

# 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.	<b>Prime Bank Limited</b>
	b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	<p>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.</p> <p><b>A brief description of the Bank and its subsidiaries are given below:</b></p> <p><b>Prime Bank Limited:</b> 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 140 (One Hundred and Forty) branches including 18 (Eighteen) SME Centers/ Branches all over Bangladesh and 2 (Two) booths located at Dhaka Club, Dhaka and at Chittagong Port, Chittagong. Out of the above 140 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 &amp; 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.</p> <p><b>Subsidiaries of PBL:</b></p> <p><b>i) Prime Bank Investment Limited:</b> 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.</p> <p><b>ii) Prime Bank Securities Limited:</b> 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.</p>

			<p><b>iv) PBL Exchange (UK) Limited:</b> 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.</p> <p><b>v) PBL Finance (Hong Kong) Limited:</b> 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.</p>
	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

Qualitative 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 <b>Tier 1</b> or in <b>Tier 2</b> .	<p>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.</p> <p><b>Tier-2 Capital</b> consists of (i) General Provision against unclassified Loans/Investments, Off-balance sheet exposure &amp; 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.</p>
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Quantitative disclosure	b)	The amount of Tier-1 capital with separate disclosure of:	Solo	Consolidated
			Taka in Crore	
		I. Fully Paid up capital	1,029.35	1,029.35
		II. Non repayable share premium account	224.12	224.12
		III. Statutory reserve	818.46	818.46
		IV. General reserve	-	2.80
		V. Retained earnings	179.13	186.40
		VI. Minority interest in subsidiaries	0.00	0.00
		VII. Non-cumulative irredeemable preference shares	-	-
		VIII. Dividend equalization account	-	-
		<b>Sub-Total (A)</b>	<b>2,251.06</b>	<b>2,261.14</b>

	c)	<b>The total amount of Tier 2 and Tier 3 capital (B)</b>	<b>480.21</b>	<b>481.23</b>
	d)	Other deductions from capital	-	-
	e)	<b>Total eligible capital (A+B)</b>	<b>2,731.28</b>	<b>2,742.37</b>

### 3. Capital Adequacy:

Qualitative disclosure	a)	<p>A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.</p> <p>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 12.68% &amp; 12.71% respectively as against the minimum regulatory requirement of 10%. Tier-I capital adequacy ratio for "Consolidated" is 10.45% as well as "Solo" is 10.48% 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 main objective of the capital management process in the Bank is to ensure that Bank has adequate capital to meet up its all sorts of obligations any time.</p>
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	Particulars	Solo	Consolidated
		Taka in Crore	
Quantitative disclosure	b) Capital requirement for credit risk	1,867.35	1,858.03
	c) Capital requirement for market risk	76.54	90.53
	d) Capital requirement for operational risk	205.03	214.68
	e) Total and Tier 1 capital ratio:		
	• For the consolidated group; and	-	82.45%
	• For stand alone	82.42%	-
	Minimum capital requirement	2,148.92	2,163.24
	Total Risk Weighted Assets (RWA)	21,489.18	21,632.42
	Total and Tier-1 Capital Ratio:		
	Total CAR	12.71%	12.68%
	Tier-1 CAR	10.48%	10.45%
	Tier-2 CAR	2.23%	2.22%

## 4. Credit Risk:

Qualitative disclosure	a) <b>The general qualitative disclosure requirement with respect to credit risk, including:</b>	<p>With a view to strengthening credit discipline and bring classification and provisioning regulation in line with international standard, a phase-wise 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:</p> <p><b>Continuous &amp; Demand Loan are classified as:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Sub-standard-</b> if it is past due/overdue for 03(three) months or beyond but less than 06 (six) months;</li> <li>▪ <b>Doubtful-</b> if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months;</li> <li>▪ <b>Bad/Loss-</b> if it is past due/overdue for 09 (nine) months or beyond.</li> </ul> <p><b>In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting up to Taka 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:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Sub-standard-</b> 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”.</li> <li>▪ <b>Doubtful-</b> 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”.</li> <li>▪ <b>Bad/Loss-</b> 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”.</li> </ul> <p><b>In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than Taka 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:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Sub-standard-</b> 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”.</li> <li>▪ <b>Doubtful-</b> 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”.</li> <li>▪ <b>Bad/Loss-</b> 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”.</li> </ul>
	i) Definitions of past due and impaired loans (for accounting purpose);	

