CAPITAL ADEQUACY AND MARKET DISCIPLINE

In accordance with Bangladesh Bank's DFIM Circular no. 14 dated 28 December 2011, the disclosures on capital adequacy and market discipline have been made in line with same circular, which consists of the following three mutually reinforcing pillars:

Pillar I: This prescribes the minimum capital requirements for Credit Risk, Market Risk and Operational Risk.

Pillar II: This prescribes the Supervisory Review Process which is based on the principle that the Company assesses the overall adequacy of its capital and set targets for capital that commensurate with the Company's specific risk profile and control environment.

Pillar III: This depicts Market Discipline and comprises as set of disclosures on the capital adequacy and risk management framework on the Company to ensure that market participants can better understand the Company's risk profile and the adequacy of its capital.

Scope of Application

Qualitative Disclosures

The name of the top corporate entity in the group to which this guideline applies: IPDC Finance Limited.

An outline of differences in the basis of consolidated for accounting and regulatory purpose with a brief description ofthe 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):

Not Applicable since the Company does not have any subsidiary

Any restrictions, or other major impediments, on transfer offunds or regulatory capital within the group.

Not Applicable

Quantitative Disclosures

The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.
Not Applicable since the Company does not have anysubsidiary

Capital Structure

Qualitative Disclosures

Summary information on the terms and conditions of the main features of all capital instruments, specially in the case of capital instruments eligible for inclusion in Tier I or in 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
	Other (if any item approved by Bangladesh Bank)
	All other preference shares

Quantitative Disclosures

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

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Particulars	Amount
Paid-up capital	2,181.6
Share premium account	167.0
Statutory Reserve	550.5
General Reserve	-
Retained Earnings	542.0
Total Tier - I Capital	3,441.1
Total amount of Tier - II Capital	708.5
Other deductions from capital	-
Total eligible capital	4,149.5

Capital Adequacy

Qualitative Disclosures

A summary discussion of the Company's approach to assessing the adequacy of its capital to support current and future activities. IPDC has adopted Standardized Approach for computing Capital Charge for Credit and Market Risk while Basic Indicator Approach for Operational Risk. Total Risk Weighted Assets (RWA) is determined by multiplyingthe capital charge for market risk and operational risk by thereciprocal of the minimum capital adequacy ratio which is currently 10% and adding the resulted figure to the sum of the RWA for credit risk. Capital Adequacy Ratio (CAR) is then determined by dividing total RWA by total Eligible RegulatoryCapital:

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Particulars	Amount
Capital requirement for Credit Risk	28,243.3
Capital requirement for Market Risk	8.6
Capital requirement for Operational Risk	1,363.2

Total and Tier I capital ratio - For stand alone	%
CAR on Total Capital basis (%)	14.01%
CAR on Tier - I Capital basis (%)	11.62%

Credit Risk

Qualitative Disclosures

The general qualitative disclosure requirement with respect to credit risk, including:

Definition of Past Due and Impaired (for Accounting Purposes)

With a view to strengthening credit discipline, the Company classifies loan, leases and advances and maintains provisionin line with Bangladesh Bank's FID Circular no. 08 dated 03October 2002 and FID Circular no. 03 dated 03 May 2006 as follows:

Fixed term loan (repayable within maximum 5 years of time)are classified as:

Substandard - if defaulted installment is equal to or more than the amount of installment(s) due within 6 (six) months, the entire loans are classified as 'Sub-standard'.

Doubtful - if defaulted installment is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loans are classified as 'Doubtful'.

Bad/Loss - if defaulted installment is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loans are classified as 'Bad/Loss'.

Fixed term loan (repayable more than 5 years of time) are classified as:

Substandard - if defaulted installment is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loans are classified as 'Sub-standard'.

Doubtful - if defaulted installment is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loans are classified as 'Doubtful'.

Bad/Loss - if defaulted installment is equal to or more than the amount of installment(s) due within 24 (twenty-four) months, the entire loans are classified as 'Bad/Loss'.

Special Mention Account (SMA) - A term loan which will remain overdue for a period of 90 days or more, are treated as 'SMA'.

