UNION BANK LTD
SHARIAH BASED BANK

2021

Disclosures on Risk Based Capital (Basel-III)

Union Bank Limited

Prepared by:

Risk Management Division

Disclosures on Risk Based Capital (BASEL III) for the year ended 31 December 2021

Background:

These disclosures have been made in accordance with the Bangladesh Bank circular no. 18 dated 21st December 2014 as guideline on “Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework)” for Banks in line with Basel-III. The said guideline helps the banking sector cope with the international best practice and to make the Bank’s capital more risk sensitive and shock resilient.

Basel-III guideline apply to all scheduled bank’s on ‘Solo’ basis as well as on ‘Consolidated’ basis where;

- Solo basis refers to all position of the bank and its local & overseas branches/offices; and
- Consolidated basis refers to all position of the bank (including its local & overseas branches/offices) and its subsidiary companies engaged in financial (excluding insurance) activities like merchant banks, brokerage firms, discount houses etc. [If any].

Objective:

The objective of Market discipline in the revised framework is to establish a more transparent and 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. The following detailed qualitative and quantitative disclosures are provided in accordance with Guidelines on Risk Based Capital Adequacy by Bangladesh Bank.

Validation & Consistency:

The disclosures (qualitative and quantitative) under the revised Risk Based Capital Adequacy (RBCA) framework as advised by Bangladesh Bank, is based on the audited financial position of the bank as of 31 December 2021.

Scope of Application:

These disclosures build on the directive on Disclosure of information by banking institutions, to provide detailed guidance on the public disclosures of information by banks under Pillar 3 of Basel III requirements.

Disclosure framework:

According to the revised Risk Based Capital Adequacy Guidelines, the Bank requires general qualitative disclosure for each separate risk area (e.g. Investment, market, operational, banking book interest rate risk, equity). The Bank must describe their risk management objectives and policies including:

- Strategies and processes;
- The structure and organization of the relevant risk management function;
- The scope and nature of risk reporting and/or measurement systems;
- Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigations.

The following components set out in tabular form are the disclosure requirements:

A. Scope of Application
B. Capital Structure
C. Capital Adequacy
D. Credit Risk
E. Equities: Disclosures for Banking Book Positions
F. Interest (Profit) Rate Risk in Banking Book (IRRBB)
G. Market Risk
H. Operational risk
I. Liquidity Ratio
J. Leverage Ratio
K. Remuneration

A) Scope of Application:

Qualitative disclosure		
a)	The name of the top corporate entity in the group to which this guidelines applies.	Union Bank Limited
b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk weighted).	Union Bank Limited (UBL) was incorporated on 07.03.2013 as a 4th generation private commercial bank and started its banking business under the license issued by Bangladesh Bank. At present, the Bank has 104 (One Hundred Four) branches and 31 (Thirty One) sub-branches with fully online facility. Considering huge demand of Shariah Based Banking across the country as well as growing demand of quality service in banking we found enormous respond of our Banking service. To unlock the potentials of missing middle income group who are beyond the coverage of corporate banking service and to focus on rural & micro economic developments, we devolved our product & service in line with this. Modern Technology as well as environmental issues was also considered. At present we are following the accounting on solo basis with no deduction as we have no subsidiaries.

c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	No major impediments found.

Quantitative disclosure		
d)	The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	Not Applicable

B) Capital Structure

<table>
<tr><td colspan="3">Qualitative disclosure</td></tr>
<tr><td>a)</td><td>Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET -1, Additional Tier 1 or Tier 2.</td><td>The capital of bank shall be classified into two tiers. The total regulatory capital will consist of sum of the following categories:
1) Tier 1 Capital (going-concern capital)
a) Common Equity Tier 1
b) Additional Tier 1
2) Tier 2 Capital (gone-concern capital)

Common Equity Tier 1 (CET-1) Capital:
a) Paid up share capital,
b) Non-repayable share premium account,
c) Statutory Reserve,
d) General Reserve,
e) Dividend equalization reserve,
f) Retained earnings
g) Minority interest in subsidiaries.

