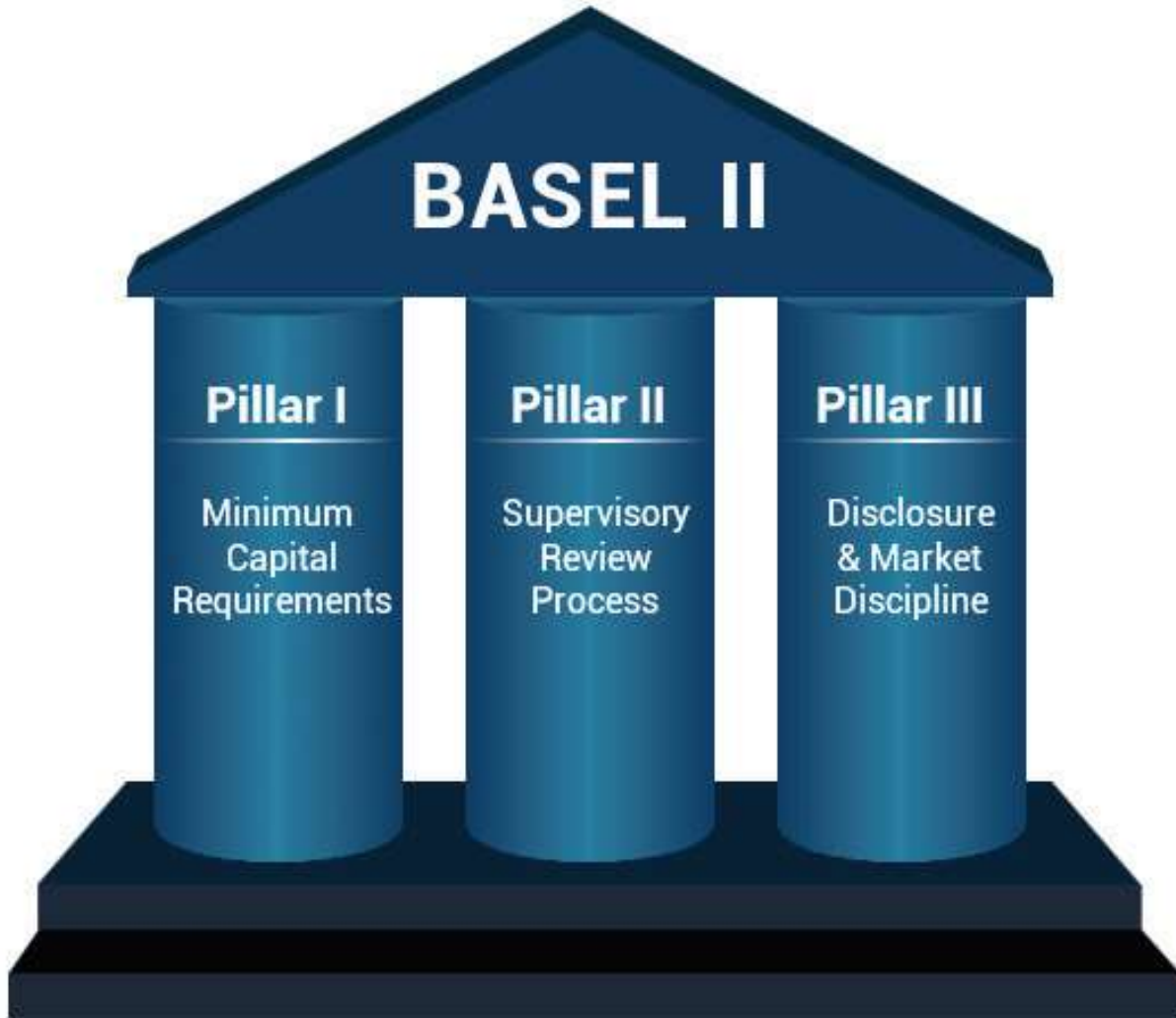




DISCLOSURES UNDER PILLAR III- MARKET DISCIPLINE



Pillar III of the Basel II framework requires financial institutions to disclose relevant information about their risk management practices, capital adequacy, and risk exposure to promote market discipline. The goal of Pillar III is to provide transparency and enable market participants to make informed decisions about the risks associated with a financial institution.