		<p>ii) Description of approaches followed for specific and general provisions and statistical methods;</p>	<p>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 and will be classified as under:</p> <ul style="list-style-type: none"> <li>▪ <b>Sub-standard-</b> if the irregular status continues after a period of 12 (twelve) months, the credits are classified as “Sub-standard”.</li> <li>▪ <b>Doubtful-</b> if the irregular status continue after a period of 36 (thirty six) months, the credits are classified as “Doubtful”.</li> <li>▪ <b>Bad/Loss-</b> if the irregular status continue after a period of 60 (sixty) months, the credits are classified as “Bad/Loss”.</li> </ul> <p>A Continuous loan, Demand loan or a Term Loan which remained overdue for a period of 02 (two) months or more, is treated as <b>“Special Mention Account (SMA)”</b>.</p> <p>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:</p> <table border="1" data-bbox="676 857 1399 1793"> <thead> <tr> <th>Particulars</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>General provision on unclassified Small and Medium Enterprise (SME) financing.</td> <td>0.25%</td> </tr> <tr> <td>General provision on unclassified loans and advances/ investments other than Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock Dealers etc., SMA as well as SME Financing).</td> <td>1%</td> </tr> <tr> <td>General provision on interest receivable on loans / investments.</td> <td>1%</td> </tr> <tr> <td>General provision on off-balance sheet exposures (Provision has been made on the total exposure and amount of cash margin &amp; value of eligible collateral were not deducted while computing off-balance sheet exposure).</td> <td>1%</td> </tr> <tr> <td>General provision on unclassified loans and advances/ investments for housing finance, loans for professionals to set-up business under consumer financing scheme.</td> <td>2%</td> </tr> <tr> <td>General provision on the unclassified loans to Brokerage House, Merchant Banks, Stock Dealers, etc.</td> <td>2%</td> </tr> <tr> <td>General provision on unclassified amount for Consumer Financing.</td> <td>5%</td> </tr> <tr> <td colspan="2">General provision on outstanding amount of loans kept in <b>Special Mention Account (SMA)</b> will be at the same respective rate as stated above (0.25% to 5%) as per BRPD Circular No. 05 dated 29.05.2013.</td> </tr> <tr> <td>Specific provision on Sub-Standard loans and advances / investments.</td> <td>20%</td> </tr> <tr> <td>Specific provision on Doubtful loans and advances / investments.</td> <td>50%</td> </tr> <tr> <td>Specific provision on bad / loss loans and advances / invests.</td> <td>100%</td> </tr> </tbody> </table>	Particulars	Rate	General provision on unclassified Small and Medium Enterprise (SME) financing.	0.25%	General provision on unclassified loans and advances/ investments other than Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock Dealers etc., SMA as well as SME Financing).	1%	General provision on interest receivable on loans / investments.	1%	General provision on off-balance sheet exposures (Provision has been made on the total exposure and amount of cash margin & 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 of loans kept in <b>Special Mention Account (SMA)</b> will be at the same respective rate as stated above (0.25% to 5%) as per BRPD Circular No. 05 dated 29.05.2013.		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%
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<p>Quantitative disclosure</p>	<p>b)</p>	<p>Total gross credit risk exposures broken down by major types of credit exposure.</p>	<p>Total gross credit risk exposures broken down by major types of credit exposure of the Bank:</p> <table border="1" data-bbox="676 1855 1399 2054"> <thead> <tr> <th>Particulars</th> <th>Taka in Crore</th> </tr> </thead> <tbody> <tr> <td>Secured Overdraft/Quard Against TDR</td> <td>3,673.74</td> </tr> <tr> <td>Cash Credit/Mudaraba</td> <td>1,821.15</td> </tr> <tr> <td>Loan (General)</td> <td>3,565.07</td> </tr> <tr> <td>House Building Loan</td> <td>360.35</td> </tr> <tr> <td>Loan Against Trust Receipts (LTR)</td> <td>741.59</td> </tr> </tbody> </table>	Particulars	Taka in Crore	Secured Overdraft/Quard Against TDR	3,673.74	Cash Credit/Mudaraba	1,821.15	Loan (General)	3,565.07	House Building Loan	360.35	Loan Against Trust Receipts (LTR)	741.59												
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		Payment Against Documents (PAD)	12.42
		Retail Loan	1,255.28
		Lease Finance/Izara	488.17
		Credit Card	113.17
		SME Loan	75.91
		Hire Purchase	616.60
		Other Loans & Advances	1,554.55
		Bill purchased/discounted-Inland	305.88
		Bill purchased/discounted-Foreign	152.78
		<b>Total</b>	<b>14,736.67</b>
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:	
		<b>Particulars</b>	<b>Taka in Crore</b>
		Urban:	
		Dhaka Zone	10,809.50
		Chittagong Zone	2,326.81
		Khulna Zone	588.01
		Rajshahi Zone	414.12
		Barishal Zone	11.16
		Sylhet Zone	155.15
		Rangpur Zone	83.67
		Sub-Total	<b>14,388.43</b>
		Rural:	
		Dhaka Zone	172.25
		Chittagong Zone	78.54
		Khulna Zone	6.49
		Rajshahi Zone	58.77
		Sylhet Zone	32.20
		<b>Sub-Total</b>	<b>348.24</b>
		<b>Grand Total (Urban + Rural)</b>	<b>14,736.67</b>
		d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.
<b>Particulars</b>	<b>Taka in Crore</b>		
Commercial Lending	3,161.88		
Export Financing	752.27		
House Building Loan	360.35		
Retail Loan	1,255.28		
Small & Medium Enterprises (SME)	2,005.48		
Special Program Loan	133.05		
Staff Loan	0.90		
Other Loans & Advances (SOD)	251.55		
Loans, Advances & Lease/Investments to Managing Director / CEO and other senior executives	185.47		
Industrial Loans/Investments (Details are given below)	6,630.43		
<b>Total</b>	<b>14,736.67</b>		
<b>Industrial Loans/Investments</b>			
<b>Particulars</b>	<b>Taka in Crore</b>		
Agriculture	199.41		
Textile Industries	607.07		
Food and allied industries	435.63		
Pharmaceutical Industries	76.16		
Leather , Chemical, Cosmetics, etc.	70.75		
Tobacco Industries	74.89		
Cement and Ceramic Industries	362.50		
Service Industries	1,561.20		
Transport & Communication Industries	513.98		

