

DISCLOSURE UNDER PILLAR III ON CAPITAL ADEQUACY AND MARKET DISCIPLINE

For the year ended December 31, 2025

Background of Capital Adequacy

Capital is the foundation of any business. In a Finance Company, capital is a prime factor to consider when assessing the safety and soundness. It acts as a cushion in case the value of the bank's assets declines and liability rises. Maintaining a minimum capital level is of paramount importance for a Financial Institution so that adequate protection against risk can be ensured. A strong Capital Management Policy protects an organization by identifying and mitigating risks, as well as establishes a base of confidence by depositors, creditors, and other stakeholders.

Capital Adequacy gives a view on a Finance Company's financial strength and stability. Adequate capital provides assurance to the stakeholders on the company's ability to provide consistent services.

Capital Adequacy is a basis for measurement of the amount of capital that the Finance Company needs to hold to ensure that no excess leverage is taken that would lead to insolvency. Capital Adequacy is best expressed as the Capital Adequacy Ratio (CAR), also known as Capital to Risk Weighted Assets Ratio. CAR is a measure of a FC's core capital expressed as a percentage of its risk weighted asset. The objective of CAR is built around the Market Discipline, whereby depositors' get a standardized measurement on the extent to which their wealth is exposed to risk, and thereby establish confidence on the Financial Institution's operations. The CAR measurement is also directed towards making a FC's capital more risk sensitive and shock absorbent.

The following detailed qualitative and quantitative disclosures are provided in accordance with "Prudential Guidelines on Capital Adequacy and Market Discipline" for Financial Institutions which has been published on December 2011.

The disclosures are made on the basis of consolidated along with its separate audited financial statements of SFIL Finance PLC. and its subsidiary as at and for the year ended December 31, 2025 prepared under International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and related circulars/instructions issued by Bangladesh Bank from time to time.

The Basel II Accord is based on three mutually reinforcing pillars. The First pillar is about Minimum Capital Requirement (MCR), second is about Supervisory Review Process (SRP) and the last is about Market Discipline. This accord outlines the level of capital required by an FC against various types of risks including credit, market and operational risk based on the risk profile of the organization.

Basel II		
Pillar I	Pillar II	Pillar III
Minimum Capital Requirement (MCR)	Supervisory Review Process	Disclosure & Market Discipline

A) Scope of Application

Qualitative Disclosures:

The framework applies to SFIL Finance PLC. on "Consolidated Basis" on the reporting date December 31, 2025 and "Solo Basis" information has been presented beside those of "Consolidated Basis" to facilitate comparison. The SFIL Group has a wholly owned subsidiary: SFIL Securities Limited, which is fully consolidated.

Quantitative Disclosures: Not Applicable.

B) Capital Structure

Qualitative Disclosures:

As per Basel II guidelines, regulatory capital consists of Tier - 1 : Core Capital and Tier – 2 : Supplementary Capital.

Conditions for maintaining regulatory capital:

The calculation of Tier 1 capital and Tier 2 capital, shall be subject to the following conditions:

- i) Tier 2 Capital amount will be limited to 100% of the amount of Tier 1 Capital.
- ii) 50% of revaluation reserves for fixed assets and 45% of revaluation reserves for securities are eligible for Tier 2 capital.

Tier 2 capital includes:

- i) General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) for Credit Risk.
- ii) Revaluation reserves for equity instruments up to 10%.
- iii) All other preference shares.

Quantitative Disclosures:

Tier -1: Core Capital of SFIL as on December 31 as follows:

Figures in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
Paid-up capital	1,055.75	1,055.75	1,055.75	1,055.75
Statutory reserve	30.17	30.17	30.17	30.17
Other Reserve	-	-	-	-
Capital Reserve	-	-	0.11	0.11
Non-repayable share premium account	-	-	-	-
General reserve	-	-	-	-
Retained Earnings	(63.09)	10.84	(71.36)	(17.57)
Minority interest in subsidiaries	-	-	0.002	0.002
Non-cumulative irredeemable preference shares	-	-	-	-
Dividend equalization account	-	-	-	-
Other (if any item approved by Bangladesh Bank)	-	-	-	-
Less Shortfall in provisions required against investment in shares	-	-	-	-
Total Tier 1 Capital (a)	1,022.84	1,096.76	1,014.68	1,068.47

Tier-2: Supplementary Capital of SFIL as on December 31 as follows:

Figures in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
General Provision (Unclassified loans up to specified limit + SMA + off Balance Sheet exposure)	7.91	11.08	7.91	11.08
50% of Asset Revaluation Reserve	-	-	-	-
45% of Securities Revaluation Reserve	-	-	-	-
All other Preference Shares	-	-	-	-
Other (if any item approved by Bangladesh Bank)	-	-	-	-
Total Tier 2 Capital (b)	7.91	11.08	7.91	11.08
Total Eligible Capital (a+b)	1,030.75	1,107.85	1,022.59	1,079.55

C) Capital Adequacy

Qualitative Disclosures:

SFIL 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:

- Asking unrated corporate clients to have credit rating from External Credit Assessment Institutions (ECAIs) recognized by Bangladesh Bank.
- Rigorous monitoring of overdue contracts to bring those under 90 days overdue.
- Financing clients having good credit rating.
- 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.