The following detailed qualitative and quantitative disclosures are provided in accordance with prudential Guidelines on Capital Adequacy and Market Discipline for Financial Institutions which has been published on December 28, 2011. The Purpose of these requirements is to complement the capital adequacy requirements and the pillar III – Supervisory review process. These disclosures are intended for market participants to assess key information about the FI's exposure to various risks and to provide a consistent and understandable disclosure framework as per regulatory requirements. The FI has an approved disclosure policy to observe the disclosure requirements set out by the Bangladesh FI and International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) where relevant to the FI.



01 Scope of Application

Qualitative Disclosures

a) The name of the top corporate entity in the group to which this guideline applies.	Bangladesh Finance Limited
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).	<p>The consolidated Financial Statements include the Financial Statements of i) Bangladesh Finance Limited, ii) Bangladesh Finance Securities Limited, and iii) Bangladesh Finance Capital Limited.</p> <p>Bangladesh Finance holds 57.36% and 99.97% shares of Bangladesh Finance Securities Limited and Bangladesh Finance Capital Limited respectively. A brief description of these institutions are given below:</p> <p>Bangladesh Finance Limited Bangladesh Finance Limited (BFL) is a financial institution operating in Bangladesh. It was incorporated in 1999 and obtained its license from the Bangladesh Bank (the central bank of Bangladesh) in 2000 to operate as a non-bank financial institution (NBF). Bangladesh Finance provides a range of financial services, including lease financing, term financing, project financing, and SME financing. It also offers deposit products, including fixed deposits, monthly savings schemes, and other investment products.</p> <p>Bangladesh Finance Securities Limited Bangladesh Finance Securities Ltd is a subsidiary of Bangladesh Finance providing brokerage services to its clients with a membership of the Dhaka Stock Exchange Ltd. BD Securities commenced its operation in November 2011 and within a short span of time the company has emerged as one of the leading brokerage houses of the country holding an average of 1.69% market share of DSE trade volume. During the year 2015 the ranking of Bangladesh Finance Securities in DSE stood at 25. The Company has a strong team of highly skilled and experienced professionals to achieve its ultimate objectives.</p> <p>Bangladesh Finance Capital Limited Bangladesh Finance Capital Limited is a full-fledged Merchant Banker licensed by Bangladesh Securities and Exchange Commission (BSEC) on February 26, 2012. BD Capital is a 100% subsidiary of Bangladesh Finance Limited and is a Depository Participant with Central Depository Bangladesh Limited (CDBL). We are catering to individual Investors, Corporate and NRB clients. BD Capital started its journey on August 19, 2013 with authorized capital of Tk. 200 crore and paid-up capital of Tk. 26.87 crore. The organization is run by a team of professionals under leadership of highly experienced and leading personalities of this field.</p>
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not Applicable for the FI

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 for the FI
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02 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.

Tier 2 capital includes:

- i) General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) for Credit Risk;
- ii) Revaluation reserves:
 - 50% Revaluation reserve for fixed assets;
 - 45% Revaluation reserve for securities;
- iii) All other preference shares.

Conditions for maintaining regulatory capital:

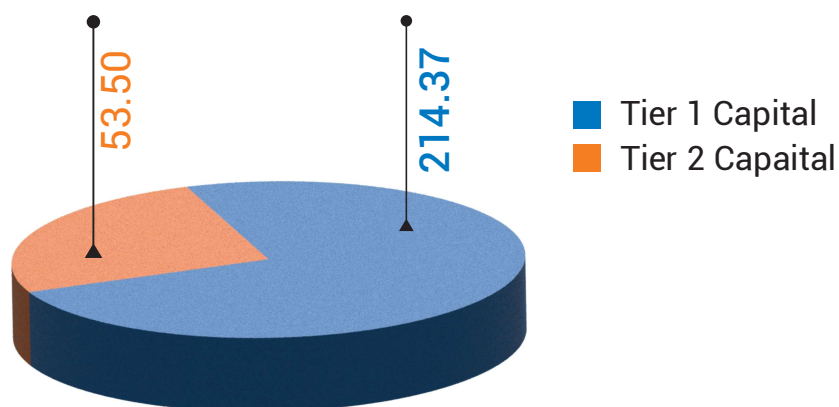
The calculation of Tier 1 capital, and Tier 2 capital, shall be subject to the following conditions:

- i) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.
- ii) 50% of revaluation reserves for fixed assets and 45% of revaluation reserves for securities are eligible for Tier 2 capital.

