Market Discipline

Disclosures on Risk Based Capital (Basel-II)

1. Scope of Application

Qualitative disclosure	**a)** The name of the top corporate entity in the group to which this guidelines applies.	Prime 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).	Prime Bank Limited has 5 (Five) subsidiaries viz. (i) Prime Bank Investment Limited, (ii) Prime Bank Securities Limited, (iii) Prime Exchange Co. (Pte.) Limited, Singapore, (iv) PBL Exchange (UK) 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 ("the Bank") was incorporated as a public limited company in Bangladesh under Companies Act, 1994 with the registered office of the company at 119-120 Motijheel C/A, Dhaka-1000. It commenced its banking business with one branch from April 17, 1995 under the license issued by Bangladesh Bank. Presently the Bank has 134 (One Hundred Thirty Four) branches including 17 (Seventeen) SME Centre/ Branches all over Bangladesh and 2 (Two) booths located at Dhaka Club, Dhaka and at Chittagong Port, Chittagong. Out of the above 134 branches, 05 (five) branches are designated as Islamic Banking branch complying with the rules of Islamic Shariah. Also the Bank has 3 (Three) Off-shore Banking Units (OBU), 5 (Five) subsidiary Companies (3 Foreign subsidiaries & 2 Local subsidiaries). The Bank went for Initial Public Offering in 1999 and its shares were listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited as a publicly traded company for its general classes of share. The principal activities of the Bank are to provide all kinds of commercial banking services to its customers through its branches. Subsidiaries of PBL: i) 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. ii) 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 its operation from May 2011. iii) Prime Exchange Co. (Pte.) Limited, Singapore: Prime Exchange Co. (Pte) Ltd., Singapore a fully owned subsidiary company of Prime Bank Limited was incorporated in Singapore on January 06, 2006 and commenced its remittance business with one (1) Branch from July 08, 2006. In 2011 the Company has also opened another Branch located at Jurong East Branch, Block: 134 #01-305 Jurong Gateway Road, Singapore 600134. 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. iv) PBL Exchange (UK) Limited: PBL Exchange (UK) Limited was incorporated as a private limited company with Companies House of England and Wales under registration no. 7081093 dated 19 November 2009. The

			company is a wholly owned subsidiary of Prime Bank Limited. The company commenced its operation on 02 August 2010 with three Branches located at Brick Lane of London, Coventry Road of Birmingham and North Oldham of Manchester. The registered office is located at 16 Brick Lane, London E1 6RF. v) PBL Finance (Hong Kong) Limited: PBL Finance (Hong Kong) Limited, a fully owned subsidiary of Prime Bank Limited. 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). 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 its operation from 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 disclosure	**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

Quantitative disclosure	**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)General reserve (v) Retained Earnings and (vi) Minority Interest in Subsidiaries. **Tier-2 Capital** consists of (i) General Provision against unclassified Loans/Investments, Off-balance sheet exposures & 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 subordinated bond as approved by Bangladesh Bank and Exchange equalization fund etc.

		Solo	Consolidated
b)	**The amount of Tier-1 capital with separate disclosure of:**	Taka in Million	
	I. Fully Paid up capital	10,293.49	10,293.49
	II. Non repayable share premium account	2,241.23	2,241.23
	III. Statutory reserve	7,528.63	7,528.63
	IV. General reserve	-	28.00
	V. Retained earnings	1,341.08	1,616.37
	VI. Minority interest in subsidiaries	0.00	0.00
	VII. Non-cumulative irredeemable preference shares	-	-
	VIII. Dividend equalization account	-	-
	Sub-Total (A)	**21,404.43**	**21,707.72**
c)	The total amount of Tier 2 and Tier 3 capital (B)	**5,091.00**	**5,104.30**
d)	Other deductions from capital	-	-
e)	**Total eligible capital (A+B)**	**26,495.43**	**26,812.02**

3. Capital Adequacy:

Quantitative disclosure	**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 **12.03%** & **12.04%** respectively as against the minimum regulatory requirement of **10%**. Tier-I capital adequacy ratio for "Consolidated" is **9.74%** as well as "Solo" is **9.73%** 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 objectives of the capital management process in the Bank are to ensure that the Bank remains adequately capitalized at all times.