Quantitative Disclosures:

Figures in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
Capital requirement for Credit Risk	1,053.72	1,202.38	986.40	1,140.31
Capital requirement for Market Risk	3,014.03	3,037.79	3,048.89	3,067.62
Capital requirement for Operational Risk	206.50	236.75	203.36	240.94
Capital Adequacy Ratio (CAR) on total capital basis (%)	24.12%	24.75%	24.13%	24.27%

Risk Management

At SFIL, disciplined risk management is considered as the key to organizational success. With that objective in mind, strong management structure and risk management system, along with robust policies, are developed to allow the company to manage the internal and external, and regulatory environments. A robust risk management framework is built to effectively cover the necessary requirements of managing risk. Establishment and oversight of the Company's risk management framework lie with the Company's Board of Directors. The risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk control standards, and to monitor the risks and adhere to defined policies. Protocols and responsibilities are clearly delineated such that decision making with regards to risk management are taken positively. SFIL contemplates having the industry practices of identifying, measuring and controlling risks. The Risk management policies and systems are reviewed regularly to reflect changes in market conditions and operations. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

By implementing rigorous risk management policy, risk adjusted returns are maximized, while ensuring that the company remains within its desired risk appetite. Emphasis is given on establishing a risk management culture which takes into account the underlying assertions:

- Risk considered must be in line with the company's goals, and also must support the company's risk appetite.
- Responsibility of identifying and taking risks within the organization lies with every employee. The company carries the overall responsibility of ensuring that the risk-taking within the organization is disciplined and focused.
- Accountability is ensured by taking risk agreed by the respective company authorities and also assuring that the risks taken are transparent, controlled, reported and falls within the appropriate infrastructure and resource.
- Future risk emergence is identified and necessary steps taken to anticipate its impacts.
- Effective Risk Management Policy and Controls are founded to use the risk as a competitive advantage.
- Continuous improvement of the risk management approaches and methodologies to enhance current risk policies.
- Analyze and establish any new or improved policy to strengthen the company's risk management position.
- Ensuring consistent statutory compliance with regards to capital adequacy and risk management.

In accordance with the Basel II guidelines, SFIL takes precautionary methods against credit, equity, market, operational, and liquidity risks.

D) Credit Risk

Qualitative Disclosures

Credit Risk is effectively measured and managed through a framework of policies and procedures. All credit exposures undergo proper approving authority as a mean of effective management of counterparty credit risk. A defined structure is established for delegation of credit approval authority and for monitoring compliance with appetite.

Proper due diligence is applied to review the credit applications. Defined processes and procedures are used to support credit underwriting activities at levels of the business. As a part of proper underwriting standards, appropriate valuations of collaterals are done for secured credits.

A counterparty is also required to have an approved limit in place, prior to drawdown of funds. Every credit party is subject to credit rating, and the rating is actively monitored as a part of effective credit risk management. Account level activity along with limit utilization monitoring is set as a part of risk trigger mechanisms. This helps to identify early alert situations based on which the company can take proper actions. Potential problem accounts are identified, investigated, controlled and monitored.

Past dues and impaired exposures are defined in accordance with the relevant Bangladesh Bank regulations. Specific and general provisions are computed periodically in accordance with the Bangladesh Bank regulations. The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Company Credit determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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.

Independent Credit Risk Management (CRM) Department

An independent Credit Risk Management (CRM) Department is in place, at SFIL, 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.

Independent Internal Control and Compliance Department (ICCD)

Appropriate internal control measures are in place at SFIL. SFIL has also established Internal Control and Compliances Department (ICCD) to ensures, compliance with approved lending guidelines, Bangladesh Bank guidelines, operational procedures, adequacy of internal control and documentation procedures. ICCD frames and implements policies to encounter such risks.

Quantitative Disclosures:

i) Total gross credit risk exposures broken down by major types of credit exposure. Figures in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
Lease Finance	81.38	122.21	81.38	122.21
Loan Finance	633.11	677.85	633.11	677.85
House Finance	117.88	124.46	117.88	124.46
Car Lease	48.62	56.42	48.62	56.42
Loan Against Deposit	1.78	3.05	1.78	3.05
Personal Loan	1.26	2.82	1.26	2.82
Loan to subsidiaries	-	-	-	-
Total	884.02	986.81	884.02	986.81

ii) Movement of NPL & Specific Provision.