Description of Approaches Followed for Specific and General Allowances and Statistical Methods

The Company is following the general and specific provision for loans and advances/investments based on Bangladesh Bank guidelines issued from time to time.

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

Discussion of the Company's Credit Risk Management Policy

Definition of Credit Risk: Credit risk is the risk of loss that occur from the failure of any counterparty to make required payments in accordance with agreed terms and conditions and/or deterioration of credit worthiness. Credit risk is managed through a framework set by policies and procedures established by the Board. The responsibility is clearly segregated between originator of business transaction and approver in the risk function.

Credit policies and procedures: The Credit Policy Manual contains the core principles for identifying, measuring, approving and managing credit risk in the Company. These policies are established by the Board of Directors which are designed to meet the organizational requirements. These policies represent the minimum standards for credit extension by the Company and these are not a substitute for the experience and prudent judgment. The policy covers corporate,small and medium enterprise. There is a comprehensive credit appraisal procedure that covers business risk, management risk, financial risk, security risk, environmental risk, reputational risk and account performance risk. Credit risk management function is independent of business originating functionsto establish better internal control systems and conflict ofinterest. The Head of Credit Risk Management (HoCRM) has clear responsibility for management of credit risk of theCompany.

Credit Rating and Measurement: Risk management plays a central role along with prudential judgment and experience in informed risk-taking decisions and portfolio management. For the purpose of risk management, the Company uses a numeric grading system associated with a borrower. Though this rating system, 'Credit Risk Grading Matrix (CRGM)' is not a lending decision making tool but it is used as general indicator to compare one set of customers with others. CRGM analyses a borrower against a range of quantitative and qualitative measures. No rating model for retail and channel financing are currently in practice rather borrowers are assessed against some pre-approved criteria outlined in Product Program Guidelines (PPG), which are approved by the Board of Directors.

Credit Monitoring: The Company, at least quarterly, monitor credit exposures and portfolio performance. Corporate and medium enterprise accounts are continuously monitoredunder a clearly set out credit policy. Early alerts are raised for financial deterioration, management weakness, irregular repayments, breach of covenants, eroding position in theindustry etc. If early alerts are raised, remedial actions areagreed and monitored.

Credit Risk Mitigation: Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreement and other guarantees. The reliance that can be placed on these mitigatesis carefully assessed in light with issues such as legal certainty and enforceability, market valuation, and counterparty risk of the guarantor. Collateral is valued by independent third-party surveyor in accordance with the company's credit policy and procedures.

Credit Approval: Board of Directors of the Company has the sole authority to approve any credit exposure and to sub delegate to such authority the 'Executive Committee', a subcommittee of the Board, with no approval authority to the Managing Director & CEO and other Departmental Heads.

Problem Credit Management: The Company has a separate 'Special Asset Management (SAM)' department, dedicated for management, settlement and recovery of problem credits. Major responsibility of this department is to formulate strategyand action plans for minimizing risk, prevention of loss, maximization of recoveries and restructuring, direct recovery and/or legal actions.

Quantitative Disclosures

Product-wise Credit Exposure

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Particulars	Amount
Lease finance	5,876.6
Term loans and advances	26,775.9
Mortgage finance	6,458.0
Channel finance	2,262.2
Retail loan	2,741.7
Personal Loan	210.9
Total	**44,325.3**

Industry or Counterparty-wise Credit Exposure

BDT mn

Particulars	Amount
Agro-based industries	3,612.2
Banks and non-banking financial institutions	623.2
Chemicals, pharmaceuticals and allied products	2,034.8
Engineering and building materials	3,921.2
Food and allied products	3,039.1
Glass, ceramic and other non-metallic products	191.7
Hotel, tourism and leisure	77.0
Information and communication technologies	1,181.0
Paper converting and packaging, printing and publishing	1,472.1
Ready-made garments and knitwear	4,529.4
Social sector	994.1
Tannery, leather and rubber products	322.6
Textile	2,035.0
Transport and aviation	1,860.5
Others	18,431.3
Total	**44,325.3**

Geographical distribution of exposures

BDT mn

Particulars	Amount
Dhaka Division	36,153.0
Chittagong Division	5,391.5
Khulna Division	708.1
Rangpur Division	703.3
Rajshahi Division	873.1
Sylhet Division	269.0
Barisal Division	5.5
Mymensingh Division	221.7
Total	**44,325.3**

