

2015

Disclosure on Risk Based Capital (Base-III)



UNION BANK LTD
SHARIAH BASED BANK



Market Discipline: Disclosures on Risk Based Capital (Basel-III) as on 31.12.2015

Background:

The detailed qualitative and quantitative disclosures of Union Bank are provided in accordance with Guidelines on Risk Based Capital Adequacy by Bangladesh Bank. The purpose of these requirements is to complement minimum capital requirement and Supervisory review process. These disclosures are intended for more transparent and more disciplined financial market where the participants can assess key information about the Bank's exposure to various risks.

The Basel Committee on Banking Supervision (BCBS) issued “Basel III: A global regulatory framework for more resilient banks and banking systems” in December 2010. The objective of the reforms was to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

The disclosures of the Bank under Basel-III requirements based on the position as of 31.12.2015 are presented as per the guidelines of Bangladesh Bank vide BRPD Circular No.18 dated 21.12.2014 on “Guideline 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.

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 2015.

Scope of Application:

This disclosure builds 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

1) Scope of Application

<i>Qualitative disclosure</i>		
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).	<p>Union Bank Limited (UNBL) 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. Presently the Bank has 44 (Forty Four) 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.</p> <p>At present we are following the accounting on solo basis with no deduction as we have no subsidiaries.</p>
c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	No major impediments found.
<i>Quantitative disclosure</i>		
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



2) Capital Structure

<i>Qualitative disclosure</i>		
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 CET -1, Additional Tier 1 or Tier 2.	<p>The capital of bank shall be classified into two tiers. The total regulatory capital will consist of sum of the following categories:</p> <ul style="list-style-type: none"> 1) Tier 1 Capital (going-concern capital) <ul style="list-style-type: none"> a) Common Equity Tier 1 b) Additional Tier 1 2) Tier 2 Capital (gone-concern capital) <p>Common Equity Tier 1 (CET-1) Capital:</p> <ul style="list-style-type: none"> 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. <p>Additional Tier 1 (AT 1) Capital:</p> <ul style="list-style-type: none"> 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); <p>Tier-2 Capital:</p> <ul style="list-style-type: none"> 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.

<i>Quantitative disclosure: As on 31.12.2015</i>			
b)	The amount of regulatory capital, with separate disclosure of:	Fig. in Crore	
		Solo	Consolidated
	CET-1 Capital:		
	I. Paid up capital	428.00	-
	II. Non repayable share premium account	0.00	-
	III. Statutory reserve	23.32	-
	IV. General reserve	14.57	-
	V. Retained earnings	45.30	-



	VI. Dividend equalization reserve	0.00	-
	VIII. Minority interest in subsidiaries	0.00	-
	Sub-Total:	511.20	-
	Additional Tier 1 Capital:	0.00	
	Total Tier-1 Capital:	511.20	
	The total amount of Tier 2 Capital (General Provision)	49.59	-
c)	Regulatory Adjustments/Deductions from capital	0.00	-
d)	Total eligible capital	560.79	-

3) Capital Adequacy

<i>Qualitative disclosure</i>		
a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	<ul style="list-style-type: none"> ➤ Bangladesh Bank adopted Basel-1 for credit risk through BRPD circular No. 01 dated January 08, 1996. ➤ As per Section 13(2) of the Bank Companies Act 1991 and instruction contained in BRPD circular No. 35 dated 29 December 2010 Bangladesh Bank published Guidelines on "Risk based Capital Adequacy" (revised regulatory capital frame work in line with Basel II); ➤ Guidelines on Risk Based Capital Adequacy (RBCA) for banks' (revised regulatory capital framework in line with Basel – II) has been introduced from January 01, 2009 parallel to existing BRPD circular no. 10, dated November 25, 2002. At the end of parallel run period, Basel-II regime has been started and the guidelines on RBCA have come fully into force from January 01, 2010. ➤ To implement Basel-III, Bangladesh Bank has published a Roadmap through BRPD circular no- 07 dated March 31, 2014; subsequently, issued a guidelines. ➤ Risk Based Capital Adequacy (Revised regulatory capital framework for bank in line with Basel III) on 21st December 2014. Basel III capital regulations would be fully implemented as on January 01, 2019. ➤ Union bank is able to maintain Capital to Risk Weighted Assets Ratio (CRAR) at 13.27% on SOLO basis against the regulatory minimum level of 10.00%. Tier-I capital adequacy ratio under "Solo" basis is 12.10% against the minimum regulatory requirement of 6%.



