Disclosure under Pillar III-Market Discipline

a) Scope of application

Qualitative Disclosures

(a) The name of the top corporate entity in the group to which this guidelines applies.

United Finance Limited ("UFL").

(b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).

This framework is applied on a solo basis as UFL does not have any subsidiaries.

(c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

Not Applicable

Quantitative Disclosures

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

Not Applicable

b) Capital structure

Qualitative Disclosures

(a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Tier 2.

a. Tier 1 Capital: Tier 1 capital or "Core Capital" consists of:
1. Paid up capital
2. Non-repayable share premium account
3. Statutory reserve
4. General reserve
5. Retained earnings
6. Minority interest in subsidiaries
7. Non-cumulative irredeemable preference shares
8. Dividend equalization account

b. Tier 2 Capital: Tier 2 Capital or "Supplementary Capital" consists of:
1. General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) for Credit Risk
2. Revaluation reserves
   a. 50% of the Revaluation reserves for Fixed Assets
   b. 45% of the Revaluation reserves for Securities
3. All other preference shares

c. In addition to the above condition of reserve requirements, the amount of Tier 2 Capital must be limited to 100% of the amount of Tier 1 Capital.

Quantitative Disclosures

(b) The amount of Tier 1 capital, with separate disclosure of:

	Amount in Crore BDT
Fully Paid-up Capital/Capital lien with BB Statutory Reserve	187.11
Non-repayable Share premium account	0.38
Statutory Reserve	87.94
General Reserve	22.50
Retained Earnings	19.77
Minority interest in Subsidiaries	-
Non-Cumulative irredeemable Preferences shares	-
Dividend Equalization Account	-
Other (if any item approved by Bangladesh Bank)	-
Sub-Total:	**317.70**

(c) The total amount of Tier 2 capital.	13.10
(d) Other deductions from capital.	-
(e) Total eligible capital.	330.80

c) Capital Adequacy

Qualitative Disclosures

(a) A summary discussion of the FI's approach to assessing the adequacy of its capital to support current and future activities.

a. At present UFL's CAR is 18.17% of Risk Weighted Assets (RWA) against the minimum requirement of 10% of RWA. As the computation of the CAR requires the value of RWA to be determined on the basis of credit, market and operational risks, UFL identifies the capital charges of the respective risk categories. Capital charge of any particular risk refers to a system whereby a financial institution will allocate its capital in proportion to the risk level of activities. To determine capital charges for credit and market risks, UFL is currently using the Standardized Approach. For determining capital charge for operational risks, UFL is using the Basic Indicator Approach. Total RWA of UFL is determined by multiplying the amount of capital charge for market risk and operational risk by the reciprocal of the minimum Capital Adequacy Ratio (CAR) and adding the resulting figures to the sum of risk weighted assets for credit risk. The CAR is then calculated by taking eligible regulatory capital as numerator and total RWA as denominator.

b. In order to improve the CAR, UFL is taking the following measures to keep its RWA :

1. Focusing on expanding its investment in Small and Medium Enterprises (SME) on a nationwide scale and keeping lending to large corporate entities at a sustainable level as SME clients have a risk weight of 75% whereas unrated corporate entities have a 125% risk weight.

2. Encouraging unrated corporate clients to be rated from External Credit Assessment Institutions (ECAIs) recognised by Bangladesh Bank and also notifying rated corporate clients to be reassessed before expiration.

3. Focusing on home loan financing on a national scale as it is fully secured against residential property, which allows for a low risk weight.

4. Monitoring overdue clients to minimize loans that are past due for 90 days or more through robust collection mechanisms

5. Giving special effort to increase credit facilities with collateral securities.

Quantitative Disclosures

	Amount in Crore BDT
(b) Capital requirement for Credit Risk	1,610
(c) Capital requirement for Market Risk	52
(d) Capital requirement for Operational Risk	159
(e) Total and Tier 1 capital ratio:	
CAR on Total capital basis (%)	18.17%
CAR on Tier 1 capital basis (%)	17.45%

d) Credit Risk

Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to credit risk

Definitions of past due and impaired: The unsecured portion of any claim or exposure (other than claims secured by residential property) that is past due for 90 days or more, net of specific provisions (including partial write-off) will be risk weighted as per the risk weights of respective balance sheet exposures. For the purpose of defining the net exposure of the past due loan, eligible financial collateral (if any) may be considered for Credit Risk Mitigation. This definition is as per the Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline for Financial Institutions.

