Disclosures under Pillar-III Market Discipline

Scope of the Disclosure

Qualitative Disclosures:

The Company (United Finance Limited, or "UFL") does not have any subsidiaries. As such, this disclosure is applied on a solo basis.

Quantitative Disclosures:

Not Applicable

Capital Structure

Qualitative Disclosures

For the purpose of calculating capital under capital adequacy framework, total capital be classified into two tiers. The total regulatory capital will consist of sum of the following categories:

Tier 1 Capital ("Core Capital")	Tier 2 Capital ("Supplementary Capital")
1. Paid up capital a. Non-repayable share premium account b. Statutory reserve 2. General reserve 3. Retained earnings 4. Minority interest in subsidiaries 5. Non-cumulative irredeemable preference shares 6. Dividend equalisation account	1. General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) for Credit Risk a. Revaluation reserves b. 50% Revaluation reserves for Fixed Assets 2. 45% Revaluation reserves for Securities 3. All other preference shares a. 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

The details of capital structure are provided as under

	Amount in Crore BDT
1. Fully Paid-up Capital/Capital lien with BB Statutory Reserve	187.11
2. Non-repayable share premium account	0.38
3. Statutory Reserve	92.30
4. General Reserve	22.50
5. Retained Earnings	18.48
6. Minority interest in subsidiaries	-
7. Non-Cumulative irredeemable preferences shares	-
8. Minority interest in subsidiaries	-
9. Non-Cumulative irredeemable preferences shares	-
a. Total Tier 1 Capital	**320.77**
a. Total Tier 2 Capital	13.88
b. Other deductions from Capital	-
Total Eligible Capital	**334.64**

Capital Adequacy (CAR)

Qualitative Disclosures

At present the Company CAR stands at 18.97% of the total Risk Weighted Assets (RWA), against the minimum regulatory 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 each of these respective risk categories, as per the methodology described by the regulatory body.

The following measures are taken to ensure that RWA remains under control:

1. Focusing on expanding investment in Small and Medium Enterprises (SME) on a nationwide scale and keeping lending to large corporate entities at a sustainable level.
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 as it is fully secured against residential property.
4. Monitoring overdue clients to minimise loans that are past due for 90 days or more through robust collection mechanisms.
5. Mitigating credit risk by taking eligible financial collateral against transactions.

Quantitative Disclosures

Capital Requirements for credit, market and operational risks, and CAR

	Amount in Crore BDT
Capital requirement for Credit Risk	1,561.60
Capital requirement for Market Risk	47.59
Capital requirement for Operational Risk	155.20
Total and Tier 1 Capital ratio:	
○ CAR on Total capital basis (%)	18.97%
○ CAR on Tier 1 capital basis (%)	18.18%

Credit Risk

Qualitative Disclosures

Definition 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).

Description of approaches followed for specific and general allowances: 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: In UFL, Credit Risk is managed in three ways - (i) Pre-Emptive, (ii) Contemporaneous and (iii) Post-Facto through utilising policies and practices approved by the Board of Directors. These are described in more detail in the following paragraphs.

i. **Pre-Emptive Risk Management** involves risk management in the pre-disbursement stages.

- ***Industry Analysis***: analyses of various industries of the country are done to create separate risk profiles for each industry, which are regularly updated and circulated to the Business and Credit divisions to ensure that sound lending decisions are made.

- ***Credit Assessment***: an independent Credit team assesses every credit proposal in order to assess the credit risk associated with any financing proposal. In the assessment of the credit risk, they assess borrower's standing, business and market position, management background and financial performance. Mandatory visits to each and every client are done before finalising the proposal.

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

ii. **Contemporaneous Risk Management** involves risk management during the disbursement as well as post disbursement stages.

- ***Credit Administration:*** The Operations team of the Company ensures that all legal risks relating to documentation and security arrangements are complied with. UFL makes disbursement only after all documentation are in order and all security arrangements are completed.
- ***Credit Recovery:*** A robust collection department monitors the payment performance of all the loan contracts to ensure timely recovery. 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.

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

- ***Periodic Credit and CRG Model Review:*** There is a periodic review to update the overall credit approval process and the Credit Risk Grading (CRG) model to better reflect the updated market situation.
- ***Portfolio Analysis:*** The Company has developed mechanisms to conduct portfolio level analyses of credit facilities considering loan repayment performance to maintain the quality of its portfolio.
- ***Internal Control & Compliance (ICC):*** This department ensures that Company policies, procedures and practices adhere to relevant laws, regulations, industry standards, corporate values and ethics.

