DISCLOSURES ON RISK BASED CAPITAL ADEQUACY (BASEL III)

'Market Discipline', which is basically a set of disclosures, is one of the key components in the Basel regime originally introduced as the 3rd Pillar in the Basel II regulation and has been continued in the Basel III regulation. 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.

Like the Basel II, Basel III regime is also composed of three-mutually reinforcing pillars i.e. Minimum Capital Requirement, Supervisory Review Process and Market Discipline but in an enhanced level as is depicted below:

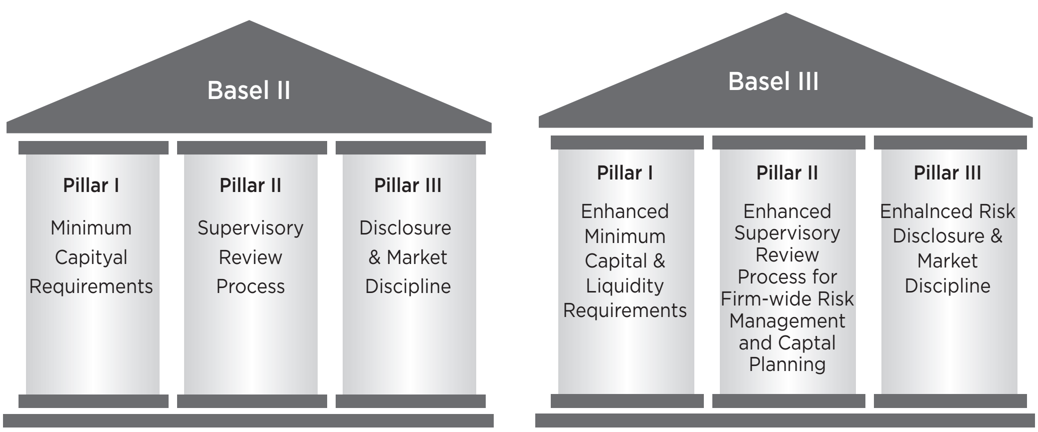
Pillar-1: Credit Risk, Market Risk & Operational Risk constitutes the basic risks (under this Pillar) that require the Bank to maintain the minimum level of capital. In case of identifying both credit and market risk, the Bank resorts to the Standardized Approach. For measuring the operational risk, Basic Indicator Approach is followed.

Pillar-2: Apart from the above mentioned risks, all other risks are assessed through the evaluation of Supervisory Review Process i.e. the Pillar-2. The Additional Capital Requirement of a Bank is estimated through Internal Capital Adequacy Assessment Process. The supervisor will evaluate the risk assessment process of the Bank and decide on the acceptability/adjustment of the process.

Pillar-3: Market discipline i.e. Pillar-3 comprises a set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among the banks operating in the market.

Basel III framework has also newly introduced disclosure/maintenance of the following ratios/information:

- ❐ Leverage Ratio (A non-risk based measure of on & off-balance sheet exposures, introduced as a supplementary measure to the risk based capital requirement)
- ❐ Liquidity Ratios (Introduced to address the liquidity risk more meticulously):
  - Liquidity Coverage Ratio (LCR)
  - Net Stable Funding Ratio (NSFR)
- ❐ Employee Remunerations (Introduced for greater transparency)



It is to be mentioned here that we are completely in the right course in implementation of Basel III regulation as is directed by Bangladesh Bank. Following is the depiction of Bangladesh Bank directed Implementation Roadmap and status of our progression:

Particulars	2015	2016	2017	2018	2019
Minimum Common Equity Tier 1 (CET-1) Capital Ratio	4.5%	4.50%	4.50%	4.50%	4.50%
UCB Status	8.20%	7.82%	--	--	--
Capital Conservation Buffer	-	0.625%	1.25%	1.875%	2.50%
UCB Status	2.16%	1.86%	--	--	--
Minimum CET1 plus Capital Conservation Buffer	4. 5%	5.125%	5.75%	6.375%	7.00%
UCB Status	8.20%	7.82%	--	--	--
Minimum Tier 1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%
UCB Status	8.20%	7.82%	--	--	--
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
UCB Status	12.16%	11.39%	--	--	--
Minimum Total Capital plus Capital Conservation Buffer	10.00%	10.625%	11.25%	11.875%	12.50%
UCB Status	12.16%	11.39%	--	--	--
Phase-in of deductions from CET1					
Excess investment over 10% of a bank's equity in the equity of banking, financial and insurance entities.	20%	40%	60%	80%	100%
UCB Status	--	--	--	--	--
Phase-in of deductions from Tier-2 Revaluation Reserve (RR)					
RR for Fixed assets, Securities and Equity Securities	20%	40%	60%	80%	100%
UCB Status	Done	Done	--	--	--
Leverage Ratio	3.00%	3.00%	3% Readjustment	Migration to Pillar1	
UCB Status	6.02%	5.48%	--	--	--
Liquidity Coverage Ratio (LCR)	≥100% (From Sep-15)	≥100%	≥100%	≥100%	≥100%
UCB Status	158.36%	160.34%			
Net Stable Funding Ratio (NSFR)	>100% (From Sep-15)	>100%	>100%	>100%	>100%
UCB Status	106.24%	110.83%			

It is to be mentioned here that from the year 2015, we started transiting from the Basel II to Basel III regime/framework that will be completed by the year 2019.

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. The Bank presently has a business network comprising 168 branches, 01 (One) Off-shore Banking Unit and 02 (Two) subsidiaries as on 31 December 2016. 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 principal place of business and the registered office of the Bank is located at Plot # CWS (A) 1, Gulshan Avenue, Dhaka – 1212.

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.

Subsidiaries of United Commercial Bank Limited:

UCB Capital Management Limited

During the year 2014; UCB Securities Limited, a subsidiary company of the bank and Anam Capital Limited, a subsidiary company of UCB Securities Limited has been merged with UCB Capital Management Limited as per approval from the court and as such UCB Capital Management Limited has become the subsidiary company of United Commercial Bank Limited. 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 24,990,000 nos. of shares of UCB Investment Limited with face value of Tk. 10 each which equivalent to 99.96% of total shares of the company.

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:

- Tier 1 Capital (going-concern capital)
  - Common Equity Tier 1
  - Additional Tier 1
- 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:

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

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;
- 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, and (v) Retained Earnings.

Tier-2 Capital consists of (i) General Provision, (ii) 50% of Asset revaluation reserve, 50% of Revaluation gain/loss on investment (HFT), 10% of Revaluation reserve for equity instruments, (based on the revaluation amount of 2014) and (iii) Subordinated debt/subordinated bond as approved by Bangladesh Bank etc.

Capital structure of the Bank as on December 31, 2016 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	10,541.31	10,541.31
1.1.2	Non-repayable Share premium account	1,454.98	1,454.98
1.1.3	Statutory Reserve	9,375.13	9,375.13
1.1.4	General Reserve	26.58	26.58
1.1.5	Retained Earnings	1,628.97	1,702.14
1.1.6	Dividend Equalization Reserve	-	-
1.1.7	Minority Interest in subsidiaries	-	-
	Sub-Total:	**23,026.97**	**23,100.14**

Sl.	Particulars	Solo	Consolidated
1.2	**Additional Tier 1 (AT1)**		
1.2.1	Non- cumulative Irredeemable Preference Shares	-	-
1.2.2	Instruments (Perpetual in nature)	-	-
1.2.3	Minority Interest; i.e., AT1 issued by consolidated subsidiaries	-	-
	Sub-Total:	**-**	**-**
	Total Tier 1 Capital	**23,026.97**	**23,100.14**
2.0	**Tier-2 (Gone-Concern Capital)**		
2.1	General Provision	3,323.55	3,373.28
2.2	Subordinated debt	6,200.00	6,200.00
2.3	Revaluation Reserves	971.37	971.37
	Total Tier 2 Capital	**10,494.92**	**10,544.65**
3.0	Regulatory Adjustments/Deduction from capital	-	-
	Total Regulatory Capital	**33,521.89**	**33,644.79**