Figures in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
Gross Non Performing Loans (NPLs)	30.44	7.78	30.44	7.78
Non Performing Loans (NPLs) to outstanding loan and advance	3.44%	0.79%	3.44%	0.79%
Movement of Non Performing Loans (NPLs)				
Opening balance	7.78	7.28	7.78	7.28
Add/Less Net movement during the year	22.66	0.50	22.66	0.50
Closing Balance of Non Performing Loans (NPLs)	30.44	7.78	30.44	7.78
Movement of specific provision for (NPLs)				
Opening balance of Specific Provision	2.76	0.55	2.76	0.55
Less Written off during the year	-	-	-	-
Recovers during the period	-	-	-	-
Add Provision made during the period	7.94	2.21	7.94	2.21
Closing Balance of specific provision for (NPAs)	10.70	2.76	10.70	2.76

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

Figures in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
Dhaka Division	884.02	986.81	884.02	986.81
Total	884.02	986.81	884.02	986.81

E) Equities: banking book positions

Equity Risk including 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 is maintained as per terms and condition of regulatory authority.

Figures in BDT Million

Particulars	Solo		Consolidated	
	Cost Price	Market Price	Cost Price	Market Price
Quoted shares	243.78	159.90	266.92	177.32

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. SFIL 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 Disclosures

Maturity wise Distribution of Assets-Liabilities:

Figures in BDT Million

Particulars	1 to 30/31day (1month)	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	165.42	215.40	252.31	355.14	363.44
B. Total Rate Sensitive Assets	194.15	249.38	279.39	385.37	373.64
C. Mismatch	28.73	33.98	27.08	30.24	10.20
D. Cumulative Mismatch	28.73	62.71	89.79	120.02	130.22
E. Mismatch (%)	17.37%	15.77%	10.73%	8.51%	2.81%

G) Market Risk

Market Risk management is set as per the parameters defined in the policy. The objective of the Company's market risk management is to manage and control market risk exposures set within the acceptable parameters, thereby ensuring solvency while optimizing the Company's risk return strategy.

Sufficient oversight and reporting are conducted for management of market risk profile. Overall authority for market risk rests with the ALCO. Setting market liquidity as the primary factor for determining the level of limits for portfolio trading, ALCO provides limits for each type of risk in aggregate and for individual portfolios.

The table below gives details of Market Risk for 2025:

Figures in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
Interest rate risk	-	-	-	-
Equity position risk	301.40	303.78	304.89	306.76
Foreign exchange risk	-	-	-	-
Commodity risk	-	-	-	-
Total	301.40	303.78	304.89	306.76

H) Operational Risk

Operational Risk framework is designed to ensure operational risk identification, assessment, control and monitoring at business and group level. Management of operational risks is an integral part of the roles played by business and the functional teams.

The Risk Management Division oversees whether the operational risk exposures fall within the policy. Defined standards of measurement are also outlined which plays one of the critical roles of ensuring that the risks are managed within the acceptable tolerance limits. The policies and standards are also reviewed periodically to keep the framework updated.

The types of events that could result in material operational risk loss or business disruptions are as follows:

- Internal and external fraud
- Damage to physical assets
- Business process disruptions and system failures
- Failure in service executions and deliveries, as well as process management

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

Calculation of Risk Weighted Assets (RAW)

RWA figure is calculated on the basis of credit, market, and operational risks. Total RWA is determined by first multiplying the amount of capital charge for market risk and operational risk with the reciprocal of the minimum CAR.

The resulting figure is added to the sum of the Risk Weighted Assets for credit risk.

Figures in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
Credit Risk				
1. On Balance Sheet	1,053.72	1,202.38	986.40	1,140.31
2. Off Balance Sheet	-	-	-	-
Market Risk	3,014.03	3,037.79	3,048.89	3,067.62
Operational Risk	206.50	236.75	203.36	240.94
Total RWA	4,274.26	4,476.91	4,238.65	4,448.87

Based on the data derived, the Capital Adequacy Ratio (CAR) is calculated. SFIL follows the standard CAR measurement method.

$$\text{CAPITAL ADEQUACY RATIO (CAR)} = \frac{\text{Core Capital} + \text{Supplementary Capital}}{\text{Risk Weighted Assets}} \times 100$$

Figures (except percentage) in BDT Million

Particulars	Solo		Consolidated	
	2025	2024	2025	2024
Core Capital	1,022.84	1,096.76	1,014.68	1,068.47
Supplementary Capital	7.91	11.08	7.91	11.08
Total Eligible Capital	1,030.75	1,107.85	1,022.59	1,079.55
Risk Weighted Asset (RWA)	4,274.26	4,476.91	4,238.65	4,448.87
Capital Adequacy Ratio (CAR)	24.12%	24.75%	24.13%	24.27%
Core Capital to RWA	23.93%	24.50%	23.94%	24.02%
Supplementary Capital to RWA	0.19%	0.25%	0.19%	0.25%
Minimum Capital Requirement (Higher of 10% of RWA or 100 crore)	1,000	1,000	1,000	1,000
Excess Capital over Regulatory Requirement	30.75	107.85	22.59	79.55

The CAR figure of SFIL Finance PLC. can be seen to be comfortably above the Bangladesh Bank's CAR requirement of 10%. This is in line with the institution's approach to being compliant, establish investors' confidence and demonstrate company stability.