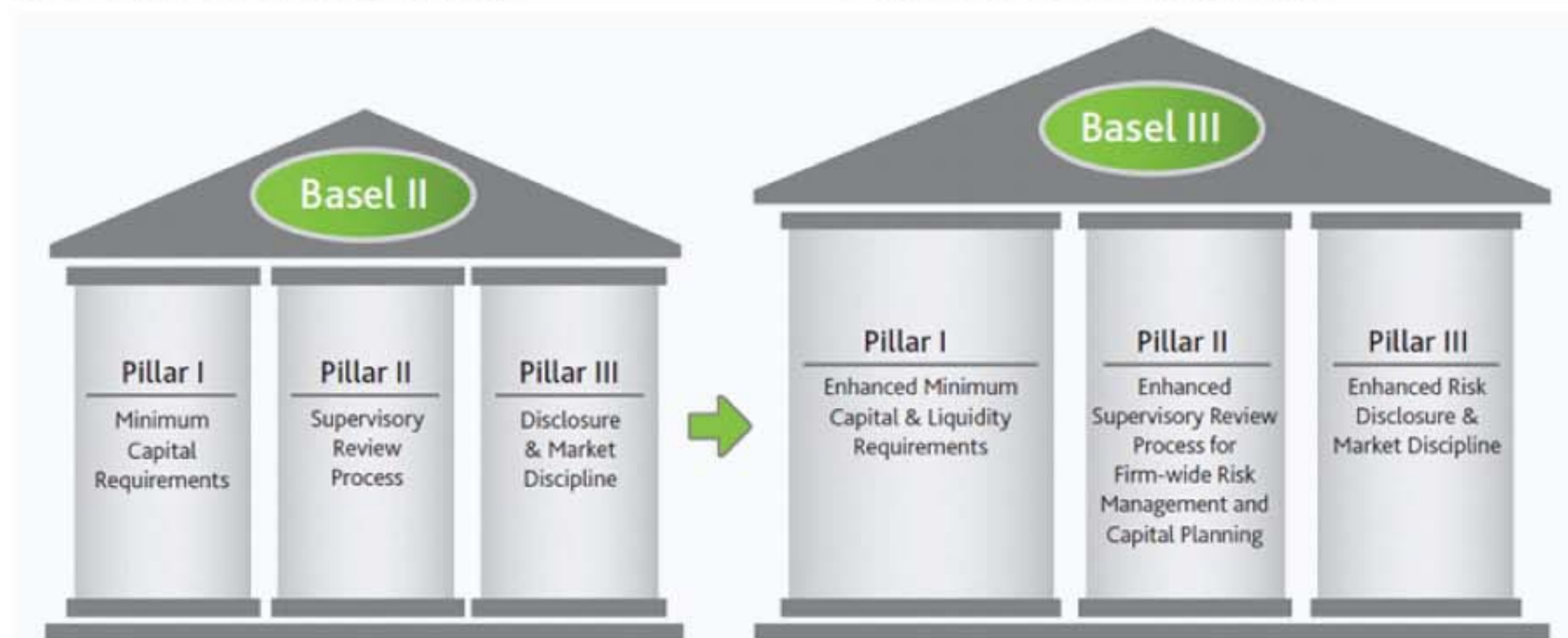


Disclosures on Risk Based Capital (Basel III)

"Market Discipline", which is basically a set of disclosures, is one of the most important components in the Basel Framework Management. It is 3rd Pillar of the Basel II & III Regulations. Bangladesh Bank has clearly spelled out the disclosure requirements under this Pillar in the "Guidelines on Risk Based Capital Adequacy" issued through its BRPD Circular No. 18 dated December 21, 2014.

It is to be mentioned here that from the year 2015, we have started transiting from the Basel II to Basel III regime/framework that will be completed by the year 2019. The new framework is also composed of three-mutually reinforcing pillars i.e. Minimum Capital Requirement, Supervisory Review Process and Market Disclosure but at an enhanced level as is depicted below:



Pillar-1: Credit Risk, Market Risk and Operational Risk are the constituents of this Pillar, which require the Bank to maintain the minimum level of capital i.e. Minimum Capital Adequacy. United Commercial Bank Ltd. uses Standardized Approach for assessing the Credit and Market Risks while Operational risk is measured through the Basic Indicator Approach.

Pillar-2: Apart from the above, all other risks are assessed through the SRP-SERP (Supervisory Review Process-Supervisory Review and Evaluation Process) mechanism under this Pillar. The Additional Capital Requirement of a Bank is estimated through Internal Capital Adequacy Assessment Process (ICAAP). Bangladesh Bank, as the supervisor of Banks in Bangladesh, ultimately decides on this additional requirement through the Face-to-Face SRP-SREP dialogue.

Pillar-3: Market discipline i.e. Pillar-3 comprises a set of disclosures on the capital adequacy and risk management framework of the Bank. Market discipline is aimed to complement the Minimum Capital Requirements and the Supervisory Review Process. These disclosures are intended for market participants to access key information for eventual assessment of the position of a bank regarding holding of assets and to identify the risks relating to the assets as well as the capital adequacy to meet probable loss of assets. This disclosure framework also allows the stakeholders making comparison among the banks operating in the market. In Addition of these pillars, Basel III framework has also introduced Leverage Ratio, which is a non-risk-based measure of On & Off-Balance Sheet

leverage in the banking sector and performs as a supplementary measure to the risk based capital requirement and two other ratios, namely: Liquidity Coverage Ratio and Net Stable Funding Ratio to address the liquidity risk more meticulously.

1.00 Scope of Application

The disclosure made in the following sections has addressed United Commercial Bank Limited as a single entity (Solo Basis) as well as a consolidated entity (Consolidated Basis), the scope of which is asunder:

- 'Solo Basis' refers to all position of the Bank including the Offshore Banking Unit.
- 'Consolidated Basis' refers to all position of the Bank and its subsidiary companies.

