Disclosures on Risk Based Capital (Basel III)

Preamble

Use of excessive leverage, gradual erosion of level and quality of capital base, insufficient liquidity buffer, pro-cyclicality and excessive interconnectedness among systematically important banks are identified as reasons of bank failures. Bank for International Settlements (BIS) came up, in response, with a new set of capital and liquidity standards in the name of Basel III. In compliance with the 'Revised Guidelines on Risk Based Capital Adequacy (RBCA)' issued by Bangladesh Bank in December 2014, banks in Bangladesh have formally entered into Basel III regime from 1 January 2015. The new capital and liquidity standards have greater business implications for banks.

This is the official disclosure of the activities that the United Commercial Bank Limited (UCB) had undertaken to manage its Risk Based Capital Adequacy and other requisites throughout the year 2020 under the purview of the Basel III regulation. Although this disclosure conforms to the requirements of the 3rd Pillar of the Basel III regulation meant for 'Market Discipline', this may well be viewed as UCB's earnest effort to uphold its commitment to corporate transparency.

Consistency and Validation

The quantitative disclosures are made on the basis of consolidated audited financial statements of UCB and its subsidiaries as at and for the year ended 31 December 2020. Those are prepared under relevant International Accounting and Financial Reporting Standards and related circulars/instructions issued by Bangladesh Bank from time to time. The assets, liabilities, revenues and expenses of the subsidiaries are combined with those of the parent company (UCB), eliminating intercompany transactions. Assets of the subsidiaries are risk weighted and equities of subsidiaries are crossed out with the investment of UCB while consolidating. So, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated and separate audited financial statements of UCB. The report is prepared once a year and is available in the website of the bank **(www.ucb.com.bd).**

It may be befitting if a brief discussion on the prevailing 3rd edition of Basel (Basel III) regulation precedes the intended disclosure for a better grasp of the matter by the stakeholders. The Basel III regime, like the 2nd edition, is also composed of three-mutually reinforcing pillars or fundamentals i.e. **Minimum Capital Requirement**, **Supervisory Review Process** and **Market Discipline** but at an enhanced level to cope up with the ever evolving threats present in the financial market. Moreover, it introduces a non-risk based Leverage Ratio and a global standard Liquidity Ratio. All the attributes of the regulation may be viewed at a glance in the following diagram:

Pillar 1			Pillar 2	Pillar 3	Liquidity
Stringent Capital Standards & Requirements	**Wide Risk Coverage**	**Non-Risk Based Leverage**	**Robust Risk Mgt. & Supervision**	**Market Discipline**	**Liquidity Standards**
Quality & level of capital "Gone concern" contingent capital	Securitizations Trading book	Leverage ratio	Supplemental pillar 2 requirements	Revised Pillar 3 disclosure requirements	Liquidity coverage ratio Net stable funding ratio

Capital conservation buffer Countercyclical buffer	Counterparty credit risk				Principles for sound Liquidity & Risk Mgt. Supervision Supervisory monitoring

UCB Approaches to the three Pillars and the Liquidity Standards:

Pillar-1: Credit Risk, Market Risk & Operational Risk are considered under this Pillar for maintenance of the level of capital. Among the three approaches available to measure the Credit Risk, UCB employs 'Standardized Approach'. The same approach has been used for Market Risk measurement. As for Operational Risk, Basic Indicator Approach is followed. UCB is also maintaining the non-risk based Leverage Ratio at a healthy level.

Pillar-2: All other risks as well as the entire Risk Management framework from both the internal and external (Supervisory) perspective are covered under this pillar. UCB has developed a comprehensive ICAAP (Internal Capital Adequacy Assessment Process) manual/module to capture the risks minutely. The regular SRP-SREP interaction ensures compliance to the Pillar-2 regulations.

Pillar-3: This pillar ensures necessary disclosures 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 under the banner of Market Discipline.

Liquidity Standards: UCB has successfully adopted and is maintaining the standards set for the two key Liquidity Ratios; the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

1. Scope of Application

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

- 'Solo' disclosure refers to only the affairs of the Bank but considering the Offshore Banking Unit and Islamic Banking as an integral part.
- On the other hand, 'Consolidated' disclosure incorporates the affairs of its subsidiaries with the Bank. **The consolidated disclosure of UCB is composed of the affairs of UCB and its three subsidiaries, namely**:
    1. United Commercial Bank Limited
    2. UCB Stock Brokerage Limited
    3. UCB Investment Limited
    4. UCB Asset Management Limited
    5. UCB Fintech Limited

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

- **United Commercial Bank Limited**

United Commercial Bank Limited ('UCBL' or the 'Bank') was incorporated in Bangladesh as a public limited company with limited liability on 26 June 1983 under the Companies Act 1913 to carry on banking business in Bangladesh. It obtained permission from Bangladesh Bank on 13 November 1983 to commence its business. The Bank has 204 branches and 177 agent banking outlets as on 31 December 2020. Out of the above 204 branches, 10 branches provided both Islami Banking and Commercial Banking facilities complying with the rules of Islamic Shariah. The Bank offers services for all commercial banking and Islamic banking needs of the customers, which includes 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)**

Off-shore Bank is a Bank located outside the country of residence of depositors, typically in the low tax jurisdiction (or tax heaven) that provides financial and legal advantage. Off-shore Banking Unit (the unit) a separate business unit of United Commercial Bank Ltd, governed 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.

- **Islamic Banking**

The Bank obtained permission for Islamic Banking Branch from Bangladesh Bank vide letter no. BRPD (P-3) 745 (17)/2020-1453 dated 6 February 2020. Through the Islamic Banking Branch, the Bank extends all types of Islamic Shariah compliant finance like hire purchase shirkatul melk (HPSM), Bai- Murabaha, Mushraka, Salam and agency, Ijarah Muntahia Bittamleek (Hire Purchase) etc. and different types of deposits like al-wadeeah, Murabaha etc.

