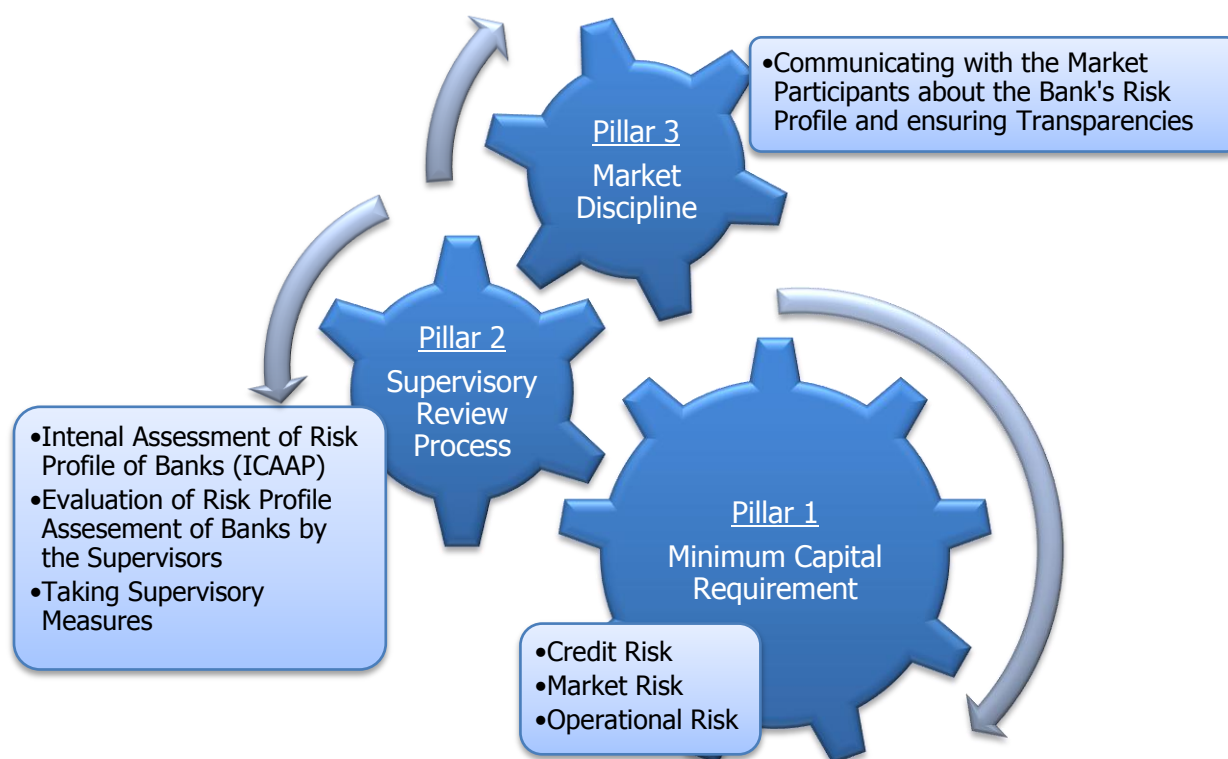


Disclosures on Risk Based Capital (Basel II)

As per the Bangladesh Bank BRPD Circular no. 24 dated August 03 of 2010 regarding the Guidelines on 'Risk Based Capital Adequacy of Banks' under Basel II framework, the Market Disclosure of risk based capital adequacy framework has been acknowledged.

Risk based regulatory capital adequacy in line with Basel II framework has fully come into force from January 01, 2010 as stipulated by Bangladesh Bank. As per the framework, Minimum Capital Requirement, Supervisory Review Process and Market Disclosure requirements must be followed by all the scheduled banks of Bangladesh as for regulatory compliance, which constitutes of three-mutually reinforcing pillars:



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

Apart from the above mentioned risks, all other risks are assessed through the evaluation of Supervisory Review Process. Under Internal Capital Adequacy Assessment Process, the Additional Capital Requirement of a Bank is estimated. The supervisor will evaluate the risk assessment process of the Bank and give directions to the acceptability of the process.