Quantitative Disclosures

b) The amount of Tier 1 capital, with separate disclosure of:

Particulars	Amount in BDT Core
Paid up capital	188.24
Statutory Reserve	50.12
General Reserve	-
Retained earnings	(83.97)
Minority interest in subsidiaries	50.10
Others (If any approved by Bangladesh Bank)	9.90
a) Total Tier 1 capital	214.37
b) The total amount of Tier 2 capital	53.50
c) (c=a+b) Total eligible capital	267.87



03 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.

Risk Weighted Assets (RWA) and Capital Adequacy Ratio (CAR)

Bangladesh Finance 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 risk. Total RWA is then used as denominator while total Eligible Regulatory Capital as on numerator to derive Capital Adequacy Ratio.

Strategy to achieve the required Capital Adequacy:

Operational level:

Immediate measures:

Asking unrated corporate clients to have credit rating from External Credit Assessment Institutions (ECAIs) recognized by Bangladesh Bank;
Rigorous monitoring of overdue contracts to bring those under 90 days overdue;
Assessing incremental effect of capital charge over the expected net income from financing before sanctioning any appraisal, which could be one of the criteria for taking financing decision.

Continuous 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;
Using benefit of credit risk mitigation by taking eligible financial collaterals against transactions;
Focusing more on booking high spread earning assets and thus increasing retained earnings.

Strategic Level:

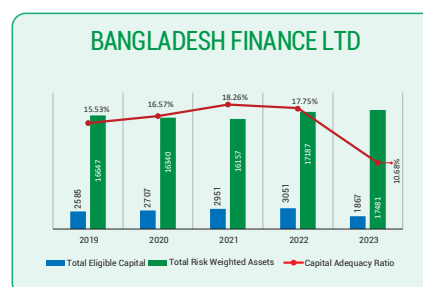
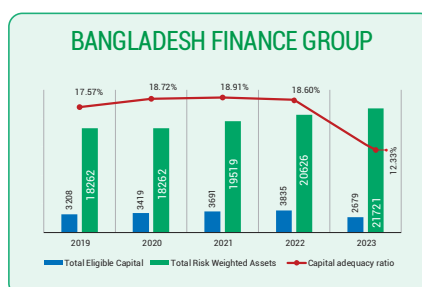
Injecting fresh capital by issuing right shares, if required.

Quantitative Disclosures

b) RWA for Credit Risk	1,773.15 Crore BDT
c) RWA for Market Risk	272.79 Crore BDT
d) RWA for operational risk	126.13 Crore BDT

- e) Total and Tier 1 capital ratio:

Particulars	Consolidated	Stand Alone
CAR on Total capital basis (%)	12.33	10.68
CAR on Tier 1 capital basis (%)	9.87	7.92