Residual contractual maturity-wise credit exposure

BDT mn

Particulars	Amount
On demand	-
Upto one month	4,771.9
More than one month but less than three months	7,228.4
More than three months but less one year	8,089.3
More than one year but less than five years	18,525.5
More than five years	5,710.3
Total	**44,325.3**

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

BDT mn

Particulars	Amount
Gross non-performing assets (NPAs)	947.6
NPAs to gross loans and advances (in %)	2.14%

Specific and general provision

BDT mn

Particulars	Amount
Provision for unclassified loans and advances	453.9
Provision for classified loans and advances	194.2
Provision for off-balance sheet exposures	-
Total	**648.2**

Charges for specific allowances and charge-offs during the period

None

Movement of Non-Performing Assets (NPAs)

BDT mn

Particulars	Amount
Opening Balance	**213.9**
Additions	748.5
Reductions	14.7
Closing Balance	**947.6**

Movement of Specific Provisions for NPAs

BDT mn

Particulars	Amount
Opening Balance	**33.7**
Provisions made during the period	160.5
Write-off	-
Write-back of excess provisions	-
Closing Balance	**194.2**

Equities: Banking Book Position

Qualitative Disclosures

The general qualitative disclosure requirement with respect to equity risk, including:

i. Differentiation between holding 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:

Quoted Securities that are traded in the secondary markets (Trading Book Assets).

Unquoted Securities that are valued at cost price.

ii. 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 and unquoted securities are valued at cost and necessary provisions are maintained if the prices fall below the cost price.

Quantitative Disclosures

Value disclosed in the balance sheet of investments, as well as the fair value of those investment; for quoted securities, acomparison to publicly quoted share values where the shareprice is materially different from fair value.

BDT mn

Particulars	Amount
Quoted Shares	7.0
Unquoted Shares	4.5
Total unrealized gains (losses)	-
Total latent revaluation gains (losses)	-
Any amounts of the above included in Tier II capital.	-

Capital requirements broken down by appropriate equity groupings, consistent with the Company's methodology,as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.

Specific Market Risk: Market value of the investment in equity is BDT 4.3 million against which capital requirement @ 10% is BDT 0.43 million.

General Market Risk: Market value of the investment in equityis BDT 4.3millionagainst which capital requirement @ 10%is BDT 0.43million.

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 or non-maturity deposits.

Interest rate risk is the risk where changes in market interest rates might adversely affect the Company's financial condition. Changes in interest rates affect both the current earnings as well as the net worth of the Company. The short-term impact of changes in interest rates is on the Company's Net Interest Income. In long term, changes in interest rates impact the cashflows on the assets and liabilities giving rise to a risk to the networth of the Company arising out of all re-pricing mismatchesand other interest rate sensitive position. The Assets Liability Committee (ALCO) of the Company monitors the interest rate movement on a continuous basis.

Quantitative Disclosures

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).

BDT mn, %

Particulars	Within 1 Month	1 - 2 Months	2 - 3 Months	3 - 6 Months	6 months - 1 Year	Above 1 Year
RSL*	4,783	2,795	4,634	3,897	3,314	21,300
RSA*	5,256	3,125	5,076	5,292	3,783	24,464
Mismatch	473	330	441	1,395	470	3,164
Mismatch Cumulative	473	803	1,245	2,640	3,110	6,273
Mismatch	9.9%	11.8%	9.5%	35.8%	14.2%	14.9%

Interest Rate Risk - Increase in Interest Rate

BDT mn, %

Particulars	Minor 2%	Moderate 4%	Major 6%
Change in the Value of Bond	-	-	-
Net Interest Income	62	124	187
Revised Regulatory Capital	4,212	4,274	4,336
Risk Weighted Assets	29,615	29,615	29,615
Revised CAR (in %)	14.2%	14.4%	14.6%

Market Risk

Qualitative Disclosures

Views of Board of Directors on Trading and InvestmentActivities

Market risk is the possibility of losses of assets in balancesheet and off-balance sheet positions arising out of volatilityin market variables i.e., interest rate, exchange rate and price.Allocation of capital is required in respect of the exposure torisks deriving from changes in interest rates and market prices.

