Disclosures on Risk Based Capital (Basel III)

Preamble

To strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector, the Basel Committee on Banking Supervision (BCBS) issued "Basel-III: A global regulatory framework for more resilient banks and banking systems" in December 2010. The objective of the reforms was to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thereby reducing the risk of spillover from the financial sector to the real economy. Through its reform package, BCBS also aims to improve risk management and governance as well as strengthen banks' transparency and disclosures. The Basel Committee's comprehensive reform package also addressed the lessons of the economic and financial crisis, which began in 2007, by holding insufficient liquidity buffers and building up excessive on and off-balance sheet leverage that resulted in a gradual erosion of the level and quality of the capital base.

To comply with international best practices and to make the bank's capital shock absorbent, Bangladesh Bank issued "Guidelines on Risk Based Capital Adequacy" (Revised Regulatory Capital Framework for Banks in Line with Basel-III) in December 2014 with the instructions to maintain the minimum capital requirement under pillar 1, an additional capital requirement under pillar 2 and a market disclosure requirement under pillar 3. United Commercial Bank PLC (UCBPLC) has given special attention to implement Basel-III inside the Bank. As per Bangladesh Bank guidelines, UCB has formed "Basel Implementation Unit (BIU)" which is under the supervision of a supervisory committee and includes senior management of the Bank. UCB has an exclusive body named the Supervisory Review Process (SRP) team constituted by the concerned departmental heads and headed by the Managing Director & CEO of the Bank.

Purpose

As part of Basel-III compliance, Market Discipline (pillar 3) is formulated with a view to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets.

Disclosure Framework

United Commercial Bank PLC has adopted the Basel-III framework as part of its capital management strategy in line with the revised Guidelines of Bangladesh Bank and also developed a set of formal disclosure frameworks approved by the Board of Directors of the Bank which includes the 'Qualitative and Quantitative Disclosures' containing the components of Scope of Application, Capital Structure, Capital Adequacy, Credit Risk, Equities: Disclosures for Banking Book Positions, Interest Rate Risk in the Banking Book (IRRBB), Market Risk, Operational Risk, Liquidity Ratio, Leverage Ratio and Remuneration of the Bank.

Consistency and Validation

The quantitative disclosures are made on the basis of audited financial statements of UCB and its subsidiaries as at and for the year ended 31 December 2024. 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 on 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 Capital conservation buffer Countercyclical buffer	Securitizations Trading book Counterparty credit risk	Leverage ratio	Supplemental pillar 2 requirements	Pillar 3 disclosure requirements	Liquidity coverage ratio Net stable funding ratio 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).

Key information regarding capital position at a glance: (Solo basis)

BDT in Million

Key Items	Particulars	2024	2023
Risk Weighted Assets (RWAs)	Credit Risk	439,713.87	379,400.43
	Market Risk	14,331.95	14,422.65
	Operational Risk	54,656.42	45,033.29
	Total RWAs	**508,702.24**	**438,856.38**
Capital	CET 1 Capital	30,471.85	33,748.52
	AT 1 Capital	5,700.00	5,400.00
	Tier 1 Capital	**36,171.85**	**39,148.52**
	Tier 2 Capital	17,687.16	16,065.90
	Total Regulatory Capital	**53,859.01**	**55,214.43**
Minimum Capital Requirement (MCR)	MCR @10%	50,870.22	43,885.64
Surplus/ Shortfall of Capital	MCR	2,988.79	11,328.79
Leverage	Exposures	850,149.60	794,577.33
	Leverage (%)	4.26%	4.93%

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 as under:

- 'Solo' disclosure refers to only the affairs of the Bank but considering the Off-shore 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 five subsidiaries, namely:
    1. United Commercial Bank PLC.
    2. UCB Stock Brokerage Limited
    3. UCB Investment Limited
    4. UCB Asset Management Limited
    5. UCB Fintech Limited
    6. UCB Exchange (SG) PTE Ltd

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

- **United Commercial Bank PLC.**

United Commercial Bank PLC ("UCB" or "the Bank") was incorporated in Bangladesh as a public limited company on 26 June 1983 under the Companies Act 1913. The Bank obtained approval from Bangladesh Bank to commence operations on 13 November 1983.

As of 31 December 2024, UCB operates:

- 231 branches (2023: 228), including one Islamic Banking branch that adheres to Islamic Shariah principles.
- 50 Islamic Banking windows within conventional branches, providing Islamic Banking services in compliance with Shariah principles.
- 177 sub-branches (2023: 152).
- 716 ATMs/CRMs (2023: 672).
- 855 agent banking outlets (2023: 850).

UCB is a publicly traded company listed on the Dhaka Stock Exchange (DSE) Limited and the Chittagong Stock Exchange (CSE) Limited. The Bank's Head office **is** located at: Plot – CWS-(A)-1, Gulshan Avenue, Dhaka – 1212, Bangladesh.

- **Off-shore Banking Unit (OBU)**

The Offshore Banking Unit (OBU) operates as an independent business division of UCB under the regulatory framework set by Bangladesh Bank, as outlined in:

- BRPD Circular No. 02, dated 25 February 2019.
- FE Circular Letter No. 01, dated 18 March 2024.
- Additional regulatory directives and guidelines.

The Bank received approval to establish its Offshore Banking Unit through Letter No. BRPD (P-3) 744 (117)/2010-2577, issued on 9 June 2010, and officially commenced operations on 10 November 2010.

Currently, UCB operates a single Offshore Banking Unit in Dhaka, which provides a comprehensive suite of foreign currency-based commercial banking services, ensuring full compliance with Bangladesh Bank regulations. The financial statements of the OBU are presented separately, maintaining transparency and regulatory adherence.