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

Scope of Application

The disclosure made in the following section has addressed **United Commercial Bank Limited** as a single entity as well as in a consolidated form. The risk based regulatory capital adequacy framework is applied to Bank both on Solo Basis as well as on Consolidated Basis.

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

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

- United Commercial Bank Limited
- UCB Securities Limited
- UCB Investment Limited

United Commercial Bank Limited:

United Commercial Bank Limited (UCBL) was incorporated in Bangladesh as a public limited company with limited liability on 26 June 1983 under Companies Act 1913 to carry on banking business in Bangladesh. It obtained permission from Bangladesh Bank on 13 November 1983 to commence its business. The Bank has 139 branches as on 31 December 2013. All the branches of the Bank run on Commercial Conventional basis. The bank offers services for all commercial banking needs of the customers, which includes deposit banking, loans & advances, export import financing, inland and international remittance facility etc. The bank is listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited as a publicly traded Company.

The principal place of business and the registered office were located at 60, Motijheel Commercial Area, Federation Bhaban, Dhaka-1000, Bangladesh. Principal place of business has been changed to Plot # CWS (A) 1, Gulshan Avenue, Dhaka – 1212 with effect from January 2010.

UCB Securities Limited

UCB Securities Limited was incorporated in Bangladesh as a private limited company with limited liability as on the 28 day of January of 2010 under Companies Act 1994. The principal objective of the company is to provide brokerage services both under the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE). The bank has two licenses under the title of "UCB Capital Management Limited", a member of Dhaka Stock Exchange (DSE) and "Anam Capital Ltd", a member of Chittagong Stock Exchange (CSE). The principal place of business and the registered office of the company is located at Sara Tower (9th Floor), 11/A Toyenbee Circular Road, Motijheel C/A, Dhaka- 1000. UCB Capital Management Limited has started full fledged operation in Dhaka but business of Anam Capital Limited under the license of Chittagong Stock Exchange is yet to be started.

UCBL holds 4,999,995 nos. of shares of UCB securities Limited with face value of Tk. 100 each which equivalent to 99.999% of total shares of the company.

UCB Investment Limited

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

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

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

- a. Standardized Approach for Credit Risk to compute Capital Adequacy under Basel II, using national discretion for:
 - Accepting the credit rating agencies as external credit assessment institutions (ECAI) for claims on Corporate Customers;
 - Accepting Credit Risk Mitigates (CRM) against the financial securities.
- b. Standardized (Rule Based) Approach for Market Risk; and
- c. Basic Indicator Approach for Operational Risk.

