DISCLOSURES ON RISK BASED CAPITAL (BASEL-II)
(Based on Status of December 31, 2012)

BACKGROUND

The following detailed qualitative and quantitative disclosures are provided in accordance with Bangladesh Bank rules and regulations on risk based capital adequacy under Basel II of Pillar III. The purpose of these disclosures is to present relevant information on adequacy of capital in relation to overall risk exposures of the Bank so that the market participants can assess the position and direction of the Bank in making economic decision.

The disclosures of the Bank under Basel-II requirements based on the position as of 31.12.2012 are presented as per the guidelines of Bangladesh Bank vide BRPD Circular No.24 dated 03.08.2010 and No. 35 dated 29.12.2010 on "Risk Based Capital Adequacy on Banks". These disclosures are intended for stake holders to access key information about the Bank's exposure to various risks and to provide a consistent & understandable framework for easy comparison among peer banks operating in the market.

1. SCOPE OF APPLICATION

Qualitative Disclosures

a)	The name of the top corporate entity in the Group to which this guidelines applies	The Bank does not belong to any group.
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 i) that are fully consolidated ii) that are given a deduction treatment and iii) that are neither consolidated nor deducted (e.g. where the investment is risk weighted)	**Uttara Bank Limited** (The Bank) had been a nationalized bank in the name of Uttara Bank under the Bangladesh Bank (Nationalization) order 1972, formerly known as the Eastern Banking Corporation Limited. The Bank started functioning on and from 28.01.1965. Consequent upon the amendment of Bangladesh Bank (Nationalization) Order 1972, the Uttara Bank was converted into Uttara Bank Limited as a public Limited company in the year 1983. The Uttara Bank Limited was incorporated as a banking company on 29.06.1983 and obtained business commencement certificate on 21.08.1983. The Bank floated its shares in the year 1984. The Bank is listed in the Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited as a publicly quoted company for trading of its shares. The Registered Office of the Bank is located at 47, Bir Uttam Shahid Ashfaqus Samad Sarak(Former 90, Motijheel Commercial Area) Dhaka- 1000. It has 215 branches all over Bangladesh through which it carries out all its banking activities. In the consolidated accounts Bank's subsidiary/ Associates and Joint venture are treated as under: a) Subsidiary: Presently Bank has a subsidiary named "UB Capital and Investment Ltd". **UB Capital and Investment Ltd.** Uttara Bank Limited has formed a subsidiary in the name and styled as "UB capital and Investment Limited" and was incorporated as a public limited company with the Registrar of Joint Stock Companies and Firms, Dhaka Bangladesh on September 28,2010 under the companies Act, 1994 bearing registration no C-87220/10. The main activities of the company is to act as a full fledged merchant banker and portfolio manager to provide services like underwriting public issue of shares, buy and sell of shares/securities on behalf of clients under portfolio management operation etc. The company is also authorized to buy, sell, hold or otherwise acquire or investment the capital of the company in shares, stock and fixed income securities. The Registered office of the company is at 90, Motijheel C/A, Dhaka. Licence to be obtained from Securities and Exchange Commission for starting operation. b) Associates: Presently Bank has no associates c) Joint venture: Bank has no joint venture.
c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the Bank.	Not applicable.

Quantitative Disclosures

a)	The aggregate amount of Capital deficiencies in all subsidiaries not included in the consolidation that are deducted and name(s) of such subsidiaries.	Not applicable.

2. CAPITAL STRUCTURE:

Qualitative Disclosures		
a)	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 Tier-1 or Tier-2.	The terms and condition of the main feature of all capital instrument have been segregated in terms of the eligibility criteria set forth vide BRPD circular No 35 dated 29 December 2010 and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments are as follows: **Tier-1 capital instruments:** Paid up share capital, Share Premium, Statutory Reserve, Dividend equalization account, Retained earnings.

