DISCLOSURES UNDER PILLAR-III MARKET DISCIPLINE

The following detailed qualitative and quantitative disclosures are provided in accordance with the Prudential Guidelines on Capital Adequacy and Market Discipline (CAMD) for Financial Institutions which were published on December-2011. The purpose of these disclosures is necessary to complement the capital adequacy requirements and Pillar III of BASEL-II. These disclosures are intended for market participants to assess key information about the UFPLC's exposure to various risks. They are also intended to provide a consistent and understandable framework as per regulatory requirements.

UFPLC follows an approved disclosure policy to comply with the disclosure requirements established by Bangladesh Bank and International Financial Reporting Standards (IFRS), and International Accounting Standards (IAS), as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) into Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) wherever applicable.

Three Pillars of BASEL-II	
Pillar-I	**Minimum Capital Requirements** Requires a Non-Banking Financial Institution (NBFI) to maintain minimum capital adequacy ratio (CAR) of 10% of risk-weighted assets (RWA). Pillar-I, establishes minimum standards for capital management on the basis of risk sensitivity to (a) Credit Risk, (b) Operational Risk, and (c) Market Risk.
Pillar-II	**Supervisory Review Process** Encourages Financial Institutions (FIs) to develop a better risk management systems. Supervisors review the internal assessments of capital adequacy and ensure alignment with the FI's risk profile. Pillar-II also encourages proactive monitoring by focusing on risks not fully captured under Pillar-I (e.g., interest rate risk in the banking book, concentration risk).
Pillar-III	**Market Discipline:** Promotes transparency by requiring NBFIs to disclose detailed information on risk exposures, capital adequacy, and risk management practices. Pillar-III Aims to complement Pillars-I and Pillar-II by encouraging market participants to assess key risk metrics.

Qualitative Disclosures:

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

(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 (i) that are fully consolidated; (ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g., where the investment is risk-weighted)

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

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

A. Scope of Application

Quantitative Disclosures

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

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

Tier-1 Capital (Core Capital): This is the highest quality of capital and includes common equity, retained earnings, and disclosed reserves. It is permanent, readily available, and first in line to absorb losses, making it crucial for a FI's solvency.

Tier-2 Capital (Supplementary Capital): It supports the Capital Adequacy Ratio by providing additional loss-absorbing capacity beyond Tier-1. Though lower in quality, it strengthens a bank's overall capital base and helps meet regulatory requirements during financial stress.

Tier 2 Capital Includes

(a)	General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) for Credit Risk;
(b)	Revaluation reserves: (i) 50% Revaluation reserve for fixed assets, (ii) 45% Revaluation reserve for securities, and (iii) 10% Revaluation Reserve for Equity Instruments
(c)	All other preference shares

In addition to the above conditions of reserve requirement, the amount of Tier 2 capital must be limited to 100% of the amount of Tier 1 capital.

Quantitative Disclosures:

Particulars	BDT crore
Paid up capital	187.11
Non-repayable Share premium account	0.38
Statutory Reserve	106.59
General Reserve	19.00
Retained Earnings	20.74
Minority interest in Subsidiaries	-
Non-Cumulative and Irredeemable Preferences shares	-
Dividend equalization account	-
Others (if any item approved by BB)	-
(a) Total Tier 1 Capital	333.82
(b) The total amount of Tier 2 capital	15.99
(c) Other deductions from capital	-
Total Eligible Capital = (a+b+c)	**349.81**

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.

Capital Adequacy Ratio:

UFPLC has adopted Standardized Approach for computation of Capital Charge for Credit Risk and Market Risk while Basic Indicator Approach for Operational Risk. Total Risk Weighted Assets (RWA) of the Company is determined by multiplying the capital charge for market risk and operational risk by the reciprocal of the minimum capital adequacy ratio i.e. 10% and adding the resulting figures to the sum of risk weighted assets for credit risks. Total "RWA" is then used as denominator while total "Eligible Regulatory Capital" as on numerator to derive Capital Adequacy Ratio.

Strategy to Maintain Capital Adequacy:

Immediate measures

- Encouraging unrated corporate clients to obtain credit ratings from External Credit Assessment Institutions (ECAIs) recognized by Bangladesh Bank;
- Rigorous monitoring of overdue contracts to maintain loan accounts under 90 days overdue;
- Assessing incremental effect of capital charge over the expected net income from financing before sanctioning any appraisal. This is to avoid any adverse impact on net income.