The consolidated financial statements of UCBL consist of the statements of:

- United Commercial Bank Limited
- UCB Capital Management Limited
- UCB Investment Limited

A brief description of the Bank and its subsidiaries is given below:

● United Commercial Bank Limited

United Commercial Bank Limited (UCBL) was incorporated in Bangladesh as a public limited company with limited liability on 26 June 1983 under Companies Act 1913 to carry on banking business in Bangladesh. Bangladesh Bank gave the permission for commencement of its business on 13 November 1983.

Disclosures on Risk Based Capital (Basel III)

The Bank presently has a business network comprising 158 branches, 01 (One) Off-shore Banking Unit and 02 (Two) subsidiaries as on 31 December 2015. It is a conventional commercial bank. The bank offers services for all commercial banking needs of the customers, which include deposit banking, loans & advances, export import financing, inland and international remittance facility etc. The bank is listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited as a publicly traded Company.

The registered office of the Bank is located at Plot # CWS (A)1, Gulshan Avenue, Dhaka-1212, which is also the principal place of its business.

Subsidiaries of United Commercial Bank Limited:

● UCB Capital Management Limited

UCB Capital Management Limited, a subsidiary of United Commercial Bank Limited, has incorporated in Bangladesh as private limited company with limited liability on 20 November 2007. The activities of the company include brokerage service, margin loan etc. As of now, the company is carrying out its activities under the license of Dhaka Stock Exchange Ltd. and Chittagong Stock Exchange Ltd. UCBL holds 51,34,999 nos. of shares of UCB Capital Management Limited with face value of Tk. 100 each which is equivalent to 99.99998% of total shares of the company.

● UCB Investment Limited

UCB Investment Limited was incorporated in Bangladesh as a private limited company with limited liability as on 3 August of 2011 under Companies Act 1994. The principal objective of the company is to carry out full-fledged merchant banking activities i.e. portfolio management, share transfer agent, fund management to issue in the capital and security market, underwrite, manage and distribute the issue of stock shares, bonds and other securities. The principal place of business and the registered office of the company is located at Sara Tower (9th Floor), 11/A Toyenbee Circular Road, Motijheel C/A, Dhaka - 1000.

UCBL holds 24,975,000 nos. of shares of UCB Investment Limited with face value of Tk. 10 each which equivalent to 99.90% of total shares of the company.

● Off-shore Banking Unit (OBU)

United Commercial Bank Ltd. has an Offshore Banking Unit, as a separate business unit transacting exclusively in Foreign Currency, established under the Rules and guideline of Bangladesh Bank. The Bank obtained the Off-shore Banking Unit permission vide letter no. BRPD (P-3)744(117)/2010-2577 dated 9th June, 2010. The Bank commenced the operation of its Off-shore Banking Unit from November 10, 2010. Presently, the Bank has 01 (One)

unit in Dhaka operating under the Rules and guideline of Bangladesh Bank.

2.00 Capital Structure

Capital serves as a buffer to absorb unexpected losses as well as to fund ongoing activities of the firm. It can be defined as "the buffer storage of cash and safe assets that banks hold and to which they need access in order to protect creditors in case the bank's assets are liquidated". The bank's capital ratio is a measure of its financial health. Capital is the funds - traditionally a mix of equity and debt - that banks have to hold in reserve to support their business.

The capital structure of the Bank is categorized into two tiers - Tier I and Tier II capital; as per the Risk Based Capital Adequacy guidelines (December 2014) of Bangladesh Bank. The components of the total regulatory capital are enumerated as under:

1. Tier 1 Capital (going-concern capital)
 - a) Common Equity Tier 1
 - b) Additional Tier 1
2. Tier 2 Capital (gone-concern capital)

Tier 1 Capital: (Going-Concern Capital)

Going-concern capital is the capital which can absorb losses without triggering bankruptcy of the bank. Thereby, Tier 1 capital is the core measure of a bank's financial strength from a regulator's point of view.

Tier 1 Capital is comprised of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1). The components Common Equity Tier 1 (CET1) capital is given below:

- a) Paid up capital
- b) Non-repayable share premium account
- c) Statutory reserve
- d) General reserve
- e) Retained earnings
- f) Dividend equalization reserve
- g) Minority interest in subsidiaries, i.e., common shares issued by consolidated subsidiaries of the bank and held by third parties

Additional Tier 1 (AT1) capital consists of the following items:

- a) Non-cumulative Irredeemable Preference Shares
- b) Instruments issued by the banks that meet the qualifying criteria for AT1 (The instrument is perpetual i.e. there is no maturity date)
- c) Minority Interest, i.e., AT1 issued by consolidated subsidiaries to third parties

Disclosures on Risk Based Capital (Basel III)

Tier 2 Capital: (Gone–Concern Capital)

Gone–concern capital is the capital which will absorb losses only in a situation of liquidation of the bank. Gone–concern capital also called Tier 2 capital. Gone–Concern Capital represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank.

Tier 2 capital consists of the following items:

- General Provisions: (Maximum 1.25 percentage point of credit risk weighted assets)
- All other preference shares
- Subordinated debt/Instruments issued by the banks

that meet the qualifying criteria for Tier 2 capital:
(Minimum original maturity of at least five years)

- Minority Interest i.e. Tier–2 issued by consolidated subsidiaries to third parties;
- Revaluation Reserves (50% Fixed Assets and Securities 10% of equities) [The amount to be erased 20.00% each year starting from January 2015]

As per the guidelines of Bangladesh Bank, Tier–1 Capital of UCB consists of (i) Fully Paid–up Capital, (ii) Non–repayable Share Premium Account, (iii) Statutory Reserve,(iv) General Reserve, (v) Retained Earnings and (vi) Minority Interest in Subsidiaries.

