Disclosure on Capital Adequacy and Market Discipline

CAMD Disclosure

People's Leasing and Financial Services Limited (PLFSL) is a Non-Bank Financial Institution listed with both stock exchange of the Bangladesh in the field of financial Market by establishing its brand image through its diversified products and services. The company also intends to create its image as a trusted company in the mind of the customers. Continuing to maintain this reputation and also enrich to the signified goodwill it always ensure timely submission of every reports and disclosures.

The Basel-II disclosures presented in these documents are related to PLFSL for the year ended December 31, 2017. These disclosures have been made in accordance with Prudential Guidelines on Capital Adequacy and Market Discipline for Financial Institutions introduced by Department of Financial Institutions and Markets. The Basel-II framework consists of the following three pillars:

Pillar-I: Minimum Capital Requirement

PLFSL must hold minimum regulatory capital against Credit, Market and Operational Risk inherent with its financing sector.

Pillar-II: Supervisory Review Process (SRP)

SRP basically deals with other risks factors faced by PLFSL but not covered in pillar-I. The key principle of SRP is that PLFSL have a process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital at an adequate level.

Pillar-III: Market Discipline

The purpose of Market Discipline in the Revised Capital Adequacy Framework is to complement the minimum capital requirement and the supervisory review process. The aim of introducing Market Discipline in the revised capital framework is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of PLFSL regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets.

1) ***Scope of Application***

   Qualitative Disclosures:

   The name of the corporate entity in the group to which the guidelines applies:

   - People's Leasing and Financial Services Limited (PLFSL)

   The financial statements have been prepared in accordance with Bangladesh Accounting Standard (BAS). Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group are not applicable.

2) Capital Structure

Qualitative Disclosure

The assets, liabilities, revenue and expenses of all profit centre divisions are related in PLFSL's audited financial statement as of year ended December 31, 2017.

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 I or in Tier II.

Tier II capital includes:

- General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) for Credit Risk;
- Revaluation reserves;
- 50% Revaluation reserve for fixed assets;
- All other preference shares;

Conditions for maintaining regulatory capital:

The calculation of Tier I capital, and Tier II capital shall be subject to the following conditions:

- The amount of Tier 2 capital will be limited to 100% of the amount of Tier I capital.
- 50% of revaluation reserves for fixed assets and 45% of revaluation reserves for securities are eligible for Tier II capital.

Quantitative Disclosure

(Amount in crore)

Sl.	Particulars	Solo	Consolidated
	Tier-1 (Core Capital)		
1.1	Fully Paid-up Capital/Capital lien with BB	285.44	285.44
1.2	Statutory Reserve	64.55	64.55
1.3	Non-repayable Share premium account	101.86	101.86
1.4	General Reserve	0.00	0.75
1.5	Retained Earnings	(139.38)	(141.56)
1.6	Minority interest in Subsidiaries	0.00	0.00
1.7	Non-Cumulative irredeemable Preferences shares	0.00	0.00
1.8	Dividend Equalization Account	0.00	0.00
1.9	Other (if any item approved by Bangladesh Bank)	0.00	0.00
1.10	Sub-Total: (1.1 to 1.9)	**312.47**	**311.04**
	Deductions from Tier-1 (Core Capital)		
1.16	Investments in subsidiaries which are not consolidated	0.00	0.00
1.17	Other (if any)	0.00	0.00
1.18	Sub Total (1.11 to 1.17)	**0.00**	**0.00**
1.19	**Total Eligible Tier-1 Capital (1.10-1.18)**	**312.47**	**311.04**
	2 .Tier-2 (Supplementary Capital)		
2.1	General Provision (Unclassified loans up to specified limit + SMA + off Balance Sheet exposure)	**41.30**	**41.30**
2.7	Sub-Total (2.1 to 2. 5)	**41.30**	**41.30**
2.9	**Total Eligible Tier-2 Capital (2.6-2.7)**	**41.30**	**41.30**

3) Capital Adequacy

Qualitative Disclosure

People's Leasing and Financial Services Ltd. (PLFSL) with its focused strategy on risk management has always been consistent in maintaining capital adequacy ratio above the regulatory requirements. PLFSL has been successfully managing the incremental growth of the Risk Weighted Assets by ensuring diversification of the portfolio in SME, Retail and Corporate segments. However, RWA is also managed by taking collaterals against its loans. PLFSL strives to extend its relationship with corporate clients having good credit ratings. While computing the capital adequacy, PLFSL has applied Standardized Approach.

