



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

(i) 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 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 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

(ii) Qualitative 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	96.65
4. General Reserve	19.00
5. Retained Earnings	16.03
6. Minority interest in subsidiaries	-
7. Non-Cumulative irredeemable preferences shares	-
Total Tier 1 Capital	319.17
Total Tier 2 Capital	14.45
Other deductions from Capital	-
Total Eligible Capital	333.62



Capital Adequacy Ratio (CAR)

Qualitative Disclosures

On December 31, 2022, the Company CAR stands at 17.47% 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 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	1,718.12
Capital requirement for Market Risk	42.08
Capital requirement for Operational Risk	149.48
Total RWA	1,908.29
Total and Tier 1 Capital ratio:	
○ CAR on Total capital basis (%)	17.47%
○ CAR on Tier 1 capital basis (%)	16.71%

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 provision of 0.25% against Standard SME loans, 1% 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.

- 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 risks associated with financing proposals. In the assessment of the credit risk, they assess borrower's economic and social standing, business and market position, management background, financial performance, and overall credit risk grading (CRG). Mandatory visits to every applicable 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 Credit Administration 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.
 - **Early Alert System:** A system of data collection and analysis exists that looks at clients' economic, financial and social factors to assess the possibility of delinquency. This enables the company to take a proactive stance in maintaining a healthy portfolio.
 - **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 such as legal actions to mitigate risks, 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, CRG Model, and Early Alert Model Review:** There is a periodic review to update the overall credit approval process and the CRG model, as well as the early alert model to better reflect the updated market situation.
 - **Portfolio Analysis:** For better management of the loan portfolio, the Company has developed mechanisms to conduct portfolio-level analyses of credit facilities considering loan repayment performance, concentration of risks by location, product, and sector, and portfolio at risk (PAR) analysis.
 - **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	674.30
Term Loan	821.71
Home Loan	324.26
Short Term Loan	171.20
Interest Receivable	30.58
Total	2,022.06

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

	Amount in Crore BDT
Dhaka	913.15
Chattogram	338.06
Rajshahi	227.03
Khulna	199.99
Rangpur	160.04
Mymensingh	87.53
Barishal	72.19
Sylhet	24.08
Total	2,022.06

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

	Amount in Crore BDT
1. Agricultural sector	42.56
2. Industrial sector:	
a) Service industry	126.69
b) Food Production/Processing industry	228.48
c) Chemical & Pharmaceutical	47.42
d) Plastic industry	45.34
e) Garments	45.99
f) Textile	39.69
g) Paper, Printing and Packaging industry	147.81
h) Iron, Steel & Engineering industry	79.48
i) Leather & Leather products	20.76
j) Electronics and Electrical industry	6.48
k) Telecommunication/Information Technology	0.08
l) Jute and Jute Products	45.83
m) Cement/Concrete and allied industry	5.04
n) Glass and Ceramic industry	1.04
o) Ship Manufacturing industry	-
p) Power, Gas, Water and Sanitary service	5.24
4. Transport & Communication	99.89
5. Real Estate & Housing	337.81
6. Trade and Commerce	619.39
7. Others	77.05
Total	2,022.06

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

	Amount in Crore BDT
Up to 1 month	105.63
Over 1 month but not more than 3 months	152.54
Over 3 months but not more than 1 year	669.39
Over 1 year but not more than 5 years	850.78
Over 5 years	243.71
Total	2,022.06

Gross Non-Performing Assets (NPA)

	Amount in Crore BDT
Gross Non Performing Assets (NPAs)	69.50
Non-Performing Assets (NPAs) to Outstanding Loans & Advances	3.44%

Movement of Non-Performing Assets (NPAs)

	Amount in Crore BDT
Opening balance	61.42
Additions	23.63
Reductions	(15.54)
Closing balance	69.50

Movement of specific provisions for NPAs

	Amount in Crore BDT
Opening balance	39.70
Provisions made during the period	10.40
Write-off	(10.07)
Write-back of excess provisions	2.46
Closing balance	42.49

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 or losses.

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 shares are valued as per the latest audited accounts.

Quantitative Disclosures

	Amount in Crore BDT
Quoted shares	1.54
Unquoted shares*	96.63
Total	98.16

*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 a monthly basis and formulates strategies to manage changes in market conditions. In case of significant movement in the market such as unexpected loan prepayments and unusual behaviour of non-maturity deposits, emergency ALCO meetings are held to decide on the course of action.

Quantitative Disclosures – Interest Rate Risk under Simple Sensitivity Analysis

Particulars in BDT Crores	Up to 3 months	3 months to 6 months	6 months to 1 year	Above 1 year
Rate Sensitive Assets (RSA)	507	315	377	1,024
Rate Sensitive Liabilities (RSL)	493	267	331	868
Net Gap [RSA-RSL]	14	48	45	155
Cumulative Gap	14	62	107	262

Impact of Net Interest Income

1% interest rate increase	0.14	0.62	1.07	2.62
1% interest rate Decrease	-0.14	-0.62	-1.07	-2.62
2% interest rate increase	0.28	1.23	2.14	5.24
2% interest rate Decrease	-0.28	-1.23	-2.14	-5.24

Quantitative Disclosures – Increase in Interest Rate

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)	2.14	4.27	6.41
Revised Regulatory Capital (BDT in Crore)	335.75	337.89	340.03
Risk Weighted Assets (BDT in Crore)	1,909.69	1,909.69	1,909.69
Revised CAR (%)	17.58%	17.69%	17.81%



Market Risk

Qualitative Disclosures

Views of BOD on trading/investment activities: 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. Every policy and guideline relating to the Market Risk are duly approved by the Executive Committee. The Committee also sets limits and reviews the compliance on a regular basis.

Methods used to measure Market Risk: In order to measure the market risk, the Company uses Standardised (rule based) Approach where capital charge for interest rate risk, price and foreign exchange risk is determined separately.

Policies and processes for mitigating Market Risk: All policies required for oversight and management of Market Risk are set by the Executive Committee. These policies are reviewed on a periodic basis.

Quantitative Disclosures

Capital requirements for	Amount in Crore BDT
Interest rate related instruments	-
Equities	4.21
Foreign exchange position (if any)	-
Commodities (if any)	-

Operational Risk

Qualitative Disclosures

Views of Board of Directors on system to reduce Operational Risk: Like the market risk guidelines, 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: The sustained effects of the Covid-19 pandemic have led to many changes in the office environment. Among these changes, the normalisation of work-from-home, and the return to regular office from work-from-home situation may have effects on your Company's operational security and employee satisfaction.

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 processes and identifies flaws and risks of regular business operations. It also examines information technology infrastructure, policies & operations, and data integrity & security.

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

Quantitative Disclosures

Capital charge for	Amount in Crore BDT
Operational Risk	14.81