The amount of Regulatory capital of the Bank as on December 31, 2015 is stated below:

		(BDT in million)	
Sl.	Particulars	Solo	Consolidated
1.0	Tier–1 (Going–Concern Capital)		
1.1	Common Equity Tier 1 (CET1)		
1.1.1	Paid–up Capital	10,039.34	10,039.34
1.1.2	Non–repayable Share premium account	1,454.98	1,454.98
1.1.3	Statutory Reserve	8,337.16	8,337.16
1.1.4	General Reserve	26.58	26.58
1.1.5	Retained Earnings	2,548.15	2,621.99
1.1.6	Dividend Equalization Reserve	0.00	0.00
1.1.7	Minority Interest in subsidiaries	0.00	0.00
	Sub–Total:	22,406.21	22,480.05
1.2	Additional Tier 1 (AT1)		
1.2.1	Non– cumulative Irredeemable Preference Shares	0.00	0.00
1.2.2	Instruments (Perpetual in nature)	0.00	0.00
1.2.3	Minority Interest: i.e., AT1 issued by consolidated subsidiaries	0.00	0.00
	Sub–Total:	0.00	0.00
	Total Tier 1 Capital	22,406.21	22,480.05
2.0	Tier–2 (Gone–Concern Capital)		
2.1	General Provision (Maximum 1.25 percentage of credit RWA)	2,925.08	2,933.35
2.2	Subordinated debt	6,600.00	6,600.00
2.3	Revaluation Reserves	1,295.16	1,295.16
	Total Tier 2 Capital	10,820.24	10,828.51
3.0	Regulatory Adjustments/Deduction from capital	0.00	0.00
	Total Eligible Capital	33,226.45	33,308.56

3.00 Capital Adequacy

Methodology of Capital Adequacy Determination:

The Bank has computed the Capital Adequacy Ratio adopting the following approaches:

a. Standardized Approach for Credit Risk to compute Capital Adequacy under Basel III, using national discretion for:

- Accepting the credit rating agencies as external credit

assessment institutions (ECA) for claims on Corporate & eligible SME Customers:

- Accepting Credit Risk Mitigation (CRM) against the financial securities.

b. Standardized (Rule Based) Approach for Market Risk; &
c. Basic Indicator Approach for Operational Risk.

Disclosures on Risk Based Capital (Basel III)

Assessment of the adequacy of capital: For assessing Capital Adequacy, the Bank has adopted Standardized Approach for Credit Risk measurement, Standardized (Rule Based) Approach for Market Risk measurement and Basic Indicator Approach for Operational Risk measurement.

The Bank focuses on strengthening risk management and control environment rather than increasing capital to cover up weak risk management and control practices. UCB has been generating most of its incremental capital from retained profit (stock dividend and statutory reserve transfer etc.) to support incremental growth of Risk Weighted Assets (RWA). Besides meeting regulatory capital requirement, the

Bank maintains adequate capital to absorb material risks foreseen. Therefore, the Bank's Capital Adequacy Ratio (CAR) remains consistently within the comfort zone. During the year 2015, the CAR ranges from 10.17 % to 12.21% on **consolidated basis** and from 10.14% to 12.16% on **solo basis** against minimum requirement of 10% of RWA. Risk Management Division (RMD) under the guidance of the SRP Team/Risk Management Committee at management level and Basel implementation Unit is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to.

The Capital Requirement and Capital to Risk-weighted Asset Ratio (CRAR) of the Bank as on December 31, 2015 are as under:

Particulars	(BDT in million)	
	Solo	Consolidated
Capital requirement for Credit Risk	24,359.56	24,290.33
Capital requirement for Market Risk	745.52	747.09
Capital requirement for Operational Risk	2,227.63	2,235.31
Total Capital Requirement under Pillar-I	27,332.71	27,272.73
Capital to Risk-weighted Asset Ratio (CRAR)	12.16%	12.21%
Common Equity Tier 1 Capital to Risk-weighted Asset Ratio	8.20%	8.24%
Tier 1 Capital to Risk-weighted Asset Ratio	8.20%	8.24%
Tier 2 Capital to Risk-weighted Asset Ratio	3.96%	3.97%
Capital Conservation Buffer	2.16%	2.21%
Available Capital under Pillar 2 Requirement	5,893.74	6,035.83

4.00 Credit Risk

The possibility of incurring loss due to inability of a borrower or counterparty to honor its obligations or fulfilling their commitment in accordance with the agreed terms and conditions is termed as credit risk. In other words, it is the loss associated with degradation in the credit quality of borrowers or counterparties. In a Bank's portfolio, losses stem from outright default due to the inability or unwillingness of the customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio value arising from actual or perceived deterioration in credit quality. Credit risk emanates from a bank's on and off-balance sheet dealings with an individual, firm, company, corporate entity, bank, financial institution or a sovereign.

Past Due/Impaired Loans

Bank classifies loans and advances (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. An impaired NPA is defined as a loan or an advance where interest and/or installment of principal remain overdue for more than 60 days in respect of Continuous loan, Demand loan or Term Loan etc.

Classified loans are categorized under following 03 (three) categories:

1. Sub-standard
2. Doubtful
3. Bad & Loss

Any continuous loan will be classified as:

- 'Sub-standard' if it is past due/overdue for 3 months or beyond but less than 6 months.
- 'Doubtful' if it is past due/overdue for 6 months or beyond but less than 9 months.
- 'Bad/Loss' if it is past due/overdue for 9 months or beyond.

Any Demand Loan will be classified as:

- 'Sub-standard' if it remains past due/overdue for 3 months or beyond but not over 6 months from the date of claim by the bank or from the date of creation of forced loan.
- 'Doubtful' if it remains past due/overdue for 6 months or beyond but not over 9 months from the date of claim by the bank or from the date of creation of forced loan.

Disclosures on Risk Based Capital (Basel III)

- 'Bad/Loss' if it remains past due/overdue for 9 months or beyond from the date of claim by the bank or from the date of creation of forced loan.

In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'.

In case of Fixed Term Loans:

- If the amount of "past due installment" is equal to or more than the amount of installment(s) due within 3 (three) months, the entire loan will be classified as "Sub-standard".
- If the amount of "past due installment" is equal to or more than the amount of installment(s) due within 6 (six) months, the entire loan will be classified as "Doubtful".
- If the amount of "past due installment" is equal to or more than the amount of installment(s) due within 9 (nine) months, the entire loan will be classified as "Bad/Loss".