Methods used to Measure the Market Risk

Bangladesh Bank suggested the FIs for using StandardizedApproach (rule based) in order to calculate the market risk forbanking book where the capital charge for interest rate risk,price and foreign exchange risk is determined separately.

Market Risk Management System

Policies and processes for mitigating market risk

To mitigate the several market risks the Company formed Asset Liability Management Committee (ALCO) that monitors the Treasury Division's activities to minimize the market risk. ALCO is primarily responsible for establishing the market risk management and asset liability management of the Company, procedures thereof, implementing core risk management framework issued by the regulator, best risk management practices followed by globally and ensuring that internal parameters, procedures, practices/policies and risk management prudential limits are adhere to.

The ALCO reviews the risk of changes in income of the Company as a result of movement in the market interest rates. The Company always try to follow Bangladesh Bank's guidelines to minimize mismatches between the duration of interest rate sensitive assets and liabilities.

In addition, ALCO holds monthly meetings on a regular basis for controlling day-to-day trading activities, to perform market analysis over interest rate and manage & monitor the level of mismatch for assessing the market risk.

Quantitative Disclosures

Capital requirements for Market Risk

BDT mn

Particulars	Amount
Interest rate risk	-
Equity position risk	8.6
Foreign Exchange Position and Commodity risk	-

Operational Risk

Qualitative Disclosures

Views of Board of Directors (BoD) on System to Reduce Operational Risk

The operational risk is defined as the risk of loss resulting from inadequacy or failure of internal processes, people and systems or from external events. The Board of Directors(BoD) of the Company and its management firmly believe that this risk through a control based environment in whichprocesses are documented, authorized as independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit. All the operational policies and guidelines are duly approved by the BoD and reviewed on a regular basis.

Performance Gap of Executives and Staffs

The Company always strives to ensure a great place to work by hiring and retaining the most suitable people at all levels of the business. The Company affirms that there exists no performance gap of the executives and staffs.

Potential External Events

External events like general business and political situation, change in credit quality of the borrowers, change in market conditions etc. can affect the business of the Company. IPDC is proceeding with its strategic plan and its successful implementation for its future performance.

Policies and Procedures for Mitigating Operational Risk

IPDC mitigates operational risk by virtue of designingthe organizational structure by clearly defining roles and responsibilities of individuals involved in risk taking as well as managing it, formulating overall risk assessment and management policies, methodologies, guidelines and procedures for risk identification, risk measurement, risk monitoring, defining an acceptable level of risk, mitigating all the core risks in line with their respective guidelines provided by Bangladesh Bank.

Approach for Calculating Capital Charge for Operation Risk

As suggested by the guideline, the Company has computed the capital requirements for operational risk under the 'Basic Indicator Approach (BIA)'. Under BIA, the capital charge for operational risk is a fixed percentage, currently 15% of average positive annual gross income of the Company over the past three years.

Quantitative Disclosures

Capital Requirements for Operational Risk

BDT mn

Particulars	Amount
Capital requirements for operational risk	1,363.2

CLASSIFIED LOAN AND WRITTEN OFF PORTFOLIO

Written-off Portfolio

Detail records for all written off accounts are methodically maintained and followed up and the accumulated written off value is disclosed separately under the heading of "notes to the account". No new accounts were written off in 2018. Although no major recoveries were made in 2018, our strong recovery efforts have resulted in steady flow of recoveries over the year.

Movement in Written-off Portfolio

BDT mn

Particulars	Amount
Opening Balance as on January 1, 2018	**468**
Add.: Addition during the year	-
Less: Collection during the year	21
Closing Balance as on December 31, 2018	**447**

Classified Loan

The year 2018 saw a noticeable increase in classified loan ratio increasing from 0.62% (BDT 214 million) in the previous year to 2.14% (BDT 947 million) in 2018. The overall increase in classified loan during the year was mainly due to a large corporate loan becoming classified. Despite the increase in non-performing loan ratio, it is still considerably low compared to the financial institution sector's classified loan ratio which stood 11.2% as on September 2018 compared to 7.3% as on December 2017.