- **Subsidiaries of United Commercial Bank Limited:**

A subsidiary is an entity in which the bank has control as per shareholding and voting right are concerned. Control exists when the bank has substantial shareholding (more than 50 percent) in the company or the power, directly or indirectly, to govern the financial and operating policies of an enterprise as on the date of the reporting. Separate (solo) Financial Statements and Consolidated Financial Statements are prepared for subsidiary investment as per International Accounting Standard (IAS) - 27; 'Separate Financial Statements' and IFRS-10; Consolidated Financial Statements. Interest of the minority is shown as the minority interest which includes share capital of the minority portion as well as profit earned that goes to the non-controlling interest. However, intergroup transactions, balances and the resulting unrealized profits/(loss) are eliminated on consolidation.

- **UCB Stock Brokerage Limited**

UCB Stock Brokerage Limited is a subsidiary company of United Commercial Bank Limited. The activities of the company include brokerage service, margin loan etc. The company is carrying out its activities under the license from both Dhaka Stock Exchange Ltd. and Chittagong Stock Exchange Ltd.

UCBL holds 19,999,999 nos. of shares of UCB Stock Brokerage Limited with face value of Tk. 100 each which

- **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 also, the Company has obtained Merchant Banking license from the Bangladesh Securities and Exchange Commission on 05 October 2020. The principal objective of the company is to carry out full-fledged merchant banking activities in Bangladesh 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.

United Commercial Bank Limited 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.

- **UCB Asset Management Limited**

UCB Investment Limited was incorporated in Bangladesh as a private limited company with limited liability as on 5 February of 2019 under Companies Act 1994. The principal objective of the company is to carry out various merchant banking activities in Bangladesh 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.

UCBL holds 4,999,999 nos. of shares of UCB Investment Limited with face value of Tk. 10 each which equivalent to 99.99% of total shares of the company.

- **UCB Fintech Limited**

UCB Fintech Company Limited (hereinafter referred to as "the Company", a subsidiary of United Commercial Bank Limited, was incorporated in Bangladesh on 30 July 2020 as a private company limited by shares under the Companies Act, 1994. UCB Fintech Company Limited is a subsidiary of the United Commercial Bank Limited. Upon receiving the license from Bangladesh Bank, under the brand name “উপায়” (“upay” in English) and offering a broad range of mobile financial services to people from all walks of life.

Product and services of UCB Fintech include mobile transactions (cash-in, cash-out, send money etc.), utility bill payment, in-store and e-commerce payment, inward remittance, salary disbursement, G2P and P2G transaction, airtime recharge and other value added financial services. UCB holds 99,999,999 nos. of shares of UCB Fintech Company Limited with face value of BDT.10 each which is equivalent to 99.999999% of total shares of the Company.

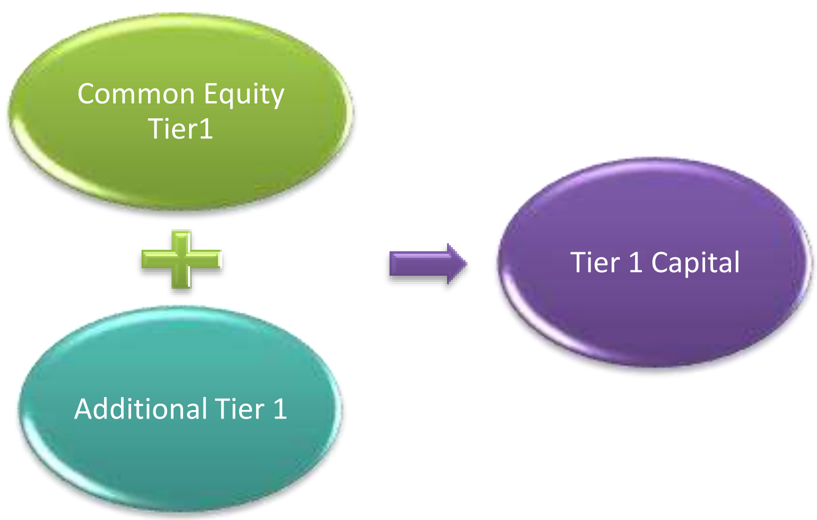
2. Capital Structure

Qualitative Disclosures

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:

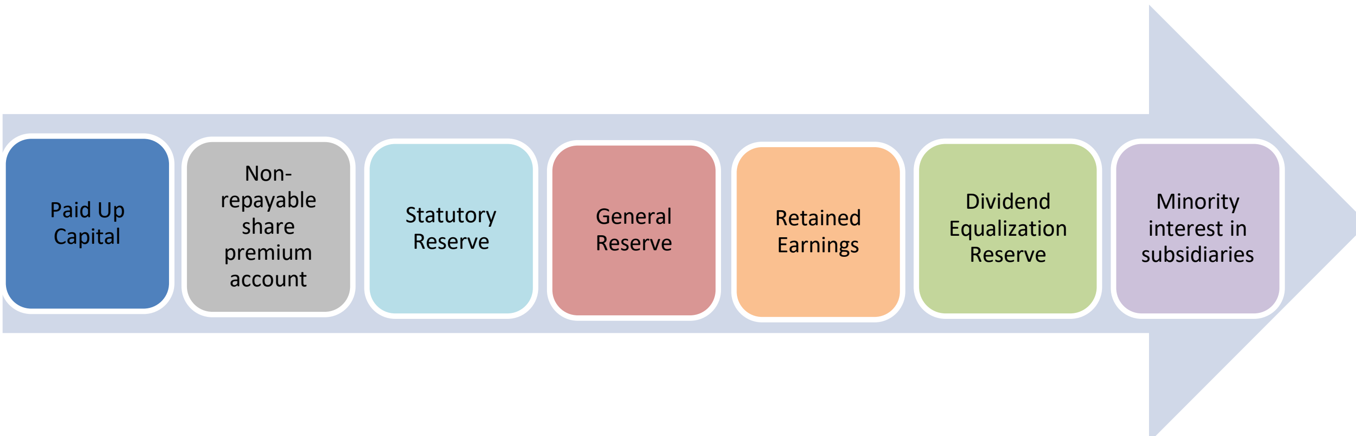
1. Tier 1 Capital (going-concern capital)
   a) Common Equity Tier 1
   b) Additional Tier 1
2. Tier 2 Capital (gone-concern capital)