In case of Short-term Agricultural and Micro-Credit, the loans will be considered:

- 'Substandard' if the irregular status continuous for a period of 12 months from the stipulated due date as per loan agreement:
- 'Doubtful' if the irregular status continuous for a period of 36 months from the stipulated due date as per loan agreement:
- 'Bad/Loss' if the irregular status continuous for a period of 60 months from the stipulated due date as per loan agreement:

Approaches followed for Specific & General Allowances and Statistical Methods

As per the guideline of Bangladesh Bank regarding the provisioning of loans & advances, the Bank has followed the following approaches in calculating the Specific & General Allowances:

Types of Loans & Advances		Rate of Provision Requirement				
		UC	SMA	SS	DF	BL
Consumer	House Building & Professionals	2%	2%	20%	50%	100%
	Other than Housing Finance & Professionals to setup business	5%	5%	20%	50%	100%
Brokerage House, Merchant Banks, Stock Dealers, etc.		2%	2%	20%	50%	100%
Short term Agri. Credit and Micro Credit		2.50%	2.50%	5%	5%	100%
Small & Medium Enterprise Finance		0.25%	0.25%	20%	50%	100%
Others		1%	1%	20%	50%	100%

Methods used to measure Credit Risk

As per Central Bank's Guidelines, the Bank follows Standardized Approach for measurement of Credit Risk adopting the credit rating agencies as External Credit Assessment Institutions (ECAIs) for claims on Bank & Non-banking Financial Institutions (BNBFIs), Corporate & eligible SME Customers and Credit Risk Mitigation (CRM) against the financial securities & guarantees of loan exposure.

Credit Risk Management

Credit risk arises while the borrowers or counterparty to a financial transaction fails to discharge an obligation as per agreed covenants, resulting in financial loss to the Bank. Credit exposures may arise from both the banking and trading books as well as Off-Balance sheet exposures. Credit risk is managed in the UCBL through a framework that spell out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit

approval authority framework. Credit policies and standards are considered and approved by the Board of Directors.

1.1 Credit Risk Identification

Risk measurement plays a central role, along with judgment and experience, in informing risk taking and portfolio management decisions. The standard credit risk grading (CRG) system is used in both Corporate and SME Banking. The grading is used to assess the client along with a range of quantitative and qualitative factors. Our credit grades against Corporate & Medium clients are supported by external credit grades, and ratings assigned by external ratings agencies.

1.2 Credit Approval

Major credit exposures to individual borrowers, groups of connected counterparties and portfolios of retail exposures are reviewed by and recommended for approval to the competent authority by the risk review units. All credit approval authorities are delegated by the Board of Directors to executives based on their capability, experience & business acumen. Credit origination and approval roles are segregated in all cases.

Disclosures on Risk Based Capital (Basel III)

1.3 Credit Monitoring

We regularly monitor credit exposures, portfolio performance, and external trends through relationship and credit administration team at Branch and Corporate Office. Internal risk management reports containing information on key environmental, political and economic trends across major portfolios; portfolio delinquency and loan impairment performance; as well as credit grade migration are presented to risk committee Problematic Account Monitoring Cell (PAMC). The PAMC meets regularly to assess the impact of external events and trends on the credit risk portfolio and to define and implement our response in terms of appropriate changes to portfolio shape, underwriting standards, risk policy and procedures. Accounts or portfolios are placed on Early Alert (EA) when they display signs of weakness or financial deterioration. Such accounts and portfolios are subjected to a dedicated process overseen by the Special Asset Management Division. Account plans are re-evaluated and remedial actions are agreed and monitored. In Retail/Consumer Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behavior is also tracked and informed in lending decisions. Accounts which are past due are subject to a collections process, monitored in collaboration with the Relationship manager by the Risk function. Charged-off accounts of the Bank are managed by specialist recovery teams of Special Asset Management Division.

1.4 Concentration Risk

Credit concentration risk is managed within concentration caps set for counterparty or groups of connected counterparty, for industry sector; and for product. Additional targets are set and monitored for concentrations by credit committee. Credit concentrations are monitored by the responsible risk committees in each of the businesses and concentration limits that are material to the Bank are reviewed and approved at least annually by the Board of Directors.

1.5 Credit Risk Mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, insurance, and other guarantees. The reliance that can be placed on these mitigates is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. Risk mitigation policies determine the eligibility of collateral types. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. Collateral is valued in accordance with our Methodology for Valuation of Security/Collateral Assets, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral. Collateral held against impaired loans is maintained at fair value.