Quantitative disclosure		Particulars	Solo	Consolidated
			Taka in Million	
	b)	Capital requirement for credit risk	19,558.47	19,594.80
	c)	Capital requirement for market risk	393.22	537.54
	d)	Capital requirement for operational risk	2,050.31	2,146.80
	e)	Total and Tier 1 capital ratio:		
		• For the consolidated group; and	-	80.96%
		• For stand alone	92.11%	-
		Minimum capital requirement	22,002.00	22,279.14
		Total Risk Weighted Assets (RWA)	220,020.00	222,791.40
		Total and Tier-1 Capital Ratio:		
		Total CAR	12.04%	12.03%
		Tier-1 CAR	9.73%	9.74%
		Tier-2 CAR	2.31%	2.29%

4. Credit Risk:

Quantitative disclosure	**a)**	The general qualitative disclosure 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 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/investments are grouped into four 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. They are classified as follow: Continuous & Demand Loan are classified as: • **Sub-standard**- if it is past due/overdue for 03(three) months or beyond but less than 06 (six) months; • **Doubtful**- if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months; • **Bad/Loss**- if it is past due/overdue for 09 (nine) months or beyond. In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting upto Tk 1 million is not repaid within the due date, the amount of unpaid installment(s) are treated as "past due or overdue installment". Such types of Fixed Term Loans are classified as under: • **Sub-standard**- if the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loans are classified as "Sub-standard". • **Doubtful**- if the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loans are classified as "Doubtful. • **Bad/Loss**- if the amount of past due installment is equal to or more than the amount of installment(s) due within 12(twelve) months, the entire loans are classified as "Bad/Loss".

In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than Tk 1 million is not repaid within the due date, the amount of unpaid installment(s) are treated as "past due or overdue installment". Such types of Fixed Term Loans are classified as under:

- **Sub Sub-standard**- if the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loans are classified as "Sub-standard".
- **Doubtful**- if the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loans are classified as "Doubtful".
- **Bad/Loss**- if the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loans are classified as "Bad/Loss".

Short-term Agricultural and Micro Credit will be considered irregular if it is not repaid within the due date as stipulated in the loans agreement are classified as under:

- **Sub-standard**- if the irregular status continues 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 loan, Demand loan or a Term Loan which remained overdue for a period of 02 (two) months or more, are treated as **"Special Mention Account (SMA)"**.

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

The Bank is required to maintain the following general and specific provision in respect of classified and unclassified loans and advances / investments on the basis of Bangladesh Bank guidelines issued from time to time:

Particulars	Rate
General provision on unclassified Small and Medium Enterprise (SME) financing.	0.25%
General provision on unclassified loans and advances/investments.	1%
General provision on interest receivable on loans / invest.	1%
General provision on off-balance sheet exposures (Provision has been made on the total exposure and amount of cash margin or value of eligible collateral were not deducted while computing off-balance sheet exposure).	1%
General provision on unclassified loans and advances/investments for housing finance, loans for professionals to set-up business under consumer financing scheme.	2%
General provision on the unclassified loans to Brokerage House, Merchant Banks, Stock Dealers, etc.	2%
General provision on unclassified amount for Consumer Financing.	5%
General provision on outstanding amount for Special Mention Account (SMA).	0.25%-5%
Specific provision on Sub-Standard loans and advances / investments.	20%
Specific provision on Doubtful loans and advances / investments.	50%
Specific provision on bad / loss loans and advances / invests.	100%

Quantitative disclosure

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	33,752.10
Cash Credit/Mudaraba	22,698.31
Loan (General)	33,237.88
House Building Loan	3,806.85
Loan Against Trust Receipts (LTR)	11,147.87
Payment Against Documents (PAD)	265.17
Retail Loan	12,138.26
Lease Finance/Izara	5,888.49
Credit Card	1,042.30
SME Loan	614.84
Hire Purchase	7,950.58
Other Loans & Advances	14,838.23
Bill purchased/discounted-Inland	4,376.38
Bill purchased/discounted-Foreign	1,831.50
Total	**153,588.76**