Capital Structure

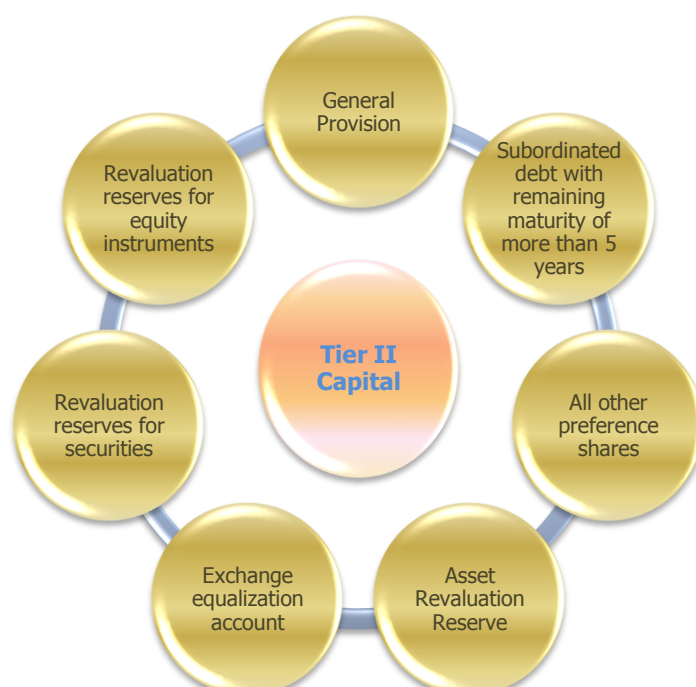
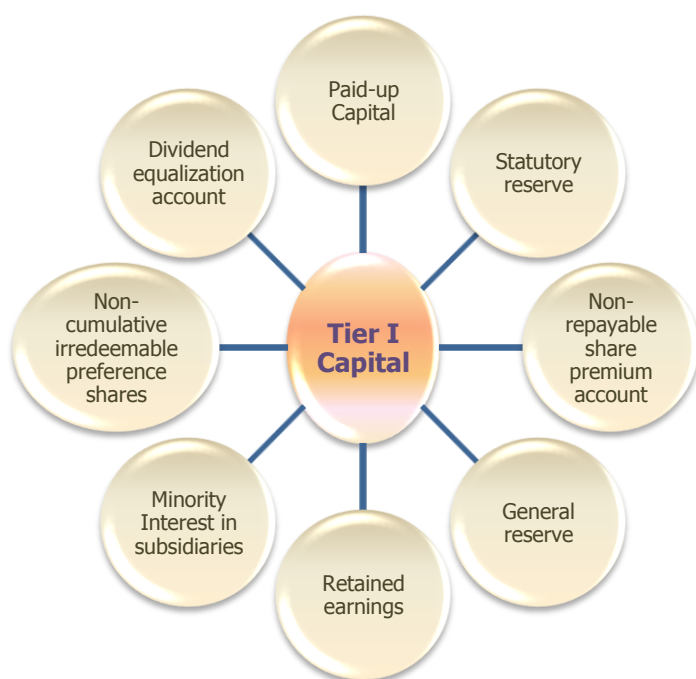
The capital structure of the Bank is comprised of both Tier I and Tier II capital.

Tier I Capital

The highest quality of capital components comprises the Tier I capital. This is also known as Core Capital.

Tier II Capital

The components of Tier II capital lacks some quality of Tier I capital, but strengthen the capital base of the Bank. The Components of Tier I Tier II capitals are depicted below:



The Bank's capital structure consists of Tier I capital and Tier II capital. Capital Structure of the Bank is as under as on December 31, 2013;

Eligible Capital

(BDT in million)

Sl.	Particulars	Solo	Consolidated
1.0	Tier-1 (Core Capital)		
1.1	Fully Paid-up Capital	8,366.12	8,366.12
1.2	Statutory Reserve	5,519.55	5,519.55
1.3	Non-repayable Share premium account	1,454.98	1,454.98
1.4	General Reserve	26.58	26.58
1.5	Retained Earnings	1,902.75	1,902.56
	Sub-Total:	17,269.97	17,269.79
	Allowable Deduction:		
1.6	Investment in Subsidiaries	0.00	0.00
	Total Tier I Capital	17,269.97	17,269.79
2.0	Tier-2 (Supplementary Capital)		
2.1	General Provision (Unclassified Loans + SMA + Off Balance Sheet Exposure)	1871.29	1871.29
2.2	Assets Revaluation Reserves up to 50%	1,267.05	1,267.05
2.3	Revaluation Reserve for Securities up to 50%	350.45	350.45

Sl.	Particulars	Solo	Consolidated
2.4	Revaluation Reserve for equity instruments up to 10%	0.00	0.00
2.5	Subordinated debt	200.00	200.00
	Sub-Total	5,488.79	5,488.79
	Allowable Deduction:		
2.5	Investment in Subsidiaries	0.00	0.00
	Total Tier II Capital	5,488.79	5,488.79
	Total Eligible Capital	22,758.76	22,758.58