<i>Quantitative disclosure</i>			
	Particulars	Fig. in Crore	
		Solo	Consolidated
b)	Capital requirement for credit risk	396.74	-
c)	Capital requirement for market risk	8.51	-
d)	Capital requirement for operational risk	17.23	-
e)	Total and Tier 1 capital ratio:	-	-
	• For the consolidated group; and	-	-
	Minimum capital requirement	422.48	-
	Total Risk Weighted Assets (RWA)	4224.77	-
	Total and Tier-1 Capital Ratio:		-
	• Total CRAR	13.27%	-
	• Tier-1 CAR	12.10%	-
	• Tier-2 CAR	1.17%	-
f)	Capital Conservation Buffer	As per BB guidelines on risk based capital adequacy, Capital Conservation Buffer is not required for the year 2015.	
g)	Available Capital under Pillar 2 Requirement	Yet not calculated	-

4) Investment (Credit) Risk

<i>Qualitative disclosure</i>	
a) The General Qualitative disclosure requirement with respect to investment (credit) risk, including:	
i) Definitions of past due and impaired (for accounting purposes):	<p>As per Bangladesh Bank guidelines, any Investment if not repaid within the fixed expiry date will be treated as Past Due/Overdue.</p> <ul style="list-style-type: none"> ▪ Any Continuous Loan 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 Loan 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 Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue from the following day of the expiry date. ▪ The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date. <p>The investments are classified as follows:</p> <ul style="list-style-type: none"> ➤ Continuous & Demand Loans are classified as: <ul style="list-style-type: none"> ▪ Sub-standard - if past due for 3 months or more, but less than 6 months; ▪ Doubtful - if past due for 6 months or more, but less than 9 months;



		<ul style="list-style-type: none"> ▪ Bad/Loss - if past due for 9 months or more. ➤ Fixed Term Loans amounting up to 10 lacs are classified as: <ul style="list-style-type: none"> ▪ Sub-standard - if the defaulted installment is equal to or more than the amount of installment (s) due within 6 (Six) months; ▪ Doubtful - if the defaulted installment is equal to or more than the amount of installment (s) due within 9 (Nine) months; ▪ Bad/Loss - if the defaulted installment is equal to or more than the amount of installment (s) due within 12 (Twelve) months. ➤ Fixed Term Loans for more than 10 lacs are classified as: <ul style="list-style-type: none"> ▪ Sub-standard - if the defaulted installment is equal to or more than the amount of installment (s) due within 3 (Three) months; ▪ Doubtful - if the defaulted installment is equal to or more than the amount of installment (s) due within 6 (Six) months; ▪ Bad/Loss - if the defaulted installment is equal to or more than the amount of installment (s) due within 9 (Nine) months. ➤ Short-term Agricultural and Micro Credit are classified as: <ul style="list-style-type: none"> ▪ 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. <p>A continuous credit, demand loan or term loan which remains overdue for a period of 60 days or more is classified as a “Special Mention Account (SMA)”.</p>
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ii) Description of approaches followed for specific and general allowance and statistical methods:

Type of Facility	Loans Classification					
	Sub Standard		Doubtful		Bad & Loss	
	Overdue	Provision	Overdue Period	Provision	Overdue Period	Provision
	Period	(%)		(%)		(%)
Continuous Loan	≥3 & < 6 months	20%	≥6 & < 9 months	50%	≥ 9 months	100%
Demand Loan	≥3 & < 6 months	20%	≥6 & < 9 months	50%	≥ 9 months	100%
Fixed Term Loan more than Tk. 10 lac	≥3 & < 6 months	20%	≥6 & < 9 months	50%	≥ 9 months	100%
Fixed Term Loan up to Tk. 10 lac	≥6 & < 9 months	20%	≥9 & < 12 months	50%	≥ 12 months	100%
Short Term Agricultural & Micro Credit	≥12 & < 36 months	5.0%	≥36 & < 60 months	5.0%	≥ 60 months	100%