Islamic Banking

United Commercial Bank PLC received formal approval from Bangladesh Bank to commence Islamic Banking operations through Letter No. BRPD (P-3) 745 (17)/2020-1453**,** dated 6 February 2020**.**

The Bank currently operates through 50 Islamic Banking windows and a dedicated Islamic Banking branch, offering a comprehensive range of Shari’ah-compliant financial solutions tailored for retail, SME, and corporate clients**.**

UCB extends Islamic financing facilities under various Shari'ah-compliant modes, including:

- Murabaha (cost-plus financing)
- Bai-Salam (advance purchase financing)
- Musharaka (profit-and-loss sharing partnership)
- Hire Purchase Under Shirkatul Melk (HPSM) (lease-purchase)
- Other approved Shari'ah modes

Additionally, the Bank mobilizes deposits through Shari'ah-compliant instruments, such as:

- Al-Wadiah (Current Accounts)
- Mudaraba (Savings, Short Notice Deposits, Term Deposits, and Recurring Deposits)

The financial statements for Islamic Banking operations are presented separately, ensuring transparency and compliance with regulatory requirements.

Agent Banking

UCB received approval from Bangladesh Bank on 7 February 2017, through Letter No. BRPD (P-3) 745(17)/2017-677**,** to commence Agent Banking operations**.** Commercial operations officially began on 1 February 2018**.**

As of 31 December 2024, UCB has established 855 agent outlets across Bangladesh, securing the 5th position **i**n the industry based on the number of agent outlets.

Key highlights:

- A strong, granular deposit portfolio of BDT 1,154 crore**,** sourced from grassroots-level banking.
- 245,000 accounts acquired, representing approximately 10% of the Bank's total accounts.

Core Services Provided:

- Account opening
- Cash deposit and withdrawal
- Inward foreign remittance disbursement
- Utility bill collection
- Fund transfers via RTGS and BEFTN
- Salary disbursement
- Bank statement issuance
- Loan sourcing & repayment collection (SOD, SME, and Agricultural loans)
- Credit card application processing
- Balance inquiries, internet & SMS banking
- School fee collection
- Bangla QR merchant acquisition

Innovations & Technological Advancements:

UCB's Agent Banking platform has introduced several cutting-edge features to enhance accessibility and customer convenience, including:

- Fully digital, paperless onboarding using e-KYC.
- Bangla QR code onboarding through agents.
- Branch-led business model to enhance customer engagement.
- "UPAY"-collaborated business initiatives, promoting digital financial inclusion.

These innovations underscore UCB's commitment to financial inclusion and delivering modern, accessible banking solutions across Bangladesh.

Subsidiaries of United Commercial Bank PLC.

- A **s**ubsidiary is an entity over which UCB exercises contro**l** through its shareholding and voting rights. Control is established when the Bank holds more than **50%** of a company's shares or has the power to govern its financial and operational policies.
- As per International Accounting Standard (IAS) 27 ("Separate Financial Statements") and International Financial Reporting Standard (IFRS) 10 ("Consolidated Financial Statements"), UCB prepares both Solo Financial Statements and Consolidated Financial Statements**.**
- The non-controlling interest (NCI), representing minority shareholders' stake, includes share capital and profits attributable to minority shareholders**.** Intergroup transactions, balances, and unrealized profits/losses are eliminated in consolidation.

- **UCB Stock Brokerage Limited**

UCB Stock Brokerage Limited was restructured on 22 November 2020 from UCB Capital Management Limited (DSE TREC No. 181, CSE TREC No. 015).

Company Background:

- Incorporated on 20 November 2007 as UCB Capital Management Limited.
- Commenced operations on 19 June 2013.
- Operates under licenses from Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE).
- Registered with Bangladesh Securities and Exchange Commission (BSEC) as a Stock Dealer.

Core Activities:

- Brokerage services
- Margin loan facilities
- Stock trading and investment management

UCB PLC holds 24,999,999 shares of UCB Stock Brokerage Limited (Face Value: Tk. 100 each), equivalent to 99.99% ownership.

. UCB Investment Limited

Incorporated on 3 August 2011**,** UCB Investment Limited is a private limited company operating under the Companies Act 1994.

- Registered with RJSC (C-94654/11)**.**
- Obtained Merchant Banking License (MB-97/2020) from BSEC on 5 October 2020**.**
- Provides portfolio management, underwriting, fund management, and capital market advisory services**.**

UCB PLC holds 99,999,999 shares (Face Value: Tk. 10 each), equivalent to 99.99% ownership.

UCB Asset Management Limited

- Incorporated on 5 February 2019 under the Companies Act 1994**.**
- Registered with RJSC**.**
- Licensed as an Asset Management Company (BSEC/Asset Manager/2020/46) on 3 February 2020**.**
- Manages investment portfolios, mutual funds, and institutional asset management.

UCB PLC holds 99,999,999 shares (Face Value: Tk. 10 each), equivalent to 99.99% ownership.

UCB Fintech Limited

- Incorporated on 30 July 2020 under the Companies Act 1994.
- Offers mobile financial services, including:
    - Cash-in, cash-out, and money transfers
    - Utility bill payments
    - E-commerce & in-store payments
    - Remittance services
    - G2P & P2G transactions

UCB PLC holds 499,999,999 shares (Face Value: Tk. 10 each), equivalent to 99.99% ownership.

- **UCB Exchange (SG) PTE Ltd**

UCB Exchange (SG) PTE Ltd, a wholly owned subsidiary of United Commercial Bank PLC, was incorporated in Singapore on January 25, 2023, as a private limited company under the **Companies Act 1967** in Singapore. It operates under the **Unique Entity Number (UEN): 202302830G**. Following its incorporation, UCB Exchange applied for a **remittance license** from the **Monetary Authority of Singapore (MAS)**, which is currently under process.

The company's primary objective is to engage in **remittance services** and conduct transactions, activities, and operations typically associated with **remittance and exchange houses**. UCB PLC holds **1,000 shares** of UCB Exchange (SG) PTE Ltd, each with a face value of **1 Singapore Dollar (SGD 1.00)**, representing **100% ownership** of the company.