Additional Tier 1 (AT 1) Capital:
a) Instruments issued by the banks that meet the qualifying criteria for AT1;
b) Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties (for consolidated reporting only);

Tier-2 Capital:
a) General Provisions;
b) Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital;
c) Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties.</td></tr>
</table>

Quantitative disclosure: As on 31.12.2021			
b)	**The amount of regulatory capital, with separate disclosure of:**	**BDT in Crore**	
		Solo	**Consolidated**
	CET-1 Capital		
	Paid up capital	558.93	-
	Statutory reserve	241.46	-
	General reserve	14.57	-
	Retained earnings	186.08	-
	Sub-Total:	**1,001.05**	-
	Less: Deferred Tax Assets (DTAs)	9.79	-
	Total CET-1 Capital	**991.26**	-
	Additional Tier 1 Capital	**-**	-
	Total Tier-1 Capital	**991.26**	-
	Tier-2 Capital		
	General Provision	296.70	-
	Subordinated debt	320.00	-
	Sub-Total:	**616.70**	-
	Less: Excess amount over maximum Tier-2 Capital	5.79	-
	Total Tier-2 Capital	**610.91**	-
c)	**Regulatory Adjustments/Deductions from capital**	-	-
d)	**Total eligible capital**	**1,602.17**	-

C) Capital Adequacy

Qualitative disclosure		
a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	➢ To implement Basel-III, Bangladesh Bank has published a Roadmap through BRPD circular no- 07 dated March 31, 2014; subsequently, issued a guideline. However, Union Bank has maintained 10.47% CRAR for the year ended December 2021 where the minimum requirement of CRAR is 10% excluding Capital Conservation Buffer 2.50%. In addition, the necessary initiatives have already been taken for maintaining Capital Conservation Buffer (CCB) at 2.50%. ➢ Union Bank is maintaining Capital to Risk Weighted Assets Ratio (CRAR) at 10.47% on SOLO basis against the regulatory minimum level of 12.50%. Tier-I capital adequacy ratio under "Solo" basis is 6.48% against the minimum regulatory requirement of 6%.

Quantitative disclosure			
	Particulars	**BDT in Crore**	
		Solo	**Consolidated**
b)	Capital requirement for credit risk	1,416.97	-
c)	Capital requirement for market risk	7.09	-
d)	Capital requirement for operational risk	105.72	-
e)	Total Capital	1,602.17	-
	CET-1 capital	991.26	-
	Total Tier-1 capital	991.26	-
	Tier-2 capital	610.91	-
	Total Risk Weighted Assets (RWA)	15,297.73	-
	Minimum capital requirement	1,529.77	-
	• CRAR	10.47%	-
	• Tier-1 Capital to RWA	6.48%	-
	• Tier-2 Capital to RWA	3.99%	-
f)	Capital Conservation Buffer (CCB-2.50%)	0.47%	-
g)	Available Capital under Pillar 2 Requirement	The statement of ICAAP under SRP for the year 2021 will be submitted by 31 May 2022 as per BB guideline.	N/A

D) Investment (Credit) Risk

Qualitative disclosure		
a) The General Qualitative disclosure requirement with respect to investment (credit) risk, including:		
i)	Definitions of past due and impaired (for accounting purposes):	As per BRPD Circular No. 03 dated 21 April 2019, any Investment if not repaid within the fixed expiry date will be treated as Past Due/Overdue. ➢ Any **Continuous Investment** if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date; ➢ Any **Demand Investment** if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date. ➢ In case of any installment(s) or part of installment(s) of a **Fixed Term Investment** is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue after six months of the expiry date.

The investments are classified as follows:

- **<u>For CMSME</u>**
  A Continuous Loan, Demand Loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 06 (six) months or beyond but less than 18 (eighteen) months, the entire loan will be classified as **"Sub-standard (SS)".**

- **<u>For Other than CMSME</u>**
  A Continuous Investment, Demand Investment, Fixed Term Investment or any installment(s)/part of installment(s) of a Fixed Term Investment which will remain past due/overdue for a period of 03 (three) months or beyond but less than 09 (nine) months, the entire Investment will be put into the **"Sub-standard (SS)".**

- **<u>For CMSME</u>**
  A Continuous Loan, Demand Loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 18 (eighteen) months or beyond but less than 30 (thirty) months, the entire loan will be classified as **"Doubtful (DF)".**

- **<u>For Other than CMSME</u>**
  A Continuous Investment, Demand Investment, Fixed Term Investment or any installment(s)/part of installment(s) of a Fixed Term Investment which will remain past due/overdue for a period of 09 (nine) months or beyond but less than 12 (twelve) months, the entire Investment will be put into the **"Doubtful (DF)".**

- **<u>For CMSME</u>**
  A Continuous loan, Demand loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 30 (thirty) months or beyond, the entire loan will be classified as **"Bad/Loss (B/L)".**

- **<u>For Other than CMSME</u>**
  A Continuous Investment, Demand Investment, Fixed Term Investment or any installment(s)/part of installment(s) of a Fixed Term Investment which will remain past due/overdue for a period of 12 (twelve) months or beyond, the entire Investment will be put into the "Bad/Loss (B/L)".

