: These disclosures under Pillar III of Basel II are made following "Prudential Guidelines on Capital Adequacy and Market Discipline" (CAMD) for Financial Institutions (FIs) issued by Bangladesh Bank (Central Bank of Bangladesh) in December 2011. These quantitative and qualitative disclosures are intended to complement the Minimum Capital Requirement (MCR) under Pillar I and Supervisory Review Process (SRP) under Pillar II of Basel II. The purpose of these disclosures is to present relevant information on adequacy of capital in relation to overall risk exposures of the FI so that the market participants can assess the position and direction of the FI in making economic decisions.

Consistency and Validation: The quantitative disclosures are made on the basis of consolidated along with its separate audited financial statements of LankaBangla Finance Limited (LBFL) and its Subsidiaries as at and for the year ended 31 December 2022 prepared under relevant international accounting and financial reporting standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and related circulars/instructions issued by Bangladesh Bank from time to time.

Information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements for 2022 of LBFL and its Subsidiaries along with separate audited financial statements for 2022 of the FI available on the website of the FI (**www.lankabangla.com**).

A. Scope of application

Qualitative Disclosures

(a) The framework applies to LankaBangla Finance Limited (LBFL) on **'Consolidated Basis'** as there were three subsidiaries of the FI as on the reporting date i.e. 31 December 2022. However, **'Solo Basis'** information has been presented beside those of 'Consolidated Basis' to facilitate comparison.

(b) The FI has three subsidiaries; all of them have been operational on the reporting date. These are LankaBangla Securities Limited (LBSL), LankaBangla Investments Limited (LBIL) and LankaBangla Asset Management Company Limited (LBAMCL).

LankaBangla Securities Ltd.: LankaBangla Securities Limited (LBSL) is a public limited company. As a member of Dhaka Stock Exchanges Ltd. and Chittagong Stock Exchange Ltd. the principal activities of the Company are buying, selling and settlement of securities on behalf of investors and in its own portfolio. LBFL holds 96.67% shares (including indirect ownership) of LBSL. LBSL has two subsidiaries which were fully consolidated in the financial statements of LBSL. The subsidiaries are as under:

> **LankaBangla Information System Limited (LBISL):** It is a private limited Company incorporated in May 2013. LBSL holds 99.80% shares of (LBISL).
>
> **BizBangla Media Limited:** It is a private limited company incorporated in January 2011. The main objectives of the company are to carry on business of printing, publishing of newspaper, journals, magazines, periodicals, books, pamphlets and other literary and nonliterary works and undertakings, radio, television broadcastings. LBSL holds 96.63% shares of the Company.

LankaBangla Investments Ltd (LBIL): It is public limited Company although it was incorporated as private limited company in 2010. It obtained required license from BSEC in 2011 and started full-fledged operations of merchant banking, portfolio management, underwriting, etc. It is a fully owned subsidiary of LBFL.

LankaBangla Asset Management Company Ltd. (LBAMCL): It is incorporated as private limited company in 2007. It got license from BSEC in 2012 as an asset management company. It also received registration certificate from BSEC in 2016 to act as an Alternative Investment Fund Manager. It is a fully owned subsidiary of LBFL. The financials of all subsidiaries are fully consolidated and all intercompany transactions and balances are eliminated.

LankaBangla FINANCE

Disclosure on Market Discipline under Pillar-III of BASEL-II

The rules and regulations of DFIM of Bangladesh Bank that govern 'Single Borrower Exposure Limit' for the customers are equally applicable for the LBFL in financing its own subsidiaries. LBFL is following latest Bangladesh Bank circular in determining maximum amount of finance to the subsidiaries of the Company.

Quantitative Disclosures

Not Applicable.

B. Capital Structure

Qualitative Disclosures

As per Basel II guidelines, regulatory capital consists of Tier-1 (Core) capital and Tier 2 (supplementary) capital. Core capital comprises of highest quality capital elements and supplementary capital represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of an FI.