Distribution of Credit Exposure by Major Types

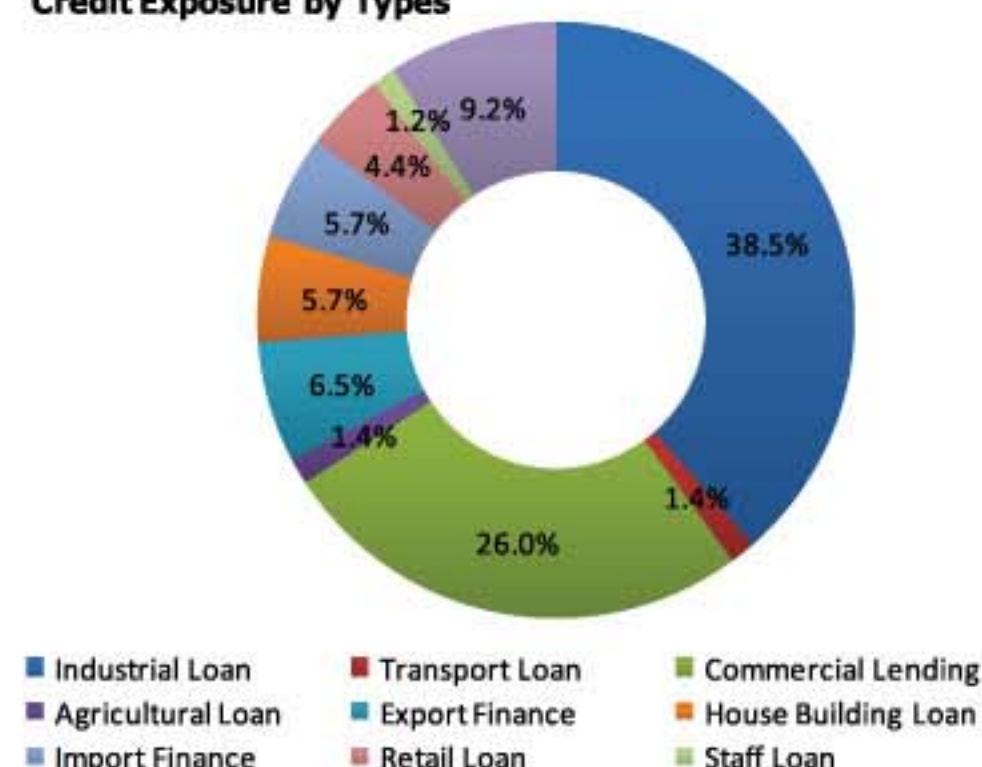
Types of Credit Exposure	BDT in Million	%
Industrial Loan	76,068.92	38.53%
Commercial Lending	51,245.01	25.96%
Export Finance	12,884.69	6.53%
House Building Loan	11,266.41	5.71%
Import Finance	11,266.31	5.71%
Retail Loan	8,615.41	4.36%
Agricultural Loan	2,787.20	1.41%
Transport Loan	2,740.11	1.39%
Staff Loan	2,420.35	1.23%
Others	18,119.22	9.18%
Total	197,413.64	100.00%

Geographical Distribution of Credit Exposure

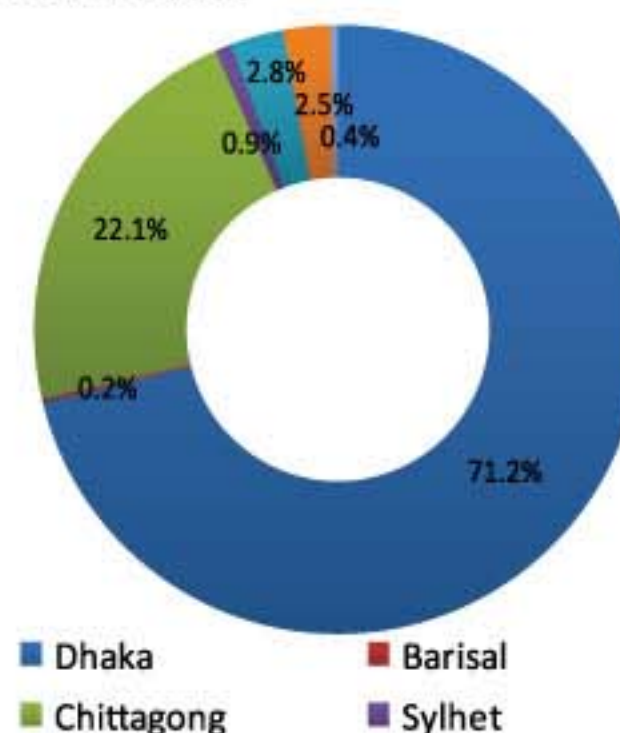
Division	BDT in Million	%
Dhaka	140,494.32	71.17%
Chittagong	43,601.57	22.09%
Khulna	5,597.16	2.84%
Rajshahi	4,908.86	2.49%
Sylhet	1,679.39	0.85%
Rangpur	789.23	0.40%
Barisal	343.11	0.17%
Total	197,413.64	100.00%

Disclosures on Risk Based Capital (Basel III)

Credit Exposure by Types



Division wise Loan



Industry Type Distribution of Exposure

Types of Credit Exposure	BDT in Million	%
Commercial trade financing	38,420.50	19.46%
RMG & Textiles Industry	28,106.86	14.24%
Other Manufacturing Industries	19,737.13	10.00%
Construction (other than housing)	17,587.12	8.91%
Housing industry	11,266.42	5.71%
Telecommunication, Transport & communication	5,730.01	2.90%
Service Industry	5,485.93	2.78%
Food products & processing	4,980.41	2.52%
Power & energy	4,945.10	2.50%
Agriculture	2,787.22	1.41%
Shipping Industries	1,315.41	0.67%
Others	57,051.52	28.90%
Total	197,413.64	100.00%

Residual Contractual Maturity wise Distribution of Exposure

Particulars	BDT in Million
On demand	1,964.30
Not more than three months	74,798.70
More than three months but less than one year	40,803.89
More than one year but less than five years	53,504.30
More than five years	26,342.45
Total	197,413.64

Loans & Advances and Provision

(BDT in Million)

Particulars	Loans & Advances	Provision against Loans & Advances
Total Loans and Advances	197,413.64	4,403.24
Un-Classified Loans & Advances	187,088.95	1,672.98
Classified Loans and Advances	10,324.68	2,730.26
Substandard (SS)	500.31	42.85
Doubtful (DF)	322.68	45.62
Bad/Los (BL)	9,501.69	2,641.79
Off-balance Sheet Items	150,713.79	1,252.10

Gross Non Performing Assets (NPAs)

Particulars	BDT in Million
Gross Non Performing Assets (NPAs)	10,324.68
Total Loans and Advances	197,413.64
NPAs to outstanding Loans & Advances	5.23%

Disclosures on Risk Based Capital (Basel III)

Movement of Non Performing Assets (NPAs)

Particulars	BDT in Million
Opening Balance	8,050.04
Additions	4,979.34
Reductions	2,704.70
Closing Balance	10,324.68

Movement of Specific Provisions for NPLs

Particulars	BDT in Million
Opening Balance	1,929.58
Adjustment due to Write-off	(192.59)
Provisions made during the period	812.27
Transferred from surplus provision	181.00
Closing Balance	2,730.26

5.00 Equities: Disclosures for Banking Book Positions

The major portion of the Bank's holding of equity exposure is mainly with the purpose of capital gain.

The quoted shares are valued both at cost price and market price basis. However, the unquoted shares are valued at their cost price.