		Other Industries including bills purchased and discounted	2,728.84
		<b>Total</b>	<b>6,630.43</b>
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:	
		<b>Particulars</b>	<b>Taka in Crore</b>
		Repayable on Demand	-
		Up to 1 month	3,092.58
		Over 1 month but not more than 3 months	2,480.36
		Over 3 months but not more than 1 year	5,291.00
		Over 1 year but not more than 5 years	3,600.94
		Over 5 years	271.79
		<b>Total</b>	<b>14,736.67</b>
f)	<b>By major industry or counterparty type:</b>		
	i) Amount of impaired loans and if available, past due loans, provided separately;	The amount of classified loans and advances/investments of the Bank are given below as per Bangladesh Bank guidelines.	
		<b>Particulars</b>	<b>Taka in Crore</b>
		Continuous Loans & Advances	180.59
		Demand Loans & Advances	199.95
		Term Loans & Advances	740.34
		Short Term Agro Credit and Micro Credit	0.59
		<b>Total</b>	<b>1,121.46</b>
	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.	
		<b>Particulars</b>	<b>Taka in Crore</b>
		Provision on classified loans/investments	416.53
		Provision on unclassified loans/investments	166.36
		Provision on Off-balance sheet exposures	108.85
		Provision for Off-shore Banking Units	49.85
		Provision for interest receivable on loans & advances/investments	0.95
		Provision for other assets	9.45
		Provision for diminution in value of investments.	6.13
		<b>Total</b>	<b>758.13</b>
	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.	
		<b>Particulars</b>	<b>Taka in Crore</b>
Provision on classified loans/investments		264.35	
Provision on unclassified loans/investments		11.40	
Provision on Off-balance sheet exposures		(0.15)	
Provision for Off-shore Banking Units		7.60	
Provision for interest receivable on loans & advances/investments		-	
Provision for other assets		0.62	
	Provision for diminution in value of investments	(0.70)	
	Provision for impairment loss for investment in subsidiaries	4.54	
	<b>Total</b>	<b>287.66</b>	

<b>g)</b>	<b>Gross Non Performing Assets (NPAs).</b>		
	Non Performing Assets (NPAs) to Outstanding loans and advances.		
	Movement of Non Performing Assets (NPAs).	<b>Particulars</b>	<b>Taka in Crore</b>
		Opening balance	781.45
		Addition/adjustment during the year	340.01
		<b>Closing balance</b>	<b>1,121.46</b>
	Movement of specific provisions for NPAs.	<b>Particulars</b>	<b>Taka in Crore</b>
		Opening balance	334.20
		Provisions made during the period	264.35
		Transferred from unclassified loan & advances including OBU	10.00
		Write-off	(212.29)
		Write-back of excess provisions	20.27
		<b>Closing Balance</b>	<b>416.53</b>

