BASEL III PILLAR III

MARKET DISCIPLINE

OF

UTTARA BANK LIMITED

Disclosure on Risk Based Capital
Annual Disclosure for the year ended December 31, 2022

Foreword

Meaningful information about common key risk metrics to market participants is a fundamental tenet of a sound banking system that reduces information asymmetry and helps promote comparability of banks' risk profiles within and across jurisdictions. Pillar III of the Basel framework aims to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

With a view to ensuring transparency in the financial sector, in line with the recommendations of Basel Committee on Banking Supervision popularly known as Basel Accords, Bangladesh Bank has formulated "Guidelines on Risk Based Capital Adequacy" in terms of Bangladesh context. Under this guideline, market disclosure occupies a decisive share since the public disclosure of prudential information is an important component of Basel-III framework of capital measurement and capital adequacy. This disclosure aims at enhancing transparency in the financial market of Bangladesh through setting up minimum requirement for disclosure of information on the risk management and capital adequacy.

The following detailed qualitative and quantitative disclosures of the Bank are furnished in accordance with the BRPD Circular No: 18 of 21st December, 2014 to enable our stakeholders make informed assessment regarding the bank's financial health and to identify the risks relating to the assets and capital adequacy as on December 31, 2022.

Uniformity and Validation:

The quantitative disclosures are made on the basis of consolidated audited financial statements of Uttara Bank Limited and its Subsidiaries as at and for the year ended December 31, 2022; prepared under relevant International Accounting & Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) 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 (UBL), eliminating intra-company transactions. Assets of the subsidiaries were risk weighted and equities of subsidiaries were crossed out with the investment of UBL while consolidating.

The information presented in this Pillar III Report is not required to be, and has not been, subject to external audit. UBL has not omitted any disclosures on the grounds that the information may be proprietary or confidential.

So, information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated audited financial statements 2022 of UBL.

Components of Disclosure:

Disclosure is organized as per Bangladesh Bank requirement in the following components:

1. Scope of Application
2. Capital Structure
3. Capital Adequacy
4. Credit Risk
5. Equities: Disclosures for Banking Book Positions
6. Interest Rate Risk in the Banking Book
7. Market Risk
8. Operational Risk
9. Leverage Ratio
10. Liquidity Ratio
11. Remuneration

1. Scope of Application

1.1. Qualitative Disclosure

a) Top corporate entity in the Group to which this guideline applies

The framework applies to Uttara Bank Limited (UBL) on 'Consolidated Basis' as there was one (01) subsidiaries of the Bank as on the reporting date i.e. December 31, 2022. However, 'Solo Basis' information has been presented beside those of 'Consolidated Basis' to facilitate comparison.

b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group that are:

- ***Fully consolidated***
- ***Given a deduction treatment &***
- ***Neither consolidated nor deducted***

Entities within the Group: The Bank has one (01) fully owned subsidiaries incorporated for respective operations.

a) **Uttara Bank Securities Ltd** was incorporated as a Public Limited Company with the Registrar of Joint Stock Companies and Firms, Dhaka Bangladesh on June 13, 2013 under the Bank Company Act, 1994 bearing Registration No.109691/13.

Financials are fully consolidated, inter-company transactions & balances are eliminated.

c) Any restrictions, or major impediments, on transfer of funds or regulatory capital within the Bank.

The rules and regulations of 'Single Borrower Exposure Limit' for the customers are equally applicable for the Bank in financing its own subsidiaries.

1.2. Quantitative Disclosures

d) Surplus capital of insurance subsidiaries in the capital of the consolidated group.

Not Applicable.

2. Capital Structure

2.1. Qualitative Disclosure

a) Main features of all capital instruments, eligible for inclusion in CET 1, Additional Tier 1 or Tier 2.

For the purpose of calculating capital under capital adequacy framework, the capital of banks has been classified into two (02) tiers. Total regulatory capital consists of sum of the following categories:

1. Tier 1 Capital (***Going Concern Capital***)
   - **a)** Common Equity Tier 1
   - **b)** Additional Tier 1

2. Tier 2 Capital (***Gone Concern Capital***)

Conditions	Status
• CET 1 ≥ 4.5% of total RWA.	Complied.
• Tier 1 ≥ 6% of total RWA.	Complied.
• Minimum CRAR ≥ 10% of total RWA.	Complied.
• AT1 ≤ 1.5% of total RWA/ 33.33% of CET1, whichever is higher.	Complied.
• Tier 2 ≤ 4% of total RWA or 88.89% of CET1, whichever is higher.	Complied.

