Disclosures on Capital Adequacy and
Market Discipline (CAMD) – Pillar III

A) Scope of Application

Qualitative Disclosures:

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

- Union Capital 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 (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)

- Union Capital Limited (UCL) has two wholly owned subsidiaries: UniCap Securities Limited and UniCap Investments Limited which are fully consolidated.

(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 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 Tier 2.

Tier 2 Capital includes:

i) General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) of Credit Risk.
ii) Revaluation reserves:

- 50% of Revaluation reserve for fixed assets
- 45% Revaluation reserve for securities

iii) All other preference shares

Conditions for maintaining regulatory capital:

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 (Consolidated), with separate disclosure of:

SL No.	Particulars	Amount in crore Taka
(a)	Paid up Capital	172.57
(b)	Statutory reserve	45.19
(c)	Retained earning	(1,098.37)
Total Tire -1 (Core Capital)		**(880.61)**
(d)	The total amount of Tier 2 capital	16.15
(e)	Other deductions from capital	-
Total eligible capital		**(864.46)**

C) Capital Adequacy

Qualitative Disclosures

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

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

UCL has applied Standard 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 capital charge for market risk and operational risk by reciprocal of the minimum capital adequacy ratio and adding the resulted figures to the sum of risk weighted assets for credit risk. Total RWA is then used as denominator while total Eligible Capital as numerator to derive Capital Adequacy Ratio.

Strategy to Achieve the Required Capital Adequacy:

- Rigorous monitoring of overdue loans to bring those under 90 days overdue
- Financing clients having good rating as per Company's policy
- Using benefit of credit risk mitigation by taking eligible collaterals against transactions
- Increasing capital base of the company.

Quantitative Disclosures (Consolidated)

Particulars	Amount in crore Taka
Capital requirement for Credit Risk	122.85
Capital requirement for Market Risk	7.17
Capital requirement for Operational Risk	-
Total and Tier 1 capital ratio:	
CAR on Total capital basis (%)	(66.49%)
CAR on Tier 1 capital basis (%)	(67.73%)

D) Credit Risk

Qualitative Disclosures

(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

General and specific provisions are maintained according to the relevant Bangladesh Bank Guidelines.

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 UCL:

- Vigorous monitoring and follow up by fully dedicated recovery and collection team
- Strong follow up of compliance of credit policies by appraiser and credit department
- Taking collateral, performing valuation and legal vetting on the proposed collateral by members of our own dedicated technical and legal department
- Seeking legal opinion from external lawyers for any legal issues if required
- Regular review of market situation and industry exposures
- Insurance coverage for funded assets

In addition to the best industry practices for assessing, identifying and measuring risks, UCL 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 and risk management strategies have been described/ stated. Credit policy is regularly updated to cope up with the changing global, environmental and domestic scenarios.

Separate Credit Risk Management (CRM) Department

An independent Credit Risk Management (CRM) Department is in place, at UCL, 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. CRM assess credit risks and suggest mitigations before recommendation of every credit proposal while Credit Administration confirms that adequate security documents are in place before disbursement.

Monitoring and Recovery 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 Control & Compliance Department

Appropriate internal control measures are in place at UCL. An Internal Control & 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

To mitigate credit risk, UCL search for credit reports from Credit Information Bureau (CIB) of Bangladesh Bank. The report is scrutinized by Credit Admin Department and Credit Risk Management Department to understand the liability condition and repayment behavior of the client. Depending on the reports, opinions are taken from the concerned related parties for better understanding about client's credit worthiness.

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.

Quantitative Disclosures (Solo)

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

Particulars	Amount in crore Taka
Leasing	128.09
Term finance	526.58
Home loan	27.27
Investment in subsidiaries	565.56
Other finance	2.55
Total	**1,250.06**

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

Area	Amount in crore Taka
Dhaka Division	1,079.53
Chattogram Division	156.13
Rajshahi Division	10.21
Khulna Division	0.47
Rangpur Division	2.54
Sylhet Division	1.17
Total	**1,250.06**

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

Sector	Amount in crore Taka
Trade and Commerce	93.74
Industry	-
Garments & Knitwear	67.47
Textiles	149.50
Food Production, Processing & Rice Mills	13.17
Jute & Jute-Products	1.22
Plastic & Rubber Industry	3.73
Leather & Leather Goods	0.04
Iron, Steel & Engineering	36.60
Pharmaceuticals & Chemicals	47.78
Cement & Allied Industry	0.47
Paper, Packaging, Printing, Publishing & Allied Industry	20.18
Wood, Furniture & Fixture	0.09
Glass, Glassware & Ceramic Industry	13.96
Ship Manufacturing & Breaking	76.23
Electronics & Electrical Products	21.97
Power, Gas, Petrollium, Water & Sanitary	-
Transport & Aviation	19.11
Agriculture	-
Poultry & Livestock	23.88
Fisheries	-
Others (Cold Storage, Biofuel, Seed, Feed, Agri-related Other Institutions & Services)	17.56
Housing	-
Individual/Retail Housing	0.04
Project/Commercial Housing	41.36
Financial Corporation	-
Insurance Company	0.23
Audit & Accounting Firm	-
Loans to Own Subsidiaries	565.56
Other Financial Auxiliaries	0.01
Service	-
Tourism, Hospitality & Logistics	0.45
Health Sector	28.59
Tailoring & Laundry	1.19