## 5. Equities: Disclosures for Banking Book Positions

Qualitative disclosure	<b>a)</b>	<b>The general qualitative disclosure requirement with respect to equity risk, including:</b>	
		<p>Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</p> <p>Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.</p>	<p>Investment in equity securities are broadly categorized into two parts:</p> <p>i. Quoted Securities (Common or Preference Shares &amp; Mutual Fund) that are traded in the secondary market (Trading Book Assets).</p> <p>ii. Unquoted securities include shares of Central Depository Bangladesh Limited (CDBL), investment in SWIFT and Market Stabilization Fund (MSF).</p> <p>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.</p>

		Solo		Consolidated			
		Taka in Crore					
		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.		29.96	23.83	149.01	93.77
	c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.			1.76		4.75
	d)	<ul style="list-style-type: none"> <li>▪ Total unrealized gains (losses)</li> </ul>			(6.13)		(55.24)
		<ul style="list-style-type: none"> <li>▪ Total latent revaluation gains (losses)</li> </ul>			-		-
		<ul style="list-style-type: none"> <li>▪ Any amounts of the above included in Tier-2 capital.</li> </ul>			-		-
	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		2.38		9.38	
		• General Market Risk		2.38		9.38	



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

<p>Qualitative disclosure</p>	<p>(a)</p>	<p>The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.</p>	<p>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). To evaluate the impact of interest rate risk on the net interest margin, Prime Bank monitors the size of the gap between rate sensitive assets and rate sensitive liabilities in terms of the remaining period to repricing. Repricing refers to the point in time when adjustments of interest rates on assets and liabilities occur owing to new contracts, renewal of expiring contracts or that a contract specifies a floating rate that adjusts at fixed time intervals.</p> <p>A maturity mismatch approach is used to measure Prime Bank's exposure to interest rate risk. A positive mismatch means that more assets than liabilities are repriced in a given period. With a positive mismatch, a rise in market interest rates will have a positive effect on the bank's earnings. On the other hand, a negative mismatch, where more liabilities are repriced than assets in a given period, means a drop in earnings if interest rates had increased.</p> <p>The table presented below showing the Interest Rate Risk Analysis of Prime Bank Limited. The analysis shows that Bank may suffer a negative earnings impact (loss) of Taka 2.73 crore in the first quarter and Taka 0.80 crore in the second quarter, for a total year-to-date negative earnings impact of Taka 3.53 crore. In the third quarter, the total year-to-date accumulated earnings impact continues to be negative, even though there is a positive gap of Taka 2.76 crore. Here, it is observed that accumulated earnings for the year 2014 owing to a 1% increase in interest rate is a gain of Taka 2.03 crore.</p> <p>The rule of thumb suggests that quarterly gaps causing an earnings impact of 10% of the Bank's average quarterly net profit for each 1% change in interest rates should be carefully handled by the Bank's Management. The last row of the following table reveals that earnings impact on Prime Bank's average quarterly net profit is very insignificant and remains within the acceptable limit as prescribed by Bangladesh Bank.</p>
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## Interest Rate Risk Analysis

(for 1% change in the market rate of interest)

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).	Particulars	1 to 90 days	Over 3 months to up to 6 months	Over 6 months to up to 9 months	Over 9 months to up to 1 year
			Taka in Crore				
			Rate Sensitive Assets	6,486.53	2,567.88	2,376.23	810.37
			Rate Sensitive Liabilities	7,593.25	1,787.60	930.77	791.02
			GAP	(1,106.72)	780.28	1,445.46	19.35
			Cumulative GAP	(1,106.72)	(326.44)	1,119.02	1,138.37
			Adjusted Interest Rate Changes (IRC)	1.00%	1.00%	1.00%	1.00%
			Quarterly earnings impact (Cum. GAP * IRC)	(2.73)	(.80)	2.76	2.81
			Accumulated earning impact to date	(2.73)	(3.53)	(0.77)	2.03
			Earning impact/Avg. quarterly net profit	-5.97%	-7.73%	-1.69%	4.44%

## 7. Market Risk:

Qualitative disclosure	a)	<p>i) Views of Board of Directors (BOD) on trading/ investment activities.</p> <p>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:</p> <ul style="list-style-type: none"> <li>▪ Interest rate risk</li> <li>▪ Equity position risk</li> <li>▪ Foreign exchange (including gold) position risk throughout the bank's balance sheet and</li> <li>▪ Commodity risk.</li> </ul>
		<p><b>Measurement Methodology:</b></p> <p>As banks in Bangladesh are now in a stage of developing risk management models, Bangladesh Bank has 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.</p> <p>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 re-pricing date.</p> <p>In Standardized (rule based) Approach the capital requirement for various market risks (interest rate risk, price, and foreign exchange risk) are determined separately.</p>