Conditions for maintaining regulatory capital: The FI complied with all the required conditions for maintaining regulatory capital as stipulated in the Basel II guidelines as per the following details:

Particulars	Status of Compliance
The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital	Complied
50% of revaluation reserves for fixed assets and 45% of revaluation reserves for securities eligible for Tier 2 capital.	Complied
Revaluation reserve for equity instruments up to 10%	Complied
General provision up to a limit of 1.25% of risk weighted asset for credit risk may be included in Tier 2 capital	Complied
Subordinated bond in Tier 2 capital can be maximum 30% of Tier 1 Capital	Complied
Minimum capital to RWA Ratio (CAR) will be 10%	Complied

Quantitative Disclosures as of 31st December

In BDT Million

Particulars	2022		2021	
	Solo	Consolidated	Solo	Consolidated
Fully paid-up Capital	5,388	5,388	5,388	5,388
Statutory Reserve	2,085	2,085	2,050	2,050
Non-repayable share premium account	-	1,091	-	1,091
General reserve	-	47	-	51
Retained earnings	1,558	2,090	1,954	2,085
Minority interest in subsidiaries	-	208	-	195
Capital Reserve	-	86	-	14
Less: Book value of Goodwill	-	-	-	-
Tier 1 Capital	9,032	10,996	9,278	10,874
Tier 2 Capital	2,153	1,787	2,490	2,251
Total Eligible Capital	11,185	12,783	11,768	13,125

C. Capital Adequacy

Qualitative Disclosures

Assessing regulatory capital in relation to overall risk exposures of an FI is an integrated and comprehensive process. LBFL follows the risk weighted asset-based approach (standardized Approach for credit risk & Market Risk and Basic Indicator Approach for Operational Risk) in assessing the adequacy of capital to support current and projected business activities. The LBFL focuses on strengthening risk management and control environment rather than increasing capital to cover up weak risk management and control practices. LBFL has been generating most of its incremental capital from retained profit (stock dividend and statutory reserve transfer etc.) and occasional issue of right shares to support incremental growth of Risk Weighted Assets (RWA). Besides meeting regulatory capital requirement, the FI maintains adequate capital to absorb material risks foreseen. Therefore, the Capital to Risk Weighted Assets Ratio (CRAR) remains consistently within the comfort zone during 2022. The surplus capital maintained by LBFL will act as buffer to absorb all material risks and to support the future activities. To ensure the adequacy of capital to support the future activities, the FI assesses capital requirements periodically considering future business growth. Risk Management Division (RMD) under guidance of the SRP team/RMC (Risk Management Committee), is taking active measures to identify, quantify, manage and monitor all risks to which the FI is exposed to.

Quantitative Disclosures as of 31st December

Amount in BDT Million

Particulars	2022		2021	
	Solo	Consolidated	Solo	Consolidated
Capital requirement for Credit Risk	6,110	5,496	5,907	5,425
Capital requirement for Market Risk	499	1,187	585	1,371
Capital requirement for Operational Risk	478	693	477	623
Minimum capital requirement (MCR)	7,088	7,376	6,969	7,419

Particulars	2022		2021	
	Solo	Consolidated	Solo	Consolidated
Core capital maintained	9,032	10,996	9,278	10,874
Supplementary Capital Maintained	2,153	1,787	2,490	2,251
Total Risk Weighted Asset	70,879	73,763	69,688	74,187
Common Equity Tier-1 Capital Ratio	12.74%	14.91%	13.31%	14.66%
Tier-2 Capital Ratio	3.04%	2.42%	3.57%	3.03%
Capital Adequacy Ratio	15.78%	17.33%	16.89%	17.69%

D. Credit Risk

Qualitative Disclosures

Credit risk is defined as the probability of failure of counterparty to meet its obligation as per agreed terms. FIs are very much prone to credit risk due to its core activities i.e. lending to corporate, Consumer, SME, another bank/FI. The main objective of credit risk management is to minimize negative impact through adopting proper mitigates and to limit credit risk exposures within acceptable limit.

Disclosure on Market Discipline under Pillar-III of BASEL-II

Credit risk management has been independent of origination of business functions to establish better control and to reduce conflicts of interest. The Head of Credit Risk Management (Chief Credit Officer or CCO) has well-defined responsibility for management of credit risk. Final authority and responsibility for all activities that expose the FI to credit risk rests with the Board of Directors. The Board however delegated authority to the Managing Director and CEO or other officers of the credit risk management division.