2.2. Quantitative Disclosures

a) Amount of Regulatory capital, with separate disclosure of: CET1 Capital, Additional Tier 1 Capital, Total Tier 1 Capital & Tier 2 Capital.

b) Regulatory Adjustments/ Deductions from Capital.

c) Total Eligible Capital.

In Crore

	Components of Capital	Solo (Bank)	Consolidated
A	**Tier-1 Capital (Going Concern Capital)**	**1,870.54**	**1,883.26**
	1. Common Equity Tier-1	**1,870.54**	**1,883.26**
a	Fully Paid-up Capital	643.74	643.74
	Statutory Reserve	586.00	587.78
	General Reserve	335.56	335.57
	Retained Earnings	299.50	310.43
	Dividend Equalization Reserve	6.44	6.44
	Minority Interest in Subsidiaries		
	Less: Intangible Assets	-0.70	-0.70
	2. Additional Tier-1 Capital	-	-
B	**Tier-2 Capital (Gone Concern Capital)**	**138.31**	**138.31**
	General Provision	138.31	138.31
	Minority Interest in Subsidiaries	-	0.00
	Total Regulatory Capital (A+B)	**2,008.85**	**2,021.57**

3. Capital Adequacy

3.1. Qualitative Disclosure

a) Bank's capital adequacy assessment approaches to support current & future activities.

Regulatory capital assessment is an integrated and comprehensive process. Consistent to its level of capital, Bank manages its exposure through sound risk management, careful selection of credit exposures and conservative business strategy. Credit policy and investment policy of the bank are designed in such a way that ensures the safety of all concerned stakeholders.

On behalf of the Board of Directors, Risk Management Committee (RMC) ensures the implementation of Supervisory Review Process, that states capital adequacy goals with respect to risk, taking account of the bank's strategic focus and business plan to ensure the integrity of the overall risk management process so that all material risks faced by the bank can be addressed in the capital assessment process.

UBL has adopted Standardized Approach for computation of capital charge for credit risk and market risk while Basic Indicator Approach for operational risk, in line with the RBCA guideline.

3.2. Quantitative Disclosures

a) ***Capital Requirement for Credit Risk, Market Risk & Operational Risk.***

b) ***Total capital, CET1 capital, Total Tier 1 capital and Tier 2 capital ratio:***

- ***For the Consolidated Group; and***
- ***For Stand Alone***

c) ***Minimum Capital Requirement (MCR) & Capital Conservation Buffer.***

d) ***Capital under Pillar 2 Requirement.***

In Crore

Particulars			Solo (Bank)	Consolidated
Pillar I - Minimum Capital Requirement				
Credit Risk		Tk.	1,060.41	1,043.64
Market Risk		Tk.	36.94	59.07
Operational Risk		Tk.	210.92	211.93
		Tk.	1,308.27	1,314.64
Total Regulatory Capital			**2,008.85**	**2,021.57**
Risk Weighted Assets			**13,082.67**	**13,146.35**
Capital to Risk Weighted Assets Ratio				
Capital to RWA	**Min**	10%	15.36%	15.38%
CET-1 + Conservation Buffer	**Min**	7%	14.30%	14.33%
Tier-1 Capital	**Min**	6%	14.30%	14.33%
Tier-2 Capital	**Max**	4%	1.06%	1.05%
Capital Conservation Buffer	**Min**	2.5%	5.36%	5.38%
Pillar II - Available Capital		Tk.	138.31	138.31

4. Credit Risk

4.1. Qualitative Disclosure

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

- ***Definitions of Past Due and Impaired (for accounting purposes);***
- ***Description of approaches followed for specific, general allowances & statistical methods;***
- ***Discussion of the bank's Credit Risk Management policy.***

Credit risk is defined as the probability of the loss (due to the non-recovery of) emanating from the credit extended as a result of the non-fulfilment of contractual obligations arising from inability or unwillingness of the counterparty or for any other reason.

➢ **Past due & Impaired Loans**

According to "Guidelines on Risk Based Capital Adequacy", "Past Due" means overdue for 60 days or more that include SMA, SS, DF & BL.