Capital Adequacy

For accessing Capital Adequacy the Bank has adopted Standardized Approach for Credit Risk measurement, Standardized (Rule Based) Approach for Market Risk measurement and Basic Indicator Approach for Operational Risk measurement. Capital Requirement and Adequacy of the Bank as on December 31, 2013 are as under;

(BDT in million)			
Particulars	Solo	Consolidated	
Capital requirement for Credit Risk	17,664.24	17,592.73	
Capital requirement for Market Risk	444.98	444.98	
Capital requirement for Operational Risk	1,628.84	1,629.52	
Total Capital Requirement under Pillar-I	19,738.05	19,667.22	
Tier 1 Capital Adequacy Ratio:	8.75	8.78	
Tier 2 Capital Adequacy Ratio:	2.78	2.79	

Credit Risk

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

Past Due/Impaired Loans

Bank classifies loans and advances (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. An NPA (impaired is defined as a loan or an advance where interest and/ or installment of principal remain overdue for more than 90 days in respect of a Continuous credit, Demand loan or a Term Loan etc.

Classified loan is categorized under following 03 (three) categories:

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

Any continuous loan will be classified as:

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

Any Demand Loan will be classified as:

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

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

In case of Fixed Term Loans:

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

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

- 'Substandard' if the irregular status continuous for a period of 12 months from the stipulated due date as per loan agreement;

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

Approaches followed for Specific & General Allowances and Statistical Methods

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

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

Methods used to measure Credit Risk

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

Credit Risk Management

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

Credit Risk measurement

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

Credit approval

Major credit exposures to individual borrowers, groups of connected counterparties and portfolios of retail exposures are reviewed by the risk review units and recommend the loan to the approval authority. 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 Head Office. Internal risk management reports containing information on key environmental, political and economic trends across major portfolios; portfolio delinquency and loan impairment performance; as well as credit grade migration are presented to risk committee PAMC. The PAMC meets regularly to assess the impact of external events and trends on the credit risk portfolio and to define and implement our response in terms of appropriate changes to portfolio shape, underwriting standards, risk policy and procedures. Accounts or portfolios are placed on Early Alert (EA) when they display signs of weakness or financial deterioration, for example, where there is a decline in the customer's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management. 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. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Recovery unit. In Retail/Consumer Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behavior is also tracked and informed in lending decisions. Accounts which are past due are subject to a collections process, monitored in collaboration with the Relationship manager by the Risk function. Charged-off accounts of the Bank are managed by specialist recovery teams of Special Asset Management Division.

Concentration risk

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

Credit risk mitigation

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

Distribution of Credit Exposure by Major Types

(BDT in million)

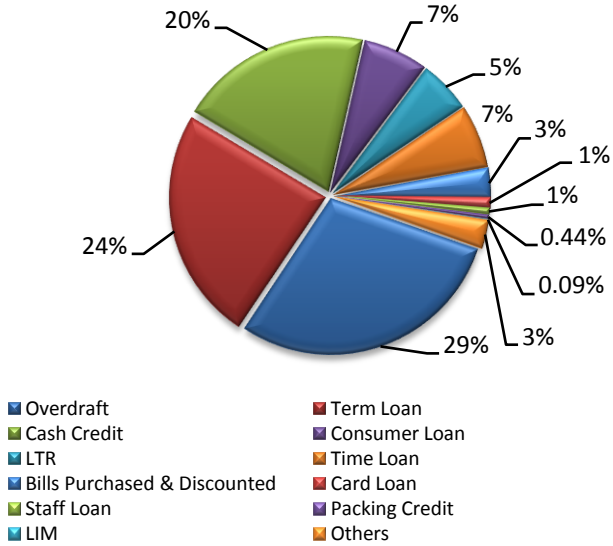
Types of Credit Exposure	Amount	%
Time Loan	43,277.61	29.11%
Term Loan	36,020.67	24.23%
Loan against Imported Merchandize	29,576.22	19.89%
Cash Credit	9,932.87	6.68%
Packing Credit	8,059.99	5.42%
Overdraft	9,751.69	6.56%
Bills Purchased & Discounted	4,395.54	2.96%
Card Loan	1,503.33	1.01%
Consumer Loan	1,011.94	0.68%
Staff Loan	657.15	0.44%
Loan Against Trust receipt	128.12	0.09%
Others	4,349.72	2.93%
Total	148,664.86	100.00