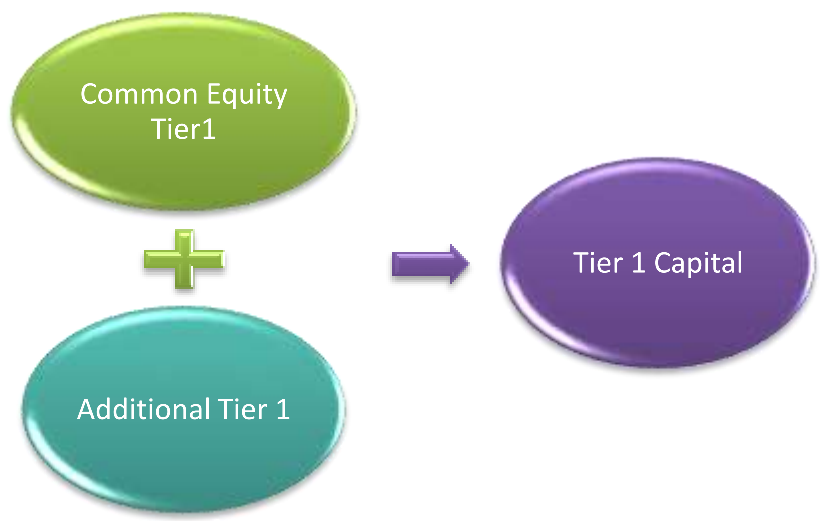
2. Capital Structure

<u>Qualitative Disclosures</u>

Capital serves as a buffer to absorb unexpected losses as well as to fund ongoing activities of the bank. 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.

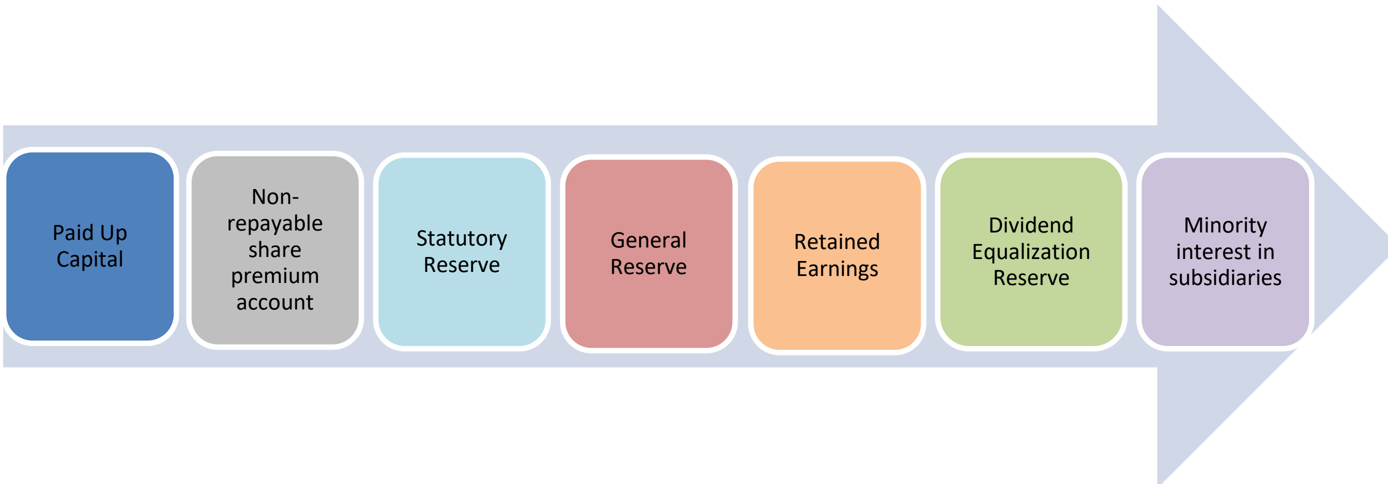
The capital structure of the Bank is categorized into two tiers – Tier I and Tier II capital; as per the Risk Based Capital Adequacy guidelines (December 2014) of Bangladesh Bank. The components of the total regulatory capital are enumerated as under:

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

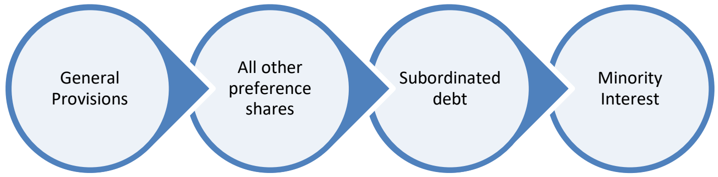
Perpetual Bond

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 a 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 November 23, 2020 & letter No. BRPD(BFIS)/661/14B(P)/2021/33 dated January 31, 2021 and subsequent Bangladesh Securities and Exchange Commission (BSEC) letter no. BSEC/CI/DS-130/PB/2020/294 dated December 14, 2020 & letter No. BSEC/CI/DS-130/2020/318 dated January 27,2021. UCB has considered as Additional Tier-1 Capital BDT. 5,700.00 million as Perpetual Bond as on December 31, 2024.

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, (v) Retained Earnings and (vi) Perpetual Bond.