- **Short-term Agricultural and Micro Credit are classified as:**
  Sub-standard - if the irregular status continues after a period of 12 (twelve) months; Doubtful - if the irregular status continues after a period of 36 (thirty-six) months; Bad/Loss - if the irregular status continues after a period of 60 (sixty) months.

A continuous investment, demand investment or term investment which remains overdue for a period of 60 days or more is considered as a “Special Mention Account (SMA)”

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

General provision on:	Rate
Unclassified (including SMA) small and medium enterprise	0.25%
Unclassified (including SMA) Loans to BHs/MBs/SDs against shares etc.	2%
Unclassified (including SMA) loans for housing finance	1%
Unclassified consumer financing other than housing finance, credit card and loans for professionals	2%
Unclassified (including SMA) loans for credit card and loans for professionals	2%
Short term Agri credit and micro credit	1%
Unclassified (including SMA) other loans and advances	1%
Off-balance sheet exposures (excluding bills for collection)	1%
Off-balance sheet exposures (Bills for collection)	0%

Specific provision on:	Rate
"Sub-Standard" investment other than short term agri credit and micro credit: For CMSME For Other than CMSME	 5% 20%
"Doubtful" investment other than short term agri credit and micro credit For CMSME For Other than CMSME	 20% 50%
"Bad/Loss" investments	100%
"Sub-Standard" & "Doubtful" short term agri credit and micro credit	5%
"Bad/Loss" short term agri credit and micro credit	100%

ii)	Decision of the Bank's Investment (Credit) Risk Management Policy;	Risk is inherent in all aspects of a commercial operation; however, for Banks, investment (credit) risk is an essential factor that needs to be managed. Investment (credit) risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Investment (Credit) risk, therefore, arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. To manage investment (credit) risk Union Bank follows "Bangladesh Bank's Circulated Credit Risk Management guidelines". The Board approved the Investment Risk Management (IRM) policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in investment risk management and maintain quality of assets.

Quantitative disclosure:

b. Total gross credit risk exposures broken down by major types of credit exposure:

(BDT in Crore)

Particulars	Amount
Continuous loan (CL-2)	
a) Small & Medium Enterprise Financing (SME)	509.30
b) Consumer Financing (CF)	-
c) Loans to BHs/MBs/SDs against Shares	46.17
d) Other than SMEF, CF, BHs/MBs/SDs	15,209.64
Sub-total	**15,765.11**
Demand loan (CL-3)	
a) Small & Medium Enterprise Financing (SME)	-
b) Consumer Financing (CF)	-
c) Loans to BHs/MBs/SDs against Shares	-
d) Other than SMEF, CF, BHs/MBs/SDs	1,341.72
Sub-total	**1,341.72**
Term loan (CL-4)	
a) Small & Medium Enterprise Financing	44.22
b) Consumer Financing (Other than HF & LP)	2.44
c) Housing Financing (HF)	31.42
d) Other than SMEF, CF, BHs/MBs/SDs	2,019.07
Sub-total	**2,097.15**
Short term Agri credit and microcredit (CL-5)	
a) Short term Agri credit	110.89
b) Microcredit	-
Sub-total	**110.89**
Staff Loan	**67.36**
Total	**19,382.23**

c. Geographical distribution of exposures, broken down in significant areas by major types of credit exposure:

(BDT in Crore)

Sl.	Division-wise investment	Exposure
1	Dhaka	9,692.07
2	Chattogram	9,608.23
3	Barishal	6.76
4	Rajshahi	19.24
5	Khulna	12.62
6	Rangpur	27.12
7	Sylhet	13.94
8	Mymensingh	2.25
	Total	**19,382.23**

d. Industry or counterparty type distribution of exposures, broken down by major types of investment exposure:

(BDT in Crore)

Sl.	Industry-wise Investments	Exposure
1)	Agriculture	136.19
2)	RMG	382.63
3)	Textile	1,278.47
4)	Ship Building	0.73
5)	Ship Breaking	-
6)	Other Manufacturing Industry	1,012.27
7)	SME Investment	552.44
8)	Construction	564.25
9)	Power, Gas	184.17
10)	Transport, Storage and Communication	34.30
11)	Trade Service	13,585.27
12)	Commercial real estate	965.85
13)	Residential real estate	94.29
14)	Consumer Investment	8.27
15)	Capital Market	128.21
16)	Non-bank financial institutions	-
17)	Others	454.89
	Total	**19,382.23**

e. Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

(BDT in Crore)

SL. No.	Particulars	Exposure
1.	Payable on Demand	3,044.08
2.	Up to Three months	5,787.29
3.	Three months to One year	9,108.99
4.	One year to Five years	554.68
5.	Above five years	887.19
	Total	**19,382.23**

f. By major industry or counterparty type:

<table>
<tr><td>i) Amount of impaired investment (Investment s) and if available, past due investment/Investments, provided separately;</td><td>The amount of classified investment of the bank is as under:
(BDT in Crore)
<table><tr><th>Sl. No.</th><th>Particulars</th><th>Amount</th></tr><tr><td>1.</td><td>SS</td><td>149.37</td></tr><tr><td>2.</td><td>DF</td><td>93.98</td></tr><tr><td>3.</td><td>B/L</td><td>432.25</td></tr><tr><td colspan="2">Total</td><td>675.61</td></tr></table></td></tr>
</table>

ii) Specific and general provisions;	Specific and general provisions were made on the amount of classified and unclassified investments, off-balance sheet exposures and off-shore banking, interest on receivable, diminution in value of investment and other assets (suspense) of the Bank according to the Bangladesh Bank guidelines.

(BDT in Crore)

Provision maintained against requirement of provision:	Provision as on 31.12.2021
Unclassified Investments	239.00
Classified Investment	231.77
Off-balance sheet	7.70
Special General Provision for Covid-19	50.00
Total	**528.47**

g. Gross Non-Performing Assets (NPAs): Non-Performing Assets (NPAs) to outstanding Loans & Advances;

❖ **Movement of Non-Performing Assets (NPAs):**

(BDT in Crore)

Particulars	Amount
Opening Balance	420.14
Addition during the year	255.47
Reduction during the year	-
Closing Balance	**675.61**

❖ **Movement of specific provisions for NPAs:**

(BDT in Crore)

Particulars	Amount
Opening Balance	139.20
Provisions made during the period	92.57
Written off	-
Write-back of excess provisions	-
Closing Balance	**231.77**

E) Equities: Disclosures for Banking Book Positions

Qualitative Disclosures:		
a)	**The general qualitative disclosures requirement with respect to equity risk, including**	
	i) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons;	Investment in equity securities are broadly categorized into two parts: i) Quoted Securities (common or preference share & mutual fund) that are traded in the secondary market; ii) Unquoted securities are categorized as banking book equity exposures which are further sub-divided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future i.e. held

		to maturity (HTM). And securities those are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities.
	ii) 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;	The primary objective is to investment in equity securities for the purpose of capital gain by selling them in future or held for dividend income. Dividends received from these equity securities are accounted for as and when received and right to receive when established. Both Quoted and Un-Quoted equity securities are valued at cost and necessary provisions are maintained if the prices fall below the cost price. As per Bangladesh Bank guidelines, the HFT (Held for Trading) equity securities are revaluated once in each week using marking to market concept and HTM equity securities are amortized once a year according to Bangladesh bank guideline. The HTM equity securities are also revaluated if any, are reclassified to HFT category with the approval of Board of Directors. The Management of Union Bank has constituted an Investment Committee / team comprising of members from the senior executives of the bank who have sound experiences and knowledge on Capital Market activities.

Quantitative Disclosures:			
			(BDT in Crore)
		At Cost	**At Market Value**
b)	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	-	-
c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting (31 December 2021) period.	**(0.69)**	
d)	Total unrealized gains (losses)	-	
• Total latent revaluation gains(losses)		Not applicable	
• Any amounts of the above included in Tier 2 capital.		Not applicable	
e)	Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any	Not applicable	

	supervisory provisions regarding regulatory capital requirements	

F) Interest (Profit) Rate Risk in Banking Book (IRRBB)

***Qualitative* Disclosure:**		
a)	The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding Investment prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	Profit rate risk is the risk which affects the Bank's financial condition due to change in the market profit rates. The changes in profit rates may affect both the current earnings considering earnings perspective, traditional approach to profit rate risk assessment as well as the net worth of the Bank considering economic value perspective. To evaluate the impact of profit rate risk on the net profit margin, the bank monitors the size of the gap between rate sensitive assets & rate sensitive liabilities in terms of remaining time of re-pricing. Re-pricing risk is often the most obvious source of profit rate risk for a bank and is frequently measured by comparing the volume of a bank's assets that mature or re-price within a given time period with the volume of liabilities. The short term impact of changes in profit rates is on the bank's Net Investment Income (NII). In a longer term, changes in profit rates impact the cash flows on the assets, liabilities and off-balance sheet items that may rise to a risk to the net worth of the bank.

