

UTTARA FINANCE AND INVESTMENTS LIMITED DISCLOSURES ON CAPITAL ADEQUACY AND MARKET DISCIPLINE (CAMD) - PILLAR III

as on 31 December 2018

This disclosure is given as per the requirement of Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline (CAMD) for Financial Institutions. The disclosure framework of the company containing the key pieces of information on the assets, risk exposures, risk assessment processes, and the capital adequacy to meet the risks is given below:

A. Scope of application

Qualitative Disclosure

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

Uttara Finance and Investments Limited (UFIL)

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).

UFIL have one subsidiary company namely Ultra Finance Capital Mangement Limited but not in operation.

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

Not Applicable.

B) Capital structure

Qualitative Disclosure

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 I or in Tier II.

As per Prudential Guidelines on Capital Adequacy and Market Discipline for Financial Institutions, Tier-I Capital of UFIL consists of -

1. Tire -I Capital includes:

a. Paid-up capital; b. Statutory reserves; c. General reserves; d. Share Premium; e. Dividend equalization fund; f. Retained earnings.

1. Tire -II Capital includes:

General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) of Credit Risk.

Quantitative Disclosures

b. The amount of Tier I capital, with separate disclosure of:

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Paid up capital	125.22	125.22
Non-repayable share premium account	52.80	52.80
Statutory reserve	155.45	155.45
General reserve	195.00	195.00
Retained earnings	70.29	70.29
Dividend equalization account	90.00	90.00
Total Tire-I Capital	688.76	688.76

	c. The total amount of Tier II capital.	Tire-II Capital	44.45	44.45
	d. Other deductions from capital	Other deductions from capital	-	-
	e. Total eligible capital	Total eligible capital	733.21	733.21

C) Capital Adequacy

Qualitative Disclosure

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

UFIL has adopted Standardized Approach for computation of capital charge for credit risk and market risk, and Basic Indicator Approach for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank.

Qualitative Disclosure

Disclosures

	Amount in BDT Crore	
	Solo	Consolidated
Capital requirement for Credit Risk	355.62	355.62
Capital requirement for Market Risk	23.40	23.40
Capital requirement for Operational Risk	30.19	30.19
Total and Tier I capital ratio:		
Total Capital ratio	17.92	17.92
Tire-1 Capital ratio	16.83%	16.83%

D) Credit Risk

Qualitative Disclosure

a. The general qualitative disclosure requirement with respect to credit risk, including:

- **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.

- **Description of approaches followed for specific and general allowances and statistical methods;**

UFIL required to maintain the following general and specific provision in respect of classified and unclassified loans and advances/ investments on the basis of Bangladesh Bank guidelines issued from time to time:

Particulars	Rate
General provision on unclassified (STD) Small and Medium Enterprise (SME) financing	0.25%
General provision on unclassified loans and advances (Standard)	1.00%
General provision on unclassified loans and advances (Special Mentioned Account-SMA)	5.00%
Specific provision on Sub-Standard (SS) loans & advances	20.00%
Specific provision on Doubtful Loans (DF) & advances	50.00%
Specific provision on Bad/Loss (BL) loans & advances	100.00%

- Discussion on FI's credit risk management policy;
- Implementation of various strategies to minimize risk;
- To encounter and mitigate credit risk the following control measures are taken place at UFIL;
- Looking into payment performance of customer before financing;
- Annual review of clients;
- Adequate insurance coverage for funded assets;
- Vigorous monitoring and follow up by Special Assets Management and collection Team;
- Strong follow up of compliance of credit policies by Credit Administration Department;
- Taking collateral and performing valuation and legal vetting on the proposed collateral;
- Seeking legal opinion from internal and external lawyer for any legal issues;
- Maintaining neutrality in politics and following arm's length approach in related party transactions;

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- Regular review of market situation and industry exposure;
 - Sector-wise portfolio is maintained within specific limits to ensure diversification of loan assets;
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In addition to the best industry practices for assessing, identifying and measuring risks, UFIL also considers Guideline for Managing Core Risks of Financial Institutions issued by Bangladesh Bank for management of risks.

Approved Credit Policy by the Board of Directors

The Board of Directors has approved the Credit Policy for the company where major policy guidelines, growth strategy, exposure limits (for particular sector, product, individual company and group) and risk management strategies have been described/stated in detail. Credit Policy is regularly updated to cope up with the changing global, environmental and domestic economic scenarios.