3.00 Capital Adequacy

Methodology of Capital Adequacy Determination

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

- 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 (ECAI) for claims on Corporate & eligible SME Customers;
  - Accepting Credit Risk Mitigation (CRM) against the financial securities.
- Standardized (Rule Based) Approach for Market Risk; and
- Basic Indicator Approach for Operational Risk.

Assessment of the adequacy of capital:

For accessing 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 to Risk Weighted Asset Ratio (CRAR) remains consistently within the comfort zone. During the year 2016, the CRAR ranges from 11.31 % to 11.42% on consolidated basis and from 11.27% to 11.39% 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, 2016 are as under;

(BDT in million)

Particulars	Solo	Consolidated
Capital requirement for Credit Risk	25,933.87	25,844.78
Capital requirement for Market Risk	1,028.77	1,132.27
Capital requirement for Operational Risk	2,476.51	2,482.06
Total Capital Requirement under Pillar-I	29,439.15	29,459.11
Capital to Risk-weighted Asset Ratio (CRAR)	11.39%	11.42%
Common Equity Tier 1 Capital to Risk-weighted Asset Ratio	7.82%	7.84%
Tier 1 Capital to Risk-weighted Asset Ratio	7.82%	7.84%
Tier 2 Capital to Risk-weighted Asset Ratio	3.57%	3.58%
Capital Conservation Buffer	1.39%	1.42%
Available Capital under Pillar 2 Requirement	4,082.74	4,185.69

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:

- Sub-standard
- Doubtful
- 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.
- 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:

	Rate of Provision Requirement				
Types of Loans & Advances	**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%
All Other Credit	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.

Credit Risk Measurement

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.

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/divisions. 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.

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 of 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.

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.

Credit Risk Mitigation

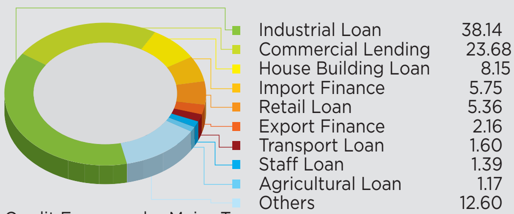
Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, insurance, and other guarantees. The reliance that can be placed on these mitigates is carefully assessed in light of issues such as legal certainty and enforceability, 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

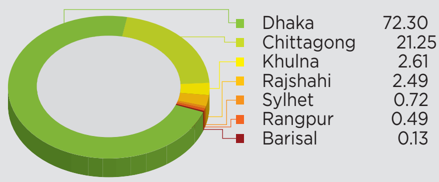
Types of Credit Exposure	BDT in Million	In %
Industrial Loan	85,329.90	38.14
Commercial Lending	52,971.62	23.68
House Building Loan	18,227.61	8.15
Import Finance	12,863.46	5.75
Retail Loan	11,993.41	5.36
Export Finance	4,833.01	2.16
Transport Loan	3,569.91	1.60
Staff Loan	3,101.63	1.39
Agricultural Loan	2,608.06	1.17
Others	28,198.57	12.60
Total	**223,697.18**	**100.00**

Geographical Distribution of Credit Exposure

Division	BDT in Million	In %
Dhaka	161,731.80	72.30
Chittagong	47,544.65	21.25
Khulna	5,848.45	2.61
Rajshahi	5,569.82	2.49
Sylhet	1,612.34	0.72
Rangpur	1,098.62	0.49
Barisal	291.50	0.13
Total	**223,697.18**	**100.00**