➢ **Approaches for Specific & General Allowances/ Provision**

General and Specific Provisions on loans and advances are made quarterly by management review as per instructions contained in BRPD Circular. Provisions and interest suspense are separately shown under other liabilities as per 1st schedule of Bank Company Act 1991 (amendment up to 2013), instead of netting off with loans. Criteria for loan classification & provisioning is as below:

<table>
<tr><th rowspan="2">Type of Facility</th><th colspan="2">Sub Standard (SS)</th><th colspan="2">Doubtful (DF)</th><th colspan="2">Bad & Loss (BL)</th></tr>
<tr><th>Overdue</th><th>%</th><th>Overdue</th><th>%</th><th>Overdue</th><th>%</th></tr>
<tr><td>Continuous Loan</td><td rowspan="3">$\geq$ 3 Months but $\leq$ 6 Months</td><td rowspan="4">20%</td><td rowspan="3">$\geq$ 6 Months but $\leq$ 9 Months</td><td rowspan="4">50%</td><td rowspan="3">$\geq$ 9 Months</td><td rowspan="4">100%</td></tr>
<tr><td>Demand Loan</td></tr>
<tr><td>Fixed Term Loan >10 lac</td></tr>
<tr><td>Fixed Term Loan <10 lac</td><td>$\geq$ 6 Months but $\leq$ 9 Months</td><td>$\geq$ 9 Months but $\leq$ 12 Months</td><td>$\geq$ 12 Months</td></tr>
<tr><td>Short Term Agricultural & Micro Credit/ CSME</td><td>$\geq$ 12 Months but $\leq$ 36 Months</td><td>5%</td><td>$\geq$ 36 Months but $\leq$ 60 Months</td><td>5%/ 20%</td><td>$\geq$ 60 Months</td><td>100%</td></tr>
</table>

General provisions for unclassified loans & advances and contingent assets are measured as per Bangladesh Bank prescribed provisioning rates as mentioned below:

Unclassified (including SMA)	General Provision
General Loans & Advances	1.00%
Small & Medium Enterprise/ CSME	0.25%
Loans to BHs/ MBs/ SDs against Shares Etc.	2.00%
Housing Finance	1.00%
Loans for Professionals	2.00%
Consumer Financing	2.00%
Consumer Financing (Card)	2.00%
Short Term Agricultural & Micro Credit	1.00%
Off Balance Sheet Exposures	1.00%

➢ **Credit Risk Management Policy:**

Sound credit risk management presupposes the presence of a good system of credit analysis that will prop up the credit risks to be dealt with. Our endeavor in identifying, measuring, monitoring and controlling credit risk for each borrower and also at the portfolio level are working as the guiding principles of credit risk management.

Uttara Bank Limited always acknowledges effective Risk Management as the key to steady and stable growth for the Bank. The Bank's own lending policy has been introduced in the Bank in line with the directives received from the Bangladesh Bank and the Government.

The Branches are the business unit of the banking system. The loan application assessment process starts at branch level by the Relationship Managers, through zonal office and ends at Credit Approval Department of Head Office. Credit Marketing Department analyze the proposal from different perspectives in line with lending policy of the Bank, while Credit Approval Department analyze business worthiness of the proposal and forward towards Credit Committee.

4.2. Quantitative Disclosures

a) Total gross credit risk exposure broken down by major types of credit exposure.

In Crore

Sn	Exposures Type	Solo (Bank)	Consolidated
1	Banks & NBFI	563.03	563.03
2	Commercial Real Estate	113.37	113.37
3	Consumer Finance	33.23	33.23
4	Corporate	4,967.18	4,702.23
5	Residential Mortgage	1,177.99	1,177.99
6	Retail/ Individual	590.55	590.55
7	Staff Loan	217.10	217.10
8	SME	7,032.73	7,032.73
9	Bills Purchased/ Disc/ Neg.	224.46	224.46
10.	Past Due	1,476.88	1,476.88
		16,396.52	**16,131.57**

b) Geographical distribution of credit exposure.

In Crore

Sn	Division	Amount
1	Dhaka Division	9,561.46
2	Chittagong Division	2,366.96
3	Khulna Division	916.27
4	Barisal Division	537.59
5	Rajshahi Division	1,202.95
6	Sylhet Division	446.65
7	Rangpur Division	961.93
8	Mymensingh Division	402.71
		16,396.52

c) Industry or Counterparty type distribution of credit exposure.