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

(BDT in Crore)

Particulars	Up to 1 month	01-03 months	03-12 months	01-05 years	More than 05 years
Rate Sensitive Asset	3,515.24	6,261.57	9,416.99	1,086.72	887.19
Rate Sensitive liabilities	2,050.48	6,396.53	8,166.48	3,834.98	977.88
Net gap	**1,464.76**	**(134.96)**	**1,250.51**	**(2,748.26)**	**(90.69)**
Cumulative gap	**1,464.76**	**1,329.80**	**2,580.31**	**(167.95)**	**(258.64)**

(BDT in Crore)

Profit Rate Stress	Minor	Moderate	Major
Assumed change in Profit Rate	1%	2%	3%
Net investment income impact			
<12 months	11.12	22.24	33.35
Capital after-shock	1,613.29	1,624.41	1,635.52
CRAR after-shock (%)	**10.55**	**10.62**	**10.69**
Change in CRAR after-shock (%)	0.07	0.15	0.22

G) Market Risk:

Qualitative disclosure		
i)	Views of Board of Directors (BOD) on trading/investment activities.	Banks may be exposed to market risk in variety of ways. Market risk exposure: ▪ May be explicit in portfolios of securities/equities and instruments that are actively traded; ▪ May be explicit such as interest rate risk due to mismatch of assets and liabilities; ▪ May arise from activities categorized as off-balance sheet items. Effective board and senior management oversight of the bank's overall market risk exposure is a foundation of risk management process. For its part, the board is responsible to: a) Define bank's overall risk appetite in relation to market risk; b) Ensure that bank's overall market risk exposure is maintained at prudent levels and consistent with the available capital; c) Ensure that senior management as well as individuals responsible for market risk management possesses sound expertise and knowledge to accomplish the risk management function; d) Ensure that the bank implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of market risk; e) Ensure that adequate resources (technical as well as human) are devoted to market risk management; f) Review and approve market risk policies based on recommendations by the bank's senior management;

		g) Review periodically, but at least once a year, the market risk management program, policy, techniques, procedures and information systems referred to in that policy; h) Outline the content and frequency of management market risk (for each type of risk) reports to the Board; i) Ensure that an independent inspection/audit function reviews the credit operations, foreign exchange operations and securities portfolio management functions to ensure that the bank's market risk management policies and procedures are appropriate and are being adhered to; and j) Review specially the trends in securities portfolio quality and value.
ii)	Methods used to measure Market risk.	Standardized approach has been used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for 'specific risk' and 'general market risk' under Basel-III.
iii)	Market Risk Management system.	The Treasury Division manages market risk covering Liquidity, profit rate and foreign exchange risk with oversight from Assets Liability Management Committee (ALCO) comprising Senior Executives of the Bank. ALCO is chaired by the Managing Director & CEO of the Bank. ALCO meets at least once in a month.
iv)	Policies and processes for mitigating market risk.	The bank has put its Asset Liability Management policy by setting various risk limits for effective management of market risk and ensuring that the operations are in line with bank's expectation of return to market risk through proper Asset Liability Management. The policies also deal with the reporting framework for effective monitoring of market risk. The ALM Policy specifically deals with liquidity risk management and profit rate risk management framework. Liquidity risk is managed through Gap & Duration analysis, based on residual maturity/behavioral pattern of assets and liabilities, as prescribed by the Bangladesh Bank. The Bank has put in place mechanism of Liquidity Contingency Plan. Prudential (Tolerance) limits are prescribed for different residual maturity time buckets for efficient Asset Liability Management. Liquidity profile of the Bank is evaluated through various liquidity ratios/indicators.

Quantitative disclosure:			
b)	**The capital requirements for:**	**Solo**	**Consolidated**
	Particulars	**BDT in Crore**	
	Profit rate risk	0.00	-
	Equity position risk	0.00	-
	Foreign exchange risk	7.08	-
	Commodity risk	0.00	-
	Total Capital Requirement	**7.08**	-

H) Operational risk:

Qualitative Disclosures:		
a)	View of BOD on system to reduce Operational Risk	Operational Risk is defined as the risk of unexpected losses due to physical catastrophe, technical failure and human error in the operation of a bank, including fraud, failure of management. a) Establish tolerance level and set strategic direction in relation to operational risk. Such a strategy should be based on the requirements and obligation to the stakeholders of the bank; b) Approve the implementation of a bank-wide framework to explicitly manage operational risk as a distinct risk to the bank's safety and soundness; c) Provide senior management clear guidance and direction regarding the principles underlying the framework and approve the corresponding policies developed by senior management; d) Establish a management structure capable of implementing the bank's operational risk management framework specifying clear lines of management responsibility, accountability and reporting; and e) Review the operational risk management framework regularly to ensure that the bank is managing the operational risks. This review process should also aim to assess industry best practice in operational risk management appropriate for the bank's activities, systems and processes.
	Performance gap of executives and staffs	Bank has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. Bank’s strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.

