Disclosures 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.

FAS Finance & Investment Limited (FFIL)

(b) An outline of differences on 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).

The FFIL has one subsidiary: FAS Capital Management Ltd. which is 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 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.

Particulars	Crore Taka
Paid up capital	149.08
Non-repayable share premium account	0.00
Statutory reserve	20.56
General reserve	0.03
Retained earnings	(385.17)
Minority interest in subsidiaries	(0.18)
Non-cumulative irredeemable preference shares	0.00
Dividend equalization account	0.00
Total Tier 1 capital	**(215.67)**

(c) The total amount of Tier 2 capital	18.97
(d) Other deductions from capital	0.00
(e)Total eligible capital	**(196.71)**

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.

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

FFIL 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 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:

- 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.

- Focusing more to increase the spread between loan /leases and deposits loan and thus increasing retained earnings

- Raise fresh capital by issuing bonus share/ right/Bond /Preference Share or any other lawful means.

Quantitative Disclosures

Amount in crore Taka

(b) Capital requirement for Credit Risk	129.86
(c) Capital requirement for Market Risk	1.10
(d) Capital requirement for Operational Risk	2.52

(e) Total and Tier 1 capital ratio:

For consolidated group

CAR on Total capital basis (%)	(14.74)
CAR on Tier 1 capital basis (%)	(16.18)

For stand alone

CAR on Total capital basis (%)	(12.95)
CAR on Tier 1 capital basis (%)	(13.69)

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 provisions are maintained according to the relevant Bangladesh Bank Guideline and Specific provisions are maintained as per the guidelines approval of Bangladesh Bank.

Discussion of the 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 FFIL:

- 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 as well as enlisted third party for valuation.

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, FFIL also considers Guideline for Managing Core Risks of Financial Institutions issued by Bangladesh Bank for management of risks.

Separation of Corporate/SME Department & CRM Department

As a structured financial institution FFIL has separated Corporate/SME Financing Department & CRM Department and doing their responsibilities and duties independently. While Corporate/SME Department originates the credit proposal with all formalities & finding, the CRM Department assesses the risk areas and its mitigating factors. CRM Department of the company also place their findings & observations before the relationship manager of the Corporate/SME Department before taking approval from the concerned authority. Corporate/SME Department takes steps immediately according to the recommendation of the CRM Department & places the memo to the Credit Committee/EC/Board for approval/decision/recommendations.

Credit Administration Department

An independent Credit Administration Department is in place, at FFIL, 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 suggests for administrator mitigations and ensures that adequate security documents are in place before sanction of loan and before disbursement of loans.

Recovery and Legal Affairs Department

FFIL has a strong team of recovery & monitoring operation and follow up of court cases. For managing NPL cases the loan files are placed to Recovery & Legal affairs Department to directly monitor, put into action and intensify recovery and settlement drives through dedicated internal recovery officers. In case of need suits are filed in Artho Rin Adalat as well as under NI act to expedite the recovery drive.

Independent Internal Compliance Department

Appropriate internal control measures are in place at FFIL. 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

To mitigate credit risk, FFIL search for credit reports from Credit Information Bureau (CIB) of Bangladesh Bank. The report is scrutinized by Credit Admin Department and Loan Operation 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. All the proposals are originated from the concerned Branch/department of Head office (corporate/ SME) and if recommended by them the same is routed through CRM department and Credit committee for their comments/ recommendation. Thereafter approval from the BOD/EC is obtained.

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

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

Particulars	Crore Taka
Loans	1891.17
Leases	27.91
Total	1919.08

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

Area	Crore Taka
Dhaka	1905.04
Chittagong	13.61
Sylhet	0.43
Total	**1919.08**

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

Sector	Crore Taka
Agriculture	27.61
Chemicals & Pharmaceuticals	153.13
Electronics & Electrical	10.23
Food & Beverage	0.88
Garments & Accessories	59.47
Home loan	246.65
Jute & Jute Products	18.04
Iron, Steel & Engineering	
Paper, Printing & Packaging	16.04
Plastic Industries	0.26
Power, Gas, Water & Sanitary Services	8.14
Transport	171.76
Leather and Leather products	0.92
Merchant Banking	241.54
Ship Manufacturing Industry	26.46
Textile	26.01
Trade and Commerce	892.13
Others	19.81
Total	**1919.08**

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

Particulars	Crore Taka
Repayment on demand	0.00
Not more than 3 months	44.10
Over 3 months but not more than 1 year	44.62
Over 1 year but not more than 5 years	124.24
Over 5 years	1706.12
Total	**1919.08**

(f) Gross Non Performing Assets (NPAs)

Non Performing Assets (NPAs) to Outstanding Loans & advances

Movement of Non Performing Assets (NPAs)

Particulars	Crore Taka
Opening balance	1311.46
Additions	413.83
Reductions	21.99
Closing balance	1703.30

Movement of specific provisions for NPAs

Particulars	Crore Taka
Opening balance	127.49
Additions	34.92
Reductions	0.00
Closing balance	162.41

Note: On 29 September, 2021 upon our request, Bangladesh Bank vide letter No-DFIM©1054/10/2021-2103 has given NOC for maintaining 50% of required provision of Tk. 54.28 crore i.e. Tk. 27.14 crore and 50% reversal of interest income of Tk. 20.05 crore i.e. Tk.10.025 crore per annum from 2020 to 2022. Accordingly, the instruction has since been complied for the year 2020. The shortfall of provision of Tk. 734.23 (Tk. 697.065 crore as per Bangladesh Bank inspection report + Tk. 27.14 crore + Tk. 10.025 crore) will be treated as deferred till 2022.