General provision on: (For both Standard and Special mention account)		Rate
Unclassified general loans and advances		1%
Unclassified small and medium enterprise		0.25%
Loans to BHs/MBs/SDs against shares etc.		2%
Unclassified loans for housing finance and on loans for professionals		2%
Unclassified consumer financing other than housing financing and loans for professionals		5%
Short term agri credit and micro credit		2.50%
Off balance sheet exposures		1%
Specific provision on:		
Substandard loans and advances other than short term agri credit and micro credit		20%
Doubtful loans and advances other than short term agri credit and micro credit		50%
Bad/loss loans and advances		100%
Substandard short term agri credit and micro credit		5%
Doubtful short term agri credit and micro credit		5%

ii)	Decision of the Bank's Investment (Credit) Risk Management Policy;	Risk is inherent in all aspects of a commercial operation; however for Banks and financial institutions, 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".
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b) Quantitative disclosure:

Total gross credit risk exposures broken down by major types of credit exposure: Bangladesh Bank guidelines on Basel III, stipulated to segregate bank's asset portfolio into different categories, and the below table shows our gross exposure in each asset category;

Sl. No.	Particulars	Exposure (Fig. in crore)
a.	Cash	37.33
b.	Claims on Bangladesh Government and Bangladesh Bank	691.04
c.	Claims on Banks & NBFIs	
	i) Original maturity over 3 months	812.46
	ii) Original maturity less than 3 months	674.46
d.	Claims on Corporate	
	Different Risk Weights	1366.32
	Unrated	1019.75
e.	Claims on SME	
	Different Risk Weights	589.78
	Unrated (small enterprise & <BDT 3.00m)	12.29
	Unrated (small enterprise having ≥ BDT 3.00m & Medium Enterprise)	54.09
f.	Claims under Credit Risk Mitigation [From Work Sheet 1(a) of revised RBCA Guidelines]:	



	i)Corporate	309.79
	ii)Retail & Small	90.44
	iii)Consumer finance	11.26
	iv)Residential real estate	0.16
g.	Claims categorized as retail portfolio (excluding SME, Consumer Finance and Staff loan) upto 1 crore	0.00
h.	Consumer finance	2.34
i.	Claims fully secured by residential property	3.14
j.	Claims fully secured by commercial real estate	280.96
k.	Investments in premises, plant and equipment and all other fixed assets	67.92
l.	All other assets	
	i) Staff loan/investment	15.50
	ii) Other assets (not specified above) [Net of specific provision, if any]	225.26

Quantitative disclosure																																																					
c)	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.	<table border="1"> <thead> <tr> <th colspan="2"></th> <th style="text-align: right;">BDT in crore</th> </tr> <tr> <th>Sl.</th> <th>Division-wise investment</th> <th>Exposure</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Dhaka</td> <td>2,691.28</td> </tr> <tr> <td>2.</td> <td>Chittagong</td> <td>1,855.74</td> </tr> <tr> <td>3.</td> <td>Khulna</td> <td>1.43</td> </tr> <tr> <td>4.</td> <td>Rajshahi</td> <td>3.21</td> </tr> <tr> <td>5.</td> <td>Sylhet</td> <td>4.00</td> </tr> <tr> <td>6.</td> <td>Rangpur</td> <td>3.63</td> </tr> <tr> <td colspan="2" style="text-align: center;">Total</td> <td>4,559.29</td> </tr> </tbody> </table>			BDT in crore	Sl.	Division-wise investment	Exposure	1.	Dhaka	2,691.28	2.	Chittagong	1,855.74	3.	Khulna	1.43	4.	Rajshahi	3.21	5.	Sylhet	4.00	6.	Rangpur	3.63	Total		4,559.29																								
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BDT in crore				
e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of investment (credit) exposure.	SL. No.	Particulars	Exposure
		1	Repayable on Demand	55.51
		2	Up to 1 month	143.01
		3	Over 1 month but not more than 3 months	565.26
		4	Over 3 months but not more than 1 year	3,440.09
		5	More than 1 year but less than 5 year	330.84
		6	Over 5 years	24.58
		Total		4,559.29