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 of Common Equity Tier 1 (CET1) capital is given below:



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

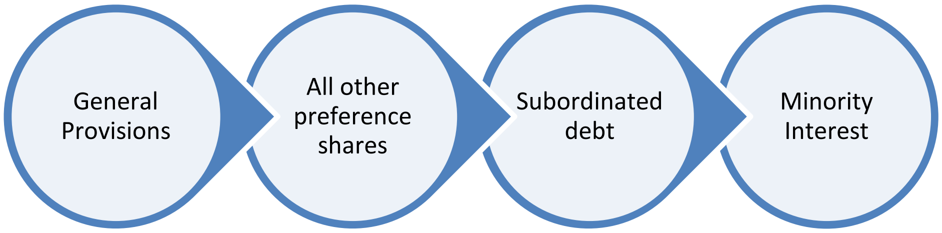
Perpetual Bond

After global economic turmoil in 2010, the global financial regulators are more concerned to enhance risk resilience capacity of the banks and introduced more risk sensitive capital adequacy framework namely Basel III. With the view to strengthening capital base of the bank and subsequently to meet up the capital adequacy ratio as per Bangladesh Bank's instruction in line with BASEL-III Accord, UCB got permission to issue Perpetual Bond, as per Bangladesh Bank Banking Regulation and Policy Department (BRPD) letter no. BRPD(BFIS)/661/14B(P)/2020/9990 dated 23rd November, 2020 & letter No. BRPD(BFIS)/661/14B(P)/2021/33 dated 31st January, 2021 and subsequent Bangladesh Securities and Exchange Commission (BSEC) letter no. BSEC/CI/DS-130/PB/2020/294 dated 14th December, 2020 & letter No. BSEC/CI/DS-130/2020/318 dated 27th January,2021. Subscription of the Perpetual Bond is under process.

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:



As per the guidelines of Bangladesh Bank, Tier-1 Capital of UCB comprises (i) Fully Paid-up Capital, (ii) Non-repayable Share Premium Account, (iii) Statutory Reserve, (iv) General Reserve, and (v) Retained Earnings.

And Tier-2 Capital comprises (i) General Provision, (ii) Subordinated debt/subordinated bond as approved by Bangladesh Bank etc.

Quantitative Disclosures

The amount of Regulatory capital of the Bank as on December 31, 2020 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	12,175.21	12,175.21
1.1.2	Non-repayable Share premium account	1,454.98	1,454.98
1.1.3	Statutory Reserve	13,424.99	13,424.99
1.1.4	General Reserve	26.58	26.58
1.1.5	Retained Earnings	5,191.76	5,864.05
1.1.6	Dividend Equalization Reserve	0.00	0.00
1.1.7	Minority Interest in subsidiaries	0.00	0.00
	Sub-Total:	**32,273.51**	**32,945.80**
1.1.8	**Regulatory Adjustments:**	**3,425.08**	**3,427.02**
1.1.8.1	Goodwill and all other Intangible Assets	436.34	438.19
1.1.8.2	Deferred Tax Assets (DTA)	2,838.12	2,838.12
1.1.8.3	Reciprocal crossholdings and excess investment above limit	101.95	114.17
1.1.8.3	Others	48.67	36.54
	Sub-Total:	**28,848.43**	**29,518.78**
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

Sl.	Particulars	Solo	Consolidated
1.2.3	Minority Interest; i.e., AT1 issued by consolidated subsidiaries	0.00	0.00
	Sub-Total:	**0.00**	**0.00**
1.3	**Total Tier 1 Capital**	**28,848.43**	**29,518.78**
2.0	**Tier-2 (Gone-Concern Capital)**		
2.1	General Provision	7,263.28	7,363.28
2.2	Subordinated debt	14,600.00	14,600.00
	Sub-Total:	**21,863.28**	**21,963.28**
2.4	**Regulatory Adjustments:**	**480.11**	**442.54**
2.4.1	Reciprocal crossholdings in the T-2 Capital of BNBFIs & Insurance Entities	4.37	112.77
2.4.2	Others	475.74	329.77
2.5	**Total Tier 2 Capital**	**21,383.18**	**21,520.74**
3.0	**Total Regulatory Capital (Sl. 1.3+2.5)**	**50,231.61**	**51,039.52**

3. 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 the following methods recommended by Bangladesh Bank:
   - 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.

b. Standardized (Rule Based) Approach for Market Risk; and

c. Basic Indicator Approach for Operational Risk.

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 retention of profit (stock dividend and statutory reserve transfer etc.) and issuance of Subordinated Bond 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 2020, the CRAR ranges from **14.77% to 14.94% on consolidated basis and from 14.51% to 14.92% on solo basis** against the regulatory requirement (with Buffer) of 12.50% of* RWA. Risk Management Division (RMD) under the guidance of the Board of Directors/Risk

Management Committee of the Board of Directors, the SRP Team/Executive Risk Management Committee and Basel implementation Unit of the Bank is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to.

The Minimum Capital Requirement and Capital to Risk-weighted Asset Ratio (CRAR) of the Bank as on December 31, 2020 are as under;

(BDT in million)

Particulars	Solo	Consolidated
Capital requirement for Credit Risk	29,426.46	29,635.51
Capital requirement for Market Risk	905.00	1,123.14
Capital requirement for Operational Risk	3,340.49	3,414.33
Total Capital Requirement under Pillar-I	**33,671.95**	**34,172.97**
Capital to Risk-weighted Asset Ratio (CRAR)	**14.92%**	**14.94%**
Requirement of Capital to Risk-weighted Asset Ratio (CRAR) with Capital Conservation Buffer	12.50%	12.50%
Common Equity Tier 1 Capital to Risk-weighted Asset Ratio	8.57%	8.64%
Requirement of Common Equity Tier 1 Capital Ratio	4.50%	4.50%
Tier 1 Capital to Risk-weighted Asset Ratio	**8.57%**	**8.64%**
Requirement of Tier 1 Capital Ratio with Capital Conservation Buffer	8.50%	8.50%
Tier 2 Capital to Risk-weighted Asset Ratio	6.35%	6.30%
Capital Conservation Buffer	**2.57%**	**2.64%**
Available Capital under Pillar 2 Requirement	**16,559.65**	**16,866.55**

4. Credit Risk

Qualitative Disclosures

General Disclosure:

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.