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, 2024 is stated below;

BDT in Million

Sl.	Particulars	Solo	Consolidate
1.0	**Tier-1 (Going-Concern Capital)**		
1.1	**Common Equity Tier 1 (CET1)**		
1.1.	Paid-up Capital	15,503.76	15,503.76
1.1.	Non-repayable Share premium account	1,454.98	1,454.98
1.1.	Statutory Reserve	15,730.18	15,828.74
1.1.	General Reserve	26.58	26.58
1.1.	Retained Earnings	6,307.66	4,415.53
1.1.	Dividend Equalization Reserve	0.00	0.00
1.1.	Minority Interest in subsidiaries	0.00	0.00
	Sub-Total:	**39,023.16**	**37,229.58**
1.1.	**Regulatory Adjustments:**	**8,551.31**	**8,558.36**
1.1.	Goodwill and all other Intangible Assets	248.50	253.48
1.1.	Deferred Tax Assets (DTA) @ 95%	8,302.81	8,304.88
1.1.	Reciprocal crossholdings	0.00	0.00
1.1.	Others	0.00	0.00
	Sub-Total:	**30,471.85**	**28,671.22**
1.2	Additional Tier 1 (AT1)		
1.2.	Non- cumulative Irredeemable Preference Shares	0.00	0.00
1.2.	Instruments (Perpetual Bond)	5,700.00	5,700.00
1.2.	Minority Interest; i.e., AT1 issued by consolidated subsidiaries	0.00	0.00
	Sub-Total:	**5,700.00**	**5,700.00**
1.3	**Total Tier 1 Capital**	**36,171.85**	**34,371.22**
2.0	Tier-2 (Gone-Concern Capital)		
2.1	General Provision	7,284.36	7,353.35
2.2	Subordinated debt	10,402.80	10,402.80
	Sub-Total:	**17,687.16**	**17,756.15**
2.4	**Regulatory Adjustments:**	**00.00**	**00.00**
2.4.	Reciprocal crossholdings in the T-2 Capital Banking Financial and	00.00	00.00
2.4.	Others	0.00	0.00
2.5	**Total Tier 2 Capital**	**17,687.16**	**17,756.15**
3.0	**Total Regulatory Capital (Sl. 1.3+2.5)**	**53,859.01**	**52,127.37**

Note: As per Bangladesh Bank letter no. DBI-4/7007/2025-635 dated April 27, 2025, shortfall in provision for loans and advances is BDT 3,349.51 crore. As per DOS letter no. DOS(CAMS)1157/41(Dividend)/2025-3111 dated 21 May 2025, Bangladesh Bank allowed the bank to finalise the financial statements for the year ended 31 December 2024 without adjusting the shortfall amount of BDT 3,896.26 crore out of which the shortfall in provisions regarding the loans and advances is BDT 3,349.51 crore.

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 Perpetual and Subordinated Bond to support incremental growth of Risk Weighted Assets (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, 2024 are as under:

(BDT in million)

Particulars	Solo	Consolidated
Capital requirement for Credit Risk	43,971.39	43,877.61
Capital requirement for Market Risk	1,433.20	1,636.68
Capital requirement for Operational Risk	5,465.64	5,724.25
Total Capital Requirement under Pillar-I	50,870.22	51,238.54
Capital to Risk-weighted Asset Ratio (CRAR)	10.59%	10.17%
Common Equity Tier 1 Capital to Risk-weighted Asset Ratio	5.99%	5.60%
Tier 1 Capital to Risk-weighted Asset Ratio	7.11%	6.71%
Tier 2 Capital to Risk-weighted Asset Ratio	3.39%	3.47%
Percentage of Capital Conservation Buffer	0.59%	0.17%

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.

Definitions of past due and impaired credit:

To define past due and impairment through classification and provisioning, the bank follows Bangladesh Bank Circulars and Guidelines as summarized below:

Type of facility	**Loans Classification**		
	Sub Standard (Overdue Period)	**Doubtful (Overdue Period)**	**Bad & Loss (Overdue Period)**
Continuous Loan & Demand Loan	Other than CMS *: 3 months or more but less than 9 months.	Other than CMS: 9 months or more but less than 12 months.	Other than CMS: 12 months or more.
	CMS: 6 months or more but less than 18 months	CMS: 18 months or more but less than 30 months.	CMS: 30 months or more.
Fixed Term Loan [1]	Other than CMS *:	Other than CMS:	Other than CMS: 12 months or more.

	3 months or more but less than 9 months.	9 months or more but less than 12 months.	
	CMS: 6 months or more but less than 18 months	CMS: 18 months or more but less than 30 months.	CMS: 30 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

*CMS means Cottage, Micro and Small credits defined in SMESPD Circular No. 02 dated 05 September 2019 & SMESPD Circular No. 01 dated 17 March 2025.

Specific provisions for classified loans and general provisions for unclassified loans and advances and contingent assets are calculated following BB prescribed provisioning rates as mentioned below:

Particulars	**Rates of provision**
General provision on:	
Unclassified (including SMA) small and medium enterprise	0.25%
Unclassified (including SMA) Loans to BHs/MBs/SDs against shares etc.	1%
Unclassified (including SMA) loans for housing finance	1%
Unclassified consumer financing including credit card (other than housing finance)	2%
Unclassified (including SMA) other loans and advances	1%
Short term agri. credit and micro credit	1%
Off-balance sheet exposures (excluding bills for collection)	0%-1%
Specific provision on:	
Substandard loans other than short term agri. credit, micro credit and CMSME	20%
Doubtful loans other than short term agri. credit, micro credit and CMSME	50%
Substandard & doubtful loans: short term agri. credit and micro credit	5%
Substandard loans: CMSME	5%
Doubtful loans: CMSME	20%
Bad/Loss loans and advances	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 when 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 UCB 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/Risk Appetite set for counterparty or groups of connected counterparties, for industry sector; areas, portfolios and for product. Additional targets are set and monitored for concentrations by credit committee. Credit concentrations are monitored by the Credit Risk Management Committee/ Executive Risk Management Committee /Board Risk Management committee 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.