Earlier Bangladesh Bank vide letter # DFIM©/1054/10/2020 dated November 12, 2020 provided us NOC for deferment of transfer of interest income for Tk.140.35 crore to interest suspense account in 7 (Seven) equal annual installments of Tk. 20.05 crore each starting from 2019 and deferment of shortfall of provision for Tk. 399.96 crore with the condition that Tk. 20.00 crore to be maintained in 2019 and balance Tk. 379.96 crore in 7 (seven) equal annual installment of Tk. 54.28 crore each starting from 2020.

E) Equities: Banking book positions

(a) The general qualitative disclosure requirement with respect to equity risk, including:

Qualitative Disclosures

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, 2017. 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.

(Amount in Crore)

Particulars	Cost Price	Market Price
Quoted shares	5.63	4.49
Unquoted shares	1.00	1.00

Quantitative Disclosures

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

Particulars	Crore Taka
Cumulative realized gains (losses)	1.80

(d)

Total unrealized gains (losses)	(1.14)
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 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.

Specific Risk- Market value of investment in equities is BDT 5.49 crore. Capital Requirement is 10% of the said value which stand to BDT 0.55 crore.

General Risk- Market value of investment in equities is BDT 5.49 crore. Capital Requirement is 10% of the said value which stand to BDT 0.55 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.

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

Maturity wise Distribution of Assets-Liabilities

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)	34.40	720.28	51.98	140.47	463.16
B. Total Rate Sensitive Assets (B)	20.09	18.66	18.53	55.59	176.82
C. Mismatch	-5.31	-701.62	-33.45	-84.88	-286.34
D. Cumulative Mismatch	-5.31	-705.93	-740.36	-825.26	-1111.60
E. Mismatch (%)	-15.44%	-97.41%	-64.35%	60.43%	-61.82%

Interest Rate Risk - Increase in Interest Rate

	Interest Rate Risk		
Magnitude of Shock	Minor	Moderate	Major
	2%	4%	6%
Change in the Value of Bond Portfolio	0.00	0.00	0.00
Net Interest Income	-16.97	-33.95	-50.92
Revised Regulatory Capital	-231.65	-248.63	-265.60
Risk Weighted Assets	2011.10	2011.10	2011.10
Revised CAR (%)	**-11.52%**	**-12.36%**	**-13.21%**

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 sets limit and review and updates the compliance on regular basis aiming to mitigate the Market risk.

Methods 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 Standardized (rule based) Approach where capital charge for interest rate risk, price and foreign exchange risk is determined separately.

Market Risk Management system

Policies and processes for mitigating market risk

A Policy for managing Market Risk has been set out by the Board of Directors of the company where clear instructions has been given on Loan Deposit Ratio, Whole Sale Borrowing Guidelines, Medium Term Funding, Maximum Cumulative Outflow, Liquidity Contingency Plan, Local Regulatory Compliance, Recommendation / Action Plan etc. Treasury manages the Market Risk with the help of Asset Liability Management Committee (ALCO) and Asset Liability Management (ALM) Desk in the following fashion:

Interest Risk Management

Treasury Division reviews the risks of changes in income of the Company as a result of movements in market interest rates. In the normal course of business, FFIL 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 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 an earning 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 Liability and take 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 assumed risks.

Equity Risk Management

Equity Risk is the risk of loss due to adverse change in market price of equities held by the Company. Equity Risk is managed by the following fashion:

FFIL minimizes the Equity Risks by Portfolio diversification as per investment policy of the company. The entire portfolio is managed by FFIL Investments Limited.

Quantitative Disclosures

(b) The capital requirements for Market Risk:

Interest rate risk	-
Equity position risk	1.10
Foreign Exchange Position and Commodity risk (if any).	-

H) Operational Risk:

Qualitative disclosure:

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

All the policies and guidelines of internal control and compliances are duly approved by the Board. The Board delegates its authority to Executive Committee and to MANCOM members as per company policy of delegation of authority. Audit Committee of the Board directly oversees the activities of internal control and compliance as per good governance guideline issued by Securities and Exchange Commission.

Performance gap of executives and staffs

FFIL's recruitment strategy 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 the near future), matching the ability and potential of the individual. Qualification, skills and competency are our basis for nurturing talent. We are proud to state that favorable job responsibilities are increasingly attracting greater participation from different level of employees in the FFIL family. We aim to foster a sense of pride in working for FFIL and to be the employer of choice. As such there exists no performance gap in FFIL.

Potential external events

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

Policies and procedures for mitigating operational risk:

FFIL has also established Internal Control and Compliances Department (ICC) to address operational risk and to frame and implement policies to encounter such risks. ICC assesses operational risk across the Company as a whole and ensures that an appropriate framework exists to identify, assess and mange operational risk.

Approach for 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. FFIL uses basic indicator approach for calculation 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:

Capital requirement for operational risk:	2.52