f)		By major industry or counterparty type:	
	i) Amount of impaired investment (loans) and if available, past due investment/loans, provided separately;	The amount of classified investment of the bank is as under:	
		Particulars	Fig. in Crore
		1. SS –	0.04
		2. DF–	0.05
		3. B/L–	0.00
		Total –	0.09
	ii) Specific and general provisions;	Specific and general provisions were made on the amount of classified and unclassified investments/loans and advances, off-balance sheet exposures and off-shore banking units, interest on receivable, diminution in value of investment and other assets-suspense of the Bank according to the Bangladesh Bank guidelines.	
		Particulars	Fig. in Crore
		Provision required:	
		Unclassified Investments	46.87
		Classified Investment	0.03
		Off-balance sheet	4.64
		Total	51.54
g)		Gross Non Performing Assets (NPAs):	
		Non-Performing Assets (NPAs) to Outstanding Investment/loans and advances.	
	Movement of Non Performing Assets (NPAs).	Particulars	Fig.in Crore
		Opening balance	0.00
		Addition during the year	0.09
		Reduction during the year	0.00
		Closing balance	0.09
	Movement of specific provisions for NPAs.	Particulars	Fig.in Crore
		Opening balance	0.00
		Provisions made during the period	0.03
		Write-off	0.00
		Write-back of excess provisions	0.00
		Closing Balance	0.03

Note: Bank maintained Tk. 52.95 crore for provision of investment.



5) Equities: Disclosures for Banking Book Positions

Qualitative Disclosures:	
a)	The general qualitative disclosures requirement with respect to equity risk, including
<p>Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons;</p>	<p>Equity price risk is the risk of losses caused by changes in equity prices. These losses could arise because of changes in the value of listed shares held directly by the bank; changes in the value of listed shares held by bank subsidiary; changes in the value of listed shares used as collateral for loans a bank or a bank subsidiary, whether or not the loan was made for the purpose of buying the shares; and changes in the value of unlisted shares. Equity price risk associated with equities could be systematic or unsystematic. The former refers to sensitivity of portfolio's value to change in overall level of equity price, while the latter is associated with idiosyncratic risk that is determined by firm specific characteristics.</p>
<p>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</p>	<p>From an accounting perspective in Bangladesh, equity risk is "one-sided" equity securities must be held at the lower of cost or market value. If market value drops below cost, banks are required to form loss allowances or "provisions" on the liability side of the balance sheet, by means of an expense on the profit & loss statement. However, if market values rise above cost there is no corresponding income recorded unless the securities are sold.</p> <p>The equity markets are traditionally volatile with a high-risk, high-returns profile. As such investors in the equity market have to plan and strategize to reduce their risks and increase their returns. Equity investments must therefore go hand in hand with a good risk management plan in place. In an uncertain marketplace like the present, investor cannot afford to place all hope in only one thing. Therefore, it is very important to protect the total investment value by means of diversification. Investments in shares of Union Bank are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. The Bank recognizes that no investment is totally free from risk and that occasional measured losses are inevitable in a diversified portfolio and will be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best interest of the Bank.</p> <p>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.</p>



b) Quantitative Disclosures:		BDT in crore	
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.	At Cost	At Market Value
		40.62	35.92
c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting (31 December 2015) period.	0.05	
d)	Total unrealized gains (losses)	(4.70)	
• 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 supervisory provisions regarding regulatory capital requirements	Not applicable	

