Market Discipline

Disclosures on Risk Based Capital (Basel II)

The purpose of Market Discipline in (Basel II) is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. For the said purpose, this "Disclosures on Risk Based Capital (Basel II)" is made as per Bangladesh Bank's Guideline.

1. Scope of Application

	Qualitative disclosures	
a)	The name of the top corporate entity in the group to which this guidelines applies.	**Prime Bank Limited**
b)	An outline of differences on 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).	Prime Bank Limited has 5 (Five) subsidiaries (i) Prime Exchange Co. Pte. Limited, Singapore (ii) Prime Bank Investment limited (iii) PBL Exchange (UK) Limited (iv) Prime Bank Securities Limited and (v) PBL Finance (Hong Kong) Limited. **A brief description of the Bank and its subsidiaries are given below:** **Prime Bank Limited** The Prime Bank Limited (PBL) was incorporated as a public limited company in Bangladesh under Companies Act, 1994. It commenced its banking business with one branch from April 17, 1995 under the license issued by Bangladesh Bank. Presently the Bank has 102 (One hundred two) branches, 17 (Seventeen) SME Branches / Centres all over Bangladesh, and 2 (two) booths located at Dhaka Club, Dhaka and at Chittagong Port, Chittagong. The Bank has 3 (Three) Off-shore Banking Units (OBU) operating at Savar, Chittagong and Adamjee EPZ areas. The Bank went for Initial Public Offering in 1999 and its shares are listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited as a publicly traded company for its general class of shares. The principal activities of the Bank are to provide all kinds of commercial banking services to its customers through its branches.
		There are 5 (Five) Subsidiaries of Prime Bank Limited which are as under: **i) Prime Exchange Co. Pte. Limited, Singapore:** Prime Exchange Co. Pte. Ltd., a fully owned subsidiary company of Prime Bank Limited was incorporated in Singapore on January 06, 2006 and commenced its remittance business from July 08, 2006. The principal activities of the company are to carry on the remittance business and to undertake and participate in transactions, activities and operations commonly carried on or undertaken by remittance and exchange house.

		ii) Prime Bank Investment Limited Prime Bank Investment Limited (PBIL) is a subsidiary company of Prime Bank Limited incorporated as a public limited company on April 27, 2010 with the registrar of Joint Stock Companies, vide certificate of incorporation no.C-84266/2 dated 28 April 2010 which has commenced its business on the same date. The main objectives of the company are to carry out the business of full-fledged merchant banking activities like issue management, portfolio management, underwriting, corporate advisory services etc.
		iii) PBL Exchange (UK) Limited PBL Exchange (UK) Limited was incorporated as a private limited company with Companies House of England and Wales on November 19, 2009 and commenced its operation on 02 August 2010 with three Branches located at Brick Lane of London, Coventry Road of Birmingham and North Pldham of Manchester. The company is a wholly owned subsidiary of Prime Bank Limited.
		iv) Prime Bank Securities Limited Prime Bank Securities Limited was incorporated on April 29, 2010 as a private limited company under the Companies Act 1994. The main objectives of the company are to carry on business of stock brokers / dealers in relation to shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the Company. The company commenced it's operation from May 2011.
		v) Prime Finance (Hong Kong) Limited PBL Finance (Hong Kong) Limited, a fully owned subsidiary of Prime Bank Limited, Bangladesh. PBL Finance (Hong Kong) Limited was incorporated with Companies Registries of Hong Kong (Certificate of incorporation no. 1584971 and Business Registration no. 58197431 both dated April 7, 2011) Prime Bank Limited obtained approval from Bangladesh Bank for opening of fully owned finance company in Hong Kong. This is the third fully owned overseas company of Prime Bank Limited. PBL Finance (Hong Kong) Limited obtained Money Lending Licenses (307/2011) issued by Honorable Court of Hong Kong on 28th July 2011. It has commenced operation in August 2011 with one branch located at 608, 6/F, Admiralty Centre, Tower-2, 18 Harcourt Road, Hong Kong.
c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable
	Quantitative disclosures	
d)	The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the 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 in **Tier 2**.	As per the guidelines of Bangladesh Bank, **Tier-1 Capital** of PBL consists of (i) Fully Paid-up Capital, (ii) Non-repayable Share Premium Account, (iii) Statutory Reserve, (iv) Retained Earnings and (v) Minority Interest in Subsidiaries. **Tier-2 Capital** consists of applicable amount of (i) General Provision (against unclassified Loans/Investments, Off-Balance Sheet exposure & Off-Shore Banking Units), 50% of Asset Revaluation Reserve, 50% of Revaluation gain/loss on Investment (HFT), 10% of Revaluation Reserve for Equity Instruments, PBL unsecured nonconvertible Sub-ordinate bond as approved by Bangladesh Bank and Exchange Equalization Fund.