		<p>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.:</p> <ul style="list-style-type: none"> <li>▪ Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;</li> <li>▪ Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk;</li> <li>▪ Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk;</li> <li>▪ Capital Charge for Commodity Position Risk = Capital charge for general market risk.</li> </ul>
	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.	<p>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/policies and risk management prudential limits have been set up and followed.</p> <p>The Treasury Division are taking following measures to minimize the several market risks:</p> <p><b>i) Foreign exchange risk management:</b> 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 is measured and monitored by the Treasury Division. To evaluate the extent of foreign exchange risk, a liquidity Gap report is prepared for each currency.</p> <p><b>ii) Equity Risk:</b> 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 of the investment portfolios of share is being done. Mark to market valuation is done against a predetermined limit. At the time of investment, following factors are taken into consideration:</p> <ol style="list-style-type: none"> <li>a. Security of Investment</li> <li>b. Fundamentals of securities</li> <li>c. Liquidity of securities</li> <li>d. Reliability of securities</li> <li>e. Capital appreciation</li> <li>f. Risk factors and</li> <li>g. Implication of taxes etc.</li> </ol>

Quantitative disclosure	b)	The capital requirements for:	Solo	Consolidated
			Taka in Crore	
		▪ Interest rate risk	67.06	67.06
		▪ Equity position risk	4.77	18.75
		▪ Foreign exchange risk and	4.71	4.71
		▪ Commodity risk	-	-
		<b>Total Capital Requirement</b>	<b>76.54</b>	<b>90.53</b>

## 8. Operational Risk:

Qualitative disclosure	a)	i) Views of BOD on system to reduce Operational Risk	<p>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 Directors (BOD) of the Bank and its Management firmly believe that an effective internal control systems has been established within the Bank to ensure adequacy of the risk management framework and compliance with a documented set of internal policies concerning the risk management system which mainly include,</p> <ul style="list-style-type: none"> <li># Top-level reviews of the Bank's progress towards the stated objectives;</li> <li># Checking for compliance with management controls;</li> <li># Policies, processes and procedures concerning the review, treatment and resolution of non-compliance issues; and</li> <li># A system of documented approvals and authorizations to ensure accountability to the appropriate level of management.</li> </ul> <p>Bank has ensured some other internal practices to be in place as appropriate to control operational risk. Examples of these include:</p> <ul style="list-style-type: none"> <li># Close monitoring of adherence to assigned risk limits or thresholds;</li> <li># Maintaining safeguards for access to, and use of, bank's assets and records;</li> <li># Ensuring that staffs have appropriate expertise and training;</li> <li># Regular verification and reconciliation of transactions and accounts.</li> </ul> <p>The BOD has modified Bank's 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.</p> <p>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.</p>
		ii) Performance gap of executives and staffs.	<p><b>Human Resources</b></p> <p><b>People: The Prime Assets!</b></p> <p>Prime Bank Limited has a favourable image as an employer of choice. The Bank has positioned itself with a performance-driven rewarding work culture; where employees are treated with respect and receive widened opportunities to realize their diverse potentials fully as well as benefit the organization by demonstrating value creating behaviours. A group of motivated and engaged employees with diverse talents are one of the strengths of Prime Bank.</p> <p>Prime Bank has a special focus on converting the human resources into the human capital, i.e., 'knowledge, competency, attitude and behaviour embedded in employees'.</p> <p><b>Manpower Planning and Recruitment</b></p> <p>The recruitment and selection of Prime Bank follows the 'best fit' approach. As per Bank's requirement, Human Resources Division ensures that the potential candidates are properly assessed, selected and placed on-time as per required competencies (KSA – Knowledge, Skill &amp; Attributes) and experience.</p>

Prime Bank has a recruitment policy that clearly states the criteria and procedures to recruit fresh and lateral entrants.

The Bank has a Management Trainee Program which is aimed to recruit outstanding fresh graduates and develop them as the future leaders of Prime Bank Ltd.

In 2014, the Bank selected a total of 176 fresh candidates as Management Trainees from a pool of 28,567 applicants after multiple written tests and interviews.