	Potential external events	The potential external events that may pose the bank in to operational risks are as follows. 1. External Fraud: Acts by a third party, of a type intended to defraud, misappropriate property or circumvent the law. Examples include robbery, forgery, and damage from computer hacking. 2. Taxation Risk: Sudden changes in tax laws and regulation that hamper the profitability of a bank. 3. Legal Risk: Legal risk is the risk of the Bank's losses in cases of: ▪ Incompliance of the Bank with the requirements of the legal regulations; ▪ Making legal mistakes in carrying out activities; ▪ Imperfection of the legal system ▪ Violation of legal regulations, terms and conditions of concluded agreements by the counterparties. 4. Damage of physical asset: Loss or damage to physical assets from natural disaster or other events. Example includes terrorism, vandalism, earthquakes, fires, floods etc. 5. Business disruption and system failures: Disruption of business or system failures. Examples include telecommunication problems, utility outages etc. 6. Execution, delivery and process management: Failed transaction processing or process management, and relations with trade counterparties and vendors. Examples include, non-client counterparty mis-performance, vendor disputes etc.
	Policies and processes for mitigating operational risk	The bank should put in place an operational risk management policy. The policy at minimum, include: ▪ The strategy given by the board of the bank; ▪ The systems and procedures to institute effective operational risk management framework; ▪ The structure of operational risk management function and the roles and responsibilities of individuals involved.
	Approach for calculating capital charge for operational risk	The capital charge for operational risk is a fixed percentage, denoted by α (alpha) of average positive annual gross income of the bank over the past three years. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator when

		calculating the average. The capital charge may be expressed as follows: $K = [(GI\ 1 + GI2 + GI3) \times \alpha]/n$ Where- K = the capital charge under the Basic Indicate or Approach GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded) α=15 percent n= number of the previous three years for which gross income is positive. Gross Income (GI) is defined as "Net Investment Income" plus "Net non- Investment Income". It is intended that this measures hold: i. Be gross of any provisions; ii. Be gross of operating expenses, including fees paid to out sourcing service providers iii. Exclude realized profits/ losses from the sale of securities held to maturity in the banking book; iv. Exclude extra ordinary or irregular items; v. Exclude income derived from insurance.

Quantitative disclosure:

(BDT in Crore)

b)	**The capital requirements for operational risk**	**105.72**

Capital Charge for Operational Risk-Basic Indicator Approach

Year	Gross Income (GI)	Average Gross Income (AGI)	Capital Charge = 15% of AGI
2019	560.48	704.80	105.72
2020	695.45		
2021	858.48		

I) Liquidity Ratio:

a) Qualitative Disclosure	
Views of Board of Directors (BOD) on system to reduce liquidity Risk	The BOD should have the overall responsibility for management of liquidity risk. Generally, the responsibilities of the board include: a) Providing guidance on the level of appetite for liquidity risk; b) Appointing senior managers who have ability to manage liquidity risk and delegate to them the required authority to accomplish the job; c) Continuously monitoring the bank's performance and overall liquidity risk profile through reviewing various reports; and d) Ensuring that senior management takes the steps necessary to identify measure, monitor and control liquidity risk.
Method used to measure Liquidity risk	The liquidity risk strategy defined by Board should enunciate specific policies on particular aspects of liquidity risk management, such as: **a) Composition of assets and liabilities:** The strategy should outline the mix of assets and liabilities to maintain liquidity. Liquidity risk management and asset/liability management should be integrated to avoid high costs associated with having to rapidly reconfigure the asset liability profile from maximum profitability to increased liquidity. **b) Diversification and stability of liabilities:** A funding concentration exists when a single decision or a single factor has the potential to result in a significant and sudden withdrawal of funds. Since such a situation could lead to an increased risk, the Board and senior management should specify guidance relating to funding sources and ensure that the bank has diversified sources of funding day-to-day liquidity requirements. **c) Managing liquidity in different currencies:** The bank should have a strategy on how to manage liquidity in different currencies. **d) Dealing with liquidity disruptions:** The bank should put in place a strategy on how to deal with the potential for both temporary and long-term liquidity disruptions. The interbank market can be important source of liquidity. However, the strategy should take into account the fact that in crisis situations access to interbank market could be difficult as well as costly.
Liquidity risk management system	In Union Bank, at the management level, the liquidity risk is primarily managed by the Treasury Division under oversight of ALCO which is headed by the Managing Director along with other senior management.