Particulars	(BDT in Million)	
	Cost Price	Market Price
Investment in Quoted Share	3,342.40	3,299.53

Particulars	BDT in Million
Realized Gains	74.21
Unrealized Gains	580.51
Unrealized Losses	(623.39)
Net Unrealized Gains/(Loss)	(42.88)
Amount included in Tier-2 Capital (Based on balance of December 2014)	4.74
Capital requirement for Equity Risk (Specific & General)	659.91
Supervisory Provision against Classified Equity Investment	292.84

Capital Requirement as per Grouping of Equity: (BDT in Million)

Sector	Cost Price	Market price	Capital Charge		
			Specific Risk	General Market Risk	Total
Pharmaceuticals & Chemicals	601.69	702.39	70.24	70.24	140.48
Mutual Fund	675.78	452.45	45.24	45.24	90.49
Telecommunication	244.68	434.35	43.43	43.43	86.87
Textile	408.33	394.66	39.47	39.47	78.94
Fuel & power	347.25	310.02	31.00	31.00	62.00
Financial Institutions	150.09	300.89	30.09	30.09	60.18
Engineering	300.58	266.77	26.68	26.68	53.36
Bank	149.82	243.12	24.31	24.31	48.62
Ceramic Sector	125.39	60.70	6.07	6.07	12.14
Travel & Leisure	80.00	29.10	2.91	2.91	5.82
Cement	27.30	28.07	2.81	2.81	5.61
IT	22.20	16.76	1.68	1.68	3.35
Insurance	36.10	12.47	1.25	1.25	2.49
Tannery Industries	6.61	6.59	0.66	0.66	1.32
Miscellaneous	166.59	41.20	4.12	4.12	8.24
Total	3,342.41	3,299.53	329.95	329.95	659.91

Disclosures on Risk Based Capital (Basel III)

6.00 Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book reflects the shocks to the financial position of the Bank including potential loss that the bank may face in the event of adverse change in market interest rate. This has an impact on earning of the bank through Net Interest Earning as well as on Market Value of Equity or net worth. Thus this risk would have an impact on both earning potential and economic value of the Bank.

The Bank uses following measures for deriving value of capital requirement for interest rate risk.

i) Modified duration gap

ii) Simulation on market value of equity

iii) Impact of average interest rate fluctuation demonstrated in last 12 months from the date of computation. In the event of lack of data for last twelve month the bank considers data of maximum period available.

The Bank ensures that interest rate risk is not included within the market risk. The Bank has calculated the rate sensitive assets and liabilities with maturity up to 12 months bucket and applied the sensitivity analysis to measure the level of interest rate shock on its capital adequacy.

Particulars	(BDT in Million)		
	Upto 3 months	3 – 6 months	6 – 12 months
Rate Sensitive Assets (RSA)	101,395.60	26,683.00	32,959.60
Rate Sensitive Liabilities (RSL)	93,701.10	29,721.80	34,356.80
Gap (RSA – RSL)	7,694.50	(3,038.80)	(1,397.20)
Cumulative Gap	7,694.50	4,655.70	3,258.50

Interest Rate Shock on Capital		(BDT in Million)
Total Regulatory Capital		33,226.45
Total Risk Weighted Assets (RWA)		273,903.71
Capital to Risk-weighted Asset Ratio (CRAR)		12.16%

Assumed decrease in Interest Rate	1%	2%	3%
Earnings Impact on Cumulative Gap	(32.58)	(65.17)	(97.75)
Capital After Shock	33,193.86	33,161.28	33,128.69
CRAR after Shock	12.14%	12.13%	12.12%
Decrease in CRAR	-0.02%	-0.03%	-0.04%

7.00 Market Risk

Market risk is a trading book concept. It may be defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The market risk positions subject to the risks pertaining to interest rate related instruments and equities in the trading book and Foreign exchange risk and commodities risk throughout the Bank. This signifies the risk of loss due to decrease in market portfolio arising out of market risk factors. It may be mentioned that the Bank considers Interest Rate Risk on Banking Book separately.

The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance asset growth and trade related transaction.

Methods used to measure Market Risk:

Standardized (Rule Based) Approach is used to measure the Market Risk of the Bank whereas for Interest Rate Risk and Equity Risk both General and Specific risk factors are applied for calculating capital charge and for Foreign Exchange and Commodities only General risk factor is applied.

Management System of Market Risk:

The duties of managing the market risk including liquidity, interest rate and foreign exchange risk lies with the Treasury Division under the supervision of ALCO committee. The ALCO committee is comprised of senior executives of the Bank, who meets at least once in a month. The committee evaluates the current position of the Bank and gives directions to mitigate the market risk exposure to a minimum level.

Capital Charges for Market Risk	BDT in Million
Interest Rate Related instruments	73.37
Equities	659.91
Foreign Exchange Position	12.24
Commodities	0.00
Total	745.52

Disclosures on Risk Based Capital (Basel III)

8.00 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Recognizing the importance of information technology in banking business, the Bank has considered information technology risk as an independent risk.

Views of BOD on system to reduce Operational Risk:

The responsibility of mitigating the operational risk of the Bank lies with Internal Control & Compliance Division under the guidance of Audit Committee of the Board. The audit committee delivers policies and directions from time to time to keep the operating efficiency of the Bank up to the mark.

Performance gap of executives and staffs:

The Bank identifies the loop holes among the effectiveness

Capital Charges for Operational Risk

Basis	Operational Risk	2013	2014	2015	Capital Charge
Solo	Gross Income	12,595.67	15,800.60	16,156.41	2,227.63
Consolidated	Gross Income	12,609.18	15,860.68	16,236.27	2,235.31

9.00 Liquidity Ratio

As per the BRPD Circular no. 18 dated December 21 of 2014, Bangladesh Bank has strengthened the liquidity framework by developing two minimum standards for funding liquidity. These standards have been developed to achieve two separate but complementary objectives.

The first objective is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for one month. Liquidity Coverage Ratio (LCR) addresses this objective.

