Disclosures under Pillar III - Capital Adequacy Market Discipline as on December 2024

1) Scope of Application

Qualitative Disclosures:

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

MIDAS Financing PLC

(b) An outline of differences in the basis of consolidated for accounting and regulatory purpose 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).

MIDAS Financing PLC is the owner of 99.9992% of shares (2,49,99,800 nos. of shares of Tk. 10 each) of MIDAS Investment Limited (MIL) 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 are not included in the consolidation that are deducted and the name(s) of such subsidiaries.

Not Applicable.

2) 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-I or Tier-II.

As per the guidelines of Bangladesh Bank, Tier-I and Tier-II Capital of the Company consists of as per following:

Tier-I	Tier-II
Fully Paid up Capital	General provision
Share premium account	Revaluation reserves
Statutory reserve	50% of revaluation reserve of fixed assets
Retained earnings	45% of revaluation reserve on securities All other preference shares

Quantitative Disclosures:

(b) The amount of Tier-I capital, with separate disclosure of:

Figures in BDT Crore

Particulars	Solo	Consolidated
Paid up capital	143.89	143.89
Non-repayable share premium account		
Statutory reserve	14.31	14.31
General Reserve & other reserve		
Retained earning	(89.10)	(90.26)
Dividend equalization account		
Total Tier-I capital	**69.10**	**67.94**
(c) The total amount of Tier-II capital	**11.94**	**12.13**
(d) Other deductions from capital	**-**	**-**
(e) Total eligible capital	**81.04**	**80.07**

3) Capital Adequacy

Qualitative Disclosures:

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

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

MFPLC has applied Standard approach for computation of Capital Charge for Credit Risk and Market Risk while Basic Indicator Approach for Operation 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
- Raise fresh capital by issuing bonus share/right issue.

Quantitative Disclosures:

Figures in BDT Crore

Particulars	Solo	Consolidated
(a) Capital requirement for Credit Risk	955.22	970.58
(b) Capital requirement for Market Risk	4.78	14.30
(c) Capital requirement for Operational Risk	39.67	68.95

Total and Tier I capital ratio

Particulars	Solo	Consolidated
CAR on Total capital basis (%)	8.11	7.60
CAR on Tier 1 capital basis (%)	6.91	6.45

4) 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

Particulars	Rate
General provision on unclassified loan, leases	1%
General provision on unclassified SME loan, leases	0.25%
General provision on special mention account	5%
General provision on special mention account SME loan, leases	0.25%
Specific provision on substandard loan, leases	20%
Specific provision on substandard SME loan, leases	5%
Specific provision on doubtful loan, leases	50%
Specific provision on doubtful SME loan, leases	20%
Specific provision on bad/loss loan, leases	100%

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 MFPLC:

- ✓ Looking into payment performance of customer before financing;
- ✓ Strong follow up of compliance of credit policies by appraiser and credit department;
- ✓ Taking collateral, performing valuation and legal vetting on the proposed collateral;
- ✓ 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;
- ✓ Annual review of clients.

In addition to the industry best practices for assessing, identifying and measuring risks, MFPLC 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 Administration Department

An independent Credit Administration Department is in place, at MFPLC, 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 (ICC)

Appropriate internal control measures are in place at MFPLC. 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, MFPLC search for credit reports from Credit Information System (CIS) 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. Biggest loans require scrutiny as the associated risk is higher hence sanctioning authority is higher as well.

Credit Quality and Portfolio Management
MFPLC 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 MFPLC's total return. Central Bank's instructions are strictly followed in determining Single Borrower/Large Loan limit. Significant concentration of credit in terms of group/sector 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 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

Figures in BDT Crore

Particulars	Solo	Consolidated
Lease receivable	80.62	81.05
Term finance	722.40	722.40
Housing finance	80.38	80.38
Staff Loan	3.61	3.61
Consumer credit	0.00	0.00
Interest receivable	5.67	5.67
Total	**892.69**	**893.11**

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

Figures in BDT Crore

Area	Solo	Consolidated
Dhaka	632.95	633.37
Chattogram	189.74	189.74
Khulna	20.88	20.88
Rajshahi	49.12	49.12
Total	**892.69**	**893.11**

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

Figures in BDT Crore

Particulars	Figures in BDT Crore
Trade and Commerce	**158.61**
Industry	
A) Garments and Knitwear	46.55
B) Textile	105.99
C) Food Production and Processing Ind.	94.14
D) Plastic Industry	36.18
E) Leather and Leather-Goods	8.41
F) Iron, Steel and Engineering	55.96
G) Pharmaceuticals and Chemicals	16.02
H) Cement and Allied Industry	0.63
I) Paper, Printing and Packaging	18.01
J) Glass , Glassware & Ceramic	10.51
K) Ship Manufacturing Industry	45.64
L) Electronics and Electrical Products	2.55
M) Power, Gas, Water & Sanitary Service	-
N) Telecommunication /Information Technology	1.06
Industry Total	**441.65**
Agriculture	10.30
Housing	80.59
Others	
A) Merchant Banking	32.95
B) Others	164.98
Others Total	**197.93**
Grand Total	**889.08**