Ongoing measures:

- Concentrating on SME clients having exposure up to BDT 1 crore as this will carry 75% fixed risk weight (for regular contracts only);
- Financing clients having good credit rating;
- Leveraging credit risk mitigation by taking eligible financial collaterals against transactions;
- Enhancing retained earnings by focusing on high-spread earning assets.

Strategic Level:

Injecting fresh capital through the issuance of right shares, if necessary, to strengthen the capital base and meet regulatory requirements.

Quantitative Disclosures:

Capital Adequacy Requirement:

Particulars	BDT Crore
(a) Capital Charge for Credit risk	155.58
(b) Capital Charge for Market risk	3.40
(c) Capital Charge for Operational risk	17.58
Total Capital Adequacy Requirement:	176.55
Total Risk-weighted Asset (RWA):	1,765.50

Total and Tier 1 Capital Ratio:

Particulars	Solo
Capital Adequacy Ratio (%)	19.81%
Core Capital to RWA (%)	18.91%

D. Credit Risk-

Qualitative Disclosures:

The general qualitative disclosure requirement with respect to credit risk, including: (a) Definitions of past due and impaired (for accounting purposes);

As per the Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline for Financial Institutions, 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 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.

(b) Description of approaches followed for specific and general allowances and statistical methods;

"General Provision" and "Specific Provision" are maintained according to Bangladesh Bank guidelines. Applicable provision rates mentioned below are multiplied with the base of provision, which is derived after deducting the amount of interest receivable and the value of eligible securities from the outstanding loan/lease balances of a classified account. The provision maintenance rates are as follows:

Regarding General Provision maintenance: 0.25% provision is maintained against "SME loan/lease" standard accounts, 1% against "other than SME loan/lease" standard accounts, 0.25% against "SME loan/lease" SMA accounts, 5% against "other than SME loan/lease" SMA accounts, 1% against "off-balance sheet" exposures, and 100% against "other assets."

Regarding Specific Provision maintenance: 5% provision is maintained against "SME loan/lease" sub-standard accounts, 20% against "other than SME loan/lease" sub-standard accounts, 20% against "SME loan/lease" doubtful accounts, 50% against "other than SME loan/lease" doubtful accounts, and 100% against bad/loss loan/lease accounts.

(c) Discussion of the FI's credit risk management policy.

Credit risk refers to the potential loss arising from a counterparty's failure to meet payment obligations as per agreed terms or due to a decline in creditworthiness. UFPLC manages credit risk through a structured framework based on policies and procedures approved by the Board of Directors.

Strategies to Minimize Credit Risks:

- Assessing payment performance of customers before financing.
- Annual client reviews to evaluate financial health.
- Ensuring adequate insurance coverage for funded assets.
- Strict enforcement of credit policies by the Credit Administration Department.
- Collateral valuation and legal vetting before loan approvals.
- Legal consultation from both internal and external lawyers for risk assessment.
- Maintaining political neutrality and an arm's length approach in related-party transactions.
- Active monitoring and collection through the Special Assets Management and Credit Monitoring Unit team.
- Regular market reviews to assess industry-specific risks.
- Sector-wise exposure limits to ensure loan portfolio diversification.

In addition to adopting industry best practices for risk assessment, UFPLC adheres to the Guidelines for Managing Core Risks of Financial Institutions, issued by Bangladesh Bank (FID Circular No. 10, dated September 18, 2005).

Credit Governance

The Board of Directors has approved a Credit Risk Management (CRM) Policy outlining key guidelines for risk management, growth strategy, and exposure limits across various sectors, products, individual companies, and groups.

The policy also ensures a structured approach to credit risk identification and mitigation. To remain effective, the CRM Policy is regularly updated to align with evolving global, environmental, and domestic economic conditions.

Credit Risk and Credit Administration Department

UFPLC has an independent Credit Risk Department responsible for evaluating all business proposals from a risk-weighted perspective to ensure high-quality credit portfolios and maximize returns on credit risk exposures. The credit team regularly analyzes market conditions and industry exposures.