04 Credit Risk

Qualitative Disclosures

<p>a) The general qualitative disclosure requirement with respect to credit risk, including:</p>	<p>Financial institutions classifies loans and advances (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in reference to DFIM circular no. 4 dated 26th July 2021.</p>																
<p>Definitions of past due and impaired (for accounting purposes)</p>	<p>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.</p> <ol style="list-style-type: none"> 1. Any Continuous Loan or Demand Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the FI will be treated as past due/overdue from the following day of the expiry date. Whereas, in case of any instalment (s) or part of instalment (s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid instalment (s) will be treated as past due/overdue after six months of the expiry date. 2. A continuous loan, demand loan, fixed term loan or any instalment(s)/ part of instalment(s) of a Fixed Term Loan which will remain past due/overdue for a period of: <ol style="list-style-type: none"> a. 03 (three) months or beyond but less than 09 (nine) months, the entire loan will be put into the "Sub-standard (SS)" b. 09 (nine) months or beyond but less than 12 (twelve) months, the entire loan will be put into the "Doubtful (DF)". c. 12 (twelve) months or beyond, the entire loan will be put into the "Bad/Loss (B/L)" 																
<p>Description of approaches followed for specific and general allowances and statistical methods</p>	<p>Specific and General provisions are maintained according to the relevant Bangladesh Bank guideline.</p> <table border="1" data-bbox="573 1171 1451 1612"> <thead> <tr> <th data-bbox="573 1171 1276 1247">Types of Loan</th> <th data-bbox="1276 1171 1451 1247">Provision Maintained</th> </tr> </thead> <tbody> <tr> <td data-bbox="573 1247 1276 1297">SME –Standard loan/lease</td> <td data-bbox="1276 1247 1451 1297">0.25%</td> </tr> <tr> <td data-bbox="573 1297 1276 1348">Subsidiaries/sister concerns/ brokerage house/ merchant banks/stock dealers</td> <td data-bbox="1276 1297 1451 1348">2%</td> </tr> <tr> <td data-bbox="573 1348 1276 1398">Standard loans (other than SME/ Subsidiaries/sister concerns/ brokerage house/merchant banks/stock dealers - Standard loan/lease)</td> <td data-bbox="1276 1348 1451 1398">1%</td> </tr> <tr> <td data-bbox="573 1398 1276 1449">SMA loan/ lease</td> <td data-bbox="1276 1398 1451 1449">5%</td> </tr> <tr> <td data-bbox="573 1449 1276 1499">Sub-standard loan/lease</td> <td data-bbox="1276 1449 1451 1499">20%</td> </tr> <tr> <td data-bbox="573 1499 1276 1549">Doubtful loan/lease</td> <td data-bbox="1276 1499 1451 1549">50%</td> </tr> <tr> <td data-bbox="573 1549 1276 1612">Bad/loss loan/lease after deducting the amount of interest expenses and value of eligible securities from the outstanding balance of classified accounts.</td> <td data-bbox="1276 1549 1451 1612">100%</td> </tr> </tbody> </table>	Types of Loan	Provision Maintained	SME –Standard loan/lease	0.25%	Subsidiaries/sister concerns/ brokerage house/ merchant banks/stock dealers	2%	Standard loans (other than SME/ Subsidiaries/sister concerns/ brokerage house/merchant banks/stock dealers - Standard loan/lease)	1%	SMA loan/ lease	5%	Sub-standard loan/lease	20%	Doubtful loan/lease	50%	Bad/loss loan/lease after deducting the amount of interest expenses and value of eligible securities from the outstanding balance of classified accounts.	100%
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<p>Discussion of the FI's credit risk management policy</p>	<p>Implementation of various strategies to minimize risk:</p> <p>To encounter and mitigate credit risk the following control measures are taken place at Bangladesh Finance:</p> <ul style="list-style-type: none"> • 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; 																

Qualitative Disclosures

- Taking collateral and performing valuation and legal vetting on the proposed collateral;
- Seeking legal opinion from internal and external lawyers for any legal issues;
- Maintaining neutrality in politics and following arm's length approach in related party transactions;
- Regular review of market situation and industry exposure;
- Sector-wise portfolio is maintained within specific limits to ensure diversification of loan assets.

In addition to the industry best practices for assessing, identifying and measuring risks, Bangladesh Finance also considers Guidelines for Managing Core Risks of financial institutions issued by the country's central bank, Bangladesh Bank; vide FID Circular No. 10 dated September 18, 2005 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 Risk Management (CRM) Department

An independent Credit Risk Management (CRM) Department is in place, at Bangladesh Finance, to scrutinize projects from a risk-weighted point of view and assist the management in creating a high quality credit portfolio and maximize returns from risk assets. Research team of CRM regularly reviews market situation and exposure of Bangladesh Finance in various industrial sub-sectors. Credit Administration Department has been segregated from CRM in line with Central Bank's Guidelines. CRM assess credit risks and suggest mitigations before recommendation of every credit proposal while Credit Administration confirms that adequate loan and lease security documents are in place before disbursement.