Quantitative Disclosure

Risk Weighted Assets:

(Amount in crore taka)

Sl.	Particulars	Solo	Consolidated
A.	Credit Risk	3141.24	3139.78
	On- Balance sheet (From WS-1)	3134.74	3133.28
	Off-Balance sheet (From WS-2)	6.50	6.50
B.	Market Risk (From WS-3)	145.97	134.55
C.	Operational Risk (From WS-4)	0.00	0.00
	Total: RWA (A+B+C)	**3287.21**	**3274.33**

Minimum Capital Requirement (MCR) under Basel Accord for Financial Institutions (CAMD)

(Amount in crore taka)

Sl.	Particulars	Solo	Consolidated
A.	Eligible Capital :		
1	Tier-1 Capital	**312.47**	**311.04**
2	Tier-2 Capital	**41.30**	**41.30**
3	Total Eligible Capital (1+2)	**353.77**	**352.34**
B.	Total Risk Weighted Assets (RWA)	**3287.21**	**3274.33**
C.	Capital Adequacy Ratio (CAR) $(A_3 / B)*100$	**10.76**	**10.76**
D.	Core Capital to RWA $(A_1 / B)*100$	**9.51**	**9.50**
E.	Supplementary Capital to RWA $(A_2 / B)*100$	**1.26**	**1.26**
F.	Minimum Capital Requirement (MCR)	**328.72**	**327.43**

4) Credit Risk

Credit risk refers to the probability that a counter party will not repay its financial obligations in due time. As a lending institution PLFSL never eliminates its credit risk, moreover it always tries to manage and reduce to a minimum level.

Corporate Credit Policy

PLFSL is managing its Credit Risk through a Board directed and approved Corporate Credit Policy in line with the Bangladesh Bank Core Risk Management Guidelines, which outlined robust processes and procedures to ensure the quality of its assets portfolio. The Credit Policy also contains the general principles to govern the implementation of detailed lending procedures and risk grading systems of the borrowers. And, as such, it specifically addresses the areas of (a) Loan Originating; (b) Credit Approval; (c) Credit Administration; (d) Risk Management; and (e) Monitoring, Collection and Recovery activities.

Credit Risk Management

An independent Credit Risk Management (CRM) Department is in place, at PLFSL, 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 People's Leasing and Financial Services Ltd. (PLFSL)situation and exposure of PLFSL 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.

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 loans are very frequent and comparatively less risky, lower sanctioning authority is set to improve the turnaround time and associated risk. Bigger loans require more scrutiny as the associated risk is higher. So sanctioning authority is higher as well.

Quantitative Disclosure

Industry-wise distribution of exposures, broken down by types of credit exposure as on December31, 2017:

Sector/ Industry-wise Loans & Advances

Agricultural sector	7.29%	759,329,926
Industrial sector:		
Textiles	0.07%	7,446,610
Garments	1.17%	122,125,760
Jutes & jute related goods	1.06%	110,658,762
Food items producer/processing industry	0.90%	93,708,071
Lather and lather goods	0.28%	28,786,022
Iron, steel and engineering	4.55%	473,632,575
Chemicals and pharmaceuticals	1.77%	183,862,881
Telecommunication and IT industries	0.01%	553,600
Electronics and electrical goods	0.04%	3,868,403
Power, gas, water and sanitary	3.78%	394,020,813
Transport and communication	8.84%	920,471,832
Real estate and housing	6.02%	627,320,054
Merchant banking	12.10%	1,260,556,214
Trade & Commerce	23.81%	2,479,813,643
Others	28.31%	2,948,413,590
Total	**100.00%**	**10,414,568,756**

5) Equities: Banking Book Positions

Qualitative Disclosure

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; and Total equity shares holdings are for capital gain purpose.

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.

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 condition of regulatory authority.

6) Market Risk

Qualitative Disclosure

Market risk is the risk that may affect company's earnings and capital due to changes in the market level of interest rates, securities, equities as well as the volatilities of those prices. Volatility of money market, which ultimately imposes upward pressure on interest rate structure, may erode the company's profitability.

Market Risk Management System

Asset Liability Management

ALCO of the company monitors Balance Sheet and liquidity risk of the company. This Committee also reviews country's overall economic position, company's liquidity position, ALM ratios, Interest Rate Risk, Capital Adequacy, Deposit Advance Growth, Cost of Deposit, Market Interest Rate, Loan Loss Provision adequacy, deposit and lending pricing strategy.

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.

Quantitative Disclosure

(Amount in Crore)

Particulars	**Solo**	**Consolidated**
Market Risk	145.97	268.34

7) Interest rate in the banking book

Qualitative Disclosure

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. PLFSL 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.

8) Operational risk

Qualitative Disclosure

Operational risk addresses the risk associated with fraud, forgery, which are unauthorized activities, error, omission, system failure and external events among others. Some more operational events are operational events are including operational errors, non-compliance with internal regulations, non-compliance of legal requirements; launching new products without adequate operational support.

Quantitative Disclosure

(Amount in Crore)

Particulars	**Solo**	**Consolidated**
Operational Risk	-	-