In compliance with Bangladesh Bank's guidelines, the Credit Risk Department operates independently of the Credit Administration Department. The Department assesses credit risk and recommends mitigation measures before approving any credit proposal, while the Credit Administration Department ensures all necessary security documents are in place prior to any loan facility disbursement.

Collection Monitoring Unit

The CMU ensures smooth payment performance across all loan and lease contracts. The unit is also responsible for identifying early signs of delinquency through a system of data collection and analysis that considers borrowers' economic, financial, and social factors. This allows the company to take a proactive approach to maintaining a healthy portfolio.

Special Assets Management Department

UFPLC has established strong legal and special recovery teams to manage long-overdue accounts. This department is responsible for implementing corrective measures to safeguard UFPLC against legal risks and timely monitoring of written-off accounts.

Internal Control and Compliance (ICC) Department

UFPLC has implemented robust internal control measures to ensure compliance with approved lending policies, regulatory directives (including those from Bangladesh Bank and BSEC), and other operational guidelines. The Internal Control and Compliance (ICC) Department monitors the adequacy of internal controls and reviews compliance with all internal and external regulations.

Credit Evaluation Process:

The Credit Committee of UFPLC regularly reviews market conditions and credit risks related to lending. The committee assesses projects in the context of global financial trends and recommends risk mitigation measures.

To enhance risk assessment, UFPLC utilizes a Credit Risk Grading Model (CRGM), which helps evaluate credit risk associated with small business clients across various regions. CRGM enables the company to: (a) measure and differentiate risk levels for individual and group credit, (b) monitor changes and trends in risk exposure, and (c) optimize risk management to maximize returns.

To further mitigate credit risk, the company conducts credit checks through the Credit Information Bureau (CIB) of Bangladesh Bank. The credit team and Credit Committee analyze these reports to assess the borrower's liability status and repayment behavior.

Additional due diligence includes obtaining (a) banker's opinions from the client's existing financing partners and (b) supplier and buyer feedback to evaluate the client's market position and reputation.

Credit Approval Process:

UFPLC follows a multilayer credit approval system to ensure efficient service delivery while mitigating credit risk. The approval hierarchy is structured based on loan size and risk level. This structured approach balances speed and risk management, ensuring responsible lending practices.

Smaller loans, which are frequent and carry lower credit risk exposure, are processed under lower sanctioning authority to enhance turnaround time. Larger loans, carrying higher risk, undergo stricter scrutiny and require approval from higher sanctioning authorities to ensure thorough risk assessment.

Credit Quality and Portfolio Diversification:

UFPLC emphasizes portfolio diversification across products and sectors to mitigate credit risk while ensuring compliance with Central Bank regulations. This approach enhances credit quality, safeguards portfolio stability, and ensures sustainable returns. The company implements the following strategies:

- Sectoral diversification to reduce dependency on any single industry, with threshold limits in place to minimize potential adverse impacts.
- Strict adherence to Single Borrower Limits and Large Loan Limits as per Central Bank guidelines.
- Avoidance of credit concentrations in specific groups or geographical locations to reduce systemic risk.

Early Alert System

UFPLC regularly monitors clients' business performance to detect early signs of deterioration. An Early Alert Signal is raised when adverse changes are observed in the borrower's key business indicators. This proactive monitoring enables the company to manage its credit portfolio effectively, addressing potential issues before they materialize. The ultimate goal is to protect stakeholder interests while promoting sustainable growth.

Non-Performing Loan (NPL) Management:

UFPLC tracks its loan portfolio based on payment arrears, regularly monitoring impairment levels on loans and advances. In compliance with DFIM Circular No. 2 dated April 1, 2019, the following procedures govern the write-off process for bad/loss loans:

- Loans or advances should only be written off when they are considered irrecoverable, typically after being classified as bad or loss loans for three consecutive years.
- Approval from the Board of Directors has to be taken before write-off. Proper documentation and justification for the write-off must be maintained.
- Provisions must be made for any written-off loans, and these provisions should reflect the losses accurately in the financial statements. The NBFI must also ensure that the provisioning is in line with the regulatory requirements.