Special Assets Management and Collection Team

A strong Law and Recovery Team monitors the performance of the loans & advances, identify early signs of delinquencies in portfolio, and take corrective measures to mitigate risks, improve loan quality and to ensure recovery of loans in a timely manner including legal actions.

Independent Internal Control and Compliance Department (ICC)

Appropriate internal control measures are in place at Bangladesh Finance. Bangladesh Finance has also established Internal Control and Compliances Department (ICC) to ensures, compliance with approved lending guidelines, Bangladesh Bank guidelines, operational procedures, adequacy of internal control and documentation procedures. ICC frames and implements policies to encounter such risks.

Credit Evaluation

The Credit Committee (CC) regularly meets to review the market and credit risk related to lending and recommend and implement appropriate measures to counter associated risks. The CC critically reviews proposals considering the current global financial crisis and its probable impact on the specific project.

Credit Risk Grading (CRG) 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. Bangladesh Finance has been developing and managing CRG to promote the safety and soundness of the Company by facilitating informed decision-making. This grading 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.

Qualitative Disclosures

To mitigate credit risk, Bangladesh Finance search for credit information report from the Credit Information Bureau (CIB) of Bangladesh Bank. The report is scrutinized by CRM and CC to understand the liability condition and repayment behavior of the client. Depending on the report, 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 loans are very frequent and comparatively less risky, lower sanctioning authority is set to improve the turnaround time and associated risk. Bigger loans require more scrutiny as the associated risk is higher. So sanctioning authority is higher as well.

Credit Quality and Portfolio Diversification

Bangladesh Finance believes in diversification in terms of products as well as sectors. To mitigate the Credit Risk, the company diversifies its loan exposure to different sectors confirming the Central Bank's requirements. Threshold limit is set for any sector so that any adverse impact on any industry has minimum effect on Bangladesh Finance's total return. Central Bank's instructions are strictly followed in determining Single Borrower/Large Loan limit. Significant concentration of credit in terms of groups or geographical location is carefully avoided to minimize risk.

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 enables the company to grow its credit portfolio with ultimate objective to protect the interest of stakeholders.

NPL Management

Bangladesh Finance 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 & and DFIM Circular No.2 dated April 01, 2019:

1. Loan/Lease, classified as bad/loss and with 100% provision, can 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.

Counterparty Credit Rating

Bangladesh finance is taking initiatives to rate the Corporate Clients of the company immediately by the External Credit Assessment Institutions (ECAIs)/Rating Agencies duly recognized by the Central Bank. As on December 31, 2023, total net exposure of BDT 771.17 crore was eligible for credit rating. Among these net exposure of BDT 508.42 crore had valid credit ratings. That is, about 65.93% of rateable exposure was rated. We are optimistic of getting more counterparty ratings by 2024.