Quantitative disclosures

b) The amount of Tier-1 capital, with separate disclosure of

	Particulars	Solo	Consolidated
		Taka in Million	
I.	Fully Paid-up capital	7,798.10	7,798.10
II.	Non repayable share premium account	2,241.23	2,241.23
III.	Statutory reserve	5,778.12	5,778.12
IV.	General reserve	-	-
V.	Retained earnings	2,817.82	2,969.95
VI.	Minority interest in subsidiaries	-	0.00
VII.	Non-cumulative irredeemable preference shares	-	-
VIII.	Dividend equalization account	-	-
	Sub-Total (A)	**18,635.27**	**18,787.40**
c)	**The Total amount of Tier 2 and Tier 3 capital (B)**		
	i) Amount of Tier-2 capital	5,477.07	5,485.16
	ii) Amount of Tier-3 capital	-	-
	Sub-total amount of Tier-2 and Tier-3 capital (B)	**5,477.07**	**5,485.16**
d)	Other deductions from capital	-	-
e)	**Total eligible capital (A+B)**	**24,112.34**	**24,272.56**

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.	The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank. The Bank has maintained capital adequacy ratio on the basis of **"Consolidated"** and **"Solo"** are **12.49%** & **12.48%** respectively as against the minimum regulatory requirement of **10%**. Tier-I capital adequacy ratio for "Consolidated" is **9.67%** as well as "Solo" is **9.64%** as against the minimum regulatory requirement of **5%**. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.

Quantitative disclosures			
Particulars		**Solo**	**Consolidated**
		Taka in Million	
b)	Capital requirement for credit risk	17,254.10	17,040.77
c)	Capital requirement for market risk	530.43	758.54
d)	Capital requirement for operational risk	1,541.17	1,638.65
e)	Total and Tier - 1 capital ratio:	77.29%	77.40%
	• Minimum capital requirement	19,325.71	19,437.96
	Total Risk Weighted Assets (RWA)	1,93,257.10	1,94,379.60
	Total and Tier-1 Capital Ratio:		
	Total CAR	12.48%	12.49%
	Tier-1 CAR	9.64%	9.67%
	Tier-2 CAR	2.84%	2.82%

4. Credit Risk:

Qualitative disclosures		
a)	**The general qualitative disclosures requirement with respect to credit risk, including:**	
	i) Definitions of past due and impaired (for accounting purposes);	With a view to strengthening credit discipline and bring classification and provisioning regulation in the line with international standard, a phasewise program for classification and provisioning was undertaken by the Bank as per Bangladesh Bank circulars issued from time to time. In this regard, all the loans and advances are grouped into four (4) categories for the purpose of classification, namely (i) Continuous Loan, (ii) Demand Loan, (iii) Fixed Term Loan and (iv) Short-term Agricultural and Micro Credit. The above loans are classified as follows: **Continuous & Demand Loan are classified as:** > **Sub-standard** - if it is past due/over due for 6 months or beyond but less than 9 months; > **Doubtful** - if it is past due/overdue for 9 months or beyond but less than 12 months; > **Bad/Loss** - if it is past due/overdue for 12 months or beyond. **Fixed Term Loan (repayable within maximum 5 years of time) are classified as:** > **Sub-standard** - if the defaulted installment is equal to or more than the amount of installment (s) due within 6 (six) months, the entire loans are classified as “Sub-standard”. > **Doubtful** - if the defaulted installment is equal to or more than the amount of installment (s) due within 12 (twelve) months, the entire loans are classified as “Doubtful” > **Bad/Loss** - if the defaulted installment is equal to or more than the amount of installment (s) due within 18 (eighteen) months, the entire loans are classified as “Bad / Loss”.

Fixed Term Loan (repayable more than 5 years of time) are classified as:

> **Sub-standard -** if the defaulted installment is equal to or more than the amount of installment (s) due within 12 (twelve) months, the entire loans are classified as "Sub-standard".