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	109,175.98
Chittagong Zone	27,743.85
Khulna Zone	6,422.47
Rajshahi Zone	4,604.59
Barishal Zone	142.88
Sylhet Zone	1,743.92
Rangpur Zone	517.28
Sub-Total	**150,350.97**
Rural:	
Dhaka Zone	1,712.69
Chittagong Zone	689.96
Khulna Zone	143.81
Rajshahi Zone	462.95
Sylhet Zone	228.38
Sub-Total	**3,237.79**
Grand Total (Urban + Rural)	**153,588.76**

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	11,908.59
Export Financing	3,732.41
House Building Loan	3,806.85
Retail Loan	12,138.26
Small & Medium Enterprises (SME)	19,532.38
Special Program Loan	-
Staff Loan	7.51
Other Loans & Advances (SOD)	16,573.22
Loans, Advances & Lease/Investments to Managing Director / CEO and other senior executives	1,865.94
Industrial Loans/Investments (Details are given below)	84,023.60
Total	**153,588.76**

Industrial Loans/Investments

Particulars	Taka in Million
Agriculture	1,691.36
Textile Industries	7,477.77
Food and allied industries	5,819.25
Pharmaceutical Industries	2,303.53
Leather , Chemical, Cosmetics, etc.	1,310.17
Tobacco Industries	750.81
Cement and Ceramic Industries	4,702.30
Service Industries	4,910.68
Transport & Communication Industries	7,757.52
Other Industries including bills purchased and discounted	47,300.21
Total	**84,023.60**

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	34,355.44
Over 1 month but not more than 3 months	33,818.86
Over 3 months but not more than 1 year	46,707.59
Over 1 year but not more than 5 years	29,030.15
Over 5 years	9,676.72
Total	**153,588.76**

f)	By major industry or counterparty type:	The amount of classified loans and advances/investments of the Bank are given below as per Bangladesh Bank guidelines.	
	i) Amount of impaired loans and if available, past due loans, provided separately;	**Particulars**	
		Continuous Loans & Advances	1,324.46
		Demand Loans & Advances	2,700.28
		Term Loans & Advances	3,784.51
		Short Term Agro Credit and Micro Credit	5.25
		Total	**7,814.50**
	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, interest on receivable, diminution in value of investment and other assets-suspense of the Bank according to the Bangladesh Bank guidelines.	
		Particulars	**Taka in Million**
		Provision on classified loans and advances/investments	3,342.05
		Provision on unclassified loans and advances/investments	1,659.17
		Provision on Off-balance sheet exposures	1,090.00
		Provision for Off-shore Banking Units	422.50
		Provision for interest receivable on loans & advances/investments	9.52
		Provision for other assets	88.34
		Provision for diminution in value of invests.	68.32
		Total	**6,679.90**
	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 loans and advances/investments, off-balance sheet exposure, off-shore banking units, interest on receivable, diminution in value of investment and other assets-suspense of the Bank as per Bangladesh Bank guidelines.	
		Particulars	**Taka in Million**
		Provision on classified loans and advances/investments	2,980.00
		Provision on unclassified loans and advances/investments	642.00
		Provision on Off-balance sheet exposures	10.00
		Provision for Off-shore Banking Units	362.00
		Provision for interest receivable on loans & advances/investments	-
		Provision for other assets	10.13
		Provision for diminution in value of investments	24.53
		Total	**4,028.66**
g)	Gross Non Performing Assets (NPAs). Non Performing Assets (NPAs) to Outstanding loans and advances.		
	Movement of Non Performing Assets (NPAs).	**Particulars**	**Taka in Million**
		Opening balance	6,168.50
		Addition/adjustment during the year	1,646.00
		Closing balance	**7,814.50**
	Movement of Non Performing Assets (NPAs).	**Particulars**	**Taka in Million**
		Opening balance	1,949.08
		Provisions made during the period	2,980.00
		Transferred from unclassified loan & advances	947.50
		Write-off	(2,540.59)
		Write-back of excess provisions	6.06
		Closing Balance	**3,342.05**

5. Equities: Disclosures for Banking Book Positions

Quantitative disclosure	a)	The general qualitative disclosure 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.

5. Equities: Disclosures for Banking Book Positions

		• 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 revalued 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 revalued if any, are reclassified to HFT category with the approval of Board of Directors.