Credit risk management has been independent of origination of business functions to establish better control and to reduce conflicts of interest. The Head of Credit Risk Management (HoCRM) has well defined responsibility for management of credit risk. Final authority and responsibility for all activities that expose the bank to credit risk rests with the Board of Directors. The Board however delegated authority to the Managing Director and CEO or other executives/officers of the credit risk management division.

The Board of Directors (BoD) sets credit policies and delegates authority to the management for setting procedures, which together has structured the credit risk management framework in the bank. The Credit Policy Manual contains the core principles for identifying, measuring, approving, and managing credit risk in the bank and is designed to meet the organizational requirements that exist today as well as to provide flexibility for future. These policies represent the minimum standards for credit extension by the bank, and are not a substitute of experience and good judgment.

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.

To define past due and impairment through classification and provisioning, the bank follows Bangladesh Bank Circulars and Guidelines. General provisions @ 0.25% to 1% under different categories on unclassified loans (standard/SMA) and @ 0.5% to 1% on certain off balance-sheet exposures, and specific provisions @ 20%, 50% & 100% on classified (substandard/doubtful/bad-loss) and some rescheduled loans are made on the basis of quarter end review by the management and in compliance with BRPD Circular no. 14 dated 23 September 2012, BRPD circular no 8 dated 2 August 2015, BRPD circular no 12 dated 20 August 2017, BRPD circular no 15 dated 27 September 2017, BRPD circular letter no 1 dated 03 January 2018 and BRPD circular no 01 dated 20 February 2018, BRPD circular no 07 dated 21 June 2018, BRPD circular no 13 dated 18 October 2018, BRPD Circular no. 03 dated 21 April 2019, BRPD Circular no. 16 dated 21 July 2020 ,BRPD Circular Letter no. 52 dated 20 October 2020 and BRPD Circular Letter no. 56 dated 10 December 2020. The summary of some objective criteria for loan classification and provisioning requirement is as below:

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

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

Loans Classification			
Type of Facility	**Sub Standard (Overdue Period)**	**Doubtful (Overdue Period)**	**Bad & Loss (Overdue Period)**
Continuous Loan & Demand Loan	3 months or more but less than 9 months	9 months or more but less than 12 months	12 months or more
Fixed Term Loan	9 months or more but less than 15 months	15 months or more but less than 18 months	18 months or more
Short Term Agricultural & Micro Credit	12 months or more but less than 36 months	36 months or more but less than 60 months	60 months or more
Short Term Agricultural	12 months or more but less than 36 months	36 months or more but less than 60 months	60 months or more
Cottage, Micro Credit & Small (Continuous Loan & Demand Loan)	6 months or more but less than 18 months	18 months or more but less than 30 months	30 months or more
Cottage, Micro Credit & Small (Fixed Term Loan)	12 months or more but less than 24 months	24 months or more but less than 36 months	36 months or more

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	Professionals & Credit card	2%	2%	20%	50%	100%
	House Building	1%	1%	20%	50%	100%
	Other than Housing Finance & Professionals to setup business	2%	2%	20%	50%	100%
Brokerage House, Merchant Banks, Stock Dealers, etc.		2%	2%	20%	50%	100%
Short term Agri. Credit		1%	1%	5%	5%	100%
Small & Medium Enterprise	Cottage, Micro Credit & Small	0.25%	0.25%	5%	20%	100%
	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 Internal Credit Risk Rating (ICRR) 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 & eligible SME 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 the respective divisions. The divisions meet 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 limit/boundary 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.

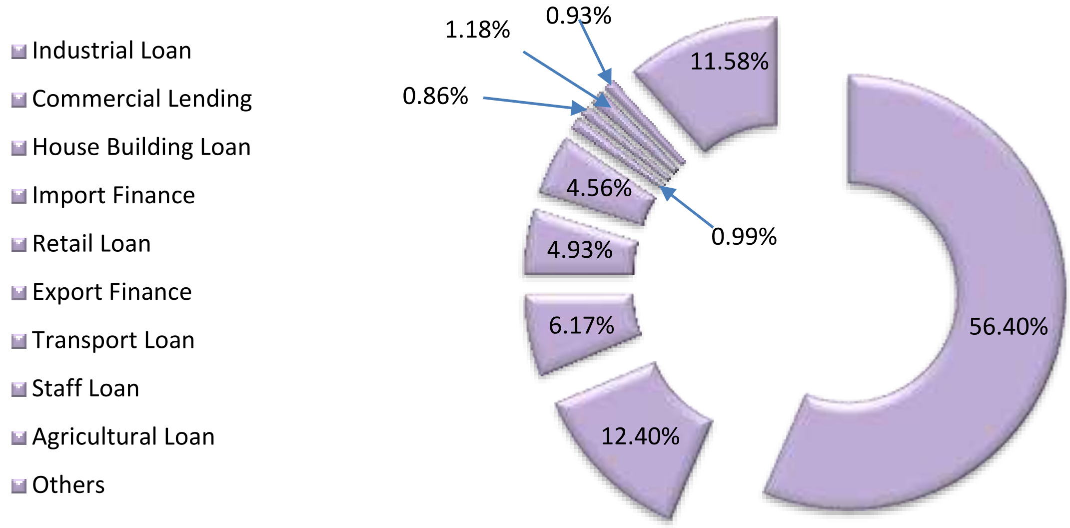
Credit Risk Mitigation

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.