- NBFIs are required to disclose written-off loans in their financial statements, ensuring transparency in the financial reporting process.
- Even after loans are written off, NBFIs are expected to continue efforts to recover the dues, as these write-offs do not absolve the borrower of their obligations.
- Proper internal controls should be in place to prevent unauthorized or improper write-offs and to ensure compliance with the established policy.

United Finance PLC maintains detailed records for all written-off accounts and ensures regular follow-up to recover outstanding amounts.

Counterparty Credit Rating:

UFPLC is actively working on rating its Corporate Clients by collaborating with External Credit Assessment Institutions (ECAIs) or Rating Agencies recognized by the Central Bank. As of December 31, 2024, a total of 293 clients with a net exposure of BDT 786.01 crore were eligible for credit ratings. Of these, 105 clients with a net exposure of BDT 559.18 crore had valid credit ratings, representing 71.14% of ratable exposure.

UFPLC plans to proactively educate these clients to encourage them to pursue credit ratings for better financial transparency and risk management.

Methods Used to Measure Credit Risk

In line with the directives from Bangladesh Bank, United Finance PLC applies the Standardized Approach to measure its Credit Risk. This method involves using predefined risk weights to assess the creditworthiness of various exposures, ensuring compliance with regulatory requirements and promoting effective risk management.

Quantitative Disclosures

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

Credit Exposure by UFPLC Loan Products

Particulars	BDT crore	Share
Lease Finance	654.29	33.62%
Term Finance	831.49	42.72%
Home Loan	306.49	15.75%
Loan Against Deposit	25.36	1.30%
Short term finance	72.14	3.71%
Interest receivable	56.57	2.91%
Grand Total	**1,946.34**	**100.00%**

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

Credit Exposure by Geographical Distribution

Area	BDT crore	Share
Dhaka	836.08	42.96%
Chattogram	216.99	11.15%
Gazipur	96.91	4.98%
Jashore	88.01	4.52%
Barishal	77.82	4.00%
Dinajpur	75.48	3.88%
Bogura	73.15	3.76%
Mymensingh	69.17	3.55%
Rangpur	63.74	3.27%
Khulna	52.41	2.69%
Begumganj	47.30	2.43%
Chuadanga	46.12	2.37%
Rajshahi	36.03	1.85%
Pabna	35.38	1.82%
Cumilla	27.01	1.39%
Belkuchi	24.41	1.25%
Coxs Bazar	22.55	1.16%
Narsingdi	19.69	1.01%
Rangamati	19.31	0.99%
Sylhet	18.76	0.96%
Grand Total	**1,946.34**	**100.00%**

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

Credit Exposure by Sector

SL	Particulars	BDT Crore
A	**Trade and Commerce**	**406.00**
B	**Industry**	**1,001.35**
1.	Garments & Knitwear	102.10
2.	Textiles	24.65
3.	Food Production, Processing & Rice Mills	252.06
4.	Jute & Jute products	23.22
5.	Plastic & Rubber Industry	64.64
6.	Leather & Leather goods	13.03
7.	Iron, Steel & Engineering	121.37
8.	Pharmaceuticals & Chemicals	145.38
9.	Cement & Allied Industry	44.57
10.	Paper, Packaging, Printing, Publishing & Allied Industry	99.88
11.	Wood, Furniture & Fixture	18.85
12.	Glass, Glassware & Ceramic Industry	3.48
13.	Ship Manufacturing & Breaking	-
14.	Electronics & Electrical Products	11.28
15.	Power, Gas, Petroleum, Water & Sanitary	5.42
16.	Transport & Aviation	55.23
17.	Others	16.19