			Solo		Consolidated	
			Taka in Million			
			At cost	At market value	At cost	At market value
Quantitative disclosure	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.	324.64	256.34	1,472.25	977.93
	c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	2.64		257.54	
	d)	• Total unrealized gains (losses)	(68.30)		(494.32)	
		• 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 (10% on market value).				
		• Specific Market Risk	25.63		97.79	
		• General Market Risk	25.63		97.79	

6. Interest Rate Risk in the Banking Book (IRRBB)

Quantitative disclosure	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. If market rates shifts upward by one percent the bank will enjoy a positive earning to the tune of Tk 61.87 million and vice versa. 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 (for 1% change in the market rate of interest)

			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
Quantitative disclosure	**b)**	The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).		Taka in Million			
			Rate Sensitive Assets	70,062	28,763	18,305	11,063
			Rate Sensitive Liabilities	73,200	20,490	9,582	7,034
			GAP	(10,138)	8,273	8,724	4,029
			Cumulative GAP	(10,138)	(1,865)	6,859	10,888
			Adjusted Interest Rate Changes (IRC)	1.00%	1.00%	1.00%	1.00%
			Quarterly earnings impact (Cum. GAP * IRC)	(24,998)	(4,598)	16,913	26,848
			Accumulated earning impact to date	(24,998)	(29,595)	(12,682)	14,166
			Earning impact/Avg. quarterly net profit	(3.70%)	(4.39%)	(1.88%)	2.10%

7. Market Risk:

Quantitative disclosure	**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 disclosure	b)	**The capital requirements for:**	**Solo**	**Consolidated**
			Taka in Million	
		• Interest rate risk	219.60	219.61
		• Equity position risk	50.10	276.20
		• Foreign exchange risk and	66.15	66.10
		• Commodity risk	-	-
		Total Capital Requirement	**335.85**	**561.91**

8. Operational Risk:

Quantitative disclosure	**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**

People: The Prime Assets!

Diversely talented, motivated and engaged employees have always been the key assets for Prime Bank Limited. To ensure long term sustainability, PBL is relentlessly pursuing its vision to transform the human resources into human capital.

The Bank has been able to maintain a highly favorable employer image by creating a performance-driven rewarding work culture; where employees receive plenty of opportunities to realize their diverse potentials fully as well as benefit the organization by demonstrating value creating behaviors.

Manpower Planning and Recruitment

The manpower planning of PBL is linked with the overall strategic plan of the Bank. This manpower planning process not only defines the number of human resources to be hired within a given time-frame, but also the types of human resources and the required competencies and skills that will be needed to achieve the defined business goals.

The ongoing recruitment of PBL is primarily being governed by 3-year manpower planning outlined in 2013. To fill up the vacancies and ensure that the additional human resources are assessed, selected and placed on-time as per required competencies, the Recruitment & Selection team works dedicatedly as per organization's 'best fit' philosophy.

HR Division follows PBL's recruitment policy that clearly states the criteria and procedures to recruit fresh and lateral entrants. For the fresh hires, HR Division organizes written test for the shortlisted candidates who must obtain minimum marks to be assessed further by the selection panel. On the other hand, lateral entrants are also assessed rigorously by the selection committee subject to matching the required competency and experience level.

At the end of 2013, total number of employees was reported as 2,734. In 2013, the Recruitment & Selection team has facilitated to select a total of 297 new hires, both fresh and lateral entry;

Diversity in Workplace

PBL believes that diverse, heterogeneous teams generate greater creativity, innovation and business development. PBL is cognizant that an inclusive culture maintains and drives workforce diversity by fostering the exchange of ideas and collaboration among individuals and across groups. To speak simply, the constant success of PBL depends in part on maintaining a plurality of perspectives.

No. of employees by age group and gender:

Age group	No. of Emp.	Percentage (%)	Gender	No. of Emp.
Below 30 yrs	580	21.21	Male	392
			Female	188
30 - 40 yrs	1616	59.11	Male	1,300
			Female	316
40 - 50 yrs	420	15.36	Male	373
			Female	47
50 years and above	118	4.32	Male	110
			Female	8
Total	**2,734**	**100**		**2,734**

PBL practices equal employment opportunity for competent candidates regardless of their gender, age, locality or ethnicity. While recruiting fresh graduates, PBL source the pool from different recognized public and private universities; with a view to creating a diverse work force.