The Board of Directors (BoD) sets credit policies and delegates authority to the management for setting procedures, which together has structured the credit risk management framework in the FI. The Credit Policy Manual contains the core principles for identifying, measuring, approving, and managing credit risk in the FI and is designed to meet the organizational requirements that exist today as well as to provide flexibility for future. These policies represent the minimum standards for credit extension by the FI and are not a substitute of experience and good judgment.

Definitions of past due and impaired credit:

To define past due and impairment through classification and provisioning, the FI follows Bangladesh Bank Circulars and Guidelines. General provisions ranging from 0.25% to 5% on unclassified loans (standard/SMA) and specific provisions on classified loans (20% for substandard, 50% for doubtful and 100% for bad-loss) are made on the basis of quarter-end review by the management and instructions contained in DFIM Circular. Provisions and interest suspense are separately shown under other liabilities as per DFIM Circular instead offsetting with loans.

Specific provisions for classified loans and general provisions for unclassified loans are measured following BB prescribed provisioning rates as mentioned below:

Particulars	Rates of provision
General provision on:	
Unclassified of Cottage, Micro, Small & Medium Enterprise Financing (CMSMEF)	0.25%
Unclassified of leases, loans and advances except CMSMEF and FBMSD	1.00%
Unclassified of Financing to the Brokerage House/Merchant Banks/Stock Dealers etc. (FBMSD)	2.00%
Special Mention Account of leases, loans and advances (SMA)	5.00%
Specific provision on:	
Sub-standard of leases, loans and advances (SS)	20.00%
Doubtful of leases, loans and advances (DF)	50.00%
Bad/loss of leases, loans and advances (BL)	100.00%

Disclosure on Market Discipline under Pillar-III of BASEL-II

Quantitative Disclosures as on 31st December:

Total gross credit risk (risk weighted) exposures:

Amount in BDT Million

Particulars	2022		2021	
	Solo	**Consolidated**	**Solo**	**Consolidated**
Cash and cash equivalents	0	0	0	0
Claims on Bangladesh Govt. & Bangladesh Bank	0	0	0	0
Claims on NBFI and Banks	2,105	2,440	2,239	2,825
Claims on corporate (including OBS exposures)	21,003	21,003	19,969	19,969
Claims on Retail and SME (Including OBS exposures)	6,001	6,001	4,260	4,260
Consumer Finance	7,934	7,934	8,825	8,825
Claims fully secured by residential & Commercial Property	4,272	4,272	4,876	4,876
Past due claims	2,632	2,632	2,467	2,467
All other assets	17,216	10,740	16,431	11,029
Total	**61,163**	**55,022**	**59,067**	**54,250**

Geographical distribution of exposures (without netting eligible financial collateral) as on 31st December 2022:

Amount in BDT million

Location	Solo	Consolidated
Dhaka	41,310	44,158
Chittagong	9,419	10,157
Sylhet	612	693
Jessore	1,737	1,737
Narshindi	726	726
Cumilla	494	553
Bogura	1,144	1144
Barisal	370	372
Khulna	567	567
Mymensingh	1,151	1151
Narayangonj	913	936
Rajshahi	527	527
Chowmuhani	338	338
Dinajpur	683	683
Gazipur	423	423
Faridpur	381	381
Habiganj	302	302
Others	234	237
Total	**61,331**	**65,085**

Disclosure on Market Discipline under Pillar-III of BASEL-II

Industry or counterparty type distribution of exposure and NPL (without netting eligible financial collateral): Solo Basis:

Amount in BDT million

SL. No.	Particulars	Total Portfolio	Mix (%)	NPL	NPL % of Total Portfolio
1	**Trade & Commerce**	11,758.94	19.17%	1,141.09	1.86%
2	**Industry**			-	-
	A. Garments & Knitwear	2,363.32	3.85%	22.73	0.04%
	B. Textiles	1,948.91	3.18%	183.86	0.30%
	C. Food Production, Processing & Rice Mills	5,224.60	8.52%	74.30	0.12%
	D. Jute & Jute products	121.19	0.20%	108.87	0.18%
	E. Plastic & Rubber Industry	1,303.19	2.12%	2.96	0.00%
	F. Leather & Leather goods	288.16	0.47%	1.77	0.00%
	G. Iron, Steel & Engineering	2,059.87	3.36%	89.54	0.15%
	H. Pharmaceuticals & Chemicals	1,355.01	2.21%	-	0.00%
	I. Cement & Allied Industry	1,711.81	2.79%	460.07	0.75%
	J. Paper, Packaging, Printing, Publishing & Allied Industry	512.71	0.84%	29.25	0.05%
	K. Wood, Furniture & Fixture	151.13	0.25%	12.83	0.02%
	L. Glass, Glassware & Ceramic Industry	1.28	0.00%	-	0.00%
	M. Ship Manufacturing & Breaking	-	0.00%	-	0.00%
	N. Electronics & Electrical Products	1,425.13	2.32%	5.49	0.01%
	O. Power, Gas, Petrollium, Water & Sanitary	597.15	0.97%	341.53	0.56%
	P. Transport & Aviation	2,244.74	3.66%	42.11	0.07%
	Q. Others	-	0.00%	-	0.00%
3	**Agriculture**			-	-
	A. Crops	-	0.00%	-	0.00%
	B. Forestry	0.88	0.00%	-	0.00%
	C. Poultry & Livestock	342.65	0.56%	3.81	0.01%
	D. Fisheries	4.73	0.01%	-	0.00%
	E. Others (Cold Storage, Biofuel, Seed, Feed, Agri-related Other Institutions & Services)	863.39	1.41%	7.00	0.01%
4	**Mining & Quarrying**	5.59	0.01%	-	0.00%
5	**Housing**			-	-
	A. Individual/Retail Housing	8,181.28	13.34%	376.09	0.61%
	B. Project/Commercial Housing	-	0.00%	-	0.00%
6	**Financial Corporation**			-	0.00%
	A. Bank	-	0.00%	-	0.00%
	B. Financial Institution	-	0.00%	-	0.00%
	C. Insurance Company	1.00	0.00%	-	0.00%
	D. NGO	2,152.66	3.51%	-	0.00%
	E. Audit & Accounting firm	11.63	0.02%	-	0.00%
	F. Credit Rating Agency	-	0.00%	-	0.00%
	G. Merchant Banking	-	0.00%	-	0.00%
	i. Loans to Own Subsidiaries	1,576.68	2.57%	-	0.00%
	ii. Loans to Other FI/Bank Subsidiaries	-	0.00%	-	0.00%
	iii. Loans to Brokerage House	375.34	0.61%	-	0.00%
	H. Other Financial Auxiliaries	-	0.00%	-	0.00%
7	**Service**			-	-
	A. Education, Career & Training (Institutional), Consultancy Supervisory	251.41	0.41%	-	0.00%
	B. Tourism, Hospitality & Logistics	1,034.99	1.69%	124.50	0.20%
	C. Health Sector	388.26	0.63%	31.16	0.05%

	D. Media, Advertising & Event Management	92.95	0.15%	12.07	0.02%
	E. Beautification & Gym	5.23	0.01%	-	0.00%
	F. Tailoring & Laundry	13.07	0.02%	2.14	0.00%
	G. Private Survey Institution	-	0.00%	-	0.00%
	H. Restaurant Service, Catering & Online Food Supplier	61.46	0.10%	2.85	0.00%
	I. Telecommunication & Information Technology	1,127.93	1.84%	5.25	0.01%
	J. Others	1,328.72	2.17%	18.68	0.03%
8	**Consumer Finance**			-	-
	A. Personal Loan	1,956.24	3.19%	467.79	0.76%
	B. Auto Loan	2,741.64	4.47%	142.46	0.23%
	C. Employee/Staff Loan	433.77	0.71%	1.69	0.00%
	D. Credit Card	4,786.39	7.80%	710.66	1.16%
	E. Loan Against Deposit	526.15	0.86%	5.27	0.01%
9	**Others**	-	0.00%	-	0.00%
Grand Total		**61,331.19**		**4,427.82**	**7.22%**

Residual contractual maturity of credit exposure (without netting eligible financial collateral) as on 31st December 2022:

Amount in BDT million

Particulars	Solo	Consolidated
On demand	2,050	2,954
In not more than three months	10,076	12,033
In more than three months but not more than one year	29,388	30,135
In more than one year but not more than five years	16,828	16,954
In more than five years	2,990	3,011
Total	**61,331**	**65,086**

Gross Non-Performing Assets (NPAs): Solo

On the reporting date i.e. 31 December 2022, Gross Non-Performing Assets stood at BDT 4,427.82 million.