Credit Exposure by Major Types



Division wise Credit Exposure

Industry wise Distribution of Exposure

Credit Exposure	BDT in Million	In %
RMG & Textiles Industry	41,600.30	18.60
Commercial trade financing	40,176.31	17.96
Other Manufacturing Industries	21,903.83	9.79
Construction (other than housing)	20,379.20	9.11
Housing industry	18,227.64	8.15
Power & energy	8,397.57	3.75
Food products & processing	7,584.83	3.39
Telecommunication, Transport & communication	6,133.46	2.74
Service Industry	4,224.25	1.89
Agriculture	2,608.06	1.17
Shipping Industries	1,818.62	0.81
Others	50,643.11	22.64
Total	**223,697.18**	**100.00**

Residual Contractual Maturity wise Distribution of Exposure

Particulars	BDT in Million
On demand	16,020.52
Not more than three months	65,020.14
More than three months but less than one year	64,814.42
More than one year but less than five years	50,092.62
More than five years	27,749.48
Total	**223,697.18**

Loans & Advances and Provision BDT in Million

Particulars	Loans & Advances	Provision against Loans & Advances
Total Loans and Advances	223,697.18	5,901.99
Performing Loans & Advances	205,776.61	1,741.87
Classified Loans and Advances	17,920.57	4,160.12
Substandard (SS)	3,167.87	329.97
Doubtful (DF)	717.81	131.53
Bad/Loss (BL)	14,034.89	3,698.62
Off-Balance Sheet Items	171,169.75	1,581.68

Gross Non Performing Assets (NPAs)

Particulars	BDT in Million
Gross Non Performing Assets (NPAs)	17,920.57
Total Loans and Advances	223,697.18
NPAs to outstanding Loans & Advances	8.01%

Movement of Non Performing Assets (NPAs)

Particulars	BDT in Million
Opening Balance	10,324.69
Additions	9,306.21
Reductions	(1,710.33)
Closing Balance	17,920.57

Movement of Specific Provisions for NPLs

Particulars	BDT in Million
Opening Balance	2,730.27
Adjustment due to Write-off	(577.12)
Provisions made during the period	1,918.96
Transferred from surplus provision	88.01
Closing Balance	4,160.12

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.

(BDT in Million)

Particulars	Cost Price	Market Price
Investment in Quoted Share	4,253.56	5,029.96

Particulars	BDT in Million
Realized Gains	111.32
Unrealized Gains	1,310.18
Unrealized Losses	(533.79)
Net Unrealized Gains/(Loss)	776.39
Amount included in Tier-2 Capital (Based on balance of December 2014)	3.55
Capital requirement for Equity Risk (Specific & General)	1,006.00
Supervisory Provision against Classified Equity Investment	292.84

Capital Requirement as per Grouping of Equity:

			Capital Charge		Total
Sector	**Cost Price**	**Market price**	**Specific Risk**	**General Market Risk**	**Capital Charge**
Pharmaceuticals & Chemicals	957.00	1,354.75	135.47	135.47	270.94
Textile	577.89	658.10	65.81	65.81	131.62
Telecommunication	351.64	582.34	58.23	58.23	116.46
Fuel & power	563.17	546.60	54.66	54.66	109.32
Mutual Fund	545.45	464.36	46.44	46.44	92.88
Bank	245.72	446.07	44.61	44.61	89.22
Financial Institutions	203.78	439.33	43.93	43.93	87.86
Engineering	136.02	121.22	12.12	12.12	24.24
Food & Allied	87.46	106.78	10.68	10.68	21.36
Tannery Industries	81.96	77.54	7.75	7.75	15.50
Ceramic Sector	146.48	74.46	7.45	7.45	14.90
Cement	70.46	67.95	6.80	6.80	13.60
Miscellaneous	166.59	42.48	4.25	4.25	8.50
Travel & Leisure	80.00	30.99	3.10	3.10	6.20
Insurance	39.80	16.87	1.69	1.69	3.38
IT	0.13	0.10	0.01	0.01	0.02
Total	**4,253.56**	**5,029.96**	**503.00**	**503.00**	**1,006.00**

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.