Besides, the ration of male and female employees has been increasing over the time. Currently, approximately 20.48% of employees are female.

Gender diversity among employees:

Gender	No. of Members	Percentage
Male	2174	79.52%
Female	560	20.48%
Total	**2,734**	**100%**

Increasing ratio of Female over the years:

Year	Female Ratio
2011	18.59%
2012	19.77%
2013	20.48%

In 2013, new recruitment of female employees was approximately 26%. Besides, PBL is gradually encouraging the women to take up leadership opportunity which will ensure a more balanced work force.

Learning & Development

PBL continuously thrives to transform Human Resources to Human Capital through appropriate training in every aspects of work area which in turn will help the Bank to achieve a sustainable growth. HR Division regularly undertakes effectively designed training programs targeting the right group of employees through proper training need assessment.

In 2013, Prime Bank's internal HR Training and Development Centre arranged 61 professional training courses and 32 workshop/seminars for 3,143 enthusiastic participants. Besides, a total of 248 employees were sent to attend various training programs/conferences in home and abroad.

Compensation & Benefits

PBL has an agile compensation and benefits system that helps to ensure pay equity, is linked with performance that is understood by employees, and keeps in touch with employee desires and what's coveted in the market, while maintaining a balance with the business affordability. The compensation and benefits are regularly reviewed through market and peer group study. Currently, the level and structure of Remuneration is very attractive to motivate and retain performers.

All employees are paid competitive remuneration package. The structure and level of remuneration are reviewed time to time based on Bank's performance and affordability. Employees are paid bonus based on yearly business performance, as well as on individual performance.

The various cash and non-cash benefits include: company car for Top Level Executives, Car maintenance allowance, Leave fair assistance allowance, Medical treatment allowance, Maternity benefits, Car loan facility, House loan facility, Staff loan at discounted interest rate, House furnishing allowance, Travel allowance, Festival bonus, Annual leave etc.

PBL also provides long-term as well as retirement benefits to employees, like: Leave encashment, Provident fund, Gratuity benefit, Retirement benefit, Partial and full disability benefit, Death benefit to family members etc.

The Bank has a Welfare Fund taking contribution from both employees and Bank. In 2013, a total of Tk. 10.65 million sanctioned from this Fund and disbursed to support 285 employees for a variety of purposes like: Hospitalization, Surgery, Maternity, Death benefits, Retirement benefits etc.

Career Progression & Succession Planning

PBL always plans for employees to advance their career goals. This includes advancement into more responsible positions. The company supports career opportunities internally so that talented employees are deployed in upgraded positions and thereby enables them to deliver their greatest value to the organization. In 2013, based on business need a total of 617 employees were promoted to higher positions to reward the good performers with new and more responsibilities. In addition, 511 employees have been mobilized in different branches and divisions based on business need.

The opportunities for career growth, attractive compensation & benefits packages and a congenial work culture helped the Bank to maintain a healthy turnover rate of 4.05% in the year 2013.

Performance Management Program

PBL has a comprehensive performance management program that evaluates employees' yearly performance against business targets at the year-end. In addition, their functional and leadership competencies are also rated by the line management. This appraisal process also identifies the competency gap and training needs of employees. All permanent employees of PBL undergo annual performance appraisal process.

HR Division has automated the entire performance appraisal process. The purpose is to ensure transparency in performance evaluation process by encouraging dialogues between appraisers and appraises.

Reward & Recognition Program

PBL has a well-designed Reward & Recognition program that gives special attention to employees' actions, efforts, behavior and performance. It meets the intrinsic psychological need for appreciation of employees' efforts and supports business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to Bank's success.

Followings are the different cash and non-cash awards given to employees for their exemplary works:

- The Chairman's Star of the Stars Award (CSS)
- CEO's Banker with Exceptional Service Traits Award (BEST)
- Outstanding Recovery Initiative Award (ORI)
- Commendable Branch Performance Award (CBPA)
- Trainees with Outstanding Performance Award (TOP)
- Around the Year Appreciation Award (AAA) etc.

Decent Workplace

PBL believes that the business can grow favorably if the organization enables employees through creating and maintaining a decent workplace. In PBL, there is a decent work environment where employees can work with dignity, have the freedom to express opinions, can participate in the decision making process that affect their lives, and receive equal treatment and opportunity. PBL ensures security in the workplace and social protection for employees' families, better prospects for their personal development and social integration.