	Treasury Division upon reviewing the overall funding requirements on daily basis sets their strategy to maintain a comfortable/adequate liquidity position taking into consideration of Bank's approved credit deposit ratio, liquid assets to total assets ratio, asset-liability maturity profile, Bank's earning/profitability as well as overall market behavior and sentiment etc. Apart from Risk Management Division also monitors & measures the liquidity risk in line with the Basel III liquidity measurement tools, namely, LCR, NSFR, and Leverage Ratio. RMD addresses the key issues and strategies to maintain the Basel III liquidity ratios to the respective division (s) on regular interval.
Policies and process for mitigating risk	The bank should include in liquidity risk management policy; a) Develop and implement procedures and practices that translate the Board's goals, objectives, and risk appetite into operating standards that are well understood by bank personnel and consistent with the board's intent; b) Adhere to the lines of authority and responsibility that the Board has approved for managing liquidity risk; c) Oversee the implementation and maintenance of management information and other systems that identify, measure, monitor, and control the bank's liquidity risk; d) Develop and recommend liquidity and funding policies for approval by the Board and implement the liquidity and funding policies; e) Develop lines of communication to ensure the timely dissemination of the liquidity and funding policies and procedures to all individuals involved in the liquidity management and funding risk management process; f) Ensure that liquidity is managed and controlled within the liquidity management and funding management programs; g) Ensure the development and implementation of appropriate reporting systems with respect to the content, format and frequency of information concerning the bank's liquidity position, in order to permit the effective analysis, sound and prudent management and control of existing and potential liquidity needs.

b) Quantitative Disclosure

Components	BDT in Crore
Liquidity Coverage Ratio (LCR)	105.63%
Net Stable Funding Ratio (NSFR)	120.69%
Stocks of high quality liquid assets	1,872.38
Total net cash outflows over the next 30 calendar days	1,772.62
Available amount of stable funding	17,912.09
Required amount of stable funding	14,841.96

UNION BANK LTD
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J) Leverage Ratio:

a) Qualitative Disclosure	
Views of BOD on system to reduce excessive leverage	The BOD should have the overall responsibility is to monitor overall activities of the bank. The Board should decide the strategy, policies and procedures of the bank to manage leverage ratio in accordance with the risk tolerance/limits as per the guidelines. The risk tolerance should be clearly understood at all levels of management. The Board should also ensure that it understands the nature of the leverage ratio. BOD must periodically review information necessary to maintain this understanding, establishes executive-level lines of authority and responsibility for managing the bank's leverage ratio. Bank's top management should be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the risk management strategy of the bank in line with bank's decided risk management objectives and risk tolerance.
Policies and processes for managing excessive on and off-balance sheet leverage	The Leverage Ratio (LR) playing a key role in avoiding such adverse developments in the future. The LR is a non-risk-based capital measure and is defined as Tier 1 capital over a bank's total exposure measure, which consists of both on and off-balance-sheet items. It is widely expected that the LR will become a Pillar 1 requirement for banks under Basel III.
Approach for calculating exposure	At its highest level, the leverage ratio can be summarized as a measure of capital as a proportion of total adjusted assets. More specifically, it has been defined as the average of the monthly leverage ratio over the quarter based on Tier 1 capital (the capital measure) and total exposure (the exposure measure). The minimum ratio is currently calibrated at 3%.

(BDT in Crore)

b) Quantitative Disclosure	
Components	**Amount**
$\text{Leverage Ratio} = \dfrac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$	
Bangladesh Bank Requirement	>3%
Leverage Ratio	4.09%
Tier 1 Capital	991.26
On balance sheet exposure	24,011.05
Off balance sheet exposure	254.68
Deferred Tax Assets	9.79
Total exposure	**24,255.94**

K) Remuneration:

Qualitative Disclosures

Sl. No.	Particulars	Information
a)	**Information relating to the bodies that oversee remuneration.**	
	Name, composition and mandate of the main body overseeing remuneration.	Union Bank's Remuneration Committee comprises of the Board of Directors and the Management Committee who oversees the remuneration for all employees. The Management Committee of the Bank makes recommendations to the Board of Directors on the remuneration policy of the Bank. Union Bank Ltd. Remuneration Committee oversees remuneration for Senior Managements and all other employees. For the purposes of this remuneration disclosure, a Senior Management includes: **a)** Managing Director. **b)** Additional Managing Director. **c)** Deputy Managing Director. **d)** Senior Executive Vice President. **e)** Board Secretary. **f)** Head of HRD. **g)** Risk & Compliance Manager.
	External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.	At present there are no External consultants whose advice has been sought for the remuneration process.
	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.	Union Bank's remuneration policies are in place to provide assurance that remuneration decisions: • Are aligned to the Bank's strategy. • Aid the attraction and retention of talent. • Are market-relevant and affordable. • Are internally equitable, consistent and transparent. • Encourage behavior that supports Bank's long term financial soundness and risk management objectives. • Ensure the independence of risk and control personnel in the performance of their functions is not compromised. • Are compliant with corporate governance requirements.