**Diversity in Workplace**

Prime Bank believes that diverse, heterogeneous teams generate greater creativity, innovation and business development. Prime Bank is aware of the fact 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	605	21.10%	Male	431
			Female	174
30 - 40 yrs	1668	58.18%	Male	1,305
			Female	363
40 - 50 yrs	466	16.25%	Male	409
			Female	57
50 years and above	128	4.46%	Male	120
			Female	8
	2,867	100%	Total	2,867

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 21.00% of employees are female.

Gender diversity among employees:

Gender	No. of Members	Percentage
Male	2,265	79.00%
Female	602	21.00%
Total	2,867	100%

Increasing ratio of Female over the years:

Year	Female Ratio
2011	18.59%
2012	19.77%
2013	20.48%
2014	21.00%

The ration of male and female employees has been increasing over the time. Currently, approximately 602 of the employees are female. PBL is gradually encouraging the women to take up leadership opportunity which will ensure a more balanced work force.

		<p><b>Learning &amp; Development</b></p> <p>Prime Bank continuously strives to transform Human Resources to Human Capital through appropriate learning and development initiatives in every aspects of work area. HR Division regularly undertakes effectively designed training programs targeting the right group of employees through proper training need assessment. The 'Management Trainee Development Program' of Prime Bank is designed for newly recruited Management Trainees (MTs) who receive job rotation across the country and different functions in a structured process. This effectively designed program provides ample opportunities to acquire necessary knowledge, skills and on-the-job-experience. All the MTs who were recruited in 2014 are going through the development program.</p> <p>In 2014, Prime Bank's internal HR Training and Development Centre arranged training on 62 different topics for 4,370 enthusiastic participants. Besides, a total of 644 employees were sent to participate in various training programs/conferences in home and abroad. In total, the number of participants who participated in trainings/conferences has increased by 48% over the last year.</p> <p>The whole capacity building efforts is pivoted on the unique understanding of banking sector as well as required behavioural skills to create a group of competent professionals with strong leadership skill. The banking sector is complex and diverse with evolving nature of threats and the risks. So, the training module is updated time to time for employees of the Bank in the changing context of financial market.</p> <p><b>Compensation &amp; Benefits</b></p> <p>Prime Bank has a flexible 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. The well-crafted total rewards help the Bank to attract, motivate and retain talent that produces desired business results.</p> <p>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.</p> <p>Other than monthly competitive base pay and a good number of allowances, Prime Bank has variety of market-competitive benefits schemes. 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.</p> <p>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.</p> <p><b>Career Progression &amp; Succession Planning</b></p> <p>PBL always plans for employees so that they can advance their career goals. This includes advancement into more responsible positions. The company supports career opportunities internally so that talented employees are placed in upgraded positions and thereby enables them to deliver their greatest value to the organization.</p> <p>In addition to vertical career growth, employees may also grow horizontally. Whenever possible, Human Resources Division mobilizes employees across different functions and branches; thus assisting them to progress with varied skills and experience.</p>
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		<p>Besides encouraging individual employee growth and development, the Bank also gives effort to identify and retain the human resources who can potentially be the successors of mission critical roles. Prime Bank acknowledges that Succession Planning &amp; Management is vital to the continued success of the Bank. So, the Bank continuously assesses organizational, divisional and team capability gaps to identify, develop and retain the successors in a timely manner to meet the demands of the future.</p> <p><b>Performance Management Program</b></p> <p>Prime Bank has a comprehensive performance management program that evaluates employees' yearly performance against business targets at the year-end. The performance evaluation is a step by step by process where an employee first rates himself/herself. Then s/he is rated by the first level supervisor and then finally by the second level supervisor. To ensure a proper performance evaluation and rate the employees based on their comparative performance, the line Management is guided by the Human Resources Division. This performance appraisal system is considered as crucial for the Bank as this is a very important tool to identify and distinguish the performers and non-performers. Prime Bank believes that a well-executed performance appraisal system can help to reward the deserving employees, as well as help to ensure further development program for the rest. The comprehensive performance management also includes an assessment of employees' functional and leadership competencies. This appraisal process helps to identify the competency gap and training needs of employees. All permanent employees of PBL undergo annual performance appraisal process.</p> <p><b>Reward &amp; Recognition Program</b></p> <p>The Bank has a well-designed Reward &amp; Recognition program that gives special attention to employees' actions, efforts, behaviour and performance. It meets the intrinsic psychological need for appreciation of employees' efforts and supports business strategy by reinforcing certain behaviours (e.g., extraordinary accomplishments) that contribute to Bank's success.</p> <p>Followings are the different cash and non-cash awards given to employees for their exemplary works:</p> <ul style="list-style-type: none"> <li>▪ The Chairman's Star of the Stars Award (CSS)</li> <li>▪ CEO's Banker with Exceptional Service Traits Award (BEST)</li> <li>▪ Outstanding Recovery Initiative Award (ORI)</li> <li>▪ Commendable Branch Performance Award (CBPA)</li> <li>▪ Trainees with Outstanding Performance Award (TOP)</li> <li>▪ Around the Year Appreciation Award (AAA) etc.</li> </ul>
		<p><b>Decent Workplace</b></p> <p>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.</p> <p><b>Code of Ethics and Business Conduct</b></p> <p>Prime Bank is always committed to establish the highest level of business compliance and ethical standard. The Bank has an 'Employee Code of Ethics and Business Conduct' - a framework of ethical behaviour for all the employees of the organization.</p>