Description of approaches followed for specific and general allowances: Specific and general allowance are maintained in accordance with Bangladesh Bank policies and guidelines as well as its internal policy, UFL maintains 0.25% against Standard SME loans, 1% provision against Standard loans, 5% against SMA loans, 20% against Substandard loans, 50% against Doubtful loans and 100% against Bad/loss loans.

Credit Risk Management policy: Credit risk can be defined as the possibility for loss due to failure of a client to meet its obligations and make payment to UFL in accordance with agreed terms. In UFL, Credit Risk is managed in three ways - Pre-Emptive, Contemporaneous and Post-Facto through utilising policies and practices approved by the Board of Directors.

1. Pre-Emptive Risk Management: Pre-Emptive Risk Management involves risk management in the pre-disbursement stages.

Subsector Analysis: UFL conducts subsector analysis of various industries of the country and creates their separate risk profiles. These risk profiles are regularly updated and circulated to the Business and Credit divisions to ensure that sound lending decisions are made.

Credit Assessment: UFL has an independent Credit team for assessment of every credit proposal in order to minimise risk. In order to assess the credit risk associated with any financing proposal, UFL evaluates a variety of risks relating to the borrower and the relevant industry, including borrower's standing, business and market position, management background and financial performance. UFL makes mandatory visits to each and every client before finalising the proposal. In addition, UFL has adopted advanced credit risk grading models, in accordance with Bangladesh Bank guidelines, which facilitate a rating based approach to identify the risks associated with the obligor and the specific facility separately during the pre-sanction stage.

Security Determination: UFL has securitisation procedure whereby the security against each financing proposal is determined commensurate with the financing risk.

2. Contemporaneous Risk Management: Contemporaneous Risk Management involves risk management during the disbursement as well as post disbursement stages.

Credit Administration: UFL's Operations team ensures that all legal risks relating to documentation and security arrangements are complied with. Only after all documents are in order and all security arrangements are completed, credit facilities are processed for disbursement.

Credit Recovery: UFL has a robust collections department that monitors the payment performances of all the loan contracts to ensure timely recovery. Different collection methods are applied on the basis of the ageing of overdue to mitigate risks and to improve loan quality.

Special Asset Management: The Special Asset Management team handles long overdue accounts, takes corrective measures to mitigate risks, takes legal actions, and ensures effective monitoring of Written-Off Accounts in a timely manner.

3. Post-Facto Risk Management: Post-Facto Risk Management takes place in the post disbursement stage through various portfolio level reviews and analyses.

Periodic Credit and CRG Model Review: UFL reviews the Credit Risk Grading (CRG) model and calculate the deviation between the grade and the actual performance of the borrower. If the deviation is significant, UFL takes initiative for required modification in the Credit Risk Grading (CRG) to enhance accuracy of the model and enable appropriate financing. Similarly, if the analysis reveals weakness in credit assessment mechanism then credit assessment methodology is modified.

Portfolio Analysis: UFL has developed mechanisms to conduct portfolio level analyses of credit facilities considering loan repayment performance to help maintain the quality of its portfolio.

Compliance: The Compliance department of UFL ensures that the Company's policies, procedures and practice adhere to relevant laws, regulations, industry standards, corporate values and ethics.

Quantitative Disclosures

(b) Total gross credit risk exposures broken down by major types of credit exposure.

	Amount in Crore BDT
Lease Finance	780.79
Term Loan	313.47
Home Loan	102.87
Short Term Loan	296.45
Loan against Deposit	5.36
Total	1,498.93

(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.

	Amount in Crore BDT
Dhaka	923.81
Chattogram	199.91
Rajshahi	115.67
Khulna	108.55
Rangpur	81.13
Mymensingh	34.68
Barishal	26.35
Sylhet	8.82
Total	1,498.93

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

	Amount in Crore BDT
1. Agricultural sector	93.69
2. Industrial sector:	
a) Service industry	152.81
b) Food production/processing industry	143.31
c) Chemical & Pharmaceutical	102.13
d) Plastic industry	32.41
e) Garments	35.13
f) Textile	55.95
g) Paper, Printing and packaging industry	82.54
h) Iron, Steel & Engineering industry	72.04
i) Leather & leather products	9.47
j) Electronics and electrical industry	55.58
k) Telecommunication/information Technology	9.16
l) Jute and jute products	27.65
m) Cement/Concrete and allied industry	31.59
n) Glass and ceramic industry	3.24
o) Ship Manufacturing Industry	-
p) Power, Gas, Water and sanitary service	10.96
4. Transport & Communication	102.55
5. Real Estate & Housing	102.75
6. Trade and Commerce	323.26
7. Others	52.72
Total	1,498.93

(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.