		Tier-2 capital instruments: General provision maintained against unclassified loans and off-balance sheet exposure, Subordinate Debt capital, 50% Asset Revaluation Reserve, 50%Revaluation Reserve of HTM securities, 50%Revaluation Reserve of HFT securities,

Quantitative Disclosures

Sl.	Particulars	Amount in crore
1.1	Fully Paid-up Capital/Capital lien with BB	330.65
1.2	Statutory Reserve	333.08
1.3	Non-repayable Share premium account	-
1.4	General Reserve	13.56
1.5	Retained Earnings	89.72
1.6	Minority interest in Subsidiaries	-
1.7	Non-Cumulative irredeemable Preferences shares	-
1.8	Dividend Equalization Account	6.44
1.9	Other (if any item approved by Bangladesh Bank)	-
1.10	**Sub-Total: (1.1 to 1.9)**	**773.45**
	Deductions from Tier-1 (Core Capital)	
1.11	Book value of goodwill and value of any contingent assets which are shown as assets	-
1.12	Shortfall in provisions required against classified assets	-
1.13	Shortfall in provisions required against investment in shares	-
1.14	Remaining deficit on account of revaluation of investments in securities after netting off from any other surplus on the securities.	-
1.15	Reciprocal crossholdings of bank capital/subordinated debt	-
1.16	Any investment exceeding the approved limit under section 26(2) of Bank Company Act, 1991	-
1.17	Investments in subsidiaries which are not consolidated	-
1.18	Other (if any)	-
1.19	**Sub Total (1.11 to 1.18)**	**-**
1.20	**Total Eligible Tier-I Capital (1.10 -1.19)**	**773.45**

2	**Tier-2 (Supplementary Capital)**	
2.1	General provision (unclassified loans, SMA+ Off Balance Sheet exposure)	53.48
2.2	Asset Revaluation Reserve upto 50%	95.98
2.3	Revaluation Reserves for Securities up to 50%	7.14
2.4	Revaluation Reserves for equity instruments up to 10%	-
2.5	All other preference shares	-
2.6	Subordinated debt	-
2.7	Other (if any item approved by Bangladesh Bank)	-
2.8	**Sub- Total(2.1 to 2.7)**	**156.60**
2.9	Deductions if any (e.g. investments in subsidiaries which are not consolidated 50%)	-
2.10	**Total Eligible Tier-2 Capital (2.8 - 2.9)**	**156.60**

* In compliance with the instruction contained in BRPD Circular No. 11 dated December 2011

3. CAPITAL ADEQUACY:

Qualitative Disclosures		
a)	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities	i) Bangladesh Bank adopted Basel-1 for credit risk through BRPD circular No. 01 dated January 08, 1996. Bank fully complied Basel-I capital requirement. ii) A Quantitative Impact Study (QIS) was done by Bangladesh Bank to implement the Basel-II in Bangladesh in 2007 iii) To implement Basel-II, Bangladesh Bank has published Roadmap on December 30, 2007 and Basel-II Guidelines through BRPD circular No.09 dated December 31, 2008. iv) Bangladesh Bank has recognized External Credit Assessment Institutions (ECAIs) through BRPD circular No. 05 dated April 29, 2009. v) According to BRPD circular No.10 dated March 10,2010, Minimum Capital Requirement (MCR) was 8% upto June 30, 2010 and will be 9% upto June 30,2011 and 10% from July 01, 2011. Bank has fully complied Basel-II Capital Requirement in 2011. vi) As per Section 13(2) of the Bank Companies Act 1991and instruction contained in BRPD circular No. 35 dated 29 December 2010 (Guidelines on "Risk based Capital Adequacy for Banks (Revised regulatory capital frame work in line with BaselII)

Quantitative Disclosure

(For stand alone) (Figure in crore)

Sl No.	Particular	Total risk weight	Capital charge @ 10%
a)	Capital requirement for Credit Risk	5,812.32	581.23
b)	Capital requirement for Market Risk	697.38	69.74
c)	Capital requirement for Operational Risk	1,008.96	100.90
	Total Risk weighted assets	**7,518.66**	**751.87**
	Capital adequacy ratio:		12.37%
	Tier-I Capital		10.29%
	Tier-II Capital		2.08%

(For the consolidated group)

Sl No.	Particular	Total risk weight	Capital charge @ 10%
a)	Capital requirement for Credit Risk	5,799.78	579.98
b)	Capital requirement for Market Risk	697.38	69.74
c)	Capital requirement for Operational Risk	1,008.96	100.90
	Total Risk weighted assets	**7,506.12**	**750.62**
	Capital adequacy ratio:		12.35%
	Tier-I Capital		10.27%
	Tier-II Capital		2.08%