Restaurant Service, Catering & Online Food Supplier	-
Others	3.22
Consumer Finance	-
Personal Loan	0.0008
Auto Loan	0.12
Employee/Staff Loan	0.19
Credit Card	-
Loan Against Deposit	2.37
Grand total	**1,250.06**

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

Particulars	**Amount in crore Taka**
Repayable on demand	-
Not more than 3 months	23.621
Over 3 months but not more than 1 year	68.37
Over 1 year but not more than 5 years	1,081.36
Over 5 years	76.71
Total	**1,250.06**

(f) By major industry or counter party type.

(i) Amount of impaired loans and if available, past due loans, provided separately

The amount of classified loans and advances of UCL are given below as per Bangladesh Bank guidelines.

Particulars	**Amount in crore Taka**
Loans & advances up to 5 years	889.92
Loan & advances over 5 years	196.89
Totals	**1,086.81**

(ii) Specific and general provisions:

Specific and general provisions were made on the amount of classified and unclassified loans and advances of UCL.

Particulars	**Amount in crore Taka**
Provision on classified loans and advances	682.96
Provision on unclassified loans and advances	28.49
Total	**711.45**

(iii) Charges for specific allowances and charge-offs during the year.

During the year the specific and general provisions were made on the amount of classified and unclassified loans and advances of UCL.

Particulars	**Amount in crore Taka**
Provision on Unclassified loans and advances	11.29
Provision on classified loans and advances	481.10
Total	**492.39**

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 is maintained as per terms and conditions of regulatory authority.

Quantitative Disclosures (Solo)

(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 crore Taka
Quoted shares (Market price)	3.58
Quoted shares (Cost Price)	3.89
Unquoted shares	-

Breakup of Total Investment	
Particulars	**Amount in crore Taka**
Government securities	-
Non marketable securities	-
Preference share	-
Investment in share (lock-in)	-
Marketable Securities	3.89
Commercial paper	-

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

Particulars	Amount in crore Taka
Cumulative realized gain / (Loss)	0.03

(d)

Particulars	Amount in crore Taka
Total unrealized gains (Losses)	(0.31)
Total latent revaluation gains(Losses)	-
Any amounts of the above included in Tier 2 Capital	-

(e) Capital requirements broken down by appropriate equity groupings, consistent with FI's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital.

Specific Risk –Market value of investment in equities is BDT 35.86 crore. Capital requirement is 10% of the said value which stands at BDT 3.59 crore.

General Risk – Market value of investment in equities is BDT 35.86 crore. Capital requirement is 10% of the said value which stands at BDT 3.59 crore.

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.

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.

UCL 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 (Consolidated)

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

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

Particulars	Maturity wise distribution of Assets-Liabilities				
	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)	766.65	10.00	10.71	32.93	94.83
B. Total Rate Sensitive Assets (B)	109.34	17.45	53.41	68.94	77.71
C. Mismatch	-657.31	7.44	42.70	36.02	-17.12
D. Cumulative Mismatch	-657.31	-649.87	-607.17	-571.15	-588.27
E. Mismatch (%)	-85.74%	74.41%	398.60%	109.37%	-18.05%

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)	-11.77	-23.53	-35.30
Revised Regulatory Capital (BDT in Crore)	-876.23	-887.99	-899.76
Risk Weighted Assets (BDT in Crore)	1300.19	1300.19	1300.19
Revised CAR (%)	-67.39%	-68.30%	-69.20%

G) 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 reviews the compliance 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 and Finance & Accounts Department review 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, UCL 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 with the help of other concerned Departments 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 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:

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

Quantitative Disclosures

(b) The capital requirements for Market Risk (Consolidated):

Particulars	Amount in crore Taka
Interest rate risk	-
Equity position risk	7.17
Foreign Exchange Position and Commodity risk (If any)	-

H) Operational Risk:

Qualitative disclosure:

(a) Views of Board on the system to reduce Operational Risk:

All the policies and guidelines of internal control and compliances are established as per advice of the Board. Audit Committee of the Board oversees the activities of internal Control and compliance as per good governance guideline issued by Securities and Exchange Commission.

Performance gap of executives and staff

UCL'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. Favorable job responsibilities are increasingly attracting greater participation from different level of employees in the UCL family. We aim to foster a sense of pride in working for UCL and to be the employer of choice. As such there exists no performance gap in UCL.

Potential external events

No such potential external event exists to raise operational risk of UCL at the time of reporting.

Policies and Procedure for mitigating operational risk

UCL has established a strong Internal Control and Compliance Department to address operational risk and to frame and implement policies to deter such risks. Internal Control and Compliance Department assesses operational risk across the company and ensures that appropriate framework exists to identify, assess and manage operational risk.

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. UCL 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:

(b) Capital requirement for operational risk (Consolidated):

Particulars	Amount in crore Taka
Capital requirement for operational risk:	-