Separate Credit Administration Department

An independent Credit Administration Department is in place, at UFIL, to scrutinize all loans from risk-weighted point of view and assist the management in creating a high quality portfolio and maximize returns from assets. The Credit department assesses credit risks and suggests mitigations and ensures that adequate security documents are in place before sanction of loan and before disbursement of loans.

Special Recovery and Collection Team

A strong recovery team monitors the performance of the loans and advances, identifies early sign of delinquencies in portfolio and takes corrective measures to mitigate risks, improve loan quality and to ensure recovery of loans in a timely manner including legal actions.

Independent Internal Compliance Department

Appropriate internal control measures are in place at UFIL. An Internal Compliance Department has been established to ensure compliance with all internal guidelines, Bangladesh Bank guidelines, operational procedures and adequacy of internal control and documentation procedures.

Credit Evaluation

The Credit Evaluation Committee (CEC) regularly meets to review the market and credit risk related to lending and recommend and implement appropriate measures to counter associated risks. The CEC critically reviews projects considering the current global financial crisis and its probable impact on the project. Risk Grading Model (RGM) helps a Financial Institution to understand the various dimensions of risks involved in transactions related to small business clients who are plying their businesses in various geographical locations across the country. UFIL has been developing and managing RGM to promote the safety and soundness of the Company by facilitating informed decision-making. This model measures credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows management and examiners to monitor changes and trends in risk levels. The process also allows the management to manage risk to optimize returns. To mitigate credit risk, UFIL search for credit report from the Credit Information Bureau (CIB) of Bangladesh Bank. The report is scrutinized by CRM and CEC to understand the liability condition and repayment behavior of the client. Depending on the report, banker's opinions are taken from client's banks.

Suppliers' and buyers' opinion are taken to understand the market position and reputation of our proposed customers.

Credit Approval Process

To ensure both speedy service and mitigation of credit risk, the approval process is maintained through a multilayer system.

Depending on the size of the loan, a multilayer approval system is designed. As smaller loan are very frequent and comparatively less risky, lower sanctioning authority is set to improve processing time and associated risk. Bigger loans require more scrutiny as the associated risk is higher hence sanctioning authority is higher as well.

Early Warning System

Performance of loans is regularly monitored to trigger early warning system to address the loans and advances whose performance show any deteriorating trend. It helps the company to grow its credit portfolio with ultimate objective of protecting the interest of the stakeholders.

Methods used to measure Credit Risk

As per the directives of Bangladesh Bank, 'The Standardize Approach' is applied by the company to measure its Credit Risk.

NPL Management

UFIL measures its loan portfolio in terms of payment arrears. The impairment levels on the loans and advances are monitored regularly.

As per FID Circular No. 3 dated March 15, 2007:

1. Loan/Lease, classified as bad/loss and with 100% provision, an only be written-off;
2. Approval from the Board of Directors has to be taken before write-off;
3. The financial institutions should constantly try to recover the loan/lease written-off amount. If legal action has not been taken against the client, legal charges should be placed before the write off;
4. To expedite the legal settlement or collection of the due amount, third party agents can be appointed by the financial institutions;
5. A separate ledger should be maintained for the written off loans/leases and the accumulated written off value should be disclosed separately under the heading of "notes to the account" in the annual report/balance sheet of the financial institutions;
6. Even if the loan/lease has been written off, the client should be classified as defaulter and reported to CIB accordingly.

Detail records for all such write off accounts are meticulously maintained and followed up.

Quantitative Disclosures

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

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Lease Finance	1,956.69	1,956.69
Term Finance Institutions	1,268.83	1,268.83
Term Finance Personal loan	1.40	1.40
Margin Loan	236.07	236.07
Housing Finance	129.25	129.25
Total	3,592.24	3,592.24

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

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Dhaka	2,690.92	2,690.92
Chattogram	868.01	868.01
Bogura	33.31	33.31
Sylhet	-	-
Barisal	-	-
Rajshahi	-	-
Total	3,592.24	3,592.24