		<p>Prime Bank maintains its reputation as a law-abiding organization and a good corporate citizen. It complies with all the prevailing laws and regulations of the country. Employees are trained and guided to conduct business in compliant manner. The policy and procedures regarding Prime Bank's business process are prepared in adherence to the laws and regulations.</p> <p>All employees are properly inducted to comply with Code of Ethics and conform to the relevant laws and regulations. HR Division makes sure that during joining employees read, understand the 'Code of Ethics and Business Conduct' and acknowledge the same by signing.</p> <p>The Board of Directors of Prime Bank approved the 'Employee Code of Ethics and Business Compliance' with a commitment to set the high ethical standards so that customers' expectations and interests are protected in a compliant manner. Employees are encouraged to report any wrong-doing within the Bank. The Head of Internal Control and Compliance and Human Resources Divisions are the primary channel to report any incident.</p> <p><b>Openness in communication to foster the exchange of knowledge and ideas</b>  Prime Bank promotes, recognizes and executes great ideas. This is possible because the Bank encourages knowledge sharing, open house discussions, employee-management meets, etc. Employee communications and consultation are the lifeblood of any business. Proper exchange of information and instructions help the Bank to function efficiently and provides the opportunity to develop greater trust in discussing issues of mutual interest. To ensure effective employee communications, management takes a positive lead.  In addition to day to day regular communication, Prime Bank arranges Regional Town Hall Conference, Managers' Conference etc. to allow employees with the opportunity to interact with the Management and Board of Directors. This helps to build an improved management-employee relation.</p> <p><b>Achievements of 2014</b>  The relentless pursuit of HR Division continues throughout the year. Furthermore, it aims to ensure excellence in all HR policies and practices in line with the mission and vision of the Bank. Followings are some of the mentionable activities done in the year 2014:</p> <ul style="list-style-type: none"> <li>▪ Phase wise implementation of HR Plans and Programs</li> <li>▪ Prepared a comprehensive MT development program and completed its implementation</li> <li>▪ Developed several automation projects including Performance Appraisal System to enhance employee efficiency</li> <li>▪ Initiated and developed Broad banding pay structure policy for employees to attract, motivate and retain performers</li> </ul> <p>Prime Bank is moving forward with the transformational initiatives in order to grow up with the challenge of tapping opportunities to meet both organizational and employee needs. The transformational phase started with introducing HR as "Strategic Business Partner" which already generated value in people &amp; process management. Prime Bank is working to ensure an employee centric work culture with automated HR services &amp; delivery and with focused skill development for employees. In coming days HR will pursue solid contemporary thoughts and action plans to draw results in many fronts as the Change Agent for Employee &amp; Business Development. Followings are some of the future priorities of HR Division:</p> <ul style="list-style-type: none"> <li>▪ Improve the overall performance management process and ensure a performance based work culture</li> <li>▪ Review, Update, Document &amp; Rollout Job Description, Key Performance Indicator (KPI) for employees</li> <li>▪ Review HR Policies &amp; Procedures and communicate to employees</li> </ul>
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		<ul style="list-style-type: none"> <li>▪ Talent Management Program</li> <li>▪ Skill Gap Assessment and develop Performance Improvement Plan (PIP) for the employees</li> <li>▪ Work on Employer Branding &amp; Employee Relations Initiatives</li> <li>▪ Under development phase: TA/DA policy, employee Code of Ethics and Anti-Harassment Policy, MAT Policy, Review of Leave Policy, Service Rule Book Update etc.</li> </ul> <p><b>Human Resources Accounting in PBL:</b></p> <p>To understand and draw an inference on how well the Human Resources are yielding on the investment made, Prime Bank tracks the profit and related HR costs. In this process, the costs of recruitment, training, compensation other direct cost related to employees are measured to estimate the overall investment. The costs are then compared with several parameters. This analysis helps the Bank to have an outlook and make prudent decisions on future HR investment. Valuing the human resources and measuring the direct impact of the cost spent for employees is difficult as there is no specific or widely adopted method. Human Resources accounting is the process of valuing human resources as assets. Presently, this is not accounted in the conventional accounting practices. The period of existence of a set of human resources in an organization cannot be predicted; hence treating and valuing them as assets in strict sense is not plausible. However, Followings are some of the parameters which are tracked year on year.</p> <p style="text-align: right;">(Taka in Million)</p> <table border="1" data-bbox="587 975 1396 1258"> <thead> <tr> <th>Particulars</th> <th>2014</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Salary cost per employee</td> <td>1.15</td> <td>1.08</td> </tr> <tr> <td>Operating cost per employee</td> <td>2.01</td> <td>1.99</td> </tr> <tr> <td>Operating income per employee</td> <td>4.18</td> <td>4.75</td> </tr> <tr> <td>Profit before provision per employee</td> <td>2.17</td> <td>2.76</td> </tr> <tr> <td>Profit before tax per employee</td> <td>1.27</td> <td>1.27</td> </tr> <tr> <td>Salary cost as percentage of operating cost</td> <td>57.09</td> <td>54.55</td> </tr> <tr> <td>Salary cost as percentage of operating income</td> <td>27.48</td> <td>22.90</td> </tr> </tbody> </table>	Particulars	2014	2013	Salary cost per employee	1.15	1.08	Operating cost per employee	2.01	1.99	Operating income per employee	4.18	4.75	Profit before provision per employee	2.17	2.76	Profit before tax per employee	1.27	1.27	Salary cost as percentage of operating cost	57.09	54.55	Salary cost as percentage of operating income	27.48	22.90
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	<p>iii) Potential external events</p>	<p><b>Risk factors/Potential external events:</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>▪ <b>General business and political condition</b> Performance of Prime Bank greatly depends on the general economic conditions of the country. The effect of ongoing political unrest is decrease in bank's loan exposures. Many factors like blockade, violence and seasonal effects are responsible for fall in credit. Political stability is the main precondition to attract private sector investment which directly linked with the credit growth of commercial banks.</li> <li>▪ <b>Changes in credit quality of borrowers</b> 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.</li> </ul>																								