In Crore

Sn	Sector	Amount
1	ICT	11.19
2	Jute and Jute Products	13.87
3	Fuel and Power	-
4	Agriculture (Crops)	24.55
5	Drugs & Pharmaceuticals	45.86
6	Leather & Leather Products	50.58
7	Plastic & Plastic Products	116.80
8	Manufacturing of Chemical & Chemical Products	156.40
9	Paper, Paper Products & Publishing	186.65
10	Food & Beverage	1,462.55
11	Construction- Commercial	219.72
12	Iron & Steels	336.78

13	Agriculture (Non-Crops)	439.13
14	Consumer Loan	1,296.55
15	Textile Others	625.08
16	RMG	723.45
17	Manufacturing of Non-Metallic	179.34
18	NGOs and MFIs	906.67
19	Agro Based Industries	1,336.00
20	Construction- Apartment/ Housing	1,401.00
21	Trading- Retail	2,197.32
22	Others	1,137.98
23	Trading- Wholesale	3,529.05
		16,396.52

d) Residual contractual maturity breakdown of the whole portfolio.

In Crore

Sn	Maturity Bucket	Amount
1	Repayable on demand up to 1 month	2,578.98
2	Over 1 month but not more than 3 months	2,269.48
3	Over 3 months but not more than 1 year	6,985.60
4	Over 1 year but not more than 5 years	2,559.88
5	Over 5 years	2,002.58
		16,396.52

e) Sector wise exposure of Classified loans & Past due loans.

In Crore

Sn	Sector	Amount
1	Manufacturing of Chemical & Chemical Products	-
2	Plastic & Plastic Products	0.49
3	ICT	-
4	Iron & Steels	2.17
5	Food & Beverage	33.23
6	Consumer Loan	0.35
7	Construction- Commercial	5.87
8	Drugs & Pharmaceuticals	8.53
9	Paper, Paper Products & Publishing	0.10
10	Agriculture (Crops)	10.74
11	RMG	75.05
12	Construction- Apartment/ Housing	84.06
13	Agro Based Industries	104.77
14	Agriculture (Non-Crops)	33.99
15	NGOs and MFIs	21.25
16	Manufacturing of Non-Metallic	261.83
17	Others	80.88
18	Textile Others	134.26
19	Trading- Retail	243.80
20	Trading- Wholesale	375.51
		1,476.88

5. Equities: Disclosures for Banking Book Positions

5.1. Qualitative Disclosure

a) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.

Investment in equity securities by UBL is broadly categorized into two parts: Quoted securities (Ordinary shares, Mutual Fund) and Un-quoted securities.

- **Quoted Securities** are those placed into the trading book assets, are traded in the secondary market.
- **Un-Quoted Securities** are categorized as banking book equity exposure.

b) Important policies of Equity holdings in the banking book including the valuation methodologies & accounting techniques, key assumptions practices affecting valuation as well as significant changes in these practices.

Investments in these equity securities have been initiated with a view to making capital gain by selling them in the future or hold for dividend income. Both quoted and un-quoted equity securities are valued at cost and requisite provisions are maintained to offset the price shock i.e. if prices fall below the cost price.

5.2. Quantitative Disclosures

a) Fair value & Market value of Investments; comparison to publicly quoted share values where the share price is materially different from fair value; for quoted securities.

In Crore

Sn	Investment Value	Solo (Bank)	Consolidated
1	Fair Value	29.28	169.13
2	Market Value	246.30	356.94

b) Gains (Losses) arising from sales & liquidations.

- ***Cumulative Realized Gains (Losses)***
- ***Total Unrealized Gains (Losses)***
- ***Total Latent Revaluation Gains (Losses)Any amounts of the above included in Tier 2 capital.***

Not Applicable.

c) Capital requirements broken down by appropriate equity groupings, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.

In Crore

Sn	Market Risk	Solo (Bank)	Consolidated
1	Specific Market Risk	12.76	23.82
2	General Market Risk	12.76	23.82

6. Interest Rate Risk in the Banking Book (IRRBB)

6.1. Qualitative Disclosure

a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.