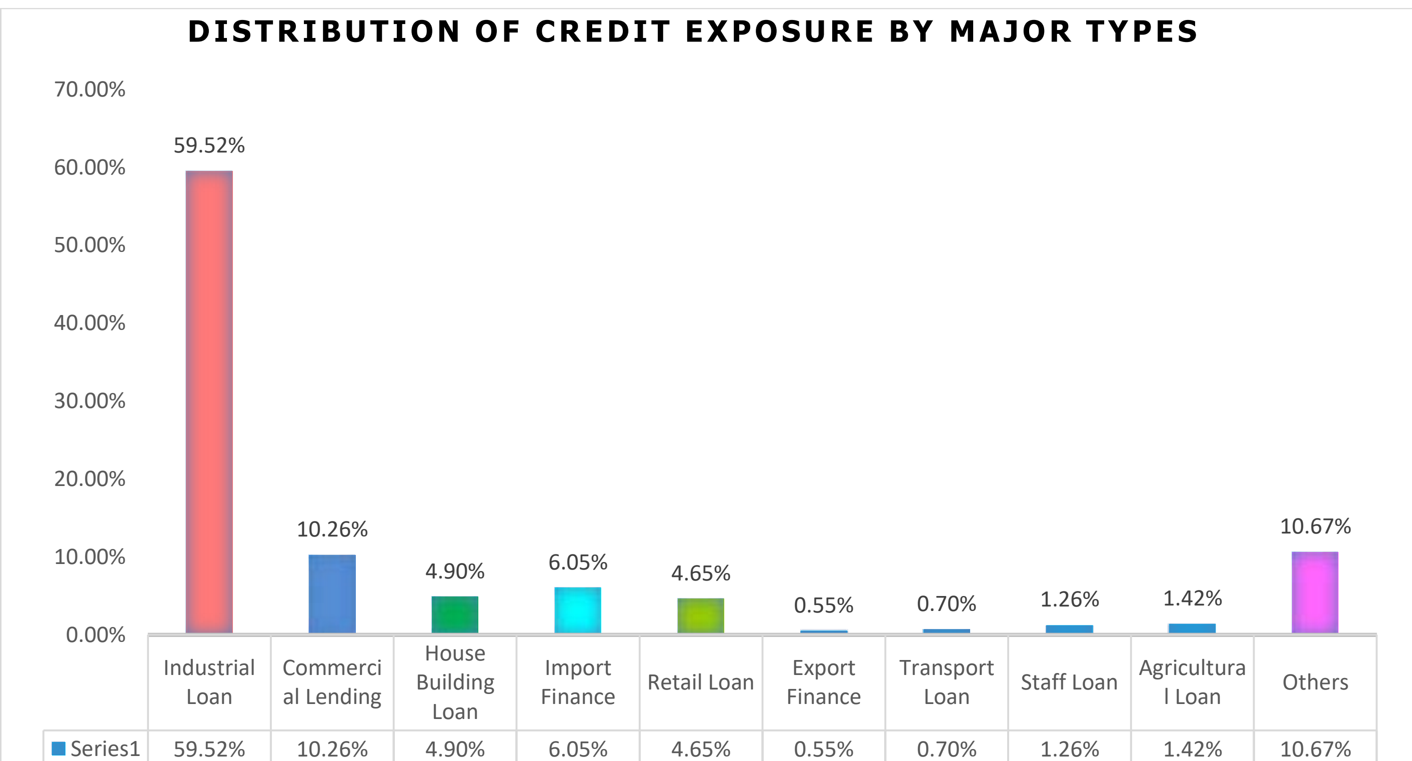
Credit Risk Mitigation

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 mitigants 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

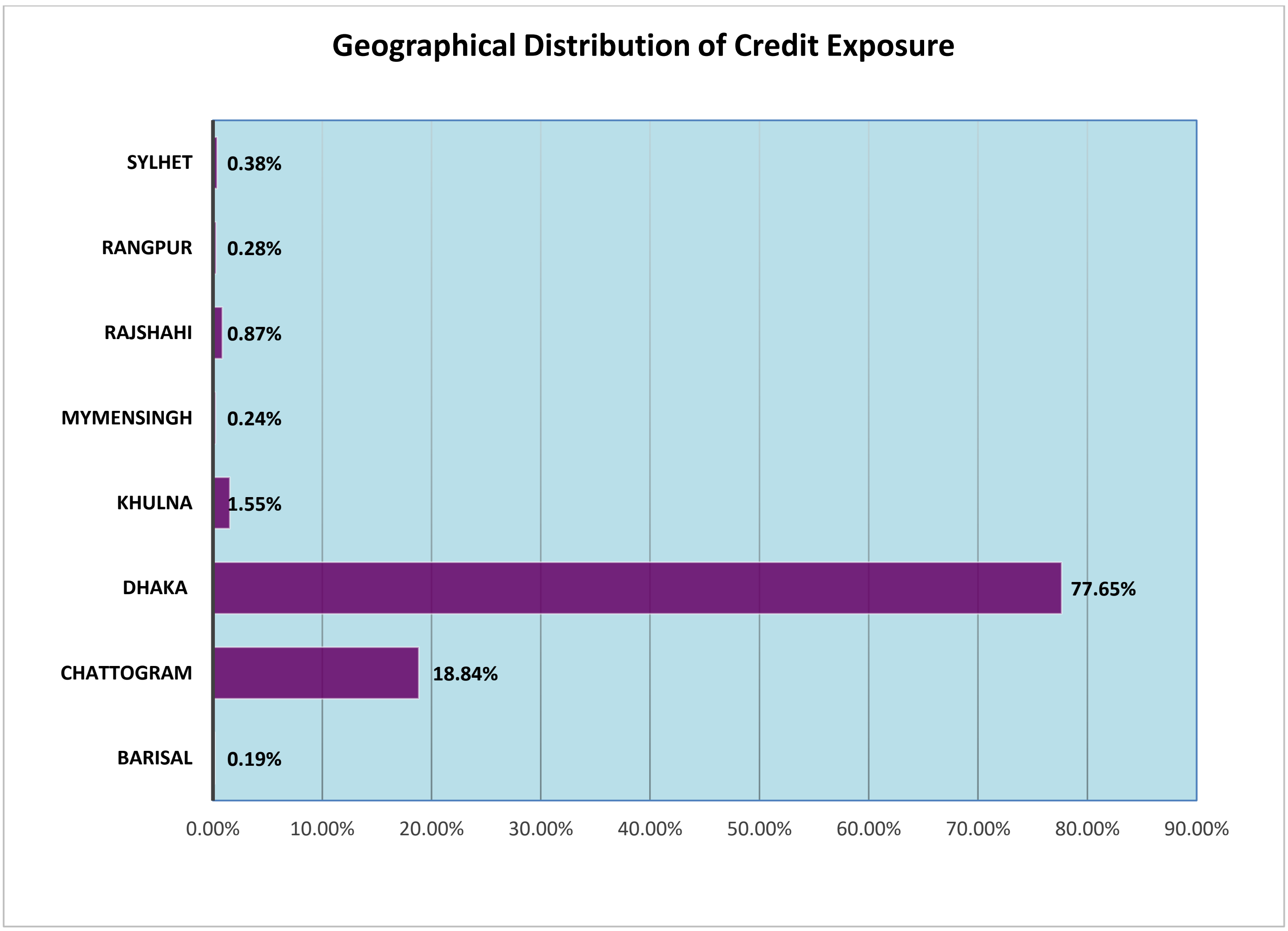
Types of Credit Exposure	BDT in Million	In %
Agricultural Loan	8,159.00	1.42
Commercial Lending	58,795.05	10.26
Export Finance	3,127.50	0.55
House Building Loan	28,095.27	4.90
Import Finance	34,676.97	6.05
Industrial Loan	340,972.71	59.52
Personal Loan	26,614.25	4.65
Staff Loan	7,233.96	1.26
Transport Loan	4,021.03	0.70
Others	61,133.12	10.67
Total	**572,828.87**	**100.00**



