aviva Finance Limited
together forward with shariah

Disclosure on Market Discipline under Pillar III of BASEL –II

Background:

These disclosures under Pillar III of Basel II are made following “Prudential Guidelines on Capital Adequacy and Market Discipline” (CAMD) for Financial Institutions (FIs) issued by Bangladesh Bank (Central Bank of Bangladesh) in December 2011. These quantitative and qualitative disclosures are intended to complement the Minimum Capital Requirement (MCR) under Pillar I and Supervisory Review Process (SRP) under Pillar II of Basel II. The purpose of these disclosures is to present relevant information on adequacy of capital in relation to overall risk exposures of the FI so that the market participants can assess the position and direction of the FI in making economic decisions.

Scope of application

Qualitative Disclosures

(a) Aviva Finance Limited (the Company), a public limited Company is a second generation Non-Banking Financial Institution. The Company was incorporated as "Bahrain Bangladesh Finance & Investment Company Limited" in Bangladesh under registration no. CHC 2193 on 4 March 1996 with the Registrar of Joint Stock Companies & Firms (RJSC), Chittagong and got the certificate of commencement of business from the RJSC on 11 April 1996. The name of the company was changed to "Oman Bangladesh Leasing & Finance Limited" on 9 July 2001. Subsequently, the Company changed its name to “Reliance Finance Limited” on 12 January 2010 and further it has been changed “Aviva Finance Limited” on 19th November 2020 vide circular No. DFIM(L)/1053/44/2020-2068 with the vision to operate in fully Islamic Shariah mode. The Company was registered as a Financial Institution under the Financial Institution Act, 1993.

(b) As on 31 December 2020 Aviva Finance Limited has only one subsidiary named Reliance Brokerage Services Limited (RBSL) to include its consolidated financial statements as per International Accounting Standard: 27 ‘Consolidated and Separate Financial Statements’ and International Financial Reporting Standard: 10 ‘Consolidated Financial Statements’

Capital structure

Qualitative Disclosures

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 1 capital includes:

a) Paid up capital
b) Non-repayable share premium account
c) Statutory reserve
d) General reserve
e) Retained earnings
f) Minority interest in subsidiaries
g) Non-cumulative irredeemable preference shares
h) Dividend equalization account

aviva
Finance Limited
together forward with shariah

Disclosure on Market Discipline under Pillar III of BASEL –II

Tier 2 capital includes:

a) General provision up to a limit of 1.25%" of Risk Weighted Asset (RWA) for Credit Risk

b) Revaluation reserves :

- 50% Revaluation reserve for fixed assets
- 45% Revaluation reserve for securities

c) 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:

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

b) 50% of revaluation reserves for fixed assets and 45% of revaluation reserves for securities eligible for Tier 2 capital.

Quantitative Disclosures (Consolidated Minimum Capital Requirement)

Sl. No.	Particulars	SOLO	Consolidated
		Amount in core BDT	
a	Fully Paid-up Capital/Capital lien with BB	200.00	200.00
b	Statutory Reserve	31.88	31.88
c	Non-repayable Share Premium Account	-	-
d	General Reserve	-	-
e	Retained Earnings	106.69	107.21
f	Minority interest in Subsidiaries	20.10	20.10
1	**Total Eligible Tier-1 Capital (a-f)**	**358.67**	**359.20**
2	**Total Eligible Tier-2 Capital**	**116.08**	**129.65**
3	**Total Eligible Capital (1+2)**	**474.75**	**488.85**

Capital Adequacy

Qualitative Disclosures

(a) Aviva Finance Limited calculates Capital Adequacy on the basis of credit risk, market risk, and operational risks. 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 (10%) and adding the resulting figures to the sum of risk weighted assets for credit risk. The CAR is calculated by taking eligible regulatory capital as numerator and total RWA as denominator.

Disclosure on Market Discipline under Pillar III of BASEL –II

Quantitative Disclosures

Particulars	Solo	Consolidated
	Amount in core BDT	
(b) Capital requirement for Credit Risk	3,824.92	4,518.37
(c) Capital requirement for Market Risk	10.24	43.44
(d) Capital requirement for Operational Risk	121.69	121.78
(e.) Total Tier 1 and Tier 2 capital ratio:	12.00%	10.68%
(e. 1) CAR on Tier 1 capital %:	9.24	8.16
(e. 2) CAR on Tier 2 capital %:	2.76	2.52

Credit Risk

Qualitative Disclosures

Credit risk is the probability that counterparty fails to meet obligation in accordance with agreed term. 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 in detail.