> **Doubtful -** if the defaulted installment is equal to or more than the amount of installment (s) due within 18 (eighteen) months, the entire loans are classified as "Doubtful".

> **Bad/Loss -** if the defaulted installment is equal to or more than the amount of installment (s) due within 24 (twenty four) months, the entire loans are classified as "Bad/Loss".

Short-term Agricultural and Micro Credit are classified as:

> **Sub-standard** - if the irregular status continue after a period of 12 (twelve) months, the credits are classified as "Sub-standard".

> **Doubtful** - if the irregular status continue after a period of 36 (thirty six) months, the credits are classified as "Doubtful".

> **Bad/Loss** - if the irregular status continue after a period of 60 (sixty) months, the credits are classified as "Bad / Loss".

A Continuous Credit, Demand loan or Term Loan which will remain over due for a period of 90 days or more, are treated "Special Mention Account (SMA)".

ii) Description of approaches followed for specific and general allowances and statistical methods;

The Bank is following the general and specific provision for loans and advances/ investments on the basis of Bangladesh Bank guidelines issued from time to time.

The provision rates are given below:

Particulars	Rate
General provision on unclassified general loans and advances / investments.	1%
General provision on unclassified small enterprise financing.	1%
General provision on unclassified loans / investments for housing.	2%
General provision on unclassified consumer financing other than housing finance, loan for professionals and loans to share business.	5%
General provision on special mention account.	5%
Specific provision on substandard loans and advances / investments.	20%
Specific provision on doubtful loans and advances / investments.	50%
Specific provision on bad/ loss loans and advances/ investments.	100%

Quantitative disclosures

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

Total gross credit risk exposures broken down by major types of credit exposure of the Bank:

Particulars	Taka in Million
Secured Overdraft / Quard Against TDR	36,375.51
Cash Credit / Mudaraba	17,533.66
Loan (General)	22,300.16
House Building Loan	3,634.70
Loan Against Trust Receipts (LTR)	20,912.41
Payment Against Documents (PAD)	701.74
Retail Loan	10,938.78
Lease Finance / Izara	7,556.80
Credit Card	750.39
SME Loan	1,278.07
Hire Purchase	7,156.82
Other Loans & Advances	2,889.85
Term placement to PBL Finance (Hong Kong) Ltd.	560.46
Bill purchased / discounted-Inland	4,617.72
Bill purchased / discounted-Foreign	2,201.82
Total	**1,39,408.89**

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

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

Particulars	Taka in Million
Urban:	
Dhaka Zone	1,02,064.22
Chittagong Zone	21,356.69
Khulna Zone	4,376.95
Rajshahi Zone	4,600.06
Barishal Zone	175.57
Sylhet Zone	1,649.25
Sub-Total	**1,34,222.74**
Rural:	
Dhaka Zone	3,441.72
Chittagong Zone	791.77
Khulna Zone	25.70
Rajshahi Zone	255.68
Barishal Zone	-
Sylhet Zone	671.28
Sub-Total	**5,186.15**
Grand Total (Urban and Rural)	**1,39,408.89**

d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure of the Bank:

Particulars	Taka in Million
Commercial Lending	20,675.65
Export Financing	8,691.93
House Building Loan	3,634.69
Retail Loan	10,938.79
Small & Medium Enterprises (SME)	9,429.39
Special Program Loan	1,060.83
Other Loans & Advances (SOD)	18,151.75
Staff Loan	4.46
Loans, Advances & Lease / Investments to Managing Director / CEO and other senior executives	1,394.94
Industrial Loans / Investments **(Detailed below)**	65,426.46
Total	**1,39,408.89**
Industrial Loans / Investments	
Agriculture	2,283.32
Textile Industries	13,330.21
Food and allied industries	3,959.45
Pharmaceutical Industries	1,581.39
Leather , Chemical, Cosmetics etc.	1,617.25
Tobacco Industries	35.62
Cement and Ceramic Industries	2,949.67
Service Industries	3,966.96
Transport & Communication Industries	5,157.15
Other Industries including bills purchased and discounted	30,545.44
Total	**65,426.46**

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

Particulars	Taka in Million
Repayable on Demand	-
Up to 1 month	26,030.15
Over 1 month but not more than 3 months	36,007.31
Over 3 months but not more than 1 year	42,281.18
Over 1 year but not more than 5 years	33,027.95
Over 5 years	2,062.30
Total	**1,39,408.89**

f) **By major industry or counterparty type:**

i) Amount of impaired loans and if available, past due loans, provided separately;	The amount of classified and unclassified loans and advances/ investments of the Bank are given below as per Bangladesh Bank guidelines.