Geographical Location Wise Credit Exposure

Division	BDT in Million	In %
Barisal	1,083.24	0.19%
Chattogram	107,935.70	18.84%
Dhaka	444,809.23	77.65%
Khulna	8,852.20	1.55%
Mymensingh	1,360.17	0.24%
Rajshahi	4,990.02	0.87%
Rangpur	1,630.30	0.28%
Sylhet	2,168.01	0.38%
Total	**572,828.87**	**100.00%**

Geographical Distribution of Credit Exposure



Industry Type Distribution of Exposure

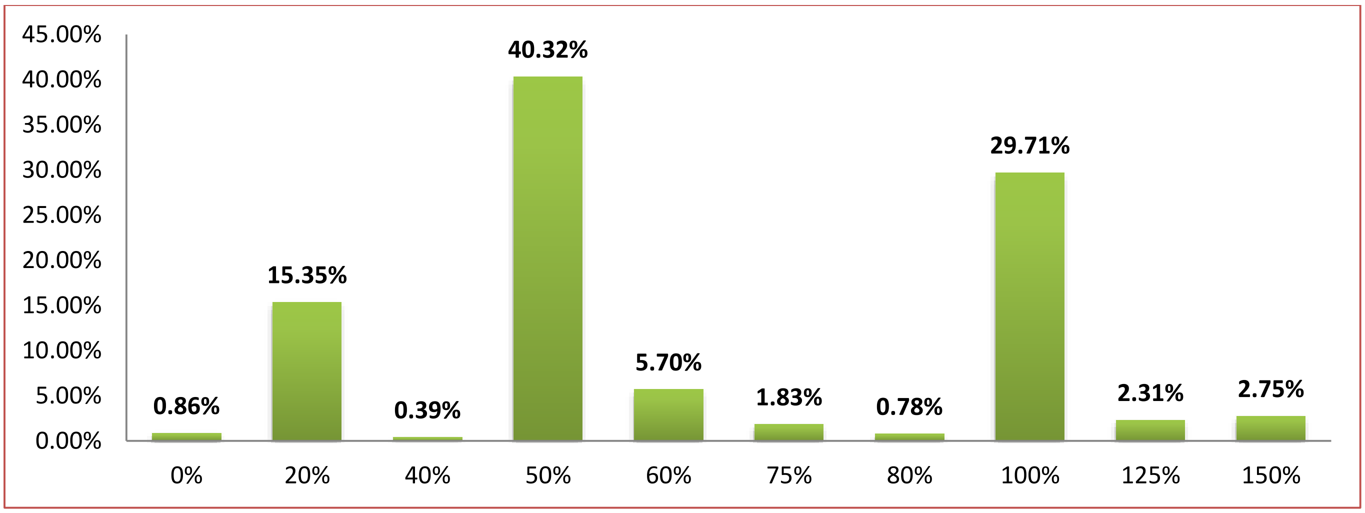
Types of Credit Exposure	BDT in Million	In %
Agriculture	8,159.00	1.42
Brick Field, Auto Bricks, Tiles	2,766.96	0.48
Cement Industries	18,132.83	3.17
Chemical & Chemical Products	25,502.43	4.45
Commercial Trade Financing	96,599.52	16.86
Construction (Other than Housing)	49,004.33	8.55
Diagnostic/Medical/Clinic	4,078.56	0.71
Educational Institute, Hotel, Restaurant	8,402.11	1.47
Electronics Media	318.90	0.06
Engineering, Basic Metal & Products	25,043.96	4.37
Food Products & Processing	31,240.17	5.45
Housing Industry	28,095.27	4.90
Jute Industries	231.08	0.04
Leather & Leather Products	1,627.02	0.28
Paper & Paper Products Industries	9,753.35	1.70
Power & Energy	21,199.26	3.70
RMG & Accessories	71,902.21	12.55
Ship Manufacturing	1,113.65	0.19
Ship Re-cycling	12,832.99	2.24
Telecommunication	3,005.75	0.52
Textile Industries	31,508.14	5.50
Transport & Communication	4,021.03	0.70
Wood & Wooden Products	2,367.34	0.41
Others	115,923.01	20.24
Total	**572,828.87**	**100**

Residual Contractual Maturity Wise Distribution of Exposure

Particulars	BDT in Million	In %
On demand	8,436.20	1.47
Not more than three months	167,775.89	29.29
More than three months but less than one year	138,589.05	24.19
More than one year but less than five years	181,479.11	31.68
More than five years	76,548.62	13.36
Total	**572,828.87**	**100**