Geographical Distribution of Credit Exposure

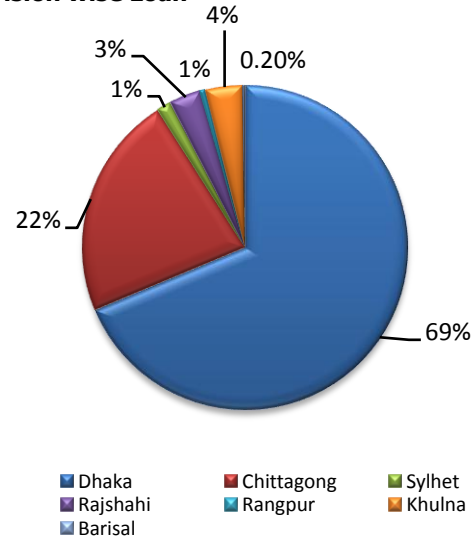
(BDT in million)

DIVISION	AMOUNT	%
Dhaka	102,126.33	68.70%
Chittagong	33,150.94	22.30%
Sylhet	2,146.47	1.44%
Rajshahi	4,677.40	3.15%
Rangpur	844.95	0.57%
Khulna	5,417.29	3.64%
Barisal	301.48	0.20%
TOTAL	148,664.86	100.00

Types of Credit Exposure



Division wise Loan



Industry Type Distribution of Exposure

(BDT in million)

Types of Credit Exposure	Amount (in million Taka)	%
Commercial trade financing	34,648.21	24.69
RMG & Textiles Industry	14,015.34	8.96
Other Manufacturing Industries	13,195.10	8.33
Construction (other than housing)	8,385.60	5.90
Housing industry	9,248.71	5.86
Telecommunication, Transport & communication	4,803.73	4.97
Food products & processing	4,373.00	3.47
Agriculture	2,164.89	1.54
Service Industry	1,608.61	1.21
Power & energy	3,007.29	1.19
Shipping Industries	1,283.80	0.31
Others	51,930.57	33.57
Total	148,664.86	100.00

Residual Contractual Maturity wise Distribution of Exposure

(BDT in Million)

Particulars	Amount
On demand	1,389.60
Not more than three months	67,801.61
More than three months but less than one year	39,165.19
More than one year but less than five years	31,588.31
More than five years	8,720.15
Total	148,664.86

Loans & Advances and Provision

(BDT in Million)

Particulars	Outstanding Loans & Advances	Provision against Loans & Advances
Total Loans and Advances	148,664.86	3,323.21
Un-Classified Loans & Advances	142,679.69	1,200.34
Classified Loans and Advances	5,985.17	2,122.87
Substandard (SS)	550.40	253.47
Doubtful (DF)	392.06	144.02
Bad/Los (BL)	5,042.71	1,725.38
Off-balance Sheet Items	67,094.06	670.95

Movement of Specific Provisions for NPLs

(BDT in Million)

Particulars	Amount
Opening Balance	1,850.54
Provisions made during the period	977.16
Written- off	(997.27)
Transferred from surplus provision	292.43
Closing Balance	2,122.87

Equities: Disclosures for Banking Book Positions

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

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

(BDT in Million)

Particulars	Cost Price	Market Price
Investment in Quoted Share	2,215.74	1,922.92

Particulars	Amount (in million BDT)
Realized Gains	(43.07)
Unrealized Gains	444.52
Unrealized Losses	(909.87)
Net Unrealized Gains/(Loss)	(292.82)
Amount included in Tier-2 Capital	0.00
Capital requirement for Equity Risk (Specific & General)	384.58
Supervisory Provision against Classified Equity Investment	384.58