Non-Performing Assets (NPAs) to Outstanding Loans & advances: Solo

On the reporting date i.e. 31 December 2022, Non-Performing Assets (NPAs) to Outstanding Loans & advances was 7.22%.

Movement of Non-Performing Assets (NPAs): Solo

Amount in BDT Million

Particulars	2022
Opening balance	3,859.02
Additions during the year	1,012.39
Reductions during the year	443.59
Closing balance	**4,427.82**

Disclosure on Market Discipline under Pillar-III of BASEL-II

Movement of Specific Provisions for NPAs (Provisions for classified loans)

Amount in BDT Million

Particulars	2022
Opening balance	1,752.18
On fully provided debt written off during the year	90.13
Write back of excess provisions	-
Specific provision for the year	542.92
Provision held at the end of the year	**2,204.97**

E. Equities: Banking Book Positions

Qualitative Disclosures

Investment in equity securities by LBFL is broadly categorized into two types: Quoted securities (Ordinary shares, Mutual Funds) and Un-quoted securities. Unquoted securities are categorized as banking book exposures which are further subdivided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future (i.e. held to maturity) and securities that are acquired under private placement or IPO or strategically held for a longer term and are going to be traded in the secondary market after completing required formalities or meeting some requirements.

Discussion of important policies covering the valuation and accounting of equity holdings in the banking book:

Investment in Marketable securities: Investment in listed securities are carried at cost. Adequate provision has been made considering each individual investment (where market price is less than cost) as guided by Bangladesh Bank. Unrealized gains are not recognized in the profit and loss account.

Investment in Non-Marketable securities: Investment in unlisted securities are reported at cost under cost method. Adjustment is given for any shortage of book value over cost for determining the carrying amount of investment in unlisted securities. No gains are recognized in the profit and loss account.

Investment in subsidiaries: Investments in subsidiaries are accounted for as per IFRS 9 in Company's separate financial statements in accordance with IAS-27. Accordingly, investments in subsidiaries are stated in the Company's statement of financial position at fair value and any changes therein are recorded in revaluation reserve under equity. Any changes in fair value of investment in subsidiaries are not shown in other comprehensive income as it is not permitted by Bangladesh BankProvision for shares against unrealized loss (gain net off) has been made according to Bangladesh Bank (BB) circular. The Company has used adjusted net asset method as per IFRS 13 to measure fair value of investment in subsidiaries.

Quantitative Disclosures as on 31st December 2022:

Amount in BDT Million

Particulars	Solo		Consolidated	
	At Cost	At Market Value	At Cost	At Market Value
Value of Quoted securities	1,391	1,114	5,405	4,553
Value of Unquoted securities	1,319	1,319	1,481	1,481

Disclosure on Market Discipline under Pillar-III of BASEL-II

Particulars	Solo	Consolidated
The cumulative realized gains (losses) arising from sales and liquidations in the reporting period/Net gain/(loss) on sale of quoted securities	4.47	181.96
Total unrealized gains (losses) / Provision for revaluation of shares (net)	(222)	(271)
Revaluation Reserve for Investment in Subsidiaries	2,137	-
Any amount of the above included in Tier 2 capital (10% of revaluation reserve for investment in subsidiaries)	213.7	-
Capital charge required for quoted securities:	222.82	910.64
Specific risk	111.41	455.32
General market risk	111.41	455.32

F. Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures

(a) General Disclosure

Interest Rate Risk is the risk which affects the FI's financial condition due to changes of market interest rates. Changes in interest rates affect both the current earnings (earnings perspective) and also the net worth of the FI (economic value perspective). FI assesses the interest rate risk both in earning and economic value perspective.

The process of interest rate risk management by the FI involves determination of the business objectives, expectation about future macro-economic variables and understanding the money markets and debt market in which it operates. Interest rate risk management also includes quantifying the appetite for market risk to which FI is comfortable.