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

Qualitative Disclosure:	
a)	<p>The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.</p> <p>Market risk is the potential losses in the on-balance sheet and off-balance sheet positions of a bank, stems from adverse movement in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices.</p> <p>Banks may be expressed to market risk in variety of ways:</p> <ul style="list-style-type: none"> ▪ 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. <p>Sources of Interest rate risk are:</p> <ul style="list-style-type: none"> ▪ Re-pricing risk; ▪ Yield curve risk; ▪ Basis risk; ▪ Optionality <p>Sound interest rate risk management involves the application of following basic elements in the management of assets, liabilities and OBS instruments:</p> <ul style="list-style-type: none"> ▪ Appropriate board and senior management oversight; ▪ Adequate risk management policies and procedures;



		<ul style="list-style-type: none"> ▪ Appropriate risk management, monitoring and control function; ▪ Comprehensive internal controls and independent audits. <p>As with other risk factor categories, interest rate risk should be monitored on a consolidated, comprehensive basis, to include interest rate exposures in subsidiaries. At the same time, banks should fully recognize any legal distinctions and possible obstacles to cash flow movements among affiliates and adjust their risk management process accordingly. While consolidation may provide a comprehensive measure in respect of interest rate risk, it may also underestimate risk when positions in one affiliate are used to offset positions in another affiliate. This is because a conventional accounting consolidation may allow theatrical offsets between such positions from which a bank may not in practice be able to benefit because of legal or operational constraints. Management should recognize the potential for consolidated measures to understate risks in such circumstances.</p>																												
b)	Quantitative Disclosure:																													
	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)	<p style="text-align: right;">BDT in crore</p> <table border="1"> <thead> <tr> <th>Profit Rate Stress</th> <th>Minor</th> <th>Moderate</th> <th>Major</th> </tr> </thead> <tbody> <tr> <td>Assumed change in Profit Rate</td> <td>1%</td> <td>2%</td> <td>3%</td> </tr> <tr> <td colspan="4" style="text-align: center;">Net investment income impact</td> </tr> <tr> <td><12 months</td> <td>4.55</td> <td>9.11</td> <td>13.66</td> </tr> <tr> <td>Capital after-shock</td> <td>565.34</td> <td>569.90</td> <td>574.45</td> </tr> <tr> <td>CAR after-shock (%)</td> <td>13.38</td> <td>13.49</td> <td>13.60</td> </tr> <tr> <td>Change in CAR after-shock (%)</td> <td>0.11</td> <td>0.22</td> <td>0.32</td> </tr> </tbody> </table>	Profit Rate Stress	Minor	Moderate	Major	Assumed change in Profit Rate	1%	2%	3%	Net investment income impact				<12 months	4.55	9.11	13.66	Capital after-shock	565.34	569.90	574.45	CAR after-shock (%)	13.38	13.49	13.60	Change in CAR after-shock (%)	0.11	0.22	0.32
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7) Market Risk:

a) Qualitative disclosure		
i)	Views of Board of Directors (BOD) on trading/investment activities.	<p>Banks may be exposed to market risk in variety of ways. Market risk exposure:</p> <ul style="list-style-type: none"> ▪ 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. <p>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:</p> <p>a) Define bank's overall risk appetite in relation to market risk;</p>



		<ul style="list-style-type: none"> 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.	<p>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.</p> <p>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</p>