Composition of Risk Weighted Asset of loan portfolio

Category of Risk weight	BDT in Million	In %
0%	4,939.66	0.86
20%	87,929.56	15.35
40%	2,246.74	0.39
50%	230,966.41	40.32
60%	32,639.37	5.70
75%	10,497.57	1.83
80%	4,470.75	0.78
100%	170,182.73	29.71
125%	13,230.61	2.31
150%	15,725.45	2.75
Total	**572,828.87**	**100**



Loans & Advances and Provision

BDT in Million

Particulars	**Loans & Advances**	**Provision maintain against Loans & Advances**
Total Loans and Advances	**572,828.87**	**27,056.20**
Performing Loans & Advances	487,484.91	4,715.46
Classified Loans and Advances	**85,343.96**	**22,340.75**
Substandard (SS)	22,167.32	5,857.60
Doubtful (DF)	2,249.00	683.43
Bad/Loss (BL)	60,927.65	10,493.70
Off-Balance Sheet Items	260,859.63	2,568.90

Total provision required and maintenance against Loans & Advances (*)

BDT in Million

Particulars	As of 31/12/2024	As of 31/12/2023
Total provision required for Loans & Advances	60,551.26	20,151.13
Total provision maintained for Loans & Advances	27,056.20	20,151.13
Excess/(Shortfall) in provision for loans and advances	(33,495.06)	-

(*) Note: As per Bangladesh Bank letter no. DBI-4/7007/2025-635 dated April 27, 2025, shortfall in provision for loans and advances is BDT 3,349.51 crore. As per DOS letter no. DOS(CAMS)1157/41(Dividend)/2025-3111 dated 21 May 2025, Bangladesh Bank allowed the bank to finalise the financial statements for the year ended 31 December 2024 without adjusting the shortfall amount of BDT 3,896.26 crore out of which the shortfall in provisions regarding the loans and advances is BDT 3,349.51 crore.

Gross Non-Performing Assets (NPAs)

Particulars		BDT in Million
Gross Non-Performing Assets (NPAs)		**85,343.96**
Total Loans and Advances		**572,828.87**
NPAs to outstanding Loans & Advances		14.90%

Movement of Non-Performing Assets (NPAs)

Particulars		BDT in Million
Opening Balance		**27,819.39**
Additions		65,550.76
Reductions		8,026.19
Closing Balance		**85,343.96**

Movement of Specific Provisions for NPLs

Particulars	BDT in Million
Opening Balance	**13,907.40**
Adjustment due to Write-off	(5,319.82)
Provisions made during the period	13,384.12
Recoveries of amounts previously written off	369.04
Write off transfer from interest suspense account	--
Closing Balance	**22,340.75**

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	5,171.34	4,838.96

Particulars	BDT in Million
Realized Gains	793.02
Unrealized Gains	598.10
Unrealized Losses	(930.49)
Net Unrealized Gains/(Loss)	(332.39)
Capital requirement for Equity Risk (Specific & General)	967.79
Supervisory Provision against Classified Equity Investment	1,535.77

(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	838.70	726.73	72.67	72.67	145.35
Telecommunication	700.69	731.51	73.15	73.15	146.30
Bank	1,342.10	1,775.68	177.57	177.57	355.14
Financial Institutions	1,359.34	866.62	86.66	86.66	173.32
Miscellaneous	930.52	738.43	73.84	73.84	147.69
Total	**5,171.34**	**4,838.96**	**483.90**	**483.90**	**967.79**

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. I**nterest 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)	290,006.31	79,906.42	79,906.42
Rate Sensitive Liabilities (RSL)	221,823.82	71,772.47	74,311.90
Gap (RSA – RSL)	68,182.49	8,133.95	5,594.52
Cumulative Gap	68,182.49	76,316.43	81,910.95

Interest Rate Shock on Capital:	**(BDT in Million)**		
Total Regulatory Capital	53,859.01		
Total Risk Weighted Assets (RWA)	508,702.24		
Capital to Risk-weighted Asset Ratio (CRAR)	10.59%		
Assumed Increase in Interest Rate	1%	2%	3%
Earnings Impact on Cumulative Gap	819.11	1,638.22	2,457.33
Capital After Shock	53,859.01	53,859.01	53,859.01
CRAR after Shock	10.75%	10.91%	11.07%
Increase in CRAR	0.16%	0.32%	0.48%

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	35.76
Equities	967.79
Foreign Exchange Position	429.65
Commodities	0.00
Total	**1,433.20**

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.

(BDT in Million)

Capital Charges for Operational Risk

Basis	Operational Risk	2022	2023	2024	Capital Charge
Solo	Gross Income	30,144.10	33,156.50	46,012.25	5,465.64
Consolidate	Gross Income	31,868.75	34,949.17	47,669.84	5,724.25

9. Liquidity Ratio

As per the BRPD Circular no. 18 dated December 21, 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

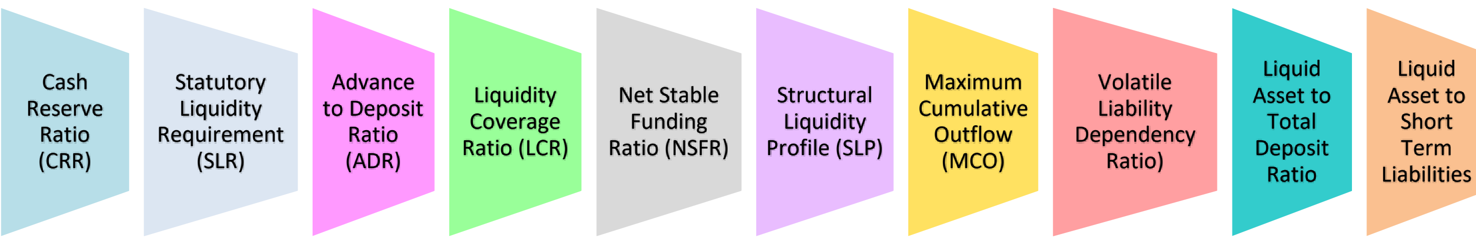
United Commercial Bank Limited maintains diversified and stable funding base comprising of core retail, corporate and institutional deposits to manage liquidity risk. The prime responsibility of the liquidity risk management of the bank rests with Treasury Division under the supervision of ALCO