- Modified duration gap
- Simulation on market value of equity
- 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.

(BDT in Million)

Particulars	Upto 3 months	3 - 6 months	6 - 12 months
Rate Sensitive Assets (RSA)	122,195.70	22,524.20	35,520.60
Rate Sensitive Liabilities (RSL)	101,932.60	34,452.00	41,209.60
Gap (RSA – RSL)	20,263.10	(11,927.80)	(5,689.00)
Cumulative Gap	20,263.10	8,335.30	2,646.30

Interest Rate Shock on Capital	(BDT in Million)
Total Regulatory Capital	33,521.89
Total Risk Weighted Assets (RWA)	294,391.54
Capital to Risk-weighted Asset Ratio (CRAR)	11.39%

Assumed decrease in Interest Rate	1%	2%	3%
Earnings Impact on Cumulative Gap	(26.46)	(52.93)	(79.39)
Capital After Shock	33,495,43	33,468.97	33,442.50
CRAR after Shock	11.38%	11.37%	11.36%
Decrease in CRAR	-0.01%	-0.02%	-0.03%

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

Particulars	BDT in Million
Interest Rate Related instruments	5.10
Equities	1,006.00
Foreign Exchange Position	17.67
Commodities	0.00
Total	**1,028.77**

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 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 Management 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.

Capital Charges for Operational Risk

Basis	Operational Risk	2014	2015	2016	Capital Charge
Solo	Gross Income	15,800.60	16,156.41	17,573.22	2,476.51
Consolidated	Gross Income	15,800.60	16,156.41	17,684.20	2,482.06

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 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 (CRR)
- Statutory Liquidity Requirement (SLR)
- Advance to Deposit Ratio
- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- Structural Liquidity Profile
- Maximum Cumulative Outflow
- 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.

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.

Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) refers to highly liquid assets held by financial institutions in order to meet short-term obligations. The Liquidity coverage ratio is designed to ensure that financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions. Banks are required to hold an amount of highly-liquid assets, such as cash, Balance with other Bank and financial institutions or Treasury bonds, equal to or greater than their net cash over a 30 day period (having at least 100% coverage).

LCR= (Stock of High Quality Liquid Assets)/(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 2016 in this ratio is as follows:

Particulars	Regulatory Standard	As on 31 December, 2016	As on 31 December, 2015
Total Stock of High Quality Liquid Assets		71,855.26	58,048.23
Total Net cash outflows over the next 30 calendar days		44,814.31	36,648.92
Liquidity Coverage Ratio (LCR)	Greater than or equal to 100	160.34%	158.39%

Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio (NSFR) 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 NSFR presents the proportion of long term assets funded by stable funding and is calculated as the amount of Available Stable Funding (ASF) divided by the amount of Required Stable Funding (RSF) over a one-year horizon.

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, 2016 is as under:

(BDT in Million)

Particulars	Regulatory Standard	As on 31 December, 2016	As on 31 December, 2015
Available amount of stable funding (ASF)		290,390.53	260,058.92
Required amount of stable funding (RSF)		262,012.26	244,783.90
Net Stable Funding Ratio (NSFR)	Greater than 100	110.83%	106.24%

10.00 Leverage Ratio

Views of BOD on system to reduce excessive leverage and Policies and processes for managing excessive on and off-balance sheet leverage

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 calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives:

- constrain the build-up of leverage in the banking sector which can damage the broadervaavfinancial system and the economy
- reinforce the risk based requirements with an easy to understand and a non-risk based measure
- UCBL calculates leverage ratio on quarterly basis and submits it to the Department of Off-site Supervision (DOS), Bangladesh Bank along with CRAR (Capital to Risk Weighted Asset Ratio) Report.

