



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

A) Scope of Application

Qualitative Disclosures:

(a) These guidelines apply to the Agrani SME Financing Company Limited.

(b) The Agrani SME Financing Company Limited has no subsidiary companies.

(c) Not Applicable

Quantitative Disclosures:

(d) Not Applicable

B) Capital Structure

(a) Qualitative Disclosures:

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 0.25% of Risk Weighted Asset (RWA) of Credit Risk.

Conditions for maintaining regulatory capital:

(i) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.

(b) Quantitative Disclosures :

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

Particulars	Amount in Crore Tk.
Paid up capital	100.00
Non-repayable share premium account	-
Statutory reserve	11.98
General reserve & other reserve	5.47
Retained earning	40.43
Dividend equalization account	-
A) Total amount of Tier 1 Capital	157.88
B) The total amount of Tier 2 capital	1.36
C) Other deductions from capital	-
Total eligible capital	159.24

C) Capital Adequacy

Qualitative Disclosures

(a) A summary discussion of AGRANI SME FINANCING COMPANY LIMITED's approach to assessing the adequacy of its capital to support current and future activities.





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

AGRANI SME FINANCING COMPANY LIMITED 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 30 days overdue
- ✚ Financing clients having good rating as per Company's policy
- ✚ Using benefit of credit risk mitigation by taking eligible collaterals against transactions
- ✚ Raise fresh capital by issuing bonus share/right issue.

Quantitative Disclosures

Particulars	Amount in Crore Tk.
(b) Capital requirement for Credit Risk/Risk Weighted Asset for Credit Risk	273.25
(c) Capital requirement for Market Risk	-
(d) Capital requirement for Operational Risk	26.25
Total Risk Weighted Asset/Gross Income	299.50

Total capital and Tier 1 capital ratio:

Particulars	Ratio
CAR on Total capital basis (%)	53.17
CAR on Tier 1 capital basis (%)	52.72

D) Credit Risk

Credit Risk is the possibility that a borrower or counter party will fail to meet agreed obligations thus managing Credit Risk for efficient management of a financial institution (FI) has become the most crucial task. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization and consolidation, it is essential that FIs have robust Credit Risk management policies and procedures those are sensitive and responsive to these changes. At Agrani SME Financing Company Limited, Credit Risk may arise in the following forms:

- ❖ Default risk
- ❖ Exposure risk
- ❖ Recovery risk
- ❖ Counter party risk
- ❖ Related party risk
- ❖ Legal 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





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exposure (other than claims secured by residential property) that is past due for 90 days or more, net of specific provisions 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 AGRANI SME FINANCING COMPANY LIMITED's internal policy which is much more conservative than Bangladesh Bank Guidelines.

Discussion on FI's credit risk management policy:

Major Risk that the Agrani SME Financing Company Limited identifies detrimental to its return and market reputation is as follows:

Implementation of various strategies to minimize risk:

Here is an overview of some of the crucial steps carried out by Agrani SME Financing Company Limited to ensure successful risk management program:

- Integrating risk management policies into the Company's top priority;
- Maintaining those values via actions;

- Performing risk analysis;
- Implementation of various strategies to minimize it;
- Building of screening systems to encourage early warnings related to prospective risk;
- Periodic analysis of the management program;

To encounter and mitigate credit risk, the following control measures are taken place at the AGRANI SME FINANCING COMPANY LIMITED:

- ▲ 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 our own dedicated technical and legal expert;
- ▲ Seeking legal opinion from external lawyers for any legal issues if required;
- ▲ Regular review of market situation and industry exposures;

In addition to the best industry practices for assessing, identifying and measuring risks, the AGRANI SME FINANCING COMPANY LIMITED also considers Guideline for Managing Core Risks of Financial Institutions issued by Bangladesh Bank for management of risks.





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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 Administration Department

An independent Credit Administration Department is in place, at AGRANI SME FINANCING COMPANY LIMITED, 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 Control & Compliance Department

Appropriate internal control measures are in place at the AGRANI SME FINANCING

COMPANY LIMITED. 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, the AGRANI SME FINANCING COMPANY LIMITED searches 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. 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





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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.

E) Market Risk

Market Risk refers to the risk of fluctuation in a variety of markets such as interest rates, prices of securities where the values of assets and liabilities can change and there exists the risk of incurring losses.

F) Operational Risk

Operational Risk is the potential loss arising from a breakdown in Company's systems and procedures, internal control, compliance requirement or corporate governance practices that results in human error, fraud, failure, damage of reputations, delay to perform or compromise of the Company's interests by employees. Operational Risk may also arise from the following:

- ◆ Turnover of trained staff;
- ◆ Risk of insider dealings;
- ◆ Leakage of sensitive information;
- ◆ Shortcomings of organizational structure;
- ◆ Changes in statutory requirements;

Quantitative Disclosures

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

Particular	Amount in Crore Tk.
SME Financing	329.59

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

Particulars	Amount in Crore Taka
Rural	210.41
Urban	119.18
Total	329.59

(iii) Sector wise/ as per nature details of loans and advances.

Particulars	Amount in Crore Taka
Trade & Commerce	180.02
Manufacturing(Industry)	10.31
Agriculture	126.90
Servicing	8.69
Others	3.67
Total	329.59

(iv) Loans and advances as per loan nature (General and COVID-19).

Particulars	Amount in Crore Taka
General loans and advances	328.61
Special loans and advances (COVID-19)	0.98
Total	329.59





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

Particulars	Amount in Crore Taka
Not more than 1 month term	11.01
1-3 months term	22.33
3-12 months term	99.11
1-5 years term	197.14
Above 5 Years term	-
Total	329.59

(vi) By major industry or counter party type.

The amount of classified loans and advances of AGRANI SME FINANCING COMPANY LIMITED are given below as per Bangladesh Bank guidelines:

Specific, general and special provisions:

Specific, general and special provisions were made on the amount of classified and unclassified loans and advances of

AGRANI SME FINANCING COMPANY LIMITED.

Particulars	Amount in Crore Taka
Provision on classified loans and advances	10.00
Provision on unclassified loans and advances	1.36
Special provision for loans(Covid-19)	2.43
Total	13.79

(vii) Non Performing Assets/Classified Loans & Advances (NPA/CL) = 22.59 Crore in taka

Non Performing Assets/Classified Loans & Advances (NPAs/CL) to outstanding Loans and Advances =6.85%

Movement of Non-Performing Assets/Classified Loans & Advances (NPAs/CL)

Particulars	Amount in Crore Taka
Opening Balance	9.32
Additions	14.23
Reductions (CL Recovery)	(0.96)
Closing Balance	22.59

Performance gap of executives and staff:

AGRANI SME FINANCING COMPANY LIMITED'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 AGRANI SME FINANCING COMPANY LIMITED family. We aim to foster a sense of pride in working for AGRANI SME FINANCING COMPANY LIMITED and to be the employer of choice. As such there exists no performance gap in AGRANI SME FINANCING COMPANY LIMITED.





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Potential external events

No such potential external event exists to raise operational risk of AGRANI SME FINANCING COMPANY LIMITED at the time of reporting.

Policies and Procedure for mitigating operational risk

AGRANI SME FINANCING COMPANY LIMITED 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 access 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. AGRANI SME FINANCING COMPANY LIMITED uses basic indicator approach for calculating capital charge against operational risk.