Quantitative Disclosures

Distribution of Credit Exposure by Major Types

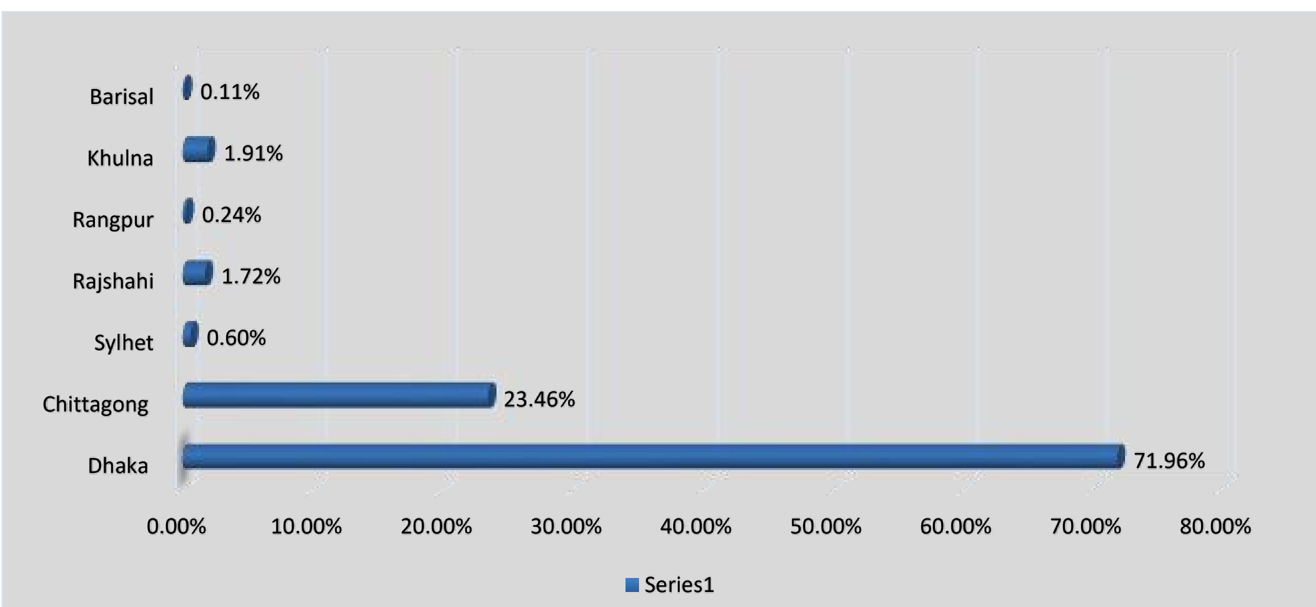
Types of Credit Exposure	BDT in Million	In %
Commercial Lending	43,603.55	12.40%
Import Finance	17,335.08	4.93%
Export Finance	3,496.83	0.99%
House Building Loan	21,696.88	6.17%
Transport Loan	3,020.44	0.86%
Retail Loan	16,040.04	4.56%
Staff Loan	4,138.69	1.18%
Industrial Loan	198,342.93	56.40%
Agricultural Loan	3,279.97	0.93%
Others	40,729.15	11.58%
Total	**351,683.56**	**100.00%**



Geographical Location Wise Credit Exposure

Division	BDT in Million	In %
Dhaka	253,066.47	71.96%
Chittagong	82,502.73	23.46%
Sylhet	2,106.68	0.60%
Rajshahi	6,064.10	1.72%
Rangpur	837.78	0.24%
Khulna	6,703.72	1.91%
Barisal	402.08	0.11%
Total	**351,683.56**	**100.00%**

Geographical Distribution of Credit Exposure



Industry Type Distribution of Exposure

Types of Credit Exposure	BDT in Million	In %
RMG & Accessories	62,515.45	17.78%
Textile Industries	18,327.44	5.21%
Agriculture	3,279.97	0.93%
Food Products & Processing	16,340.90	4.65%
Jute Industries	224.19	0.06%
Leather & Leather Products	1,152.54	0.33%
Paper & Paper Products Industries	7,331.20	2.08%
Wood & Wooden Products	2,690.55	0.77%
Chemical & Chemical Products	3,167.75	0.90%
Cement Industries	10,482.24	2.98%
Brick Field, Auto Bricks, Tiles	978.94	0.28%
Engineering, Basic Metal & Products	20,703.99	5.89%
Ship Re-cycling	4,971.36	1.41%
Ship Manufacturing	3,844.33	1.09%
Educational Institute, Hotel, Restaurant	1,957.06	0.56%
Telecommunication	1,886.16	0.54%
Transport & Communication	3,020.44	0.86%
Diagnostic/Medical/Clinic	3,614.65	1.03%
Housing Industry	21,696.88	6.17%
Construction (Other than Housing)	31,789.43	9.04%
Electronics Media	372.99	0.11%
Power & Energy	9,914.02	2.82%
Commercial Trade Financing	64,435.46	18.32%
Glass & Glassware Product Industries	4.08	0.001%
Tea Manufacturing	533.52	0.15%
Others	56,448.02	16.05%
Total	**351,683.56**	**100.00%**

Residual Contractual Maturity Wise Distribution of Exposure

Particulars	BDT in Million
On demand	37,085.42
Not more than three months	59,335.90
More than three months but less than one year	107,139.37
More than one year but less than five years	88,472.28
More than five years	59,650.59
Total	**351,683.56**

Loans & Advances and Provision

(BDT in Million)

Particulars	Loans & Advances	Provision against Loans & Advances
Total Loans and Advances	**351,683.56**	**12,645.90**
Performing Loans & Advances	342,700.00	5,406.04
Classified Loans and Advances	**8,983.56**	**7,239.86**
Substandard (SS)	461.95	37.87
Doubtful (DF)	279.13	32.26
Bad/Loss (BL)	8,242.48	7,169.73
Off-Balance Sheet Items	201,041.69	1,857.24

Gross Non-Performing Assets (NPAs)

Particulars	BDT in Million
Gross Non-Performing Assets (NPAs)	8,983.56
Total Loans and Advances	351,683.56
NPAs to outstanding Loans & Advances	2.55%

Movement of Non-Performing Assets (NPAs)

Particulars	BDT in Million
Opening Balance	**11,711.23**
Additions	--
Reductions	2,727.67
Closing Balance	**8,983.56**

Movement of Specific Provisions for NPLs

Particulars	BDT in Million
Opening Balance	6,430.06
Adjustment due to Write-off	--
Provisions made during the period	809.80
Transferred from surplus provision	--
Write off transfer from interest suspense account	--
Closing Balance	**7239.86**

5. 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.