	<p>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.</p> <p>Foreign Exchange risk is the risk or chance of loss due to unexpected movement of market price of the currencies of different countries or the price of the assets denominated by foreign currencies. For effective and efficient management of Foreign Exchange Risk, the Bank has a well-developed and well-structured Foreign Exchange Risk Manual and an international standard Dealing Room Manual. Various limits are set to monitor and mitigate the Foreign Exchange risk such as, Net Open Position (NOP) limits (Day limit / Overnight limit), deal-wise cut-loss limits, Stop-loss limit, Profit / Loss in respect of cross currency trading etc. and exception reporting is regularly carried out.</p>																					
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	<table border="1"> <thead> <tr> <th>The capital requirements for:</th> <th>Solo</th> <th>Consolidated</th> </tr> <tr> <th>Particulars</th> <th colspan="2">Fig. in Crore</th> </tr> </thead> <tbody> <tr> <td>Profit rate risk</td> <td>0.00</td> <td>-</td> </tr> <tr> <td>Equity position risk</td> <td>7.18</td> <td>-</td> </tr> <tr> <td>Foreign exchange risk</td> <td>1.33</td> <td>-</td> </tr> <tr> <td>Commodity risk</td> <td>0.00</td> <td>-</td> </tr> <tr> <td>Total Capital Requirement</td> <td>8.51</td> <td>-</td> </tr> </tbody> </table>	The capital requirements for:	Solo	Consolidated	Particulars	Fig. in Crore		Profit rate risk	0.00	-	Equity position risk	7.18	-	Foreign exchange risk	1.33	-	Commodity risk	0.00	-	Total Capital Requirement	8.51	-
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8) Operational risk

a) Qualitative Disclosures:		
i)	View of BOD on system to reduce Operational Risk	<p>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.</p> <ol style="list-style-type: none"> 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; Approve the implementation of a bank-wide framework to explicitly manage operational risk as a distinct risk to the bank's safety and soundness; Provide senior management clear guidance and direction regarding the principles underlying the framework and approve the corresponding policies developed by senior management; Establish a management structure capable of implementing the bank's operational risk management framework specifying clear lines of management responsibility, accountability and reporting; and 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.
ii)	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.
iii)	Potential external events	<p>The potential external events that may pose the bank in to operational risks are as follows.</p> <ol style="list-style-type: none"> 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: <ol style="list-style-type: none"> i) Incompliance of the Bank with the requirements of the legal regulations; ii) Making legal mistakes in carrying out activities; iii) Imperfection of the legal system iv) 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.



iv)	Policies and processes for mitigating operational risk	<p>The bank should put in place an operational risk management policy. The policy at minimum, include:</p> <ul style="list-style-type: none"> ▪ 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. 	
v)	Approach for calculating capital charge for operational risk	<p>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:</p> $K = [(GI_1 + GI_2 + GI_3) \times \alpha] / n$ <p>Where-</p> <p>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.</p> <p>Gross Income (GI) is defined as “Net Investment Income” plus “Net non- Investment Income”. It is intended that this measures hold:</p> <ol style="list-style-type: none"> 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. 	
b)	Quantitative disclosure:		
	The capital requirements for operational risk	BDT in crore 17.23	
Capital Charge for Operational Risk-Basic Indicator Approach			
Year	Gross Income(GI)	Average Gross Income(AGI)	Capital Charge=15% of AGI
2013	40.16	114.86	17.23
2014	98.23		
2015	206.13		



9) Liquidity Ratio:

a) Qualitative Disclosure	
Views of Board of Directors (BOD) on system to reduce liquidity Risk	<p>The BOD should have the overall responsibility for management of liquidity risk. Generally, the responsibilities of the board include:</p> <ul style="list-style-type: none"> 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	<p>The liquidity risk strategy defined by Board should enunciate specific policies on particular aspects of liquidity risk management, such as:</p> <ul style="list-style-type: none"> 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	<p>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.</p> <p>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.</p>



Policies and process for mitigating risk	<p>The bank should include in liquidity risk management policy;</p> <ol style="list-style-type: none"> 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;
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BDT in Million/Percentage

b) Quantitative Disclosure	
Components	Amount
Liquidity Coverage Ratio (LCR)	280.93%
Net Stable Funding Ratio (NSFR)	150.77%
Stocks of high quality liquid assets	702.37
Total net cash outflows over the next 30 calendar days	250.02
Available amount of stable funding	5,520.11
Required amount of stable funding	3,661.17

10) Leverage Ratio:

a) Qualitative Disclosure	
Views of BOD on system to reduce excessive leverage	<p>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 reviews 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.</p>



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/Percentage

b) Quantitative Disclosure	
Components	Amount
$\text{Leverage Ratio} = \frac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$	
Bangladesh Bank Requirement	>3%
Leverage Ratio	7.97%
On balance sheet exposure	6,304.77
Off balance sheet exposure	109.35
Total exposure	6,414.12

11) Remuneration:

Qualitative Disclosure	
a)	<p>Information relating to the bodies that oversee remuneration. Disclosures should include: Name, composition and mandate of the main body overseeing remuneration. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process. A description of the scope of the bank’s remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches. A description of the types of employees considered</p>

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.