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

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Agriculture	96.86	96.86
Cement and allied Industry	178.97	178.97
Electronics & electrical Products	29.05	29.05
Food production & processing industry	388.47	388.47
Garments and Knitwear	157.23	157.23
Glass & ceramics	118.11	118.11
Housing	135.56	135.56
Iron Steel and Engineering	254.96	254.96
Jute and Jute products	8.40	8.40
Leather and Leather goods	12.06	12.06
Margin loan	236.07	236.07
Paper printing and packaging	127.64	127.64

Pharmaceuticals and Chemicals	133.45	133.45
Plastic industries	97.90	97.90
Power, Gas Water and Sanitary services	232.82	232.82
Ship Manufacturing Industry	31.26	31.26
Telecommunication	6.51	6.51
Textile	307.17	307.17
Trade and commerce	144.32	144.32
Transport and Aviation	432.89	432.89
Others	462.53	462.53
Total	3,592.22	3,592.22

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

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Payable on demand	651.24	651.24
Over 1 month but not more than 3 months	31.26	31.26
Over 3 months but not more than 1 year	1,610.01	1,610.01
Over 1 year but not more than 5 years	750.24	750.24
Over 5 years	549.47	549.47
Total	3,592.22	3,592.22

(f) Gross Non Performing Assets(NPAs)

Non Performing Assets (NPAs) to Outstanding Loans & advances Movement of Non Performing Assets (NPAs)

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Opening Balance	181.71	181.71
Additions	149.62	149.62
Reductions	32.08	32.08
Closing Balance	356.85	356.85

Movement of specific provisions for NPAs

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Opening balance (A)	127.57	127.57
Provisions made during the period (B)	45.89	45.89
Write-off	-	-
Write-back of excess provisions	-	-
Closing balance (A+B)	173.46	173.46

E) Equities: banking book positions**Qualitative Disclosures****(a) The general qualitative disclosure requirement with respect to equity risk, including:**

Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. 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 provision are maintained as per terms and conditions of regulatory authority. Mutual funds have been valued at 85% of latest published NAV available as on December, 2018. On the other, unquoted share is valued at cost price or book value as per 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 share price is materially different from fair value.

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Quoted shares (Market price)	116.38	116.38
Quoted shares (Cost Price)	153.06	153.06
Unquoted shares	-	-

Breakup of Total Investments

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Marketable Securities	153.06	153.06
Non-Marketable Securities	0.26	0.26
Merchant Banking Unit	-	-
Others	1.20	1.20
Total	154.51	154.51

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

Particulars	Amount in BDT Crore	
	Solo	Consolidated
Cumulative realized gain	(36.36)	(36.36)
Total unrealized gains (Losses)	(36.36)	(36.36)

G) Market risk**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.

Interest rate risk in the banking book arises from mismatches between the future yield of assets and their funding cost. Assets Liability Committee (ALCO) monitors the interest rate movement on a regular basis.

UFIL measures the interest rate risk by calculating maturity gap between Risk Sensitive Assets (RSA).

and Risk Sensitive Liabilities (RSL) i.e. a positive maturity gap affect company's profitability positively with the increment of interest rate and negative maturity gap affects company's profitability adversely with the increment of interest rate.

Quantitative Disclosures

b. The increase (decline) in earning or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for

Interest Rate Risk-Increase in Interest Rate: (BDT in Crore) Where applicable

measuring interest rate risk broken down by currency (as relevant).

Particulars	Maturity wise Distribution of Assets-Liabilities				
	1 to 30/31 day (1 month)	Over 1 month to 2 Months	Over 2 month to 3 month	Over 3 months to 6 month	Over 6 month to 1 year
A. Total Rate Sensitive Liabilities (A)	602.02	277.92	298.24	419.38	526.08
B. Total Rate Sensitive Assets (B)	663.93	303.57	290.22	457.96	571.85
C. Mismatch	61.91	25.65	-8.02	38.58	45.78
D. Cumulative Mismatch	61.91	87.56	79.54	118.11	163.89
E. Mismatch (%)	10.28%	9.23%	-2.69%	9.20%	8.70%

Interest Rate Risk

Magnitude of Shock	Minor	Moderate	Major
	2%	4%	6%
Change in the Value of Bond Portfolio	0.26	0.51	0.77
Net Interest Income	5.05	10.09	15.14
Revised Regulatory Capital	738.52	743.82	749.12
Risk Weighted Assets	4,091.91	4,091.91	4,091.91
Revised CAR (%)	18.05%	18.18%	18.31%

H. Market Risk

Qualitative Disclosures

a) Views of BOD on trading/investment activities

All the Market risk related policies/guidelines are duly approved by BOD. The BOD sets limits, reviews and updates the compliance on regular basis aiming to mitigate market risk.