Methods used to measure Credit Risk

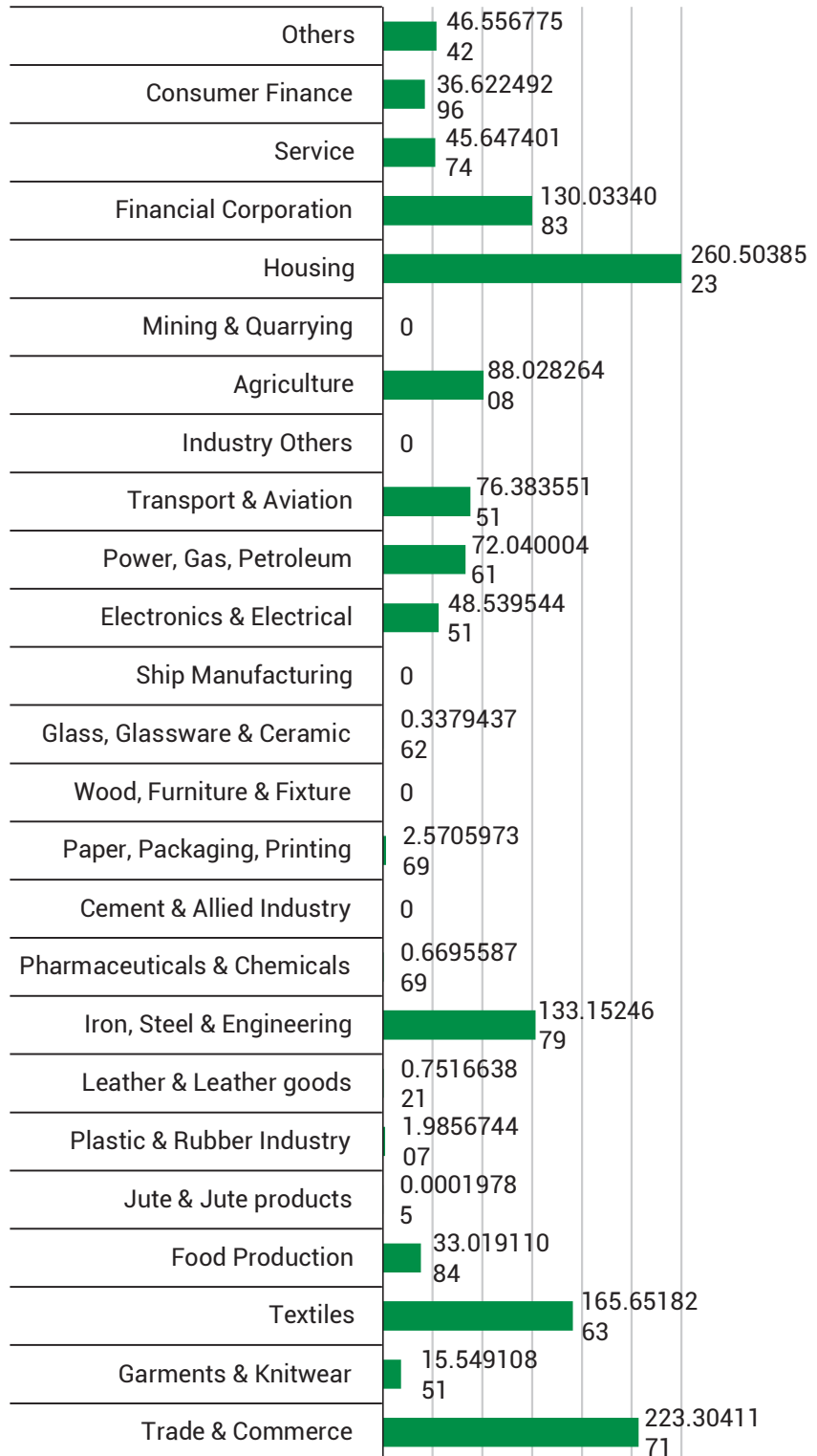
As per the directives of Bangladesh Bank, 'The Standardized approach' is applied by the company to measure its Credit Risk.

Quantitative Disclosures

<p>b) Total gross credit risk exposures broken down by major types of credit exposure.</p>	<table border="1"> <thead> <tr> <th style="text-align: center;">Particulars</th> <th style="text-align: center;">Amount in BDT Crore</th> </tr> </thead> <tbody> <tr> <td>Lease Finance</td> <td style="text-align: right;">157.42</td> </tr> <tr> <td>Term Finance</td> <td style="text-align: right;">961.62</td> </tr> <tr> <td>Housing Finance</td> <td style="text-align: right;">262.31</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">1,381.35</td> </tr> </tbody> </table>	Particulars	Amount in BDT Crore	Lease Finance	157.42	Term Finance	961.62	Housing Finance	262.31	Total	1,381.35																																												
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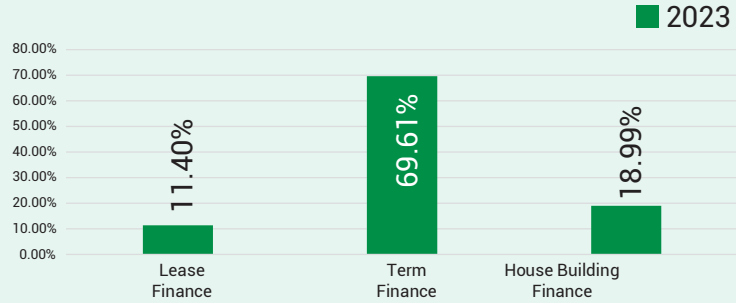
SECTOR WISE CONCENTRATION OF INVESTMENT

BDT in Million



Quantitative Disclosures

CREDIT RISK EXPOSURE



Besides, Bangladesh Finance Group portfolio includes total margin loan to clients by our capital market subsidiaries (BFSL and BFCL) of BDT 78.38 crore. Therefore, the total credit exposure of the group amounts to BDT 1,459.72 crore.