SL	Particulars	BDT Crore
C	**Agriculture**	**51.81**
1.	Crops	9.68
2.	Forestry	-
3.	Poultry & Livestock	25.27
4.	Fisheries	0.06
5.	Others (Cold Storage, Biofuel, Seed, Feed, Agri-related related Other Institutions & Services)	16.80
D	**Mining & Quarrying**	**-**
E	**Housing**	**320.09**
1.	Individual/Retail Housing	317.36
2.	Project/Commercial Housing	2.73
F	**Financial Corporation**	**38.25**
1.	Bank	-
2.	Financial Institution	-
3.	Insurance Company	0.29
4.	NGO	37.96
5.	Audit & Accounting Firm	-
6.	Credit Rating Agency	-
7.	Merchant Banking	-
8.	Other Financial Auxiliaries	-
G	**Service**	**104.54**
1.	Education, Career & Training (Institutional), Consultancy Supervisory	1.53
2.	Tourism, Hospitality & Logistics	-
3.	Health Sector	26.74
4.	Media, Advertising & Event Management	5.43
5.	Beautification & Gym	0.10
6.	Tailoring & Laundry	-
7.	Private Survey Institution	-
8.	Restaurant Service, Catering & Online Food Supplier	6.38
9.	Telecommunication & Information Technology	4.44
10.	Others	59.91
H	**Consumer Finance**	**22.95**
1.	Personal Loan	-
2.	Auto Loan	-
3.	Employee/Staff Loan	-
4.	Credit Card	-
5.	Loan Against Deposit	22.95
I	**Others**	**1.33**
	Grand Total	**1946.34**

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

Credit Exposure by Maturity Breakdown

Particulars	BDT Crore
Up to 1 month	103.33
Over 1 month but <=3 months	189.48
Over 3 months but <=1 year	609.85
Over 1 year but <=5 years	750.24
Over 5 years	293.45
Grand Total	**1946.34**

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(f) By major Industry or Counterparty type: (1) amount of impaired loans and if available, past due loans, provided separately; (2) specific and general provisions; and (3) charges for specific allowances and charge-offs during the period.

Industry Type-wise Impaired Loans or NPL

BDT crore

Industry-Wise	Year 2023	Year 2024
Trade & Commerce	54.33	49.83
Industry	34.17	35.33
Agriculture	5.37	2.17
Mining & Quarrying	0.00	0.00
Housing	2.81	8.17
Financial Corporation	0.00	0.00
Service	1.91	1.42
Consumer Finance	0.00	0.00
Others	0.00	0.00
Grand Total:	**98.60**	**96.92**

Counterparty Type-wise Provisions

BDT crore

Counterparty Type	Outstanding	Provision
Standard	1,795.24	15.18
SMA	54.17	0.80
Substandard	8.51	0.80
Doubtful	11.48	2.74
Bad/loss	76.94	55.43
Total:	**1,946.34**	**74.96**

(g) Gross Non Performing Assets (NPAs); Non Performing Assets (NPAs) to Outstanding loans & advances.

Movement of Non-Performing Assets (NPAs)

Particulars	BDT Crore
Opening balance	98.60
Additions	25.41
Reductions	(27.09)
Closing balance	96.92

Movement of Specific provisions for NPAs

Particulars	BDT Crore
Opening balance	54.70
Provisions made during the period	14.82
Write-off	(12.95)
Write-back of excess provisions	3.20
Closing balance	59.78

E. Equities: Banking Book Positions

Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to equity risk, including: (1) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and

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.

(2) Discussion of important policies covering the valuation and accounting of equity holdings in the banking book positions. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.

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

(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.

Investment in Shares

BDT crore

Particulars	Cost Price	Market Price
Quoted shares*	1.53	16.98
Unquoted shares**	119.13	-

Note: *Quoted shares comprises investment in United Insurance and Robi Axiata Limited, and **Unquoted shares include investment in redeemable, non-convertible and cumulative preference shares.

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

Not Applicable

(d) Total unrealized gains (losses), total latent revaluation gains (losses), and any amounts of the above included in Tier-2 capital.

Particulars	BDT Crore
Total unrealized gains (losses)	N/A
Total latent revaluation gains (losses)	N/A
Any amounts of the above included in Tier 2 capital	N/A

(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.

Capital Charges Methodology for Equity Position Risk

Here, UFPLC follows the DFIM Prudential Guidelines of CAMD (Section 4.5.5), whereby, the capital charge for equities would apply on their current market value in FI's trading book. This capital charge for both **specific risk** and the **general market risk** will be at the rate of the required minimum capital adequacy ratio. This is applied to all instruments that exhibit market behavior similar to equities but not to non-convertible preference shares (which are covered by the interest rate risk requirements described earlier). The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities.

BDT crore

Particulars	Market Value	Risk Weight	Capital Charge
Specific Risk	16.98	10%	1.70
General Market Risk	16.98	10%	1.70
Total:	**33.96**		**3.40**

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 behavior of non-maturity deposits.