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

Figures in BDT Crore

Particulars	Figures in BDT Crore
Receivable on demand	15.95
Not more than 3 months	5.13
Over 3 months but not more than 1 year	57.84
Over 1 year but not more than 5 years	358.71
Over 5 years	455.06
Total	**892.69**

(f) By major industry or counterparty type

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

Particulars	Figures in BDT Crore
Gross non-performing assets (NPA)	304.25
NPAs to gross loans and advances (in %)	34.08%

ii) General and Specific provisions

Particulars	Figures in BDT Crore
Provision on unclassified loans and advances	20.94
Provision on classified loans and advances	114.72
Provision for off balance sheet exposures	0.00
Total	**135.65**

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

(g) Gross Non Performing Assets (NPAs)

Movement of Non-Performing Assets (NPAs)

Particulars	Figures in BDT Crore
Opening Balance	316.65
Additions	0
Reductions	12.4
Closing Balance	**304.25**

Movement of Specific Provisions for NPAs

Particulars	Figures in BDT Crore
Opening Balance	117.02
Provisions charged during the period	(2.30)
Write-off	-
Written-back of excess provisions	-
Closing Balance	**114.72**

5) 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;

Investment in equity securities are broadly categorized into two parts:

i) Quoted Securities that are traded in the secondary markets. (Trading Book Assets).
ii) Unquoted Securities that are valued at cost price.

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. Both quoted unquoted securities are valued at cost and necessary provisions are maintained is the prices fall below the cost price.

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 value where the share price is materially different from fair value.

Figures in BDT Crore

Particulars	Solo	Consolidated
Quoted shares (Market price)	0.85	7.15
Quoted shares (Cost price)	2.39	3.39
Unquoted shares	1.76	2.76
Total unrealized gains (Losses)	(1.55)	(5.55)
Total latent revaluation gains (Losses)	-	-
Any amounts of the above included in Tier 2 Capital	-	-
Total	**2.60**	**0.60**

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 requirements.

Specific Risk-Market value of investment in equities is BDT 20.93 crore. Capital requirement is 10% of the said value which stands at BDT 2.09 crore.

General Risk – Market value of investment in equities is BDT 20.09 crore. Capital requirement is 10% of the said value which stands at BDT 2.09 crore.

6) 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. MFPLC 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).

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

Figures in BDT Crore

Particulars	Maturity wise Distribution of Assets-Liabilities				
	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)	47.49	59.76	62.35	137.95	189.55
B. Total Rate Sensitive Assets (B)	133.12	79.31	61.81	143.24	131.26
C. Mismatch	85.63	19.55	-0.54	5.29	-58.29
D. Cumulative Mismatch	85.63	105.18	104.64	109.93	51.64
E. Mismatch (%)	180.29%	32.72%	-0.87%	3.83%	-30.75%

Interest Rate Risk			
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)	1.03	2.07	3.10
Revised Regulatory Capital (BDT in Crore)	82.08	83.11	84.14
Risk Weighted Assets (BDT in Crore)	999.68	999.68	999.68
Revised CAR (%)	8.21%	8.31%	8.42%

7) Market Risk

Qualitative Disclosures:

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, MFPLC 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 assumed 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
MFPLC minimizes the equity risks by portfolio diversification as per investment policy of the Company. The entire portfolio is managed by MIDAS Financing PLC.

Quantitative Disclosures:
The capital requirements for Market Risk:

Figures in BDT Crore

Particulars	Solo	Consolidated
Interest rate risk		
Equity position risk	4.78	14.30
Foreign Exchange Position and Commodity risk (if any)		

8) Operational Risk:

Qualitative disclosure:

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. 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 Bangladesh Securities and Exchange Commission.

Performance gap of executives and staff:
MFPLC'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 MFPLC family. We aim to foster a sense of pride in working for MFPLC and to be the employer of choice. As such there exists no performance gap in MFPLC.

Potential external events:
No such potential external event exists to raise operational risk of MFPLC at the time of reporting.

Policies and Procedure for mitigating operational risk:
MFPLC has also established a strong Internal Control and Compliance Department (ICC) to address operational risk and to frame and implement policies to deter such risks. ICC Department assesses operational risk across the company as a whole 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. MFPLC 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

Figures in BDT Crore

Particulars	Solo	Consolidated
Capital requirement for operational risk	39.67	68.95