Code of Ethics and Business Conduct

PBL is always committed to establish the highest level of business compliance and ethical standard. PBL has 'Employee Code of Ethics and Business Conduct' which works as a framework of ethical and business behavior for all employees. This provides guidelines on various issues, like: safeguarding customers' and Bank's confidential information, preventing money laundering, complying with laws and regulations, avoiding offensive behavior, demonstrating respect in workplace, avoiding activities that may raise conflict of interest etc. All employees are properly oriented to comply with Code of Ethics and conform to the relevant laws and regulations. Prime Bank's high ethical standards are supported with rigid enforcement so that customers' expectations and interests are protected in a compliant manner.

Automated HR Processes

During the year HR Division has upgraded and deployed the 'HR Connect' software in collaboration with IT Division to automate different HR processes. Employees located across the country are presently using this. It is all about people, processes, and results – using information and communications technologies to improve the transparency, efficiency, and effectiveness.

Achievements of 2013

It aims to ensure excellence in all HR policies and practices in line with the mission and vision of the Bank. In addition to all the achievements mentioned earlier, HR Division implemented the following things in 2013 to enhance the overall employee experience:

- Launched 'Prime Life Style' as part of employee engagement. This includes attractive discounts and facilities in hotels, restaurants, amusement parks, retail shops, hospitals & diagnostic centers etc.;
- Completed the selection process of 200 Management Trainees in 2013;
- Launched the HR software 'HR Connect' operational for different automated HR processes;
- Prepared the automated performance appraisal;
- Established a separate Fire & Safety unit and recruited human resources with relevant expertise;
- Developed CV bank using the web portal to expedite the recruitment process by saving time and efforts;
- Recruited a good number of new employees through Campus hunting both from IBA and BIBM.

HR Plan & Priorities of 2014

To grow up with the challenge of tapping opportunities to meet both organizational and employee needs, PBL is moving forward with the transformational initiatives. The transformational phase started with introducing HR as **"Strategic Business Partner"** which already generated value in people & process management. So, the Year 2013 was marked as one of the successful years in building an employee centric work culture with automated HR services & delivery and with focused skill development for employees.

Followings are some of the priorities of HR Division for the year 2014:

- Improve the overall Performance Management Process;
- Review, Update, Document & Rollout Job Description, Key Result Area (KRA), Key Performance Indicator (KPI) for all the employees;
- Review HR Policies & Procedures and communicate to employees;
- Talent Management Program;
- Skill Gap Assessment for the employees & improvement road map design;
- Charter based Long term training Plan & program;
- Work on Employer Branding initiatives & Employee Relations and so on.

Human Resources Accounting in PBL:

HR Accounting is the process of valuing human resources as assets and reporting the investments made in human resources of an organization that are presently not accounted in the conventional accounting practices. But there is no specific way to value the human resources and measure the direct impact of the cost spent for employees. The period of existence of a set of human resources in an organization cannot be predicted; hence treating and valuing them as assets is difficult. So, due to various limitations, like most of the institutes, PBL has not yet practiced HR Accounting in the real sense. However, to better understand the impact of recruitment, training, compensation and other cost related to employees, the Bank tracks cost on the following parameters:

(Tk. in Million)

Particulars	2013	2012
Salary cost per employee	1.08	1.06
Operating cost per employee	1.98	1.94
Operating income per employee	4.71	5.30
Profit before provision per employee	2.73	3.36
Profit before tax per employee	1.26	2.10
Salary cost as percentage of operating cost	54.55	54.33
Salary cost as percentage of operating income	22.90	19.90

PBL will gradually improve the methodology so as to measure the monetized value of human resources as well as the return on HR investment more accurately.

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**

  The Bangladesh 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 Foreign Exchange 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 Foreign Exchange 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 Division' 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 Division 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 Division;
- In order to perform the risk management function smoothly, RMD 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 Division (RMD) of PBL has 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 stress testing based on the financial performance of the bank as on December 31, 2013 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 • (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 disclosure

	Particulars	Solo Basis	Consolidated
		Taka in Million	
b)	The capital requirement for operational risk	2,050.30	2,146.80