Particulars	Taka in Million
Continuous Loans	266.59
Demand Loans	166.83
Term Loans up to 5 years	1,387.03
Term Loans over 5 years	87.76
Short Term Agro Credit and Micro Credit	0.04
Total	**1,908.25**

	ii) Specific and general provisions; and	Specific and general provisions were made on the amount of classified and unclassified loans and advances/investments, off-balance sheet exposures and off-shore banking units of the Bank according to the Bangladesh Bank guidelines.

Particulars	Taka in Million
Provision on classified loans and advances / investments	778.23
Provision on unclassified loans and advances / investments	1,724.67
Provision on Off-balance sheet exposures	940.00
Provision for Off-shore Banking Units	60.50
Total	**3,503.40**

	iii) Charges for specific allowances and charge-offs during the period.	During the year the specific and general provisions were made on the amount of classified and unclassified of loans and advances / investments, off-balance sheet exposures and off-shore banking units of the Bank as per Bangladesh Bank guidelines.

Particulars	Taka in Million
Provision on classified loans and advances / investments	226.00
Provision on unclassified loans and advances / investments	305.00
Provision on Off-balance sheet exposures	130.00
Provision for Off-shore Banking Units	-
Total	**661.00**

g) Gross Non Performing Assets (NPAs).

Non Performing Assets (NPAs) to Outstanding loans and advances.

	Particulars	Taka in Million
Movement of Non Performing Assets (NPAs).	Opening balance	1,367.69
	Additions	540.56
	Reductions	-
	Closing balance	**1,908.25**
Movement of specific provisions for NPAs.	Opening balance	642.14
	Provisions made during the period	268.89
	Write-off	(199.98)
	Write-back of excess provisions	110.07
	Provision no longer required	(42.89)
	Closing Balance	**778.23**

5. Equities: Disclosures for Banking Book Position

Qualitative disclosures		
a)	**The general qualitative disclosures requirement with respect to equity risk, including**	
	• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and	Investment in equity securities are broadly categorized into two parts: i) Quoted Securities (Common or Preference Shares & Mutual Fund) that are traded in the secondary market (Trading Book Assets). 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 for maturity (HFM). And securities those are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Unquoted securities are valued at cost.
	• 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 aim is to investment in these 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. 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 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.

Quantitative disclosures

	Particulars	Solo	Consolidated
		Taka in Million	
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.	58.20	1,532.23
c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	0.76	6.23
	• Total unrealized gains (losses).	0.20	(389.94)
d)	• Total latent revaluation gains (losses)	-	-
	• Any amounts of the above included in Tier - 2 capital.	-	-
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.		
	• Specific Market Risk	5.84	119.89
	• General Market Risk	5.84	119.89

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 prepayments 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 rates affect both the current earnings (earnings perspective) as well as the net worth of the bank (economic value perspective). Re-pricing risk is often the most apparent source of interest rate risk for a bank and is often gauged by comparing the volume of a bank's assets that mature or re-price within a given time period with the volume of liabilities that do so. The short term impact of changes in interest rates is on the bank's Net Interest Income (NII). In 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. Maturity grouping of rate sensitive assets and liabilities of the bank shows significant positive gap in the first quarter and moderate gap during the rest three quarters. The impact is very insignificant compared to total revenue of the bank and also within the acceptable limit as stipulated by Bangladesh Bank.

Interest Rate Risk Analysis

Quantitative disclosures — Taka in Million

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).

