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 Tk.
Fully Paid-up Capital/Capital lien with BB	187.11
Statutory Reserve	82.94
Non-repayable Share premium account	0.38
General Reserve	22.50
Retained Earnings	19.02
Minority interest in Subsidiaries	-
Non-Cumulative irredeemable Preferences shares	-

Dividend Equalization Account	-
Other (if any item approved by Bangladesh Bank)	-
Sub-Total:	**311.95**

(c)	***The total amount of Tier 2 capital.***	***15.85***
(d)	***Other deductions from capital.***	***-***
(e)	***Total eligible capital.***	***327.80***

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 16.33% of 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 its 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) recognized 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 Tk.
(b)	***Capital requirement for Credit Risk***	***185.33***
(c)	***Capital requirement for Market Risk***	***-***
(d)	***Capital requirement for Operational Risk***	***15.37***
(e)	***Total and Tier 1 capital ratio:***	

CAR on Total capital basis (%)	16.33%
CAR on Tier 1 capital basis (%)	15.54%

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 allowances are maintained in accordance with Bangladesh Bank policies and guidelines as well as its internal policy, UFL is maintaining 1% provision against Standard loans, 0.25% against Standard SME 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 utilizing policies and practices approved by the Board of Directors. Pre-Emptive risk management is conducted by Risk Management 1 Division, Contemporaneous and Post-Facto by Risk Management 2 and Risk Management 3 respectively.

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 Marketing 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 minimize 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 finalizing 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 securitization 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.

Early Warning System(EWS): UFL has developed Early Warning System (EWS) to identify risks of any facility at a nascent stage on a periodic basis which enables UFL to take proactive measures to manage potential non-performing loans in a timely and efficient manner.

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 Tk.
Lease Finance	921.25
Term Loan	389.73
Home Loan	110.76
Short Term Loan	366.48
Loan against Deposit	6.02
	1,794.24

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

	Amount in Crore Tk.
Dhaka	1,093.65

Chattogram	234.16
Khulna	144.13
Rajshahi	136.34
Rangpur	105.78
Barishal	28.34
Sylhet	12.14
Mymensingh	39.70
	1,794.24

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

	Amount in Crore Tk.
1. Agricultural sector	148.05
2. Industrial sector:	
a) Service industry	167.91
b) Food production/processing industry	177.47
c) Chemical & Pharmaceutical	116.03
d) Plastic industry	44.99
e) Garments	44.02
f) Textile	65.65
g) Paper, Printing and packaging industry	112.87
h) Iron, Steel & Engineering industry	55.98
i) Leather & leather products	13.50
j) Electronics and electrical industry	40.26
k) Telecommunication/information Technology	14.39
l) Jute and jute products	30.63
m) Cement/Concrete and allied industry	44.97
n) Glass and ceramic industry	5.61
o) Ship Manufacturing Industry	-
p) Power, Gas, Water and sanitary service	17.14
4. Transport & Communication	133.94
5. Real Estate & Housing	119.42
6. Trade and Commerce	372.99
7. Others	68.41
	1,794.24

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

	Amount in Crore Tk.
Up to 1 month	186.91
Over 1 month but not more than 3 months	165.02
Over 3 months but not more than 1 year	595.03
Over 1 year but not more than 5 years	755.17
Over 5 years	92.11
	1,794.24

(f) Gross Non Performing Assets (NPA)

	Amount in Crore Tk.
Gross Non Performing Assets (NPAs)	53.03
Non Performing Assets (NPAs) to Outstanding Loans & advances	2.96%

Movement of Non Performing Assets (NPAs)	
Opening balance	50.53
Additions	14.10
Reductions	11.59
Closing balance	53.03
Movement of specific provisions for NPAs	
Opening balance	25.75
Provisions made during the period	9.04
Write-off	(5.76)
Write-back of excess provisions	(1.91)
Closing balance	27.12

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 of United Insurance Company Limited. The redeemable preferred shares are not tradable and pay a fixed dividend per annum, thus there is no scope for any capital gains. The 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 Tk.

Quoted shares	1.50
Unquoted shares*	24.28
	25.78

* Unquoted shares include redeemable preference shares

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

Not Applicable

(d)	***Total unrealized 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**	**Moderate**	**Major**
	2%	**4%**	**6%**
Change in the Value of Bond Portfolio (BDT in Crore)	0.00	0.00	0.00
Net Interest Income (BDT in Crore)	2.48	4.96	7.44
Revised Regulatory Capital (BDT in Crore)	330.00	332.48	334.96
Risk Weighted Assets (BDT in Crore)	2006.87	2006.87	2006.87
Revised CAR (%)	16.44%	16.57%	16.69%

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 Tk.

Interest Rate Related instruments	0
Equities	0
Foreign Exchange Position (if any)	0

h) Operational risk

Qualitative Disclosures

(a) *Views of BOD 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.

Process Review Committee (PRC): Process Review Committee (PRC) reviews the Operational Risk and System Audit's report regarding operational flaws/risks of the process. The Committee assigns relevant departments of the process or Advisory Services/Process Implementation and Information Management Department depending the level of complexity of the process to resolve the flows/risk of the process. The committee also reviews the modification suggested by the assigned department, advises additional measures to improve the adequacy, effectiveness and efficiency of the process, and finally recommends the modified process for approval.

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 Tk.

Capital requirement for operational risk:	15.37