The Approaches for calculating exposure

A minimum Tier-1 leverage ratio of 3% has been prescribed by Bangladesh Bank to maintain by the Banks both at solo and consolidated level. Accordingly, UCBL maintains leverage ratio on quarterly basis. The formula for calculating leverage ratio is as under:

Leverage Ratio = Tier-1 Capital (after related deductions)/ Total Exposure (after related deductions)

The status of Leverage Ratio as on 31 December, 2016 is as under:

(BDT in Million)

	As on 31 December, 2016		As on 31 December, 2015	
Particulars	Solo Basis	Consolidated Basis	Solo Basis	Consolidated Basis
Tier 1 Capital*	23,026.97	23,100.14	22,406.21	22,480.05
On Balance Sheet Exposure*	325,560.66	325,283.57	291,116.96	291,009.08
Off-Balance Sheet Exposure*	94,891.05	94,891.05	80,937.00	80,937.00
Total Exposure	420,451.71	420,174.62	372,053.96	371,946.08
Leverage Ratio	**5.48%**	**5.50%**	**6.02%**	**6.04%**

* Considering all regulatory adjustments

11.00 Remuneration

Qualitative Disclosures:

a)	**Information relating to the bodies that oversee remuneration.**	
	i. Name of the bodies that oversee remuneration	At the management level, primarily the Human Resources Management Division oversees the 'remuneration' in line with its Human Resources Management strategy/policy under direct supervision and guidance of the Senior Management of the Bank.
	ii. Composition of the main body overseeing remuneration	The Managing Director and CEO along with other top executives of the Corporate Office.
	iii. Mandate of the main body overseeing remuneration	The Senior Management is the main body for overseeing the Bank's remuneration. The Senior Management also review the position of remuneration and associated matters and recommend to the Board for approval of its restructuring, rearrangement and modification commensurate with the industry best practices.
	iv. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.	The Bank has no External Consultant regarding remuneration and its process.
	v. A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.	The Bank does not have any differentiate Pay Structure and employee benefits by regions/business line/activity. As of 31 December 2016, the Bank had no foreign subsidiaries and branches outside Bangladesh.
	vi. A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	We consider the members of the senior management, branch managers and the employees engaged in different functional divisions at Head Office and branches (except the employees involved in internal control & compliance and risk management) as the material risk takers of the Bank.

b)	**Information relating to the design and structure of remuneration processes.**	
	i. An overview of the key features and objectives of remuneration policy.	We target a fair human resources management by using a performance based system. Remuneration and other associated matters are guided by the Banks Service Rule as well as instruction, guidance from the Board from time to time in line with the industry practices. The objective of the Bank's remuneration policy is to establish a framework for attracting, retaining and motivating employees, and creating incentives for delivering long-term performance within established risk limits.
	ii. Whether the remuneration committee reviewed the bank's remuneration policy during the past year, and if so, an overview of any changes that was made.	The Senior Management under direct supervision and guidance of the Board of Directors reviewed the Bank's remuneration in 2016 by overseeing the Banks remuneration position in the Banking industry.
	iii. A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	The risk and compliance employees are carrying out the activities independently as per job allocated to them. Regarding remuneration of the risk and compliance employees, Human Resources Management Division does not make any difference with other regular employees and sets the remuneration as per the prevailing service rule of the Bank.
c)	**Description of the ways in which current and future risks are taken into account in the remuneration processes.**	
	i. An overview of the key risks that the bank takes into account when implementing remuneration measures.	The business risk including credit/default risk, compliance, reputational, financial and liquidity risk are mostly considered when implementing the remuneration measures.
	ii. An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure.	Different set of measures are in practice based on the nature & type of business lines/segments etc. These measures are primarily focused on the business target/goals set for each area of operation, branch vis-a-vis the actual results achieved as of the reporting date. The most vital tools & indicators used for measuring the risks are the asset quality (NPL ratio), Net Interest Margin (NIM), provision coverage ratio, credit deposit ratio, cost-income ratio, growth of net profit, as well the non-financial indicators, namely, the compliance status with the regulatory norms, instructions has been brought to all concerned of the Bank from time to time.
	iii. A discussion of the ways in which these measures affect remuneration.	While evaluating the performance of each employee annually, all the financial and non-financial indicators as per pre-determined set criteria are considered; and accordingly the result of the performance varies from one to another and thus affect the remuneration as well.
	iv. A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.	No material change has been made during the year 2016 that could the affect the remuneration.
d)	**Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.**	
	i. An overview of main performance metrics for bank, top-level business lines and individuals.	The Board sets the Key Performance Indicators (KPIs) while approving the business target/budget for each year for the Bank and business lines/segments. The management sets the appropriate tools, techniques and strategic planning (with due concurrence/approval of the Board) towards achieving those targets. The most common KPIs are the achievement of loan, deposit and profit target with the threshold of NPL ratio, cost-income ratio, cost of fund, yield on loans liquidity position etc.