Particulars	1-90 days	Over 3 months to upto 6 months	Over 6 months to upto 9 months	Over 9 months to upto 1 year
Rate Sensitive Assets	63,178	19,769	15,651	11,535
Rate Sensitive Liabilities	59,820	22,473	11,032	8,504
GAP	3,358	(2,704)	4,619	3,031
Cumulative GAP	3,358	654	5,273	8,304
Adjusted Interest Rate Changes (IRC)	1.00%	1.00%	1.00%	1.00%
Quarterly earnings impact (Cum. GAP * IRC)	8,280	1,613	13,001	20,475
Accumulated earning impact to date	8,280	9,893	22,894	43,369
Earning Impact/ Avg. Quarterly Net Profit	0.49%	0.58%	1.35%	2.55%

7. Market Risk:

Qualitative disclosures		
a)	**i)** Views of Board of Directors (BOD) on trading/ investment activities.	Market risk is the possibility of losses of assets in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e., interest rate, exchange rate and price. Allocation of capital is required in respect of the exposure to risks deriving from changes in interest rates and equity prices in the bank's trading book, in respect of exposure to risks deriving from changes in foreign exchange rates and commodity price in the overall banking activity. The total capital requirement for banks against their market risk shall be the sum of capital charges against: i. Interest rate risk ii. Equity position risk iii. Foreign exchange (including gold) position risk throughout the bank's balance sheet and iv. Commodity risk.

	ii) Methods used to measure Market risk.	**Measurement Methodology:**
		As banks in Bangladesh are now in a stage of developing risk management models, Bangladesh Bank suggested the banks for using Standardized Approach for credit risk capital requirement for banking book and Standardized (rule based) Approach for market risk capital charge in their trading book.
		Maturity Method has been prescribed by Bangladesh Bank in determining capital against market risk. In the maturity method, long or short positions in debt securities and other sources of interest rate exposures, including derivative instruments, are slotted into a maturity ladder comprising 13 time-bands (or 15 time-bands in case of low coupon instruments). Fixed-rate instruments are allocated according to the residual term to maturity and floating-rate instruments according to the residual term to the next repricing date.
		In Standardized (rule based) Approach the capital requirement for various market risks (interest rate risk, price, and foreign exchange risk) are determined separately.
		The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. e.g.:
		a) Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;
		b) Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;
		c) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk;
		d) Capital Charge for Commodity Position Risk = Capital charge for general market risk.

	iii) Market Risk Management system.	Treasury Division manages the market risk and ALCO monitors the activities of treasury Division in managing such risk.
	iv) Policies and processes for mitigating market risk.	To mitigate the several market risks the bank formed Asset Liability Management Committee (ALCO) who monitors the Treasury Division's activities to minimize the market risk. ALCO is primarily responsible for establishing the market risk management and asset liability management of the Bank, procedures thereof, implementing core risk management framework issued by the regulator, best risk management practices followed by globally and ensuring that internal parameters, procedures, practices/ polices and risk management prudential limits are adhere to. The Treasury Division are taking following measures to minimize the several market risks: **i) Foreign exchange risk management:** it is the risk that the bank may suffer losses as a result of adverse exchange rate movement during a period in which it has an open position in an individual foreign currency. This risk measured and monitored by the Treasury Division. To evaluate the extent of foreign exchange risk, a liquidity Gap report prepare for each currency. **ii) Equity Risk:** Equity risk is defined as losses due to changes in market price of the equity held. To measure and identify the risk, mark to market valuation to the share investment portfolios are done. Mark to market valuation is done against a predetermined limit. At the time of investment, following factors are taken into consideration: a) Security of Investment b) Fundamentals of securities c) Liquidity of securities d) Reliability of securities e) Capital appreciation f) Risk factors and g) Implication of taxes etc.

Quantitative disclosures

b)	**The capital requirements for**		
	Particulars	**Solo**	**Consolidated**
		Taka in Million	
	• Interest rate risk	370.27	370.27
	• Equity position risk	11.68	239.79
	• Foreign exchange risk and	148.5	148.5
	• Commodity risk	-	-
	Total Capital Requirement	**530.45**	**758.56**