Quantitative Disclosures

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

	Amount in Crore BDT
Lease finance	721.74
Term loan	444.65
Home loan	132.05
Short term loan	207.40
Loan against deposit	7.79
Total	**1,513.62**

Geographical distribution of exposures, broken down in significant areas by major types of credit exposure

	Amount in Crore BDT
Dhaka	835.21
Chattogram	223.35
Rajshahi	131.88
Khulna	130.41
Rangpur	105.97
Mymensingh	45.21
Barishal	31.45
Sylhet	10.14
Total	**1,513.62**

Industry or counterparty type distribution of exposures, broken down by major types of credit exposure

	Amount in Crore BDT
1. Agricultural sector	150.78
2. Industrial sector:	
a) Service industry	125.00
b) Food production/processing industry	166.68
c) Chemical & pharmaceutical	59.00
d) Plastic industry	15.16
e) Garments	23.92
f) Textile	57.42
g) Paper, printing and packaging industry	85.85
h) Iron, steel & engineering industry	38.71
i) Leather & leather products	25.33
j) Electronics and electrical industry	16.99
k) Telecommunication/information technology	0.66
l) Jute and jute products	32.17
m) Cement/concrete and allied industry	21.94
n) Glass and ceramic industry	2.00
o) Ship manufacturing industry	-
p) Power, gas, water and sanitary service	9.41
4. Transport & communication	103.74
5. Real estate & housing	167.20
6. Trade and commerce	311.86
7. Others	99.80
Total	**1513.62**

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

	Amount in Crore BDT
Up to 1 month	109.47
Over 1 month but not more than 3 months	137.35
Over 3 months but not more than 1 year	526.79
Over 1 year but not more than 5 years	639.05
Over 5 years	100.97
Total	**1,513.62**

Gross Non-Performing Assets (NPA)

	Amount in Crore BDT
Gross Non Performing Assets (NPAs)	47.50
Non-Performing Assets (NPAs) to outstanding loans & advances	3.14%

Movement of Non-Performing Assets (NPAs)

	Amount in Crore BDT
Opening balance	60.71
Additions	-
Reductions	(13.19)
Closing balance	47.52

Movement of specific provisions for NPAs

	Amount in Crore BDT
Opening balance	60.71
Additions	-
Opening balance	32.00
Provisions made during the period	(4.41)
Write-off	1.26
Write-back of excess provisions	4.94
Closing balance	33.80

Equities: Banking Book Positions

Qualitative Disclosures

The equity holdings of the Company 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.

Quoted shares are valued at cost prices and if the total cost of a particular share is lower than the market value of that particular share, then provisions are maintained as per terms and conditions of regulatory authority. On the other hand, unquoted share is valued at cost price or book value as per the latest audited accounts.

Quantitative Disclosures

	Amount in Crore BDT
Quoted shares	1.58
Unquoted shares*	28.20
Total	**29.78**

*Unquoted shares include redeemable preference shares

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

	Amount in Crore BDT
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

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

Interest Rate in the Banking Book

Qualitative Disclosures

UFL is in the business of lending and taking deposits with different maturities and interest rates. As such, the Company 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 lending rates and borrowing costs on monthly basis and formulates strategies to manage changes in market conditions. In case of significant movement in the market emergency ALCO meetings are held to decide on the course of action.

Quantitative Disclosures

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

Magnitude of Shock	Minor 2%	Moderate 4%	Major 6%
Net Interest Income (BDT in Crore)	1.63	3.27	4.90
Revised Regulatory Capital (BDT in Crore)	336.28	337.91	339.54
Risk Weighted Assets (BDT in Crore)	1,764.38	1,764.38	1,764.38
Revised CAR (%)	19.06%	19.15%	19.24%

Market Risk

Qualitative Disclosures

Market Risk is the probability of losing assets in balance sheet and off- balance sheet position arising out of volatility in market variables (interest rate, exchange rate and prices of securities). The Company does not hold any position in the interest-rate related instruments or foreign exchange position.

In order to calculate the market risk for trading book purposes, the Company uses the Standardised (rule-based) approach where capital charge for market price of equities, interest rate risk and exchange rate risk are calculated separately.

Quantitative Disclosures

Capital requirements for	Amount in Crore BDT
Interest rate related instruments	-
Equities	4.76
Foreign exchange position (if any)	-
Commodities (if any)	-

Operational Risk

Qualitative Disclosures

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** team 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** Department investigates Company's process and identifies flaws/risks of the Company's operations. It also examines information technology infrastructure, policies and operations and data integrity and security.

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

Capital requirements for	Amount in Crore BDT
Interest operational risk	15.52