4.CREDIT RISK

Qualitative Disclosures		
a)	The general qualitative disclosure requirement with respect to credit risk including: Definitions of past due and impaired (for accounting purposes)	Credit Risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to the Bank. **Default and Classified Assets:** Default loan in respect to which recipient beneficiary fails to make timely payment of interest or principal as per the agreed schedule for repayment. Classified loans are bank loans that have been issued according to the terms and regulations of the bank, but later become suspect of recovery in terms of unpaid interest and principal outstanding. The claim which is due for more than 90 days is termed as "SMA". The 4 (four) types of past due claims are discussed below: **Special Mention Accounts (SMA):** Theses assets need constant monitoring as it has shown signs of weakness and the repayment prospects of the borrower may decline if no effort is exerted to regularize the accounts. **Sub-Standard (SS):** The repayment of the loan has been put in doubt but the recovery is not unlikely. **Doubtful (DF):** There is less possibility of recovery of the overdue amount and probability of loss is high. **Bad/Loss (B/L):** These are the loans which have almost turned unrecoverable.

		Bank has a separate Monitoring Department named by Credit Division, Recovery Department which is assigned with monitoring of classified loans

b)	Description of approaches followed for specific and general allowances and statistical methods;	Risk management in the banking sector is a key issue linked to financial system stability. In a modern financial institution risk management is a complex and constantly evolving task with focus on three critical elements: risk identification, strategies to mitigate or manage risk, and the development of a formal risk management framework, which incorporates the first two elements. The essential elements of an effective risk management framework are: * Clearly defined management responsibilities and accountability. * Clear separation of responsibilities and reporting lines between risk management functions, business lines and support functions to avoid conflict of interests. * Detailed risk controls for each business line * A comprehensive and independent internal audit or compliance process for reviewing an testing internal controls and risk management system. * Strong risk governance and stewardship by the Board, which demonstrates an understanding of all major risks. In accordance with the Bangladesh Bank Guidance Notes, the bank has established a risk framework that consists of six core factors, i.e. (i) Credit Risk (ii) Asset and Liability/Balance Sheet Risk (iii) Foreign Exchange Risk (iv) Internal Control and Compliance Risk (v) Money Laundering Risk and (vi) Information and Communication Technology Risk. Effective risk management is indispensable for smooth commercial operation in all spheres of business. So, Uttara Bank Ltd. has implemented above mentioned risk management systems prepared in line with guidelines of Bangladesh Bank to prevent relevant risks.
c)	Discussions of the Bank's credit risk management policy.	Credit Risk is defined as the risk that arises from the uncertainties of counterparty's ability to meet its obligations to the Bank as they become due. Our endeavor in identifying, measuring, monitoring and controlling credit risk for each borrower and also at the portfolio level are working as the guiding principles of credit risk management. Uttara Bank Limited always acknowledges effective Risk Management as the key to steady and stable growth for the Bank. The Bank's own lending policy has been introduced in the Bank in line with the directives received from the Bangladesh Bank and the Government. The Branches are the business unit of the banking system. The loan application assessment process starts at branch level by the Relationship Managers (RM) through zonal office and ends at Credit Division, Approval Department, Head Office. The Credit Division Administration and Monitoring Department analysis the proposal from different perspectives in line with lending policy of the Bank. If the proposal is found business worthy the Department places it to the Credit Committee with its recommendations. Mentionable that Credit approval authority has been delegated to the individual executives. Proposal beyond their delegation is submitted to the Executive Committee and the top management.