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 term. 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 2024 in this ratio is as follows:

(BDT in Million)

Particulars	**Regulatory Standard**	**As on 31 December, 2024**
Total Stock of High Quality Liquid Assets		120,511.63
Total Net cash outflows over the next 30 calendar days		101,509.12
Liquidity Coverage Ratio (LCR)	Greater than or equal to 100	118.72%

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, 2024 is as under:

(BDT in Million)

Particulars	Regulatory Standard	As on 31 December, 2024
Available amount of stable funding (ASF)		662,839.65
Required amount of stable funding (RSF)		610,294.54
Net Stable Funding Ratio (NSFR)	Greater than 100	108.61%

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. UCB 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 UCB 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, 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
- UCB 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

1st 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, UCB 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, 2024 is as under:

(BDT in Million)

Particulars	As on 31 December,2024	
	Solo Basis	Consolidated Basis
Tier 1 Capital*	36,171.85	34,371.22
On Balance Sheet Exposure*	746,438.72	749,842.68
Off-Balance Sheet Exposure*	111,987.18	111,987.18
Total Deductions	8,551.30	8,558.36
Total Exposure	849,874.60	853,271.50
Leverage Ratio	4.26%	4.03%

***** Considering all regulatory adjustment

In addition of the above, UCB has been comfortably remaining in the right course of implementation of Leverage Ratio regulation under Basel III as per (Bangladesh Bank BRPD Circular no. 18 dated August 21 of 2021) the roadmap outlined by Bangladesh Bank. Bank's progression along the roadmap is depicted below:

Particulars	2021	2022	2023	2024	2025	2026
Leverage Ratio	3.00%	3.00%	3.25%	3.50%	3.75%	4.00%
UCB Status:						
Solo Basis	*4.92%*	*5.00%*	*4.93%*	*4.26%*	--	--
Consolidated Basis	*4.89%*	*4.86%*	*4.72%*	*4.03%*	--	--

11. Remuneration

Qualitative Disclosures:

a)	**Information relating to the bodies that oversee remuneration.**	
	i. Name of the bodies that oversee remuneration	At the management level, primarily the Human Resources Management Division oversees the 'remuneration' in line with its Human Resources Management strategy/policy under direct supervision and guidance of the Senior Management Team 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 Team is the main body for overseeing the Bank's remuneration. The Senior Management Team 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 2024, the Bank has one foreign subsidiaries (UCB Exchange (SG) PTE Ltd) 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 year of 2024, 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 2022 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 2024 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 and advances 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, 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 and promotion are determined by the outcome of scorecard in prescribed Key Performance Indicators of the individual.
e)	**Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance.**		
	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.	The remuneration policy of the Bank does not allow any discrimination between male and female employees. UCB has variety of market-competitive benefit 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.
	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.	Not Applicable
f)	**Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.**	
		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.

Quantitative Disclosures

<table>
<tr><td>g)</td><td colspan="2">Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.</td><td>The Senior Management of the bank overseeing the remuneration of the Bank.</td></tr>
<tr><td>h)</td><td>i.</td><td>Number of employees having received a variable remuneration award during the financial year.</td><td>The variable remuneration award during the financial year as under:
<table><tr><td>Particulars</td><td>BDT in Million</td></tr><tr><td>Incentive Bonus</td><td>848.44</td></tr><tr><td>Ex-gratia</td><td>74.05</td></tr><tr><td>Total</td><td>922.49</td></tr></table></td></tr>
<tr><td></td><td>ii.</td><td>Number and total amount of guaranteed bonuses awarded during the financial year.</td><td>Number of total festival bonus: 02

Total amount of festival bonus as under:
<table><tr><td>Particulars</td><td>BDT in Million</td></tr><tr><td>Festival Bonus</td><td>666.97</td></tr><tr><td>Ex-gratia</td><td>110.86</td></tr><tr><td>Total</td><td>777.83</td></tr></table></td></tr>
<tr><td></td><td>iii.</td><td>Number and total amount of sign-on awards made during the financial year.</td><td>-</td></tr>
<tr><td></td><td>iv.</td><td>Number and total amount of severance payments made during the financial year.</td><td>Number of severance payments:309

Total amount of severance payments: BDT. 1,108.88 Million

(Provident fund, gratuity fund, retirement benefit and leave encashment)</td></tr>
<tr><td>i)</td><td>i.</td><td>Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.</td><td>No deferred remuneration was paid out in the financial year of 2024</td></tr>
</table>

	i. Total amount of deferred remuneration paid out in the financial year.	-
j)	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).	**Breakdown of Remuneration for the year-2024 is as under:** (BDT in Million): **Particulars** / **Amount** Basic salary: 3,988.06 Allowances: 1,850.00 Bonus: 1,877.03 Provident fund contribution: 457.35 Gratuity: 1,200.00 **Total: 9,372.44**
k)	**Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration.**	
	i. Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	No amount is outstanding of deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.
	ii. Total amount of reductions during the financial year due to ex post explicit adjustments.	There were no reductions during the financial year 2024 due to ex post explicit adjustments
	iii. Total amount of reductions during the financial year due to ex post implicit adjustments.	There were no reductions during the financial year 2024 due to ex post implicit adjustments

(BDT in Million):

Particulars	**Amount**
Basic salary	3,988.06
Allowances	1,850.00
Bonus	1,877.03
Provident fund contribution	457.35
Gratuity	1,200.00
Total	**9,372.44**