Quantitative Disclosures

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

Particulars	Amount in BDT Crore
Receivable on Demand	52.94
Not more than 3 months	168.45
Over 3 months but not more than 1 year	193.84
Over 1 year but not more than 5 years	741.19
Over 5 years	224.92
Total	1,381.35

f) Gross Non-Performing Assets (NPAs)

Non-Performing Assets (NPAs) to Outstanding Loans & Advances Movements of Specific Provisions for NPAs.

Particulars	Amount in BDT Crore
Opening balance	76.19
Addition/ (Adjustment) during the year	78.58
Closing balance	154.77

05 Equities: Banking Book Positions

Qualitative Disclosures

Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.

Investment in equity is mainly for capital gain purpose but the company has some investment 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.

The equity markets are traditionally volatile with a high-risk, high-returns profile. As such investors in the equity market have to plan and strategize to reduce their risks and increase their returns. Equity investments must therefore go hand in hand with a good risk management plan in place. In an uncertain marketplace like the present, investor cannot afford to place all hope in only one thing. Therefore, it is very important to protect the total investment value by means of diversification.

Investments in shares of Bangladesh Finance are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. The company recognizes that no investment is totally free from risk and that occasional measured losses are inevitable in a diversified portfolio and will be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best interest 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 provisions are maintained as per terms and conditions of regulatory authority. On the other hand, unquoted share is valued at cost price or book value as per latest audited accounts.

Quantitative Disclosures

a) 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.

Particulars	Cost Price	Market Price
Quoted shares	26.31	24.21
Unquoted shares	1.00	-
Preference shares	14.00	-

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

BDT 3.78 crore

c) Total latent revaluation gains (losses) Any amounts of the above included in Tier 2 capital

Particulars	Amount in BDT Core
Total latent revaluation gains (losses)	26.35

d) 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.

d.1) Specific Risk

Market value of investment in equities is BDT 27.28 crore. Capital Requirement is 10% of the said value which stand to BDT 2.73 crore.

d.2) General Risk

Market value of investment in equities is BDT 27.28 crore. Capital Requirement is 10% of the said value which stand to BDT 2.73 crore.

d.3) Total (d1+d2)

BDT 5.46 crore.

06 Interest Rate in the Banking Book

Qualitative Disclosures

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 an assets and their funding cost. Assets Liability Committee (ALCO) monitors the interest rate movement on a regular basis. Bangladesh Finance measure the Interest Rate Risk by calculation Duration Gap i.e. a positive Duration Gap affect company's profitability adversely with the increment of interest rate and a negative Duration Gap increase the company's profitability with the reduction of interest rate.

Quantitative Disclosures

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).

Maturity wise Distribution of Assets-Liabilities

Amount in BDT Crore

Particulars	1 to 30/31 day (One month)	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 1 year
A. Total Rate Sensitive Liabilities (A)	47.98	59.52	78.52	133.51	531.27
B. Total Rate Sensitive Assets (B)	37.36	50.29	69.16	133.18	479.98
C. Mismatch	-10.61	-9.23	-9.36	-0.32	-51.29
D. Cumulative Mismatch	-10.61	-19.84	-29.20	-29.53	-80.82
E. Mismatch (%)	-22.12%	-15.51%	-11.92%	-0.24%	-9.65%

Interest Rate Risk - Increase in Interest Rate

Amount in BDT Crore

Particulars	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)	-1.62	-3.23	-4.85
Revised Regulatory Capital (BDT in Crore)	184.67	183.06	181.44
Risk Weighted Assets (BDT in Crore)	1748.10	1748.10	1748.10
Revised CAR (%)	10.56%	10.47%	10.38%