National Housing Finance and Investments Limited

Disclosures under Pillar-III Market Discipline

A) Scope of Application

Qualitative Disclosures:

a) These guidelines apply to National Housing Finance and Investments Limited.
b) NHFIL has no subsidiary companies.
c) Not Applicable

Quantitative Disclosures:

Not Applicable

B) Capital Structure:

Qualitative Disclosures:

1. 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) 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.

Quantitative Disclosures:

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

Particulars	Amount in Crore Taka
Paid-up Capital	106.39
Non-repayable share premium account	-
Statutory reserve	46.66
General reserve & other reserve	-
Retained earning	24.39
Dividend equalization account	-

3. The total amount of Tier 2 capital Taka 15.01 crore
4. Other deductions from capital -
5. Total Eligible Capital Taka 192.45 crore

C) Capital Adequacy

Qualitative Disclosures:

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)

- NHFIL 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:

- Rigorous monitoring of overdue loans to bring those under 90 days overdue
- Financing clients having good rating as per Company's policy
- 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.
- Using benefit of credit risk mitigation by taking eligible collaterals against transactions
- Focusing more to increase the spread on housing loan and thus increasing retained earnings.
- Raise fresh capital by issuing bonus share/ right issue.
- Asking unrated Corporate clients to have credit rating from External Credit Assessment Institutions (ECAIs) recognized by Bangladesh Bank;

	Quantitative Disclosures:	**Amount in crore Taka**
a)	Capital requirement for Credit Risk	1,040.74
b)	Capital requirement for Market Risk	21.98
c)	Capital requirement for Operational Risk	95.70
d)	**Total and Tier 1 Capital ratio:**	
	CAR on Total capital basis (%)	16.61%
	CAR on Tier 1 capital basis (%)	15.32%

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;

Specific and General provisions are maintained according to the relevant Bangladesh Bank guideline. For Example, 0.25% provision is maintained against SME-Standard loan/ lease, 1% provision is maintained against good loans (other than SME- Standard loan/ lease, 5% against SMA loan/ lease, 20% against sub-standard loan/ lease, 50% against doubtful loan/ lease and 100% against bad/loss loan/ lease after deducting the amount of interest expenses and value of eligible securities from the outstanding balance of classified accounts.

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 NHFIL:

- 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
- Taking collateral and performing valuation and legal vetting on the proposed collateral
- Seeking legal opinion from internal and external lawyer 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, NHFIL 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 Administration Department

An independent Credit Risk Management (CRM) Department is in place, at NHFIL, 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 NHFIL in various industrial sub-sectors. CRM has been segregated from Credit Administration Department 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 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 Compliances Department (ICC)

Appropriate internal control measures are in place at NHFIL. NHFIL 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

To mitigate credit risk, NHFIL 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. 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.

NATIONAL HOUSING

Quantitative Disclosures

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

Particulars	Amount in crore Taka
Housing Loan	1,108.86
Loan against fixed deposit	5.97
Staff Loan	5.34
SME Loan	74.64
Lease/Term Loan	41.58
Others	13.00
Total	**1,249.39**

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

Area	Amount in crore Taka
Dhaka	990.10
Chattogram	72.00
Rajshahi	132.80
Rangpur	54.49
Total	**1,249.39**

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

Sector	Amount in crore Taka
Real Estate and Housing	1,108.86
RMG	0.18
Paper, Printing and Packaging	3.06
Iron, Steel and Engineering	4.14
Textile & Industry	1.36
Food and Allied Products	0.85
Transport & Communication	0.10
Electronics and Electrical Products	1.94
Ship Manufacturing Industry	1.35
Agricultur & Chemicals	34.69
Plastic Industry	2.84
Others	91.02
Total	**1,249.39**

(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	199.36
Not more than 3 months	12.72
Over 3 months but not more than 1 year	109.84
Over 1 year but not more than 5 years	193.91
Over 5 years	733.56
Total	**1,249.39**

(f) By major industry or counter party type:

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

Particulars	Amount in crore Taka
Loan up to 5 years	161.42
Loan over 5 years	1,087.97
Total	**1,249.39**

(ii) Specific and general provision

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

Particulars	Amount in crore Taka
Provision on classified loans and advances	8.45
Provision on unclassified loans and advances	11.06
Total	**19.51**

(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 NHFIL.

Particulars	Amount in crore Taka
Provision on classified loans and advances	2.82
Provision on unclassified loans and advances	1.93
Total	**4.75**

(g) Gross Non Performing Assets (NPA) (Amount in crore) Taka 52.59 crore

Non Performing Assets (NPAs) to outstanding Loans and Advances 4.21%

Movement of Non-Performing Assets (NPAs)

Particulars	Amount in crore Taka
Opening Balance	52.47
Additions	15.91
Reductions	(15.79)
Closing Balance	**52.59**

Movement of Specific Provisions of Non-Performing Assets (NPAs)

Particulars	Amount in crore Taka
Opening Balance	9.41
Provisions made during the period	19.67
Write-off	**(3.88)**
Written-back of excess provisions	**(16.75)**
Closing Balance	**8.45**

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 are maintained as per terms and conditions of regulatory authority. 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 the share price is materially different from fair value.

Particulars	Amount in crore Taka
Quoted shares (Market price)	8.75
Quoted shares (Cost Price)	10.98
Unquoted shares	**0.01**

Break up of Total Investment	
Particulars	**Amount in crore Taka**
Government securities	-
Non marketable securities	-
Preference share	2.00
Investment in share (lock-in)	-
Marketable Securities	10.99
Commercial paper	-

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

Particulars	Amount in crore Taka
Cumulative realized gain/(loss)	0.18

(d)

Particulars	Amount in crore Taka
Total unrealized gains(Losses)	(2.23)
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 10.99 crore. Capital Requirement is 10% of the said value which stand to BDT 1.10 crore.

General Risk- Market value of investment in equities is BDT 10.99 crore. Capital Requirement is 10% of the said value which stand to BDT 1.10 crore.

F) 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.
NHFIL 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 Disclosure

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).

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

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 month to 1 year
A. Total Rate Sensitive Liabilities (A)	123.89	188.33	210.82	339.44	391.28
B. Total Rate Sensitive Assets (B)	92.94	189.41	214.31	347.58	401.77
C. Mismatch	-30.95	1.08	3.49	8.14	10.49
D. Cumulative Mismatch	-30.95	-29.87	-26.38	-18.24	-7.75
E. Mismatch (%)	-24.98%	0.57%	1.66%	2.40%	2.68%

Magnitude of Shock	Interest rate risk		
	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)	-0.15	-0.31	-0.46
Revised Regulatory Capital (BDT in Crore)	192.42	192.27	192.11
Risk Weighted Assets (BDT in Crore)	1,158.40	1,158.40	1,158.40
Revised CAR (%)	16.61%	16.60%	16.58%

(G) 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 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. 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 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, NHFIL 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:
NHFIL minimizes the Equity Risks by Portfolio diversification as per investment policy of the company.

Quantitative Disclosures

The capital requirements for Market Risk:

Interest rate risk	Amount in crore Taka
Interest rate risk	-
Equity position risk	2.20
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 Man Com 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

NHFIL'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 form 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 NHFIL family. We aim to foster a sense of pride in working for NHFIL and to be the employer of choice. As such there exists no performance gap in NHFIL.

Potential external events

No such potential external event exists to rise operational risk of NHFIL at the time of reporting.

Policies and procedures for mitigating operational risk:

NHFIL 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. NHFIL 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:

Particulars	Amount in crore Taka
Capital requirement for operational risk:	9.57