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

Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and
Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.

Bank's investment in equity securities are broadly categorized into two categories:

Quoted Securities: The instruments are quoted in active markets. These securities include Common shares, Mutual funds listed with Stock Exchanges. These instruments are categorized as trading book assets. Investment in trading book includes securities holding for capital gains, dividend income and securities holding for strategic reasons.

Unquoted Securities: Unquoted Securities have no active market for price quotation. These instruments are categorized as banking book assets. Once unquoted securities get listed in secondary market, are reclassified as quoted and trading book assets.

Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.

Investment class	Initial recognition	Measurement after initial recognition	Recording of changes
Shares (Quoted)	Cost	Lower of cost or market value (overall portfolio)	Loss (net off gain) to profit and loss account but no unrealized gain booking.
Shares (Unquoted)	Cost	Lower of cost or Net Asset Value (NAV)	Loss to profit and loss account but no unrealized gain booking.
Mutual fund (Closed-end)	Cost	Lower of cost and (higher of market value and 85% of NAV)	Loss (net) to profit and loss account but no unrealized gain booking.

As per Bangladesh Bank circular (ref: BRPD circular number -14 dated June 25, 2003), the quoted shares are valued as per market price in the stock exchange(s). Equity securities holdings in the banking book or unquoted are recognized at cost price.
Provisions for shares are maintained for unrealized loss (gain net off) arising from diminution in value of investments. Provision for shares against unrealized loss (gain net off) has been made according to DOS circular number-04 dated 24 November 2011 and for mutual funds (closed-end) according to DOS circular letter no. 3 dated 12 March 2015 of Bangladesh Bank.

(BDT in Million)

Particulars	Cost Price	Market Price
Investment in Quoted Share	4,607.32	4,361.75

Particulars	BDT in Million
Realized Gains	1,435.72
Unrealized Gains	713.86
Unrealized Losses	(468.29)
Net Unrealized Gains/(Loss)	245.57
Capital requirement for Equity Risk (Specific & General)	862.66
Supervisory Provision against Classified Equity Investment	235.22

(BDT in Million)

Capital Requirement as per Grouping of Equity:

Sector	Cost Price	Market price	Capital Charge		Total Capital Charge
			Specific Risk	General Market Risk	
Pharmaceuticals & Chemicals	652.68	762.22	76.22	76.22	152.44
Textile	691.71	484.55	48.46	48.46	96.91
Telecommunication	474.96	533.09	53.31	53.31	106.62
Fuel & power	336.65	246.63	24.66	24.66	49.33
Mutual Fund	210.58	145.95	14.60	14.60	29.19
Bank	874.19	762.08	76.21	76.21	152.42
Financial Institutions	147.38	337.52	33.75	33.75	67.50
Engineering	57.79	21.04	2.10	2.10	4.21
Miscellaneous	1,038.48	1,001.09	100.11	100.11	200.22
Travel & Leisure	87.26	45.82	4.58	4.58	9.16
Insurance	35.64	21.75	2.18	2.18	4.35
Total	4,607.32	4,361.75	436.17	436.17	872.35
Deduction from Capital	0.00	48.67	4.86	4.86	9.72
Total	**4,607.32**	**4,313.08**	**431.31**	**431.31**	**862.62**

6. 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 months 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.

The general qualitative disclosure requirement including the nature of Interest Rate Risk in Banking Book (IRRBB) and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.

Interest Rate Risk: Interest Rate Risk is the risk which affects the Bank's financial condition due to changes of market interest rates. Changes in interest rates affect both the current earnings (earnings perspective) and also the net worth of the Bank (economic value perspective). Bank assesses the interest rate risk both in earning and economic value perspective.

Interest Rate Risk Management: Interest Rate Risk Management policy, targets and controls are comprehended in Asset Liability Management Policy of the Bank. Interest rate risk in banking book is measured through the following approaches:

1. **Interest Rate Sensitivity analysis (Gap Analysis):** Interest Rate Sensitivity (or Interest Rate Gap) Analysis is used to measure and manage interest rate risk exposure specifically, bank's repricing and maturity imbalances. Gap reports is the bank's rate sensitive assets, liabilities, and off-balance-sheet instruments into maturity segments (time bands) based on the instrument's next re-pricing or maturity date. This analysis is conducted on monthly basis.

   The Bank uses the following approach to manage interest rate risks inherent in the Balance sheet:

   Traditional Gap analysis of on-balance sheet Asset Liability Management (ALM) involves careful allocations of assets and liabilities according to re-pricing/maturity buckets. This approach quantifies the potential change in net interest income using a specified shift in interest rates, e.g. 1% or 2%, or 3% of interest rates.

   Assumptions: For Gap analysis, bank considers the following:

   - For fixed-rate contract, remaining maturity is considered.
   - For contracts with provision of re-pricing, time remaining for next re-pricing is considered.
   - Deposits that are already matured but not withdrawn yet are considered to be fall under overnight bucket.
   - Contractual repayment schedule is met.

- ❖ Re-pricing of assets and liabilities takes place in the midpoint of time bucket.
- ❖ The expectation that loan payment will occur in schedule.
- ❖ No early encashment is considered in term and recurring deposit.
- ❖ Non maturity deposit withdrawal is considered based on past withdrawal behavior etc.