Interest rate risk in the banking book (IRRBB) is the current or potential risk to the interest rate sensitive assets and liabilities of a bank’s balance sheet as well as the off-balance sheet items arising out of adverse or volatile movements in market interest rate. Volatile movements of market interest rate adversely affect the value of interest rate sensitive assets and liabilities that consequentially results in the loss of equity value.

IRRBB arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among yield curves that affect bank activities (basis risk); from changing rate relationships across the range of maturities (yield curve risk); and from interest rate related options embedded in bank products (option risk).

The process of interest rate risk management by the bank involves determination of the business objectives, expectation about future macro-economic variables & understanding the money markets and debt market in which it operates. Interest rate risk management also includes quantifying the appetite for market risk to which bank is comfortable. The Bank uses the following two (02) approach to manage interest rate risks inherent in the Balance sheet:

- Simple Sensitivity Analysis and
- Duration Gap Analysis

6.2. Quantitative Disclosures

a) The increase (decline) in earnings or economic value for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).

Particulars	Basis	Before Shock	After Shock		
DGAP	Years	0.30	**Minor (1%)**	**Moderate (2%)**	**Major (3%)**
Regulatory Capital	Crore Tk.	2,008.85	1,940.68	1,872.51	1,804.34
RWA	Crore Tk.	13,082.67	13,014.50	12,946.33	12,878.16
CRAR	%	15.36%	14.91%	14.46%	14.01%

7. Market Risk

7.1. Qualitative Disclosure

a) Views of BOD on trading/ investment activities

Market Risk, possibility of losing assets in balance sheet & off-balance sheet positions arising out of volatility in market variables i.e. interest rate, exchange rate and price.

- ***Interest Rate risk*** arises due to changes in yield curves, credit spreads and implied volatilities on interest rate options.
- ***Equity Position Risk*** arises due to changes in equity price, indices, baskets & implied volatilities on related options.
- ***Foreign Exchange Risk*** arises due to changes in exchange rates & implied volatilities on foreign exchange options.
- ***Commodity Risk***; arises due to changes in exchange rates & implied volatilities on foreign exchange options.

All Market risk related policies/ guidelines are duly approved by the BOD. The BOD sets limit, review & update the compliance on regular basis targeting to mitigate market risk.

b) Methods used to measure Market risk

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.

c) *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 Liquid asset to Total Assets, Volatile Liability Dependency Ratio, MTF 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 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 of the foreign currency positions held by the Bank.

d) *Policies and processes for mitigating Market Risk*

To mitigate Market Risk, Asset & Liability Management Department (ALMD) takes following measures:

- ***Interest Rate Risk Management:*** ALMD reviews the risks of changes in income of the Bank as a result of movements in market interest rates. In the usual course of business, the Bank tries to minimize the mismatch between the duration of interest sensitive assets and liabilities. Effective interest rate management is done through market analysis and Gap analysis.
- ***Foreign Exchange Risk Management:*** It is the risk that arises from potential fluctuations in the exchange rate, adverse exchange positioning or change in the market. ALMD mitigates this risk by supervising day to day trading activities and by setting limits.
- ***Equity Risk Management:*** Equity risk is defined as losses due to changes in market price of the equity held. To measure and identify the risk, market valuation of the share portfolio is done.

7.2. Quantitative Disclosures

a) *The capital requirements for:*
Interest Rate risk; Equity Position risk; Foreign Exchange risk; and Commodity risk.

In Crore

Particulars	Solo (Bank)	Consolidated
Interest Rate Risk	4.65	4.65
Equity Position Risk	25.52	47.65
Forex Risk	6.77	6.77
Commodity Risk	-	-
Total Capital Charge	**36.94**	**59.07**

8. Operational Risk

8.1. Qualitative Disclosure

a) *Views of BOD on system to reduce Operational Risk*
Performance gap of executives and staffs
Potential external events
Policies and processes for mitigating Operational Risk
Approach for calculating capital charge for Operational 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. We seek to minimize exposure to operational risk, subject to cost benefit trade-offs. The bank captures some pre-identified risk events associated with all functional departments of the bank through standard reporting format.