Credit policy of AVL includes:

- Approval Process
- Credit Administration
- Credit Monitoring
- Credit Recovery

To mitigate Credit Risk Aviva Finance Limited follow the Credit Risk Grading matrix as per policy:

- The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a Common standardized approach to assess the quality of an individual obligor and the credit portfolio as a whole.
- As evident, the CRG outputs would be relevant for credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to pricing and specific features of the credit facility.
- Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile. It is also relevant for portfolio level analysis.
- The proposed CRG scale for the banks consists of 8 categories with Short names and Numbers are provided as follows:

aviva Finance Limited
together forward with shariah

Disclosure on Market Discipline under Pillar III of BASEL –II

GRADING	SHORT NAME	RATING
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watchlist	MG/WL	4
Special Mention	SM	5
Sub standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

Quantitative Disclosures

a) Balance Sheet Exposure:

Distribution of credit risk exposure by claims	SOLO	Consolidated
	Amount in core BDT	
Cash	0.00	0.00
Claims on Bangladesh Government and Bangladesh Bank	67.11	67.79
Claim on NBFIs and Banks :	203.09	203.09
Claims on corporate	2,420.11	2,974.87
Claims categorized as retail portfolio & SME (excluding consumer finance)	208.95	208.95
Consumer Finance	3.55	3.55
Claims fully secured by residential property	0.40	0.40
Where specific provisions are less than 20 percent of the outstanding	47.27	47.27
Where specific provisions are not less than 20 percent of the outstanding	29.58	29.58
Where specific provisions are not less than 50 per cent of the outstanding	417.50	417.50
Claims fully secured against residential property that are past due for more than 90 days and/or impaired specific provision held there-against is less than 20% of outstanding amount	0.00	0.00
Investments in premises, plant and equipment and all other fixed assets Loans and claims fully secured against residential property that are past due by 90 days and/or impaired and specific provision held there-against is more than 20% of outstanding amount	0.00	0.00
Investments in premises, plant and equipment and all other fixed assets	40.53	40.53
All other assets	263.50	264.18
Total	**3,701.59**	**4257.71**

Disclosure on Market Discipline under Pillar III of BASEL –II

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

Sector	Amount in core BDT
Trade and Commerce	1,855.82
Garments & knitwear	214.48
Textile	63.19
Food Production & Processing Industry	57.19
Leather & Leather Goods	49.06
Iron, Steel & Engineering	137.24
Pharmaceuticals & Chemicals	16.30
Cement & Allied Industry	70.32
Telecommunication & Information Technology	149.51
Paper, Printing & Packaging	0.31
Ship Manufacturing Industry	16.41
Electronics & Electrical Products	0.47
Power, Gas, Water & Sanitary Service	1.69
Transport & Aviation	4.52
Agriculture	18.47
Real estate finance	0.40
Merchant Banking (Other's Brokerage House)	46.73
Reliance Brokerage Services Limited	293.21
Others	158.07
Total	**3,153.39**

Equities: Book Positions

Qualitative Disclosures

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;

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. Quoted shares are valued at cost prices and if the total cost of a particular share is higher than the market value of that particular share, then provision are maintained as per terms and condition of regulatory authority.

Disclosure on Market Discipline under Pillar III of BASEL –II

Quantitative Disclosures

Particulars	Cost Value in core BDT	Market Value in core BDT
Quoted Shares	8.35	5.12
Unquoted Shares	0	0
Total	**8.35**	**5.12**

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

Particulars	Amount in core BDT
Capital gain on sale of shares	(0.32)
Dividend income	0.07
Total	**(0.25)**

Market risk

Qualitative Disclosures

Market risk is the risk that the value of an investment will decrease due to changes in market factors.

There are several standard market risk factors, including:

- **Equity Risk**: the risk that share prices will change.
- **Commodity Risk**: the likelihood that a commodity price, such as that of a metal or grain, will change.
- **Currency Risk**: the probability that foreign exchange rates will change.
- **Interest Rate Risk**: the risk that interest rates will go up or down.
- **Inflation Risk**: the risk that overall rises in prices of goods and services will undermine the value of money, and probably adversely impact the value of investments.

Methodology

In Standardized Approach, the capital requirement for various market risks (interest rate risk, equity price risk, commodity price risk, and foreign exchange risk) is determined separately. The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. The methodology to calculate capital requirement under Standardized Approach for each of these market risk categories is as follows:

- Capital charges for interest rate risk

Disclosure on Market Discipline under Pillar III of BASEL –II

- Capital charges for specific risk
- Capital charges for general market risk
- Interest rate derivatives
- Capital charges for equity position risk
- Capital charges for foreign exchange risk

Market Risk Management system

Sufficient oversight and reporting are conducted for management of market risk profile. Overall authority for market risk rests with the ALCO. ALCO committee evaluates the investment opportunities and recommend to Management Committee for investment. To mitigate loss portfolio invest in various way to balance between risk and return.

Quantitative Disclosures

Market Risk	Amount in core BDT
Interest rate related instruments	-
Equities	1.02
Foreign exchange position (if any)	-
Commodities (if any)	-
Total:	**1.02**

Operational risk

Qualitative Disclosures

Views of BOD 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.

Policies and processes for mitigating operational risk

Aviva Finance Limited 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

Disclosure on Market Discipline under Pillar III of BASEL –II

Calculating capital charge for operational risk

The capital charge for operational risk is a fixed percentage (denoted by alpha) of average positive annual gross income of the FI over the past three years. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator. The capital charge may be expressed as follows:

$$K = [(GI\ 1 + GI2 + GI3)^{-} \alpha]/n$$

where,

K = capital charge under the Basic Indicator Approach

GI = only positive annual gross income over the previous three years (i.e. negative or zero gross income if any shall be excluded)

α= 15%

n = number of the previous three years for which gross income is positive.

Quantitative Disclosures

Operational Risk	2020	2019	2018	Capital Charge
Gross Income	**53.82**	**100.63**	**88.93**	**12.17**