• Method used to measure Market risk

Market risk is the probability of losing assets in balance sheet and off-balance sheet position arising out of volatility in market variables i.e. interest rate, exchange rate and prices of securities. In order to calculate the market risk for trading book purposes the company uses Standardize (rule based) Approach. Capital charge for interest rate risk and foreign exchange risk is not applicable to our company as because we do not have such balance sheet items.

• Market Risk Management System

A system for managing Market Risk is in place

where guideline has been given regarding long-term, short-term funding, liquidity contingency plan, local regulatory compliance etc. Treasury manages the Market risk with the help of Asset Liability Management Committee (ALCO) and Asset Liability Management (ALM) Desk in the following manner:

- **Interest Risk Management**

Treasury Department reviews the risk of changes in the income of the company as a result of movements in the market interest rates. In the normal course of business, UFIL tries to minimize the mismatches between the duration of interest rate sensitive assets and liabilities. Effective Interest Rate Risk Management is done as under:

- **Market analysis**

Market analysis over interest rate movements are reviewed by the Treasury Department of the company. The type and level of mismatch interest rate risk of the company is managed and monitored from two perspectives, being an economic value perspective and earning value perspective.

- **GAP analysis**

ALCO has established guidelines in line with central bank's policy for the management of assets and liabilities, monitoring and minimizing interest rate risks at an acceptable level. ALCO in its regular monthly meeting analyzes Interest Rate Sensitivity by computing GAP i.e. the difference between rate sensitive assets and rate sensitive liabilities and takes decision of enhancing or reducing the GAP according to prevailing market situation aiming to mitigate interest rate risk.

- **Continuous Monitoring**

Company's treasury manages and controls day-to-day trading activities under the supervision of ALCO that ensures continuous monitoring of the level of assured risks.

- **Equity Risk Management**

Equity Risk is the risk of loss due to adverse change in the market place of equities held by the Company.

Equity Risk is managed by the following manner:

UFIL minimizes the equity risks by portfolio diversification as per investment policy of the Company.

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 provision are maintained as per terms and conditions of regulatory authority. Unquoted share is valued at cost price or book value as per latest audited accounts.

Quantitative Disclosures	(b) The capital requirements for Market Risk:	Particulars	Amount in BDT
		Interest rate risk	-
		Equity position risk	23.40
		Foreign Exchange Position and Commodity risk (If any)	-
I) Operational Risk:			
Qualitative Disclosures	a) Views of Board on the system to reduce Operational Risk:	<p>All the policies and guidelines of internal control and compliances are established as per advice of the Board. The Board delegates its authority to Executive Committee and Managing Director. Audit Committee of the Board oversees the activities of internal Control and compliance as per good governance guideline issued by Securities and Exchange Commission.</p> <ul style="list-style-type: none"> • Performance gap of executives and staff UFIL's recruitment policy is based on retaining and attracting the most suitable people at all levels of the business and this is reflected in our objective approach to recruitment and selection. The approach is based on the requirements of the job (both now and in future), matching the ability and potential of the individual. Qualification, skills and competency form our basis for nurturing talent. <p>Favorable job responsibilities are increasingly attracting greater participation from different level of employees in the UFIL family. We aim to foster a sense of pride in working for UFIL and to be the employer of choice. As such there exists no performance gap in UFIL.</p> <ul style="list-style-type: none"> • Potential external events No such potential external event exists to raise operational risk of UFIL at the time of reporting. <p>Policies and Procedure for mitigating operational risk UFIL has established a strong Internal Control Department to address operational risk and to frame and implement policies to deter such risks. Internal Control Department assesses operational risk across the company and ensures that appropriate framework exists to identify, assess and manage operational risk.</p> <ul style="list-style-type: none"> • Approach to calculating capital charge for operational risk: Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. UFIL uses basic indicator approach for calculating capital charge against operational risk i.e. 15% of average positive annual gross income of the company over last three years. 	
Quantitative Disclosures	Capital requirement for operational risk:	Particulars	Amount in BDT
		Capital requirement for operational risk	30.19