2. **Duration Analysis on Economic Value of Equity:** A weighted maturity/re-pricing schedule is used to evaluate the effects of changing interest rates on bank's economic value by applying sensitivity weights to each time band. Such weights are based on estimates of the duration of the assets and liabilities that fall into each time band. The duration analysis is conducted on quarterly basis.

3. **Stress Testing:** It is used for measuring the Interest rate risk on its Balance Sheet exposure for estimating the impact on the Capital to Risk Weighted Assets Ratio. Stress Testing is conducted on quarterly basis

(BDT in Million)

Particulars	Up to 3 months	3 - 6 months	6 - 12 months
Rate Sensitive Assets (RSA)	133,540.78	69,477.45	54,393.99
Rate Sensitive Liabilities (RSL)	97,150.66	50,091.78	79,850.05
Gap (RSA – RSL)	36,390.12	19,385.67	(25,456.06)
Cumulative Gap	36,390.12	55,775.79	30,319.73

Interest Rate Shock on Capital:			**(BDT in Million)**
Total Regulatory Capital			50,231.61
Total Risk Weighted Assets (RWA)			336,719.54
Capital to Risk-weighted Asset Ratio (CRAR)			14.92%
Assumed Increase in Interest Rate	1%	2%	3%
Earnings Impact on Cumulative Gap	303.20	606.40	909.60
Capital After Shock	50,534.81	50,838.01	51,141.21
CRAR after Shock	15.01%	15.10%	15.19%
Increase in CRAR	0.09%	0.18%	0.27%

7. 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.

Market Risk: Market Risk is defined as the possibility of loss due to changes in the market variables. It is the risk that the value of on/off-balance sheet positions will be adversely affected by movements in equity price, interest rate and currency exchange rates. The objective of our market risk policies and processes is to obtain the best balance of risk and return whilst meeting customers' requirements. The primary categories of market risk for the bank are:

Interest rate risk: Arising from changes in yield curves, credit spreads and implied volatilities on interest rate options.

Currency exchange rate risk: Arising from changes in exchange rates and implied volatilities on foreign exchange options.

Equity price risk: Arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Bank has a comprehensive Treasury Trading Policy, Asset-Liability Management Policy, Investment Policy approved by the BoD to assess, monitor and manage all the above market risks. Various internal limits have set to monitor market risk and capital requirement is assessed as per standardized approach of BASEL III Accord.

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.

Bank applies maturity method in measuring interest rate risk in respect of securities in trading book. The capital charge for entire market risk exposure is computed under the standardized approach using the maturity method and in accordance with the guideline issued by Bangladesh Bank.

Market risk management system:

To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Of the ratios, the key ratios that ALCO regularly monitors are liquidity coverage ratio (LCR), net stable funding ratio (NSFR), and maximum cumulative outflow (MCO), liquid asset to total assets, volatile liability dependency ratio, snap liquidity ratio and short term borrowing to liquid assets ratio. ALCO also regularly monitors the interest rate sensitive gap and duration gap of total portfolio.

To manage foreign exchange risk of the bank, the bank has adopted the limit set by central bank to monitor foreign exchange open positions. Foreign exchange risk is computed on the sum of net short positions or net long positions, whichever is higher.

Capital Charges for Market Risk

Market Risk	**BDT in Million**
Interest Rate Related instruments	14.49
Equities	862.62
Foreign Exchange Position	27.90
Commodities	0.00
Total	**905.00**

8. 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.

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide spectrum of issues.

Views of BoD on system to reduce Operational Risk:

The responsibility of mitigating the operational risk of the Bank lies with Risk Management Division under the guidance of Board Risk Management Committee. The Board Risk Management Committee delivers policies and directions from time to time to keep the operating efficiency of the Bank up to the mark.

The policy for measuring and managing operational risks is approved by the Board in line with the relevant guidelines of Bangladesh Bank. Board Risk Management Committee directly oversees the activities of Risk Management Division to protect against all operational risks. As a part of continued surveillance, the Executive Risk Management Committee (ERMC) and Risk Management Division (RMD) regularly review different aspects of operational risks and suggest formulating appropriate policies, tools & techniques for mitigation of operational risk of the bank.

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.

The overall environment within which a bank operates creates certain externalities which could affect business performance directly such as:

Fraud Risk: is the risk of incurring losses as a result of an intentional act or omission by a third party involving dishonesty, for personal and/or business gain, to avoid personal and/or business loss, or to conceal improper or unauthorized activity. This includes facilitation, misrepresentation, money laundering, terrorist financing, theft, forgery and cyber-crime.

Business Continuity Risk: is the risk of incurring losses resulting from the interruption of normal business activities, i.e. interruptions to our infrastructure as well as to the infrastructure that supports our businesses.

Information Security Risk: is the risk of an event which could result in the compromise of organizational assets, including, but not limited to, unauthorized use, loss, damage, disclosure or modification of organization’s IT assets. It includes the risk of cyber threats on the organization.

Regulatory Compliance Risk: is the risk of incurring regulatory sanctions (including restrictions on business activities, fines or enhanced reporting requirements), financial and/or reputational damage arising from our failure to comply with applicable laws, rules and regulations.

Vendor Risk: arises from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor itself.

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

(BDT in Million)

Basis	Operational Risk	2018	2019	2020	Capital Charge
Solo	Gross Income	20,394.08	22,801.01	23,614.67	3,340.49
Consolidated	Gross Income	20,762.66	23,306.93	24,217.03	3,414.33

9. 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 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.