Capital Requirement as per Grouping of Equity:

(BDT in Million)

Sector	Cost Price	Market price	Capital Charge for Specific Risk	Capital Charge for Specific Risk	Total Capital Charge
Bank	67.42	71.19	7.12	7.12	14.24
Financial Institutions	68.10	180.52	18.05	18.05	36.10
Mutual Funds	365.70	236.79	23.68	23.68	47.36
Pharmaceutical & Chemical	179.70	122.99	12.30	12.30	24.60
Engineering	166.59	106.35	10.64	10.64	21.28
Cement	146.84	134.06	13.41	13.41	26.82
Fuel & Power	340.77	305.11	30.51	30.51	61.02
Services & Real Estate	124.42	37.78	3.78	3.78	7.56
Textiles	31.67	25.81	2.58	2.58	5.16
Travel & Leisure	81.46	46.23	4.62	4.62	9.24
Ceramic	129.40	53.98	5.40	5.40	10.80
Telecommunication	150.30	421.23	42.12	42.12	84.24
Insurance	156.72	97.63	9.76	9.76	19.52
Miscellaneous	166.59	34.59	3.46	3.46	6.92
Corporate Bond	40.00	48.62	4.86	4.86	9.72
Total	2,215.74	1,922.92	192.29	192.29	384.58

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.

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

- i) Modified duration gap
- ii) Simulation on market value of equity
- iii) Impact of average interest rate fluctuation demonstrated in last 12 months from the date of computation. In the event of lack of data for last twelve month the bank considers data of maximum period available.

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

(BDT in Millions)

Particulars	Upto 3 months	3 - 6 months	6 - 12 months
Rate Sensitive Assets	6,632.90	2,767.15	2,777.63
Rate Sensitive Liabilities	8,937.89	2,087.83	3,357.59
Rate Sensitive Gap	(2,304.99)	679.32	(579.96)
Cumulative Gap	(2,304.99)	(1,625.67)	(2,205.63)

Interest Rate Shock on Capital:

(BDT in Millions)

Total Eligible Capital	2,275.88		
Total Risk Weighted Assets	19,738.05		
Capital Adequacy Ratio (CAR)	11.53%		
Assumed Increase in Interest Rate	1%	2%	3%
Earnings Impact on Cumulative Gap	(22.06)	(44.11)	(66.17)
Capital After Shock	2,253.82	2,231.76	2,209.71
CAR after Shock	11.42%	11.31%	11.20%
Decrease in CAR	-0.11%	-0.22%	-0.34%

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. The Bank has considered interest rate risk on banking book separately and the impact of interest rate risk on the trading book will not be considered here.

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 last year to finance asset growth and trade related transaction.

Methods used to measure Market Risk:

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

Management System of Market Risk:

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

Capital Charges for Market Risk

		(BDT in Millions)
Sl.	Market Risk	Capital Charge
A.	Interest Rate Related instruments	37.92
B.	Equities	384.58
C.	Foreign Exchange Position	22.47
D.	Commodities	0.00
Total		444.98

Operational Risk

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

Views of BOD on system to reduce Operational Risk:

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

Performance gap of executives and staffs:

The Bank identifies the loop holes among the effectiveness of the employees and executives. These loop holes are removed by arranging appropriate training programs, offering competitive packages and

providing best working environment. In this process, the Bank kept the performance gap of executives and staffs to a minimum level.

Potential external event:

No potential external event is expected to expose the Bank to significant operational risk.

The Bank has a separate Operational Risk policy addressing specific issues involving Operational Risk.

Methods used to measure Operational Risk:

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

Capital Charges for Operational Risk

(BDT in Millions)

Basis	Operational Risk	2011	2012	2013	Capital Charge
Solo	Gross Income	9,586.50	10,394.68	12,595.67	1,628.84
Consolidated	Gross Income	9,586.50	10,394.68	12,609.18	1,629.52