Quantitative Disclosure

1. Industry wise segregation of loans & advances:

Particulars	(Taka in crore)
Agricultural, fisheries and forestry	154.61
Industry	778.28
Construction	200.38
Transport & communication	3.20
Storage	8.45
Business	3,355.06
Consumer Financing	419.75
Miscellaneous	1,213.13
Total	6,132.86

2. Geographical area basis distribution of loans and advances :

Name of the Division	**(Taka in crore)**
Dhaka	3,579.63
Chittagong	962.75
Khulna	585.71
Barisal	280.36
Rajshahi	573.12
Sylhet	151.29
Total	**6,132.86**

3. Credit Risk Exposure

Sl. No.	Particulars	**(Taka in crore)**
1.	Total Exposures of Credit Risk	
	I) Funded	5,250.95
	a) Domestic	5,250.95
	b) Overseas	-
	II) Non-Funded	516.36
	a) Domestic	516.36
	b) Overseas	-
2.	Highest exposure to single sector (amount OS)-Trade Service	**131.15**
3.	Total exposure to a single sector exceeds 10% of Gross credit as on 31.12.2012	**679.15**
4.	Residual contractual maturity breakdown of assets:	
	Repayable on demand upto 1 month	1,913.49
	Over 1 month but not more than 3 months	995.67
	Over 3 months but not more than 1 year	2,948.41
	Over 1 year but not more than 5 years	2,768.27
	Over 5 years	3,753.22
	Total asset	12,379.06
5.	Distribution of risk exposure by claims	5,250.95
	A. Claims on sovereigns and central Banks	-
	B. Claims on other official entities	-
	C. Claims on banks and securities firms	361.90
	D. Claims on Corporate	2,441.58
	E. Claims included in the retail portfolio & small enterprises	1,429.98
	F. Claims secured by residential property	202.51
	G. Claims secured by commercial real estate	-
	H. Other Categories:	-
	-Past due loans/NPL	407.26
	-Off-balance sheet items	-
	- Fixed Assets and Other Assets	407.72
6.	Credit Risk Mitigation	
	Claims secured by financial collateral	255.90
	Net exposure after the application of haircuts	61.07
	Claims secured by eligible Guarantee	-
7	**Amount of NPAs (Gross)**	
7.1	Substandard	90.03
7.2	Doubtful	73.71
7.3	Bad & Loss	352.45
	Net NPAs	516.19
8.	**NPA Ratios**	
8.1	Gross NPAs to gross advance	8.39%
9.	**Movement of NPAs (Gross)**	
9.1	Opening balance	282.19
9.2	Additions	247.50
9.3	Reductions/ Write off	(13.50)
9.4	Closing Balance	516.19

10.	**Movement of provisions for NPAs**	
10.1	Opening balance	42.70
10.2	Provisions made during the period	109.65
10.3	Write-off/Write-back of excess provisions	(13.50)
10.4	Recovery from write-off	-
10.5	Closing Balance	138.85

5) EQUITIES: DISCLOSURES FOR BANKING BOOK POSITION

Qualitative Disclosures

	The general qualitative disclosure requirement with respect to equity risk including : a) differentiation between holding on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons and	All investment securities are initially recognized at cost, being fair value consideration given including acquisition charges associated with the investment. Premiums are amortized and discounts accredited using the effective yield method and are taken to discount income.
	b) 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.	**Important policies for Equities** Share Capital: Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Statutory reserve: Bank Companies act, 1991 requires the Bank to transfer to its Statutory Reserve Fund a sum equivalent to not less than 20% of its current years profit before any money is transferred to the Government or any dividend is declared until such reserve equals to its paid up capital. Investment: Investments are classified broadly in three categories and accounted for Held to Maturity, Held for Trading and Sale and repurchase agreement. Besides Bank has invested in listed securities and unlisted securities

Value of investments has been enumerated as follows :

Investment class	Initial recognition	Measurement after initial recognition	Recording of changes
Treasury Bill/ Bond (HFT)	Cost	Market value	Loss to profit and loss statement (P & L), gain to revaluation reserve
Treasury Bill/ Bond (HTM)	Cost	Amortised value	Increase in value to equity and decrease in value to P & L
Debenture	Face value	None	None
Prize bond	Cost	None	None
Shares	Cost	Lower of cost and market value	Any loss, charged in P & L Unrealized gain, not recognized in accounts

Quantitative Disclosure

Capital Charge on Equities

(Taka in crore)

Sl. No.	Particulars		Capital charge	Amount (Market value)
a)	Specific Risk:	152.70	10.00%	15.27
b)	General Market Risk:	152.70	10.00%	15.27
	Total			**30.54**

6) INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Qualitative Disclosures

a)	The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayment and behavior of non-maturity deposits and frequency of IRRBB measurement.	Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. Changes in interest affect both the current earnings (earnings perspective) as well as the net worth of the Bank (economic value perspective). The Short term impact of changes in interest rates is one the Bank's Net Interest Income (NII).On a longer term changes in interest rates impact the cash flows on the assets liabilities and off balance sheet items, giving rise to a risk to the net worth of the Bank arising out of all re-pricing mismatches and other interest rate sensitive position.