Movement in Classified Loan

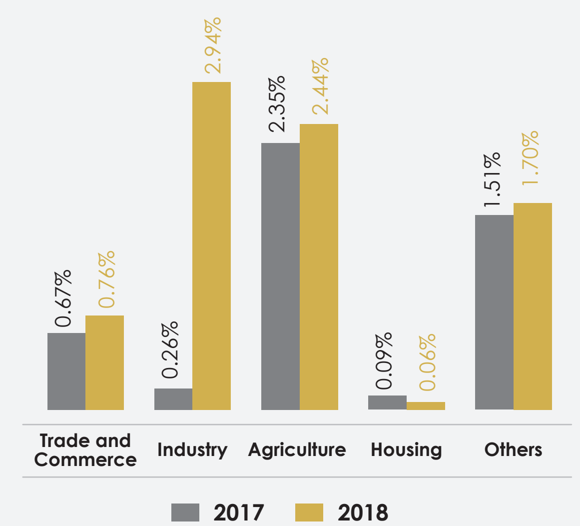
BDT mn

Particulars	Amount
Opening Balance as on January 1, 2018	**214**
Add.: Addition during the year	748
Less: Recovery*	12
Less: Write offs	-
Less: Rescheduled*	2
Closing Balance as on December 31, 2018	**947**

* Recovery / Reschedule from clients which were classified as on 1 January 2018.

As evident from sector-wise classified loan, the addition mainly came from a single sector with a major client becoming classified during December 2018. Collection during the year was not as strong as last year. With no write offs being made in 2018, classified loan portfolio stood at BDT 947 million as of 31 December 2018.

%



Sector-wise Classified Loan

Sector-wise Classified Loan Ratio

BDT mn, %

Particulars	2016		2017		2018	
	NPL Portfolio	NPL %	NPL Portfolio	NPL %	NPL Portfolio	NPL %
Trade and Commerce	**5**	**0.40%**	**16**	**0.67%**	**25**	**0.76%**
Industry						
A) Garments and Knitwear	16	0.77%	10	0.27%	10	0.23%
B) Textile	-	0.00%	-	0.00%	-	0.00%
C) Jute and Jute-Products	34	12.15%	-	0.00%	30	7.78%
D) Food Production and Processing Industry	-	0.00%	-	0.00%	81	2.67%
E) Plastic Industry	-	0.00%	-	0.00%	-	0.00%
F) Leather and Leather-Goods	-	0.00%	-	0.00%	-	0.00%
G) Iron, Steel and Engineering	6	0.29%	6	0.22%	25	0.70%
H) Pharmaceuticals & Chemicals	-	0.00%	-	0.00%	-	0.00%
I) Cement and Allied Industry	-	0.00%	-	0.00%	-	0.00%
J) Telecommunication and Information Technology	5	1.87%	3	0.31%	1	0.09%
K) Paper, Printing and Packaging	1	0.19%	-	0.00%	14	0.93%
L) Glass, Glassware and Ceramic Industry	-	0.00%	-	0.00%	-	0.00%
M) Ship Manufacturing Industry	-	0.00%	-	0.00%	-	0.00%
N) Electronics and Electrical Goods	-	0.00%	32	3.52%	46	3.90%
O) Power, Gas, Water and Sanitary Service	-	0.00%	-	0.00%	537	31.72%
P) Transport and Aviation	-	0.00%	-	0.00%	-	0.00%
Industry Total	**62**	**0.52%**	**52**	**0.26%**	**744**	**2.94%**
Agricultural	**-**	**0.00%**	**69**	**2.35%**	**79**	**2.44%**
Housing	**6**	**0.38%**	**4**	**0.09%**	**4**	**0.06%**
Others	**64**	**2.04%**	**74**	**1.51%**	**95**	**1.70%**
Grand Total	**138**	**0.71%**	**214**	**0.62%**	**948**	**2.14%**

Power, Gas, Water and Sanitary Service sector saw the largest jump in Classified loan. Investments in this sector is large in nature and as such, risks are much more concentrated compared to other sectors. Sectors like Garments and Knitwear as well as Telecommunications and Information technology saw marginal improvement in portfolio quality.