<table>
<tr><td></td><td>ii. A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.</td><td>Yearly incentive bonus, salary increment, Employee house building loan facilities, Employee car facilities, Leave fair facilities and promotion are directly linked with employee's individual performance.</td></tr>
<tr><td></td><td>iii.A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining "weak" performance metrics.</td><td>Variance performances like yearly incentive bonus, salary increment, Employee house building loan facilities, Employee car facilities, Leave fair facilities and promotion are determined by the outcome of scorecard in prescribed Key Performance Indicators of the individual.</td></tr>
<tr><td>e)</td><td colspan="2">Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance.</td></tr>
<tr><td></td><td>i. A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.</td><td>Bank's provides its Employees incentive compensation delivered in the form of deferred cash awards, subject to performance based on Key Performance Indicators (KPI).</td></tr>
<tr><td></td><td>ii. A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.</td><td>Not Applicable</td></tr>
<tr><td>f)</td><td colspan="2">Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.</td></tr>
<tr><td></td><td></td><td>A summary of Short-term and Long-term compensation packages of the Bank are as follows:

Short-Term Incentives / Rewards
1. Yearly incentive bonus;
2. Yearly Increment;
3. Special Increment for especial achievement;
4. Car, fuel and car maintenance allowance for executives;
5. Cash Risk allowance for cash cadre;
6. Leave Fair Facilities etc.

Long-Term Incentives/Rewards
1. Provident fund;
2. Gratuity;
3. Employees welfare Fund
4. Employee house building loan facilities
5. Provident fund loan
6. Periodically salary review (enhancement)
7. Group insurance coverage;
8. Employee Car facilities etc.

Others Form:
1. Study leave.
2. Foreign training etc.</td></tr>
</table>

Quantitative Disclosures

g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	The Senior Management of the bank overseeing the remuneration of the Bank
h)	i. Number of employees having received a variable remuneration award during the financial year.	The following Number of Employees were received a variable remuneration during the year 2016: **Particulars** / **Number** Number of employees having received a variable remuneration award during the year 2016 / -
	ii. Number and total amount of guaranteed bonuses awarded during the financial year.	Nil
	iii. Number and total amount of sign-on awards made during the financial year.	Nil
	iv. Number and total amount of severance payments made during the financial year.	Nil
i)	i. Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Nil
	ii. Total amount of deferred remuneration paid out in the financial year.	Nil
j)	Breakdown of amount of remuneration awards for the financial year to show:	Breakdown of Remuneration for the year-2016 is as under: **(Taka in Million)** **Particulars** / **Amount** Basic salary 1,970.46 Allowances 1,712.53 Festival bonus 360.81 Incentive Bonus 505.49 Provident fund contribution 191.58 Gratuity 390.00 Welfare fund 41.95 **Total** **5,172.82**
k)	**Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration.**	
	i. Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	Not Applicable
	ii. Total amount of reductions during the financial year due to ex post explicit adjustments.	Not Applicable
	iii. Total amount of reductions during the financial year due to ex post implicit adjustments.	Not Applicable