UFPLC 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.

UFPLC'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 behavior of non-maturity deposits, 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).

Interest Rate Risk under Simple Sensitivity Analysis

BDT crore

Period	RSA	RSL	Net Gap
Up to 3m	527.41	361.11	166.30
>3m to 6m	335.93	281.53	54.40
>6m to 12m	460.60	423.46	37.15
>12m	947.49	783.70	163.79

Note: RSA = Rate Sensitive Assets, RSL = Rate Sensitive Liabilities, Net Gap = (RSA – RSL), and m = months

Impact on Net-Interest Income (NII)

BDT crore

Interest Shock	1%		2%	
Period	^	v	^	v
Up to 3m	1.66	(1.66)	3.33	(3.33)
>3m to 6m	0.54	(0.54)	1.09	(1.09)
>6m to 12m	0.37	(0.37)	0.74	(0.74)
>12m	1.64	(1.64)	3.28	(3.28)
Change in NII	4.22	(4.22)	8.43	(8.43)

Note: Change in NII = (Change in Interest rate X Net Gap)

G. Market Risk

Qualitative Disclosures

(a): (1) views of BOD on trading/investment activities, (2) methods used to measure market risk, (3) market risk management system, and (4) policies and processes for mitigating market risk

Views of BOD on Trading/Investment Activities

Market Risk refers to the probability of loss in balance sheet and off-balance sheet positions arising from volatility in market variables such as interest rates, exchange rates, and security prices. At UFPLC, all policies and guidelines related to market risks are approved by the Board of Directors, which has also delegated certain authorities to the Executive Committee. Every guideline related to market risk is duly approved by the relevant sub-committees. These committees also set risk limits and review compliance regularly.

Methods used to Measure Market Risk

In order to calculate the market risk for trading book purposes the company uses Standardized (rule based) Approach where capital charge for interest rate risk, pricing risk and foreign exchange risk is determined separately.

Market Risk Management System

The ALCO regularly monitors a number of ratios to manage the interest rate risk, with key ratios such as Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Maximum Cumulative Outflow (MCO), and Short term borrowing to Liquid assets ratio.

Additionally, the ALCO also regularly tracks the interest rate sensitive gap and duration gap of the total portfolio.

Qualitative Disclosures

(b): The capital requirements for: (1) interest rate risk, (2) equity position risk; and (3) foreign exchange position and commodity risk (if any)

Capital Requirements For	BDT crore
Interest rate risk:	-
Equity position risk:	3.40
Foreign exchange position and commodity risk (if any)	-

H. Operational Risk

Qualitative Disclosures

(a): (1) views of BOD on system to reduce Operational risk, (2) performance gap of executives and staffs, (3) potential external events, (4) policies and processes for mitigating operational risk, and (5) approach for calculating capital charge for operational risk

Views of BOD on System to Reduce 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 financial organization and covers a wide spectrum of issues. We seek to minimize exposure to operational risk, subject to cost benefit trade-offs.

At UFPLC, all policies and guidelines related to operational risks are approved by the Board of Directors, which has also delegated certain authorities to the Executive Committee. Every guideline related to operational risk is duly approved by the relevant sub-committees.

The Audit Committee, as part of the Board's oversight function, directly supervises internal control and compliance activities in alignment with the good governance guidelines issued by the Securities and Exchange Commission.

Performance Gap of Executives and Staffs

UFPLC 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 is 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, awareness programs and time to time communications from senior management to enhance capabilities as well as minimize performance gap that will contribute more to bottom line.

Peoples' performance is assessed on the bases 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 bases of how well the assigned KPIs are met by the employee.

Potential External Events

The overall environment within which a financial institution operates creates certain externalities that could affect business performance directly, even though UFPLC is not directly involved in the transaction or decision-making, such as:

(a) Macroeconomic Events

Macroeconomic dynamics can significantly affect financial institutions like UFPLC. Sudden spikes in inflation or interest rates can reduce borrower affordability and raise funding costs, adversely impacting both asset quality and profitability. Currency depreciation increases import costs, reduces collateral value, and affects foreign loan servicing.