All the policies/ guidelines including Internal Control and Compliances and Board audit are duly approved by BOD. Audit Committee of the Board directly oversees the activities of internal control and compliances aiming to check all types of lapses and irregularities inherent with operational activities of the Bank and thereby may create a notable downfall risk for the Bank. Operational Risk includes legal risk, but excludes strategic and reputation risk. It arises from:

- Transaction Processing
- Operation Control
- Technology and Systems
- Risks of Physical and Logical Security
- Unique Risk arises due to Outsourcing

- **Performance Gap of Executives and Staffs**

  The BOD of the Bank is always keen to provide a competitive, attractive and handsome remuneration package for its employees. Besides, the recruitment policies of the Bank always emphasize on sorting out fresh graduate from the reputed universities and nurture them until transformation to a 'Human Capital' of highest quality. Besides, the Bank's name and fame as top tier. Bank of the country acts as moral boosting factor for the employees. An accommodating, welcoming, co-operative and congenial work atmosphere motivates its employees to act as a family towards achievement of goal. As such, there exists no performance gap in the bank.

- **Potential External Events**

  We understand that business operates in an umbrella of inter connected socio-economic and political environment. Few externalities affect business performance directly such as macro-economic conditions, regulatory changes, change in demand, status of infrastructure whereas few factors affect operations of the business directly or indirectly such as force shut down due to political instability, threat of vandalism to the bank's sophisticated physical outlets including IT equipment's etc.

- **Operational Risk Mitigation Policies and Procedure**

  Operational Risks results from inadequate or failed internal process, people and systems or from external events. Within the Bank, Operational Risk may arise from negligence and dishonesty of the employees, lack of management supervision, inadequate operational control, lack of physical security, poor technology, lack of automation, non- compliance of regulatory requirements, internal and external fraud etc. Operational Risk Management Framework has been designed to provide a sound and well-controlled operational environment and thereby mitigate the degree of operational risk.

- **Approach for Calculating Capital Charge for Operational Risk**

  The bank applies *'Basic Indicator Approach'* as prescribed by Bangladesh Bank in revised RBCA guidelines. Under this approach, banks have to calculate average annual gross income of last three years and multiply the result by 15% to determine required capital charge.

8.2. Quantitative Disclosures

a) The capital requirements for Operational Risk

	Basis	Solo (Bank)	Consolidated
Capital Requirement for Operational Risk	Crore Tk.	210.92	211.93

9. Leverage Ratio

9.1. Qualitative Disclosure

a) Views of BOD on system to reduce Liquidity Risk
Methods used to measure Liquidity Risk
Liquidity Risk Management System
Policies and processes for mitigating Liquidity Risk

The BOD assumes the responsibility of ensuring the bank's adequate liquidity for both normal operations and unanticipated stress events. By approving the policy statement, the Board specifically:

- Approves policy limits, monitoring and reporting systems
- Sets up line management responsibilities.
- Puts systems in place to review actual performance relative to policies & controls.
- Hold management accountable to measure, monitor & control liquidity risk.
- Regular reviews liquidity reports to ensure liquidity risk is within policy limits.
- Reviews Contingency Funding Plans.

➢ **Methods used to Measure Liquidity Risk**

Banks provide maturity transformation. Taking deposits that are callable on demand or that on average has shorter maturity than the average maturity of the financing contracts they sell. While maturity transformation provides liquidity insurance to the depositors, which is valued by them, it exposes banks to liquidity risk themselves. Since banks specialize in maturity transformation they take pool deposits and take care to match their cash inflows and outflows in order to address the liquidity risk they face. Following are the ways to measure liquidity risk:

- Judging the timing of bank's cash in- and out-flows.
- Anticipating change in the cost of capital or availability of funding.
- Abnormal behaviour of financial markets under stress.
- Range of assumptions used in predicting cash flows.
- Breakdown in payments and settlement system.
- Macroeconomic imbalances.

➢ **Liquidity Risk Management System**

- Identify the primary sources of funding.
- Provide for alternative responses to business scenarios.
- Deal with temporary, short-term and long-term liquidity disruptions.
- Operate within liquidity risk tolerance levels.
- Consider and manage volatile liability dependence.
- Consider contingent exposures like undrawn credit lines.

➢ **Liquidity Risk Mitigation Policy**

Liquidity risk management process has been developed with the objective of optimizing the relationship between liquidity risk and other forms of risk such as interest rate risk, credit risk and capital risk, while providing maximum returns to stockholders. The process includes:

- Identify the primary sources of funding.
- Provide for alternative responses to business scenarios.
- Deal with temporary, short-term and long-term liquidity disruptions.