8. Operational Risk:

Qualitative disclosures

a)	**i)** Views 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. It is inherent in every business organization and covers a wide spectrum of issues. The Board of Director (BOD) of the Bank and its Management firmly believe that this risk through a control based environment in which processes see documented, authorization as independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the group stays in line which industry best practice and takes account or lessons learned from publicized operational failures within the financial services industry. The BOD has also modified its operational risk management process by issuing a high level standard like SOP, supplemented by more detailed formal guidance. This explains how the bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that any branch of the bank is affected by a business disruption event, to incorporate lessons learned in the operational recovery from those circumstances. Plans have been prepared for the continued operation of the bank's business, with reduced staffing levels.
	ii) Performance gap of executives and staffs.	**Human Resources** Organizations need to effectively manage their human resources to get the maximum contribution from their employees. PBL always focuses on helping its people to grow, enabling individuals to make a difference and win their goals. HR Division of PBL always strives to ensure a great place to work by creating an attractive, inclusive and safe environment that rewards success and encourages employees to take control of their personal development. At the core of the HR strategy is managing an organizational culture where employees enjoy working with pride and are strongly motivated to gain and maintain professional excellence to convert the human resource into human capital. Ensuring such things in the bank is a key driver of productivity and performance, which creates the foundation of bank's performance culture. HR Division persuades and focuses on the behaviors that bring out the very best from every employee, assessing their performance not just on results but on how those results were achieved. To further embed these behaviors PBL has a remuneration program in place, carefully designed to encourage its employees to live its values every day. The bank has always taken a view that its remuneration policies should support and drive its business strategy and reinforce its

values. PBL believes these are sound and aligned to external best practice standards with risk-based and robust governance structures. Bank's annual performance bonuses are discretionary and are delivered in a combination of cash and deferred shares. They are set with regard to an assessment of risk and other factors such as achievement of our management agenda, risk management and economic backdrop, as well as profit. PBL accentuates on shared working, creativity and innovation among its employees.

PBL's brand pledges, a bank with a difference, sets out its deep and lasting commitment to people, to the communities in which we live and work, and to building a sustainable and responsible business in the long run in a unique way. And it is this commitment that not only sets us apart as a bank but also as an employer.

By developing strengths of the human capital, valuing their unique perspectives and enabling them to make a difference to our success, PBL will help them to fulfill their latent talent. Getting the best from this opportunity will rely on them sharing their commitment to delivering performance for its shareholders, building lasting relationships while demonstrating a passion for helping it do better- for customers and society.

With 2,292 people, operating through 119 branches the bank prides itself on being a truly peerless organization, combining the expertise and endeavor of experienced and fresh talents.

HR Focus

PBL's distinctive customs and values contributes an enormous function in its success, they are at the heart of "who we are" and "what we strive for". PBL distinguishes itself by being a strengths-based organization. The bank focuses on understanding and leveraging its employees' strengths to ensure they are in the true roles for them to truly excel.

PBL believes that the human capital is one of the crucial elements which influence the rhythm, evolution, directions, quality and activity development in the bank. The HR Division has been relentlessly working to help the bank in achieving its goal of being the best bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity. The Division endeavors for managing an organizational culture where employees enjoy working with pride and are strongly motivated to gain and maintain professional excellence. It also focuses on the respect for the employee, the enforcement of moral and ethical principles.

HR Success

Major achievement like:

- **Salary Revision**
- **Manpower Planning from April, 2011 to December, 2012**
- **Organogram Restructuring**

Mobilization of Human Capital

The main ingredient for making profit in a bank is human capital. For the evaluation of banking performance one must take into consideration the human qualities and professionalism proven by the bank employees. The customer pays attention not only to the bank product or service quality, offered by the bank, but also to the way the bank addresses itself to the client. The client must feel secured and trust the bank which he or she chose for his or her business. Also the work environment, friendship and collaboration among the bank employees reflect positively in the bank- customer relationship.

In view of that, the HR Division of the bank has always been striving to bring in highly motivated, proactive, result oriented and above all committed workforce to its winning team. It is to be noted that the tally of the branch number has reached to 119 in 2011 from 108 of 2010. But for the last few years, both the recruitment growth rate and turnover (exit) rate of the employees of the bank has been declining significantly, which is a robust indicator of the enhanced efficiency and dedication of its human capital.

Training

Human capital contributes to obtaining performance and developing bank activities. Beyond performance banks must pay attention in training bankers of maximum diplomacy and professionalism, and credibility for a more and more sophisticated customers. In what the relationship with the bank customers is regarded, the banks oriented themselves towards the re-dimensioning of the relations with customers, namely personalizing relations with them, the different approach of traditional and sophisticated clients and the diversity of bank products and services for the customers. For the bank management, the client is now-a-days treated as a business partner. The customer must have a feeling of safety and trust in the bank he or she has chosen for his or her business.

Beyond performance, banks must be interested in trainings that are highly professional and diplomatic, and most of all credible for a more and more sophisticated customers.

Prime Bank HR 'Training and Development Center' is mere a 'Learning Center' rather than a 'Training Center' and is output driven rather than input oriented. The main purpose of the Human Resources Training and Development Center (HR-TDC) is providing a progressive, flexible and balanced training service that seeks to develop the skills and competencies necessary for the effective and efficient performance of the human capital of the bank.