The FI uses the following approach to manage interest rate risks inherent in the Balance sheet:

Simple Gap Analysis: Traditional Gap analysis of on-balance sheet Asset Liability Management (ALM) involves careful allocations of assets and liabilities according to re-pricing/maturity buckets. This approach quantifies the potential change in net interest income using a specified shift in interest rates, e.g. 100 or 200 basis points, or a simulated future path of interest rates.

Assumptions: For Gap analysis, FI considers the following:

- For fixed-rate contract, remaining maturity is considered.
- For contracts with provision of re-pricing, time remaining for next re-pricing is considered.
- For assets and liabilities which lack definitive re-pricing interval or for which there is no stated maturity, FI determines the core and volatile portion. For assets, volatile portion is bucketed till 3 months using historical repayment behavior and stable portion is bucketed in 6-12 months' bucket. For liabilities, volatile portion is bucketed till 1 year using historical withdrawal behavior and stable portion is bucketed in over 1-year segment.

Also, following assumptions are met:

- The main assumption of gap analysis is that interest rate moves on a parallel fashion. In reality however, interest rate does not move parallel.

- Contractual repayment schedule is met.
- Re-pricing of assets and liabilities takes place in the midpoint of time bucket.
- The expectation that loan payment will occur in schedule.

Quantitative Disclosures:

Funding Gap Analysis:

Funding GAP Analysis attempts to determine the potential impact on net interest income (NII) due to changes in interest rate.

Result of Funding Gap analysis as on December 31, 2022:

Particulars	3 months	6 months
For 1% increase/decrease in interest rate, impact on NII	BDT ± 9.59 Million	BDT ± 3.94 Million
For 2% increase/decrease in interest rate, impact on NII	BDT ± 19.18 Million	BDT ± 7.88 Million

Duration GAP Analysis:

The focus of the Duration Analysis is to measure the level of a FI's exposure to interest rate risk in terms of sensitivity of Market Value of its Equity (MVE) to interest rate movements. Duration Gap can be used to evaluate the impact on the Market Value of Equity of the FI under different interest rate scenarios. ALCO monitors the Leveraged Liability Duration and duration gap of the total FI balance sheet on a quarterly basis to assess the impact of parallel shift of the assumed yield curve.

Particulars	31 December 2022
Duration of Asset	3.51
Duration of Liabilities	2.24
Duration Gap	1.28
Changes in equity for change in interest rate (1%)	1.16%
Changes in equity for change in interest rate (2%)	2.32%

G. Market Risk

Qualitative Disclosures

Market Risk: Market Risk is defined as the possibility of loss due to changes in the market variables. It is the risk that the value of on/off-balance sheet positions will be adversely affected by movements in equity price, interest rate and currency exchange rates. The objective of our market risk policies and processes is to obtain the best balance of risk and return whilst meeting customers' requirements. The primary sources of market risk for the company are:

Interest rate risk: Arising from changes in yield curves, credit spreads and implied volatilities on interest rate options.

Equity price risk: Arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Foreign exchange risk: It is the risk of loss from movements in cross-currency exchange rates between foreign currencies and from changes in the value of the home or functional currency against foreign currencies. More specifically, forex risk results from a mismatch between assets and liabilities in a particular currency and their associated cash flows in respect to size and maturity.

Company has a comprehensive Treasury Manual, Asset-Liability Management Policy, Investment Policy approved by the BoD to assess, monitor and manage all the above market risks. Various internal limits have been set to monitor market risk and capital requirement is assessed as per standardized approach of Basel II.

Methods used to measure Market Risk: FI applies maturity method in measuring interest rate risk in respect of securities in trading book. The capital charge for entire market risk exposure is computed under the standardized approach using the maturity method and in accordance with the guideline issued by Bangladesh Bank.

Market Risk Management System: To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Of the ratios, the key ratios that ALCO regularly monitors are Liquidity Coverage Ratio (LCR) and Maximum Cumulative Outflow (MCO), Liquid asset to total assets, Volatile liability dependency ratio, Snap liquidity ratio and Short term borrowing to Liquid assets ratio. ALCO also regularly monitors the interest rate sensitive gap and duration gap of total portfolio.