- Operate within liquidity risk tolerance levels.
- Incorporate periodic review of assumptions used in liquidity projections.
- Utilize cash flow projections.
- Maintain target levels of unpledged liquid asset reserves.
- Consider and manage volatile liability dependence.
- Address funding concentrations.
- Consider contingent exposures like undrawn credit lines.
- Provide management reporting of the type and frequency specified in the policy.

9.2. Quantitative Disclosures

a) Liquidity Coverage Ratio (LCR)
Net Stable Funding Ratio (NSFR)
Stock of High Quality Liquid Assets
Total Net Cash Outflows over the next 30 calendar days
Available Amount of Stable Funding
Required Amount of Stable Funding

Sn	Particulars	Basis	Amount
1	Liquidity Coverage Ratio (LCR)	%	465.66%
2	Net Stable Funding Ratio (NSFR)	%	111.55%
3	Stock of High Quality Liquid Assets	Crore Tk.	4,834.37
4	Total Net Cash Outflows over the next 30 calendar days	Crore Tk.	1,038.17
5	Available Amount of Stable Funding	Crore Tk.	20,149.76
6	Required Amount of Stable Funding	Crore Tk.	18,063.23

10. Liquidity Ratio

10.1. Qualitative Disclosure

a) Views of BOD on system to reduce Excessive Leverage
Policies and processes to manage excessive On and Off-Balance Sheet Leverage
Approach for Calculating Exposure

Leverage Ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. 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. The leverage ratio is calibrated to act as a credible supplementary measure to the risk-based capital requirements.

The BOD assumes that increasing quality capital base as well as reducing bad assets is the ways to latch on to the dependency on the excessive leverage. Leverage being the staple feature of banking business cannot be minimized but careful management would certainly yield profit from this.

➢ **Excessive Leverage Management Policy**
To manage excessive leverage, banks either have to reduce their asset base, increase their capital, or both. It can be achieved by selling assets, reducing outstanding credit on accounting books by calling back loans, issuing additional share capital & retaining earnings. In many cases a combination of all these is pursued.

➢ **Exposure Calculation**
To measure the exposure consistent with financial accounts, following principles are followed:

- On balance sheet, non-derivative exposures are calculated as net of specific provisions and valuation adjustments.
- Physical or financial collateral, guarantee or CRM technique is not considered to reduce On-balance sheet exposure.

- Netting of loans and deposits is not considered.

On-Balance Sheet Items are included using accounting balance sheet.

Off-Balance Sheet Items are calculated by applying a uniform 100% Credit Conversion Factor (CCF) and for unconditionally cancellable commitments, 10% CCF is applied.

10.2. Quantitative Disclosures

a) *Leverage Ratio*

On Balance Sheet Exposure

Off Balance Sheet Exposure

Sn	Particulars	Basis	Solo (Bank)	Consolidated
1	Leverage Ratio	%	7.38%	7.41;%
2	On Balance Sheet Exposure	Crore Tk.	24,128.18	24,177.22
3	Off Balance Sheet Exposure	Crore Tk.	1,232.29	1,232.29
4	Total Exposure	Crore Tk.	25,360.47	25,409.51

11. Remuneration

11.1. Qualitative Disclosure

a) Information regarding bodies that oversee remuneration

The remuneration of the bank is governed by the "Pay Structure" of the bank which is approved by the Board from time to time. Human Resources Division is solely responsible for overseeing the pay structure followed by the HR policy Guidelines.

- **Composition**
  Managing Director → Deputy Managing Director → Executive General Manager → General Manager → Assistant General Manager → Other Operational Officer.

- **Mandate**
  HRD places the position of remuneration, the matters & recommendations associated to it before the Board of Directors for approval of its restructuring, rearrangement modification in line with the industry best practices as per requirement.

- **External Consultants**
  Bank does not deploy any external consultant regarding remuneration & its process.

- **Scope of the Remuneration Policy**
  The remuneration policy does not discriminate by regional basis and business lines. The bank does not have any foreign subsidiaries branches outside Bangladesh as on 31/12/2022.