Quantitative Disclosures

(Taka in crore)

Interest Rate Related instruments		
Specific Market Risk on Interest Rate Related Instruments	1,673.38	-
General Market Risk on Interest Rate Related Instruments	1,673.38	33.08

7) MARKET RISK:

Qualitative Disclosures

a)	View of BOD on trading/investment activities:	The portfolio of investment includes Government Treasury Bills and Bonds, Prize Bonds, Shares of listed Public Limited Companies etc. The bank has always put impetus on investment of funds in high yield areas and also has ensured maintenance of statutory Liquidity Requirements (SLR) as fixed by Bangladesh Bank.
b)	Methods used to measure Market Risk:	Market risk is the possibility of losing assets in On-balance sheet and Off-balance sheet positions arising from movements in market prices. Under market risk management, interest rate risk, equity price risk and foreign exchange risks are monitored. Bank adopted Standardized (rule based) Approach for measuring Market Risks under Basel-II through Maturity GAP Analysis, Sensitively Analysis, VAR and Mark to Market. The total capital requirement in respect of market risk 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"
c)	Market Risk Management System:	Bank has its own Market Risk Management System which includes Asset Liability Risk Management (ALM), Foreign Exchange Risk Management under core Risk Management Guidelines.
d)	Policies and process for mitigating market risk:	Detailed policies are operational for investment Management, Asset Liability Management and Market Risk Management which deal in detail the various strategies and processes for monitoring Market Risk. Besides these following tools are used for market risk management/mitigation. i) Delegation of Powers: Bank has well-defined discretionary powers for different level of authorities of the Bank for taking investment decisions. ii) Prudential Limits: Various limits such as exposure limit, stop loss limits, duration etc. have been fixed. iii) Asset Liability Management Committee (ALCO): Under Risk Management architecture of Bank ALCO committee of executives is constituted and is monitoring management of liquidity and interest rate risk. ALCO support group of executive/officers is constituted to support ALCO.

Quantitative Disclosures

Particulars	(Taka in crore)
Interest Rate Risk	1,673.38
Equity Position Risk	152.70
Foreign Exchange Risk	61.18
Commodities Risk	00
Applicable tax rate	42.50

8) OPERATIONAL RISK:

Qualitative Disclosures		
a)	View of BOD on system to reduce Operational Risk:	Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk.
b)	Performance Gap of Executives and Staffs:	The Bank offers a competitive compensation package to the employees based on performance and merit. The Bank has developed one of the finest teams of efficient and responsible officers with high ethical standards who are working in a congenial atmosphere.
c)	Potential external events	Bank has own software named UIBS. As the Branches of the Bank is computerized the Bank has alternative power supply (both ɜPS and generator) and networks lines to avoid business disruption and system failure. The Bank IT system does not allow any kind of external access to avoid external fraud by way of theft/hacking of information works, forgery etc.
d)	Policies and process for mitigating operational Risk:	Bank has put in place the following measures to control and mitigate operational risks: * Instructions, circulars, job descriptions, training programmes etc. including Operational and other Manuals * Delegation of financial powers at various levels of officers for different type of financial transactions * Inputs on operational risk are included in the relevant training programmes * Bank has plan to keep provision for potential operational risks specially for ICT disruption. * A system of prompt submission of reports on frauds is in place.
e)	Approach for calculating Capital charge for Operational Risk:	The Bank has adopted Basic Indicator Approach (BIA) for calculating capital charge for Operational Risk, as stipulated by the Bangladesh Bank.

Quantitative Disclosures

Capital Charge for Operational Risk (Basic Indicator Approach)

(Taka in crore)

Operational Risk	2012	2011	2010	Capital Charge
Gross Income	741.51	675.15	601.25	100.90