Quantitative Disclosures as on December 31:

Capital charge (Solo basis) for market risk:

Amount in BDT Million

	Particulars	2022	2021
a	Interest rate risk	0.1	0.1
b	Equities	222.8	235.9
c	Foreign exchange risk	255.4	348.7
d	Commodity risk	-	-
	Total	**478.2**	**584.6**

H. Operational Risk

Qualitative Disclosures

Operational Risk: Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide spectrum of issues. We seek to minimize exposure to operational risk, subject to cost benefit trade-offs. The FI captures some identified risk events associated with all functional departments of the FI through standard reporting format.

Disclosure on Market Discipline under Pillar-III of BASEL-II

Views of Board on system to reduce Operational Risk: The policy for measuring and managing operational risks is approved by the Board in line with the relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Risk Management Division (Audit & Inspection Unit, Internal Control & Compliance Unit, Enterprise Risk Management Unit) to protect against all operational risks. As a part of continued surveillance, the management committee (MANCOM), Risk Management Committee and Risk Management Division regularly review different aspects of operational risks and suggest formulating appropriate policies, tools & techniques for mitigation of operational risk.

Performance gap of executives and staffs: LBFL is an equal opportunity employer. It recognizes the importance of having the right people at right positions to achieve organizational goals. Our recruitment and selection are governed by the philosophy of fairness, transparency and diversity. Understanding what is working well and what requires further improvement is essential to our performance management system. The performance management process aims to clarify what is expected from employees as well as how it is to be achieved.

Our learning and development strategy puts special focus on continuous professional development to strengthen individuals' skill set by removing weaknesses to perform the assigned job with perfection. We have a wide range of internal and external training programs to enhance capabilities as well as minimize performance gap that will contribute more to bottom line.

Peoples' performance is assessed on the basis of performance objectives and key performance indicators (KPI) set at the beginning of each year. Decisions related to rewards and recognitions for the employees are taken on the basis of how well the assigned KPIs are met.

Potential external events: The overall environment within which an FI operates creates certain externalities which could affect business performance directly such as:

Fraud Risk is the risk of incurring losses as a result of an intentional act or omission by a third party involving dishonesty, for personal and/or business gain, to avoid personal and/or business loss, or to conceal improper or unauthorized activity. This includes facilitation, misrepresentation, money laundering, terrorist financing, theft, forgery and cyber-crime.

Business Continuity Risk is the risk of incurring losses resulting from the interruption of normal business activities, i.e. interruptions to our infrastructure as well as to the infrastructure that supports our businesses.

Information Security Risk is the risk of an event which could result in the compromise of organizational assets, including, but not limited to, unauthorized use, loss, damage, disclosure or modification of organization assets. It includes the risk of cyber threats on the organization.

Regulatory Compliance Risk is the risk of incurring regulatory sanctions (including restrictions on business activities, fines or enhanced reporting requirements), financial and/or reputational damage arising from our failure to comply with applicable laws, rules and regulations.

Vendor Risk arises from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor itself.

Policies and processes to mitigate operational risk: Functional units are primarily responsible for risk identification, measurement, monitoring, control, and reporting of operational risk through risk register. Enterprise Risk Management unit of Risk Management division assess risk issues independently and report to Risk Management Committee through Chief Risk Officer. DCFCL is a self-assessment process for detecting 'high' risk areas and finding mitigation of those risks. The committee titled 'Risk Management Committee (BRMC)' also oversees the operational risk issues.

LankaBangla FINANCE

Disclosure on Market Discipline under Pillar-III of BASEL-II

Approach for calculating capital charge for operational risk: The FI applies 'Basic Indicator Approach' of Basel II as prescribed by BB. Under this approach, FIs have to calculate average annual gross income (GI) of last three years and multiply the result by 15% to determine required capital charge. Gross Income is the sum of 'Net Interest Income' and 'Net non-interest income' of a year or 'Total Operating Income' of the FI with some adjustments as noted below. Gross Income (GI) shall:

- Be gross of any provision (e.g. for unpaid interest),
- Be gross of operating expenses, including fees paid to outsourcing service providers,
- Include lost interest i.e. interest suspense on classified loans (SS, DF, BL).

Quantitative Disclosures as on 31st December:

Amount in BDT million

Particulars	2022		2021	
	Solo	**Consolidated**	**Solo**	**Consolidated**
Capital charge for operational risk	478.5	693.2	477.5	622.6