	Amount in Crore BDT
Up to 1 month	137.48
Over 1 month but not more than 3 months	146.00
Over 3 months but not more than 1 year	547.28
Over 1 year but not more than 5 years	587.18
Over 5 years	81
Total	1,498.93

(f) Gross Non Performing Assets (NPA)

	Amount in Crore BDT
Gross Non Performing Assets (NPAs)	60.71
Non Performing Assets (NPAs) to Outstanding Loans & advances	4.05%

Movement of Non Performing Assets (NPAs)

Amount in Crore BDT

Opening balance	53.03
Additions	27.32
Reductions	(19.64)
Closing balance	60.71
Movement of specific provisions for NPAs	
Opening balance	26.99
Provisions made during the period	12.68
Write-off	(14.41)
Write-back of excess provisions	6.75
Closing balance	32.00

e) Equities: banking book positions

Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to equity risk

UFL's equity holdings include unquoted redeemable preferred shares and quoted shares. The redeemable preferred shares are not tradable and pay a fixed dividend per annum, thus there is no scope for any capital gains. Holding of the shares of United Insurance Company Limited is for strategic purposes only.

As UFL does not hold quoted shares for capital gain, there are no policies relating to equity holdings.

Quantitative Disclosures

(b) Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.

Amount in Crore BDT

Quoted shares	1.55
Unquoted shares*	22.15
Total	23.70

*Unquoted shares include redeemable preference shares

(c) The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.

Not Applicable

(d) Total unrealised gains (losses)	**Not Applicable**
Total latent revaluation gains (losses)	**Not Applicable**
Any amounts of the above included in Tier 2 capital.	**Not Applicable**

(e) Capital requirements broken down by appropriate equity groupings, consistent with the FI's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.

Not Applicable

f) Interest rate in the banking book

Qualitative Disclosures

(a) The general qualitative disclosure requirement including the nature of interest risk and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits.

UFL is in the business of lending and taking deposits with different maturities and interest rates. As such, UFL is exposed to movements in interest rates, which results in mismatches between lending rates and funding costs. UFL's Asset Liability Management Committee (ALCO) monitors the movements in the interest rates on monthly basis and formulates strategies to manage changes in market conditions. Continuous monitoring of the funding gaps between rate sensitive assets and liabilities and portfolio wise interest distribution, allows UFL to take quick steps to mitigate any probable risks. In case of significant movement in the market emergency ALCO meetings are held to decide on the course of action

Quantitative Disclosures

(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk broken down by currency (as relevant).

Magnitude of Shock	Minor 2%	Moderate 4%	Major 6%
Change in the Value of Bond Portfolio (BDT in Crore)	0.00	0.00	0.00
Net Interest Income (BDT in Crore)	3.03	6.07	9.10
Revised Regulatory Capital (BDT in Crore)	333.83	336.87	339.90
Risk Weighted Assets (BDT in Crore)	1,820.25	1,820.25	1,820.25
Revised CAR (%)	18.34%	18.51%	18.67%

g) Market risk

Qualitative Disclosures

(a) As UFL does not hold any instruments in the trading book, this risk is not applicable.

Quantitative Disclosures

(b) The capital requirements for:

	Amount in Crore BDT
Interest Rate Related instruments	0
Equities	5.17
Foreign Exchange Position (if any)	0

h) Operational risk

Qualitative Disclosures

(a) Views of Board Of Directors on system to reduce Operational Risk

All the policies have been approved by the Board and related guidelines have been approved by the subcommittees of the Board. The Board has delegated some of its authorities to the Executive Committee as per policy. The Audit Committee of the Board monitors the operational risk management process and reviews the adequacy of the internal audit function.

Potential external events

During the time of reporting, there were no external events which could have given rise to any operational risk.

Policies and processes for mitigating operational risk

Internal Audit: Internal Audit team of UFL examines operational flaws of the Company generated from the lack of adequacy, effectiveness and efficiency of internal control mechanism. This department serves as an independent body within the Company that aims to add value to its various operations and processes.

Operational Risk and Systems Audit: Operational Risk and Systems Audit Department of UFL investigates Company's process and identifies flaws/risks of the Company's operations. It also examines the UFL's information technology infrastructure, policies and operations, and determines whether IT controls protect the assets, ensure data integrity and are aligned with the business's overall goals.

Approach for calculating capital charge for operational risk

For calculating capital charge of operational risks, UFL uses the Basic Indicator Approach where capital charge is equivalent to 15% of the three year average positive annual gross income of UFL.

Quantitative Disclosures

(**b**) **The capital requirements for operational risk**

	Amount in Crore BDT
Capital requirement for operational risk:	158.61