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.
 The functions of the Remuneration Committee include general governance matters which include:



	<p>as material risk takers and as senior managers, including the number of employees in each group.</p>	<ul style="list-style-type: none"> • Conducting regular reviews and making recommendations to the Board on the Bank’s Remuneration Policy. This must include an assessment of the Remuneration Policy’s effectiveness and compliance. • Making annual recommendations to the Board on the remuneration of Directors of the Board and the CEO. <p>At present there are no External consultants whose advice has been sought for the remuneration process.</p> <p>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:</p> <ul style="list-style-type: none"> • Managing Director. • Additional Managing Director. • Deputy Managing Director. • Board Secretary. • Head of HRD. • Risk & Compliance Manager. <p>The Bank has 02 (Two) group of material Risk Takers at present i.e., Senior Management and Branch Managers. The total no. of Senior Management is 14 and the total no. of Branch Managers is 44.</p>
<p>b)</p>	<p>Information relating to the design and structure of remuneration processes. Disclosures should include:</p> <p>An overview of the key features and objectives of remuneration policy.</p> <p>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.</p> <p>A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</p>	<p>The key features and objectives of the Remuneration policy are as follows:</p> <ul style="list-style-type: none"> • 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. <p>In determining Remuneration, the Remuneration Committee uses the following information supplied through the Remuneration surveys:</p> <ul style="list-style-type: none"> • Industry comparative remuneration data across all positions, including Directors. • Remuneration benchmarking for organizations of similar Asset Size.
<p>c)</p>	<p>Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include:</p>	<p>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</p>



	<p>An overview of the key risks that the bank takes into account when implementing remuneration measures. An overview of the nature and type of the key measures used to take account of these risks; including risks difficult to measure (values need not be disclosed).</p>	<p>implements controls aimed at mitigating risk to acceptable levels.</p> <p>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.</p> <p>Whilst this is a key performance area for Executive Manager, achievement of satisfactory results is linked to financial incentives/ bonuses in some cases.</p>
<p>d)</p>	<p>Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include: An overview of main performance metrics for bank, top-level business lines and individuals. A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance. A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak</p>	<p>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.</p> <p>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.</p> <p>The Bank follows remuneration process as per set criteria with no in general adjustment in the event of weak performance metrics/scorecard.</p>
<p>e)</p>	<p>Description of the ways in which the bank seek 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 or groups of employees, a description of the factors that determine the fraction and their relative importance. A discussion of the bank’s</p>	<p>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.</p>



	policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.	
f)	<p>Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include:</p> <p>An overview of the forms of variable remuneration offered (ie cash, shares and share-linked instruments and other forms</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> ▪ 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)
b) Quantitative Disclosure		
g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	Not Applicable
h)	<p>Number of employees having received a variable remuneration award during the financial year.</p> <p>Number and total amount of guaranteed bonuses awarded during the financial year.</p> <p>Number and total amount of sign-on awards made during the financial year.</p> <p>Number and total amount of severance payments made during the financial year</p>	<p>Total No. of 07 employees have received a variable remuneration award during the 2014/2015 Financial Year.</p> <p>Total no. & amount of 238 guaranteed bonuses awarded during the 2014/2015 Financial Year.</p> <p>There were no sign-on awards made during the financial year.</p> <p>There was no severance payment made during the 2014/2015 Financial Year.</p>



i)	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. Total amount of deferred remuneration paid out in the financial year.	There was no outstanding deferred remuneration, split into cash, shares, share-linked Instruments and other forms.
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 (eg fluctuations in the value of shares or performance units) and explicit adjustments (eg 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. 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.	Not Applicable