The second objective is to promote resilience over a longer time horizon by creating additional incentives for a bank to fund its activities with more stable sources of funding on an ongoing structural basis. The Net Stable Funding Ratio (NSFR) has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities.

Views of BOD on system to reduce liquidity Risk

United Commercial Bank Limited maintains diversified and stable funding base comprising of core retail, corporate and institutional deposits to manage liquidity risk. The prime responsibility of the liquidity risk management of the bank rests with Treasury Division under the supervision of ALCO Committee, which maintains liquidity based on current liquidity position, anticipated future funding requirement, sources of fund, options for reducing funding needs, present and anticipated asset quality, present and future earning capacity, present and planned capital position, etc.

Methods used to measure Liquidity risk

Liquidity measurement involves assessing all of a bank's cash inflows against its outflows to identify the potential for any net shortfalls including funding requirements for off

of the employees and executives. These loop holes are removed by arranging appropriate training programs, offering competitive packages and providing best working environment. In this process, the Bank kept the performance gap of executives and staffs to a minimum level.

Potential external event:

No potential external event is expected to expose the Bank to significant operational risk. The Bank has a separate Operational Risk policy addressing specific issues involving Operational Risk.

Methods used to measure Operational Risk:

Basic Indicator Approach is used to measure Operational Risk where capital charge is 15% on last three years average positive gross income of the Bank.

balance sheet commitments.

An important aspect of measuring liquidity is making assumptions about future funding needs, both in the very short-term and for longer time periods. Another important factor is the critical role a bank's reputation plays in its ability to access funds readily and at reasonable terms. Several key liquidity risk indicators monitored on a regular basis to ensure healthy liquidity position are as follows:

- ☛ Cash Reserve Ratio
- ☛ Statutory Liquidity Requirement
- ☛ Advance to Deposit Ratio
- ☛ Liquidity Coverage Ratio (LCR)
- ☛ Net Stable Funding Ratio (NSFR)
- ☛ Structural Liquidity Profile
- ☛ Maximum Cumulative Outflow
- ☛ Medium Term Funding Ratio
- ☛ Volatile Liability Dependency Ratio
- ☛ Liquid Asset to Total Deposit Ratio
- ☛ Liquid Asset to Short Term Liabilities, etc

Liquidity risk management system

The intensity and sophistication of liquidity risk management process depend on the nature, size and complexity of a bank's activities. Sound liquidity risk management employed in measuring, monitoring and controlling liquidity risk is critical to the viability of the bank.

The Asset Liability Committee (ALCO), which meets at least once in a month, is responsible for managing and controlling liquidity of the bank. Treasury Front Office closely monitors and controls liquidity requirements on a daily basis by appropriate coordination of funding activities and they are primarily responsible for management of liquidity in the bank. A monthly projection of fund flows is reviewed in ALCO meeting regularly.

Disclosures on Risk Based Capital (Basel III)

Policies and processes for mitigating liquidity risk

In order to develop comprehensive liquidity risk management framework, the bank has Board approved Contingency Funding Plan (CFP), a set of policies and procedures that serves as a blueprint for the bank to meet its funding needs in a timely manner and at a reasonable cost. In this sense, a CFP is an extension of ongoing liquidity management and formalizes the objectives of liquidity management by ensuring:

- Maintenance of a reasonable amount of liquid assets;
- Measurement and projection of funding requirements; and
- Management of access to funding sources.

CFP also provides directions for plausible actions in distress and emergency situations. In case of a sudden liquidity stress, it is important for the bank to be seemed organized and efficient to meet its obligations to the stakeholders.

Maturity ladder of cash inflows and outflows are effective tool to determine the bank's cash position. A maturity ladder estimates a bank's cash inflows and outflows and thus net

deficit or surplus (GAP) on a day to day basis and different buckets (e.g. call, 2-7 days, 1 month, 1-3 months, 3-12 months, 1-5 years, over 5 years).

Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio is a new liquidity standard built on the methodologies of traditional liquidity coverage ratio used by banks to assess exposure to contingent liquidity events. LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days.

$$\text{LCR} = \frac{\text{Stock of High Quality Liquid Assets}}{\text{Total net cash outflows over the next 30 calendar days}}$$

The minimum standard for LCR is greater than or equal to 100. However, the bank's status as on 31 December 2015 in this ratio is as follows:

Particulars	Regulatory Standard	December, 2015
Total Stock of High Quality Liquid Assets		58,048.23
Total Net cash outflows over the next 30 calendar days		36,648.92
Liquidity Coverage Ratio (LCR)	Greater than or equal to 100	158.39%

Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio is another new liquidity standard introduced by the Basel Committee. The NSFR aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items.

The minimum acceptable value of this ratio is 100 percent, indicating that available stable funding (ASF) should be at

least equal to required stable funding (RSF). ASF consists of various kinds of liabilities and capital with percentage weights attached given their perceived stability. RSF consists of assets and off-balance sheet items, also with percentage weights attached given the degree to which they are illiquid or "long-term" and therefore requires stable funding. The time horizon of the NSFR is one year. Like the LCR, the NSFR calculations assume a stressed environment. The status of Net Stable Funding Ratio (NSFR) as on 31 December, 2015 is as under:

Particulars	Regulatory Standard	December, 2015
Available amount of stable funding (ASF)		259,985.37
Required amount of stable funding (RSF)		244,484.88
Net Stable Funding Ratio (NSFR)	Greater than 100	106.34%

10.00 Leverage Ratio

In order to avoid building-up excessive on-and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced by the Bangladesh Bank as per BRPD Circular no. 18 dated December 21 of 2014.

The Leverage Ratio is a non-risk based measure introduced to monitor and measure build-up of leverage on credit institutions' balance sheets aiming at containing the cyclicity of lending. It is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is calculated by dividing tier 1 capital by assets (both on-balance and off-balance sheet).

Views of BOD on system to reduce excessive leverage

The responsibility of monitoring excessive leverage of the Bank lies with the Concerned Divisions (e.g. CRMD, FI & OBU, FAD, etc.) under the guidance of the Board of Directors of the bank. The Board delivers policies and processes from time to time for managing the Bank's leverage ratio up to the mark.