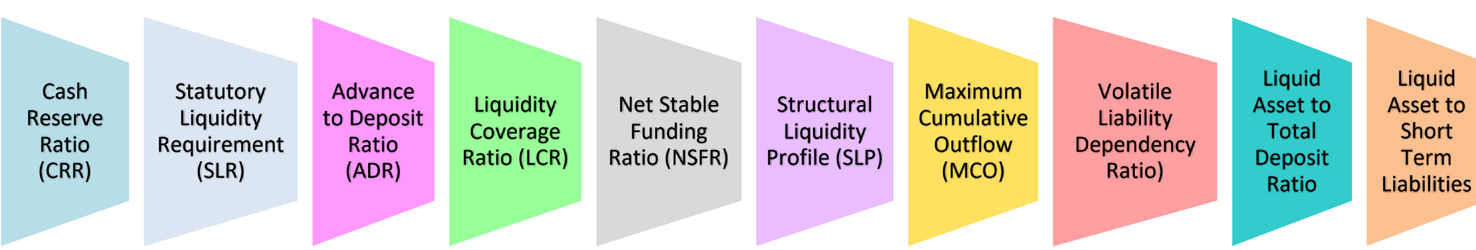
Views of BoD on system to reduce liquidity Risk

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:



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. In this sense, a CFP is an extension of ongoing liquidity management and formalizes the objectives of liquidity management by ensuring:

a) Maintenance of a reasonable amount of liquid assets;
b) Measurement and projection of funding requirements; and
c) 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)

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).

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

The minimum standard for LCR is greater than or equal to 100. However, the bank's status as on 31 December 2020 in this ratio is as follows:

(BDT in Million)

Particulars	Regulatory Standard	As on 31 December, 2020
Total Stock of High Quality Liquid Assets		81,975.12
Total Net cash outflows over the next 30 calendar days		53,881.37
Liquidity Coverage Ratio (LCR)	Greater than or equal to 100	152.14%

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, 2020 is as under:

(BDT in Million)

Particulars	Regulatory Standard	As on 31 December, 2020
Available amount of stable funding (ASF)		439,260.76
Required amount of stable funding (RSF)		369,585.14
Net Stable Funding Ratio (NSFR)	Greater than 100	118.85%

10. Leverage Ratio

Views of BOD on system to reduce excessive leverage

Leverage ratio is the ratio of Tier 1 capital to total on and off balance sheet exposures. It was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. UCBL has embraced this ratio along with Basel III guideline as a credible supplementary measure to risk based capital requirement and assess the ratio periodically.

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

Revised guideline of RBCA based on Basel III as provided by BRPD of Bangladesh Bank is followed by UCBL while managing excessive on and off-balance sheet leverage of the bank. As per RBCA leverage ratio shall be Tier I Capital divided by Total Exposure after related deductions.

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 broader financial 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

The Bank has calculated the regulatory leverage ratio as per the guideline of Basel III. The numerator, capital measure, is calculated using the new definition of Tier I capital applicable from 01 January 2015. The denominator, exposure measure, is calculated on the basis of the Basel III leverage ratio framework as adopted by Bangladesh Bank.

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, 2020 is as under:

(BDT in Million)

Particulars	**As on 31 December,2020**	
	Solo Basis	**Consolidated Basis**
Tier 1 Capital*	28,848.43	29,518.78
On Balance Sheet Exposure*	486,131.78	491,405.52
Off-Balance Sheet Exposure*	117,869.96	117,869.96
Total Deductions	3,424.82	3,426.73
Total Exposure	600,576.92	605,848.74
Leverage Ratio	4.80%	4.87%

***** Considering all regulatory adjustment

11. Remuneration

<u>Qualitative Disclosures:</u>

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 differentiated Pay Structure and employee benefits by regions/business line/activity. As of 31 December 2020, 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 Corporate 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, 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 2020 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.
	ii. A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.	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.
	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.	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.

<table>
<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>The remuneration policy of the Bank does not allow any discrimination between male and female employees. UCBL has variety of market-competitive Benefits schemes designed to motivate the employees.
However, employees are eligible for variable remuneration arrangements in the form of Incentive Bonus (non-deferred cash awards), as per their Performance appraisal Report.</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 variable remuneration award during the financial year as under: Particulars — BDT in Million Incentive Bonus — 725.65 Ex-gratia — 62.10 **Total** — **787.75**
	ii. Number and total amount of guaranteed bonuses awarded during the financial year.	Number of total festival bonus: 02 Total amount of festival bonus as under: Particulars — BDT in Million Festival Bonus — 519.20 Ex-gratia — 82.60 **Total** — **601.80**
	iii. Number and total amount of sign-on awards made during the financial year.	-
	iv. Number and total amount of severance payments made during the financial year.	Number of severance payments: 179 Total amount of severance payments: BDT. 1,184.44 Million (Provident fund, gratuity fund, retirement benefit and leave encashment)
i)	i. Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	No deferred remuneration was paid out in the financial year of 2020
	ii. Total amount of deferred remuneration paid out in the financial year.	-

<table>
<tr><td>j)</td><td>Breakdown of amount of remuneration awards for the financial year to show:
- fixed and variable.
- deferred and non-deferred.
- different forms used (cash, shares and share linked instruments, other forms).</td><td>Breakdown of Remuneration for the year-2020 is as under:
(BDT in Million):
<table><tr><th>Particulars</th><th>Amount</th></tr><tr><td>Basic salary</td><td>2,961.78</td></tr><tr><td>Allowances</td><td>1,370.84</td></tr><tr><td>Bonus</td><td>1,248.91</td></tr><tr><td>Provident fund contribution</td><td>292.64</td></tr><tr><td>Gratuity</td><td>480.00</td></tr><tr><td>Total</td><td>6,354.17</td></tr></table></td></tr>
<tr><td>k)</td><td colspan="2">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.</td></tr>
<tr><td></td><td>i. Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.</td><td>No amount is outstanding of deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.</td></tr>
<tr><td></td><td>ii. Total amount of reductions during the financial year due to ex post explicit adjustments.</td><td>There were no reductions during the financial year 2020 due to ex post explicit adjustments</td></tr>
<tr><td></td><td>iii. Total amount of reductions during the financial year due to ex post implicit adjustments.</td><td>There were no reductions during the financial year 2020 due to ex post implicit adjustments</td></tr>
</table>