Sl. No.	Particulars	Information
	A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	The Bank has 02 (Two) group of material Risk Takers at present i.e., Senior Management and concerned Divisional Heads & Branch Managers. The total no. of Senior Management is 06, the total no. of Divisional Heads is 19 and the total no. of Branch Managers is 104.
b)	**Information relating to the design and structure of remuneration processes.**	
	An overview of the key features and objectives of remuneration policy.	The key features and objectives of the Remuneration policy are as follows: • Attract and retain capable, motivated Employees. • Attract Senior Executives with appropriate knowledge and experience, with ability to drive growth while maintaining stability and financial soundness. • Encourage behavior that supports long term financial soundness and the risk management framework. • Ensure Remuneration arrangements are, and remain, compliant with Corporate Governance requirements.
	Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.	No review was made by the remuneration committee in the Year-2021.
	A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	In determining Remuneration, the Remuneration Committee uses the following information supplied through the Remuneration surveys: • Industry comparative remuneration data across all positions, including Directors. • Remuneration benchmarking for organizations of similar Asset Size.
c)	**Description of the ways in which current and future risks are taken into account in the remuneration processes.**	
	Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include: An overview of the key risks that the bank takes into account when implementing remuneration measures. An overview of the nature and type	The strategic planning process identifies all key strategic risks and examines the Board's risk in each area. Part of each Executive Manager's Key Performance Areas include reference to ensuring risks of this nature that impact on their operations are kept within Board tolerance levels at all times. If risks fall outside nominated Board risk tolerance levels the Executive Manager must design an action plan that successfully implements controls aimed at mitigating risk to acceptable levels.

Sl. No.	Particulars	Information
	of the key measures used to take account of these risks; including risks difficult to measure (values need not be disclosed).	Current and future risks relating to operational risks follow the same approach as above. Executive Managers are responsible for ensuring key operational risks remain within Board approved tolerance levels. Whilst this is a key performance area for Executive Manager, achievement of satisfactory results is linked to financial incentives/ bonuses in some cases.
d)	**Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.**	
	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, provision coverage ratio, capital to risk weighted asset ratio (CRAR), ROE, ROA, liquidity position (maintenance of CRR and SLR) etc.
	A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.	The remuneration of each employee is paid based on her/ his individual performance evaluated as per set criteria. And, accordingly, the aggregate amount of remuneration of the Bank as a whole is linked/ impacted to the same extent.
	A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.	The Bank follows remuneration process as per set criteria with no in general adjustment in the event of weak performance metrics/scorecard.
e)	**Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.**	
	Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include: 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	The Bank pays variable remuneration i.e. annual increment based on the yearly performance rating on cash basis with the monthly pay. While the value of longer term variable part of remuneration i.e. the amount of provident fund, gratuity fund are made provision on aggregate/individual employee basis; actual payment is made upon retirement, resignation etc. as the case may be, as per rule.

Sl. No.	Particulars	Information
	or groups of employees, a description of the factors that determine the fraction and their relative importance. 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.	
f)	**Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.**	
	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include: An overview of the forms of variable remuneration offered (ie cash, shares and share-linked instruments and other forms A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.	Variable pay means the compensation as fixed by the Board on recommendation of the Management, which is based on the performance appraisal of an employee in that role, that is, how well they accomplish their goals. It may be paid as: ▪ Performance Linked Incentives to those employees who are eligible for incentives. ▪ Ex-gratia for other employees who are not eligible for Performance linked Incentives. ▪ Different awards based on extra-ordinary performance & achievement. ▪ Employee/Manager of the Month/Quarter award. ▪ Reimbursement/award for brilliant academic/professional achievement. ▪ Leave Fare Assistance (LFA)

Quantitative Disclosures

Sl. No.	Particulars	Information
g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	Not Applicable.
h)	Number of employees having received a variable remuneration award during the financial year.	Total No. of 60 employees have received a variable remuneration award during the 2020/2021 Financial Year.
	Number and total amount of guaranteed bonuses awarded during the financial year.	Total no. & amount of 1647 guaranteed bonuses awarded during the 2020/2021 Financial Year.

Sl. No.	Particulars	Information
	Number and total amount of sign-on awards made during the financial year.	There were no sign-on awards made during the financial year.
	Number and total amount of severance payments made during the financial year.	There was no severance payment made during the 2020/2021 Financial Year.
i)	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	There was no outstanding deferred remuneration, split into cash, shares, share-linked Instruments and other forms.
	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).	Not Applicable.
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:	
	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	Not Applicable.
	Total amount of reductions during the financial year due to ex post explicit adjustments.	
	Total amount of reductions during the financial year due to ex post implicit adjustments.	