Policies and processes for managing excessive on and off-balance sheet leverage

United Commercial Bank Limited has policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. UCBL maintains the leverage ratio above the regulatory limit as a part of the Bank's risk appetite framework.

Disclosures on Risk Based Capital (Basel III)

The Approaches for calculating exposure

In order to measure the exposure consistently with financial accounts, the following approaches are applied by the bank:

- i. On balance sheet, non-derivative exposures are net of specific provisions and valuation adjustments (e.g. surplus/deficit on Available for sale (AFS)/ Held-for-trading (HFT) positions).
- ii. Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure.
- iii. Netting of loans and deposits is not allowed.

On-Balance Sheet Items

The exposure measure includes the following treatments for

Securities Financing Transactions (e.g. repo, reverse repo etc.) and derivatives (if any):

Repurchase Agreements and Securities Financing:

Securities Financing Transactions (SFT) are a form of secured funding and therefore an important source of balance sheet leverage that are included in the leverage ratio. Therefore, the bank has to calculate SFT by applying the accounting measure of exposure; and without netting various long and short positions with the same counterparty

Off-Balance Sheet Items

The Bank calculates the off-balance sheet (OBS) items as per the Bangladesh Bank's prescribed credit conversion factor (CCF) are presented as under:

Exposure Type	Credit Conversion Factor (CCF)
Direct Credit Substitutes	100%
Performance related contingencies	50%
Short-term self-liquidating trade letters of credit	20%
Lending of securities or posting of securities as collateral	100%
Other commitments with certain drawdown	100%
Commitments with original maturity of one year or less	20%
Commitments with original maturity of over one year	50%
Other commitments that can be unconditionally cancelled by any time	10%

Leverage Ratio

A minimum Tier 1 leverage ratio of 3% is being prescribed by Bangladesh Bank both at solo and consolidated basis. The bank maintains leverage ratio on quarterly basis. The

status of leverage ratio at the end of each calendar quarter is submitted to Bangladesh Bank showing the average of the month based on capital and total exposure. The formula of Leverage Ratio is as under:

$$\text{Leverage Ratio} = \frac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$$

Particulars	(BDT in Million)	
	Solo Basis	Consolidated Basis
Tier 1 Capital*	22,406.21	22,480.05
On Balance Sheet Exposure*	291,116.96	291,009.08
Off-Balance Sheet Exposure*	80,937.00	80,937.00
Total Exposure	372,053.96	371,946.08
Leverage Ratio	6.02%	6.04%

* Considering all regulatory adjustments

11.00 Remuneration

The disclosure requirements on Remuneration allow market participants to assess the quality of the bank's compensation practices and the incentives towards risk taking they supports.

United Commercial Bank Limited has a flexible compensation and benefits system that helps to ensure pay equity, is linked with performance that is understood by employees, and keeps in touch with

employee desires and what's coveted in the market, while maintaining a balance with the business affordability. The compensation and benefits are regularly reviewed through market and peer group study. The well-crafted total rewards help the Bank to attract, motivate and retain talent that produces desired business results.

Disclosures on Risk Based Capital (Basel III)

The structure and level of remuneration are reviewed time to time based on Bank's business performance and affordability. Other than the regular monthly payments and a good number of allowances, UCBL has variety of market-competitive benefits schemes. The various cash and non-cash benefits include: Bank provided chauffeured car facility for Top Level Executives, Car maintenance allowance, Leave allowance, Medical treatment allowance, Maternity benefits, Employee Car loan facility, Housing loan facility, Travel allowance for Top Level Executives, Festival bonus, etc. UCBL also provides long-term as well as retirement benefits to employees, like: Leave encashment, Provident fund, Gratuity benefit, Retirement benefit, Partial and full disability benefit, Death benefit to family members etc.

Career Progression & Succession Planning

UCBL always plans for employees so that they can advance their career goals. This includes advancement into more responsible positions. The company supports career opportunities internally so that talented employees are placed in upgraded positions and thereby enables them to deliver their greatest value to the organization. In addition to vertical career growth, employees may also grow horizontally. Whenever possible, Human Resources Management Division mobilizes employees across different functions and branches; thus assisting them to progress with varied skills and experience.

Besides encouraging individual employee growth and development, the Bank also gives effort to identify and retain the human resources who can potentially be the successors of mission critical roles. The Bank acknowledges that Succession Planning & Management is vital to the continued success. So, the Bank continuously assesses organizational, divisional and team capability gaps to identify, develop and retain the successors in a timely manner to meet the demands of the future.

Performance Management Program

The Bank has a comprehensive performance management program that evaluates employees' yearly performance against the given targets at the year-end. The performance evaluation is a process where an employee initially rated by the first level supervisor and then finally by the second level supervisor. To ensure a proper performance evaluation and rate the employees based on their comparative performance, the line Management is guided by the Human Resources Management

Division. This performance appraisal system is considered as crucial for the Bank as this is a very important tool to identify and distinguish the performers. The Bank believes that a well-executed performance appraisal system can help to reward the deserving employees, as well as help to ensure further development program for the rest. The comprehensive performance management also includes an assessment of employees' functional and leadership competencies. This appraisal process helps to identify the competency gap and training needs of employees. All permanent employees of UCBL undergo annual performance appraisal process.

Learning & Development

United Commercial Bank Limited boasts a state-of-the-art Training Facility in its Corporate Office premises with dormitory facility at different other locations. The Bank has been continuously pursuing for transformation of its Human Resources to Human Capital through providing appropriate learning and development initiatives in every aspects of work area. Human Resources Management Division regularly undertakes effectively designed training programs targeting the right group of employees through proper training need assessment.

In 2015, UCB's Learning and Development Centre arranged training on 90 different topics for 3,306 enthusiastic participants. Besides, a total of 180 employees were sent to participate in various training programs/conferences in home and abroad. In total, the number of participants who participated in trainings/ conferences has increased by 23% over the last year.