- **Material Risk Takers**
  Actually, the senior management, branch manager and employees engaged in different departments and division at Head Office (except the employees involved in internal control and compliance) are considered as main risk takers of UBL.

b) Information relating to the design and structure of remuneration

- **Key features and objectives of Remuneration Policy**

UBL is committed to maintain a performance-based reward policy that recognizes the contribution of each of the employees and links to the market competitive pay. Main features and objectives are:

- Avoid decimation in the pay structure
- Retention of interest of the stakeholders
- To cope up with the industry practice
- To focus on sustainable growth &
- To bring employees satisfaction.

➢ **Remuneration Policy: Change in Last Year**

In the last financial year, bank does not bring any changes in the remuneration policy.

➢ **How Risk and Compliance Employees are remunerated independently**

The performance of each employee is evaluated annually as per predetermined set criteria and accordingly the result of the performance varies from one to another and this is considered only for promotion purposes.

c) Description of the ways in which current and future risks are considered in the remuneration processes

➢ **Key risks involve in Remuneration Measures**

The key risks that the bank considers when implementing remuneration measures are:

- Default risk that arises from providing loans.
- Reputation risk arising from not providing satisfactory customer services.
- Liquidity risk that arises from unavailability of payment obligations.
- Compliance risk arising due to comply the pay structure perfectly.

➢ **Nature and Type of the Key Measures**

Risk is difficult to measure in absolute figures. Risk can be minimized in various ways if the institutions try and take account of those risks seriously. The bank at first makes a budget of loans, deposits and profit and tries to achieve the target by taking measure of reducing NPL, sustaining growth rate of credit deposit ratio increasing asset quality, minimizing cost of fund and maximizing spread of income, increasing provision coverage ratio as well as doing compliance status accurately and satisfactory up to the regulatory bodies from time to time.

➢ **How they affect Remuneration**

Remuneration is the main and largest components of administrative cost of a bank. So, effective management of remunerating depends on the proper implementation of the above measures.

➢ **Key Measures: Change in last year**

No material changes had been made during the year 2022 that could 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

➢ **Main Performance Metrics**

Business target is fixed up upon some key performance indicators (KPIs) which are set and approved by the Board and Senior Management of the bank. The management set appropriate tools, techniques, and business planning and strategic planning in line with set target. The most common KPI’s are LD ratio, NPL ratio, Cost of Fund, Yield of Funds, CRAR, ROA, ROE, LCR, CRR, SLR etc.

- **How Remuneration amount is linked to Performance**
  Remuneration of the employees of the bank is paid based on bank's service rule (set in HR policy). Sometimes (though rare in our bank, three (03) special increments may be granted to an individual based up on his best performances by desecrating power of CEO.

- **Measures taken for Weak Performance Metrics**
  In fact, no adjustment was made in payment of remuneration for weak performance metrics.

e) Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance

- **Variable Remuneration Policy**
  As per our HR policy the Managing Director may allow at best three (03) special increment for best performers. But in the last financial year, the bank did not allow any such increments. The banks' remuneration is paid on cash basis. So, no deferred remuneration was found in the last financial year.

- **Policy and Criteria for adjusting Deferred Remuneration**
  Not applicable.

f) Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms

- **Forms of Variable Remuneration**
  Under our HR policy, the bank offers two forms of variable remuneration to the best performers in the banking business:
  - *Special Increments:* The Managing Director may allow at best three special increment.
  - *Cash Rewards:* A lump sum amount in the form of cash is given to the performers.

- **Factors for the Mix and Forms of Variable Remuneration**
  In the last financial year, the bank paid no such variable remuneration. So, there was no use of the different forms of variable remuneration.

11.2. Quantitative Disclosures

a) Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member

Not Applicable as there is no specific committee for remuneration.

b) No of Employees and amount got different forms of remuneration & award during the financial year.

- **Variable Remuneration**
  Not applicable.

- **Incentive Bonus**

Particulars	Basis	2022
Incentive Bonus	Crore Tk.	28.12

- **Sign-on Awards**
  There are no sign-on awards made in 2022.

- **Severance Payments**
  No such payment was made during the fiscal year.

c) Deferred Remuneration

- **Outstanding**
  Not applicable.
- **Paid Out**
  Not applicable.

d) 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).***

Not applicable.

e) Employees' exposure to implicit and explicit adjustments of deferred and retained remuneration

Not applicable.