The HR-TDC of the bank arranged 17 professional training courses and 46 workshops/ seminars during the year 2011 with spontaneous participation of 1,685 employees of different grades.

In addition to HR-TDC nominated 21 employees to participate several training programs or conferences abroad related to the burning issues of the age. Moreover, 140 employees also participated several local training academies like Bangladesh Bank Training Academy (BBTA), Bangladesh Institute of Bank Management (BIBM) and others prominent institutions.

Reward and Recognition

PBL has achieved an inimitable position in the banking industry sailing on the prolific patronization towards its employees. In this regard the bank always tries to sustain the inner drive of the outstanding performers through its well furnished "Reward and Recognition Policy" to rejuvenate their consisting effort to result in better outcomes. Throughout 2011 various campaigns were carried out with regular business targets to revive the sound competitive mood among the employees to boost up the business of the bank. Rewards and appreciations were sponsored around the year to distinguish the committed effort of the employees and their teams. Highlights of such initiatives are as following:

- 68 (sixty eight) branches were awarded a sum of Tk 4.89 million for achieving outshining business target;
- 04 (four) Best Heads of Branches were awarded holiday tour package to abroad fully sponsored by the bank;
- 04 (four) new and young Heads of Branches being recognized as "Rising Star" were awarded monetary incentives.

		HR Future Plan HR Division of the bank has been going through continuous development with a view to transforming its workforce into a dynamic and efficient one. Bringing a timely restoration in its policies and organizational structures, it looks forward to engage in the following courses of actions in the future: • Complying with the 'Centralization' model blended with the new organogram; • Ensuring CSR (Corporate Social Responsibility) issues within the organization; • Continuous development of work environment and other issues regarding employee welfare; • Ensuring the ingredients to the bank to keep competitive edge of the bank in the industry.
	iii) Potential external events	**Risk factors / Potential external events:** It is needless to say that there are certain risk factors which are external in nature and can affect the business of the Bank. The factors discussed below can significantly affect the business: **General business and political condition** PBL's performance greatly depends on the general economic conditions of the country. The effect of recession is still unfolding which may result to slow down in business environment. Political stability is must for growth in business activities. **Changes in credit quality of borrowers** Risk of deterioration of credit quality of borrowers is inherent in banking business. This could result due to global economic crisis and supply side distortion. The changes in the import prices affected the commodity sectors and ship breaking industry. Deterioration in credit quality requires provisioning. **Changes in policies and practices of regulatory bodies to revise practices, pricing and responsibilities of the financial institutions** PBL is subject to regulations and compliance of regulation is must. Changes in policies with regard to interest rates, pricing have significant effect on the performance of the Bank. Bangladesh Bank is expected to continue its persuasion to reduce the spread and charges further which is likely to affect the performance. Changes in provisioning requirement will also affect the performance of the bank. **Implementation of Basel-II** Basel-II is fully effective from 2010 and PBL needs to be complied with respect to credit risk management, its supervision and establishment of effective internal control. The grading of the borrowers and its link with capital requirement may slow down the credit expansion. The establishment of effective control requires more investment in technology and operating expenses are likely to increase. **Volatility in equity market** Securities and Exchange Commission and the stock exchanges improved their supervisory role but the equity market is still volatile. The recession fear also added to the volatility. If volatility continues it is likely to affect the performance of the bank.
		Changes in market conditions Changes in market conditions particularly interest rates on deposits and volatility in FX market is likely to affect the performance of the bank. Depositors are becoming increasingly price sensitive and any unilateral upward change by a bank will exert pressure on interest rate structure of the banking sector. It is feared that wage earners remittances may decline due to fall in job opportunity in international market. Unless offset by export performances, there may be pressure in the FX market.