Economic downturns and recessions can weaken credit demand and increase default rates, while systemic liquidity crises may limit access to interbank borrowings.

(b) Regulatory and Policy Events

Changes in government policies or regulations can materially alter the operating environment. Tighter capital adequacy norms, enhanced loan provisioning requirements, or new restrictions on loan rescheduling may directly impact UFPLC's financial ratios and lending flexibility.

Reforms under Bangladesh Bank's evolving regulatory framework, particularly in response to sector-wide vulnerabilities, can raise compliance costs. Fiscal policy changes or implementation of post-LDC graduation standards could also require strategic realignment.

(c) Political and Social Events

The political landscape plays a crucial role in shaping financial sector stability. Investor sentiment can be dampened by political uncertainty, civil unrest, or abrupt changes in governance.

Student protests or industrial strikes can temporarily halt economic activity. Similarly, job losses or wage shocks in key sectors like garments can impair borrower repayment behavior, especially among retail and SME clients.

(d) Environmental and Climatic Events

Environmental and climate-related risks are increasingly relevant for financial institutions in Bangladesh. Natural disasters such as floods, cyclones, or droughts can damage borrower-owned assets, disrupt livelihoods, and impair the repayment capacity of clients in agriculture and rural financing. Climate change further exacerbates long-term sectoral risks, particularly in agribusiness and coastal areas, necessitating integration of climate risk into credit assessments and loan pricing models.

(e) Technological and Cyber Events

In today's digitalized financial environment, technological disruptions and cyber threats pose critical external risks. A widespread cyberattack or data breach can severely impact customer trust, regulatory compliance, and operational continuity. National-level digital infrastructure issues, such as outages in mobile networks or delays in NID verification services, can interrupt onboarding processes, KYC verifications, and digital transactions. Growing reliance on core banking and MFS platforms makes operational resilience and cybersecurity a top priority.

(f) External Financial Market Events

Global financial markets also influence the risk landscape for NBFIs like UFPLC. External shocks such as a global recession, financial market volatility, or capital flight can adversely affect foreign direct investment, remittance flows, and currency stability. A stock market crash or systemic default by a large financial institution could trigger a contagion effect, undermining confidence across the broader financial system. Such developments, even if external, can ripple into domestic lending and funding conditions.

(g) Reputational and Sectoral Events

Reputational shocks originating from the broader NBFI or banking sector may impact stakeholder confidence in individual institutions. Scandals, governance failures, or fraud in peer organizations can lead to generalized mistrust, increased regulatory scrutiny, and depositor flight. Sector-wide credit rating downgrades or negative analyst outlooks could further constrain market access and borrowing capacity. Maintaining transparency, compliance, and stakeholder engagement becomes vital for resilience.

(h) Fraudulent Activities

Fraud risk, while often originating internally, can also arise from external actors and significantly impact UFPLC. External fraud events—such as identity theft, forged documents, cyber fraud, or collusion by third-party agents—can lead to unauthorized disbursements, asset misappropriation, or regulatory breaches. Fraudulent activities by clients, vendors, or digital service partners may compromise loan quality, erode stakeholder trust, and trigger reputational damage or regulatory scrutiny.

As financial services become increasingly digitized and interconnected, external fraud risk poses a growing threat to operational integrity and requires robust verification, monitoring, and incident response mechanisms.

Policies and Processes for Mitigating Operational Risk

The bank captures some identified risk events associated with all functional departments of the bank through standard reporting format, Departmental Control Function Check List (DCFCL), Quarterly Operation Report (QOR), Key Risk Indicator (KRI), internal audit, monitoring, and system check etc. Internal Control and Compliance Division (ICCD) is detecting 'High' Risk areas and finding mitigation of those risks. ERMC also oversees the operational risk issues. ERMC analyzes 'high' and 'moderate' risk indicators and sets responsibility for specific people to resolve the issues.

Approach for Calculating Capital Charge

UFPLC applies 'Basic Indicator Approach' of Basel-II as prescribed by BB in CAMD guidelines. Under this approach, banks 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 noninterest income' of a year.

Quantitative Disclosures:

(b) the capital requirements for operational risk

BDT crore

Particulars	3 Years Average	Risk Weight	Capital Charge
Gross Income	117.17	15%	17.58