		The risk of litigation In the ordinary course of business, legal actions, claims by and against the bank may arise. The outcome of such litigation may affect the financial performance of the bank. **Success of strategies** PBL is proceeding with its strategic plan and its successful implementation is very important for its financial performance. Major deviation due to external and internal factors will affect the performance of the bank.

	iv) Policies and processes for mitigating operational risk.	**Prime Bank limited (PBL) has formed a separate 'Risk Management Unit' under Chief Risk Officer to ensure following things:**
		
		• Designing of organizational structure by clearly defining roles and responsibilities of individuals involved in risk taking as well as managing it;
		• Formulation of overall risk assessment and management policies, methodologies, guidelines and procedures for risk identification, risk measurement, risk monitoring, defining an acceptable level of risk, mitigation of all the core risks in line with their respective guidelines provided by Bangladesh Bank;
		• Reviewing and updating all risks on systematic basis as necessary at least annually, preferably twice a year, ensuring that adequate controls exist and that the related returns reflect these risks and the capital allocated to support them. The main risk areas will be (i) Balance sheet Risk Management, (ii) Credit Risk, (iii) Foreign Exchange Risk, (iv) Internal Control and Compliance Risk, (v) Money Laundering Risk and (vi) IT Risk. The following risks have also to be reviewed:
		    • Operational Risk
		    • Market Risk
		    • Liquidity Risk
		    • Reputation risk
		    • Insurance Risk
		    • Sustainability Risk
		• Setting the portfolio objectives and tolerance limits/parameters for each of the risks;
		• Formulation of strategies and different models in consistency with risk management policy based on IT Policy and in house IT support which can measure, monitor and maintain acceptable risk levels of the bank;
		• Development of information systems/MIS inflow and data management capabilities to support the risk management functions of the bank.
		• Ensure compliance with the core risks management guidelines at the department level, and at the desk level;
		• The unit will work under bank's organizational structure and suggest to the CEO to take appropriate measures to overcome any existing and potential financial crisis;
		• Analysis of self resilience capability of the bank;
		• Initiation to measure different market conditions, vulnerability in investing in different sectors;
		• The unit will also work for substantiality of capital to absorb the associated risk in banking operation.
		
		Activities undertaken by "Risk Management Unit" since inception and recent approaches
		
		• Risk Management Unit of PBL is currently arranging monthly meeting on various issues to determine strategies in consistency with risk management policy, which can measure, monitor, and maintain acceptable risk level of the bank. Minutes of each meeting is submitted to Bangladesh Bank on monthly basis;

	• Besides, Risk Management Paper has also been prepared on the basis of 03 months' monthly minutes addressing different areas of risk and their mitigating tools & techniques guided by the members of Risk Management Unit; • In order to perform the risk management function smoothly, RMU had invited all the Operational Divisions vide letter to the Head of respective Divisions to form an internal committee along with defined duties of concerned officials. It is to be noted here that due to continuous and successful persuasion, all the Operational Divisions have formulated and established internal risk management committees. **Stress Testing in PBL:** Risk Management Unit (RMU) of PBL has already prepared a stress testing model in line with the Bangladesh Bank's guideline which initially focused on "Simple Sensitivity and Scenario Analysis" on the following five risk factors: • Interest rate; • Forced sale value of collateral; • Non-performing loans (NPLs); • Share prices; and • Foreign exchange rate. The first phase of stress testing based on the financial performance of the bank as of June 30, 2010 has already been furnished and presented to the regulatory authority i.e., Bangladesh Bank and also to the Board of Directors. The result of Stress Testing reflects the strength of this bank to absorb the shocks against all the risk factors. It has been observed that at any level of shocks, the bank will be able to maintain the capital adequacy ratio at the level which is in line with the standard set by Bangladesh Bank. The next phase of stress testing based on the financial performance of the bank as on December 31, 2010 has also been completed which shows that the bank has adequate capital to absorb minor, moderate and major level of shocks. However, in case of cumulative shocks, some additional capital may be required.
v) Approach for calculating capital charge for operational risk.	The Banks operating in Bangladesh shall compute the capital requirements for operational risk under the Basic Indicator Approach (BIA). Under BIA, 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: $K = [(GI\ 1 + GI2 + GI3)\ \alpha]/n$ Where: K = the capital charge under the Basic Indicator 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: Gross Income (GI) is defined as "Net Interest Income" plus "Net non-Interest Income". It is intended that this measure should: i). be gross of any provisions; ii). be gross of operating expenses, including fees paid to outsourcing service providers; iii). exclude realized profits/losses from the sale of securities held to maturity in the banking book; iv). exclude extraordinary or irregular items; v.) exclude income derived from insurance.

Quantitative disclosures

Particulars	Solo	Consolidated
	Taka in Million	
b) The capital requirement for operational risk	1,541.17	1,638.65