		<ul style="list-style-type: none"> <li>▪ <b>Changes in policies and practices of regulatory bodies to revise practices, pricing and responsibilities of the financial institutions</b> 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.</li> <li>▪ <b>Implementation of Basel-III in Bangladesh</b> After finding numerous weaknesses in the global regulatory framework and in banks' risk management practices, the regulatory authorities have focused on streamlining the global capital and liquidity rules (Basel III) with a view to improving and strengthening the banking sector's ability to absorb shocks arising from financial and economic stress. People directly or indirectly involved in the financial services industry need to be aware about the changes in the Capital and Liquidity Adequacy Requirements published in December 2010 and later in March 2013 as a supplement. The Basel Committee on Banking Supervision (BCBS) termed the new framework as Basel III: A global regulatory framework for more resilient banks and banking systems. The two new liquidity ratios - the short-term Liquidity Coverage Ratio (LCR) and the longer-term Net Stable Funding Ratio (NSFR)-speak of the need for banks to increase their high-quality liquid assets and obtain more stable sources of funding while requiring them to adhere to sound principles of liquidity risk management.</li> <li>▪ <b>Volatility in equity market</b> The Bangladesh Securities and Exchange Commission and the stock exchanges improved their supervisory role but the equity market is still volatile. The ongoing political unrest has also added to the volatility. If volatility continues it is likely to affect the performance of the Bank.</li> <li>▪ <b>Changes in market conditions</b> 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.</li> <li>▪ <b>The risk of litigation</b> 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.</li> <li>▪ <b>Success of strategies</b> 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.</li> </ul>
	iv) Policies and processes for mitigating operational risk.	<p>Prime Bank limited (PBL) has formed a separate 'Risk Management Division' under Chief Risk Officer to ensure following things:</p> <ul style="list-style-type: none"> <li>▪ Designing of organizational structure by clearly defining roles and responsibilities of individuals involved in risk taking as well as managing it;</li> <li>▪ Designing of organizational structure by clearly defining roles and responsibilities of individuals involved in risk taking as well as managing it;</li> </ul>

		<ul style="list-style-type: none"> <li>▪ Designing of organizational structure by clearly defining roles and responsibilities of individuals involved in risk taking as well as managing it;</li> <li>▪ 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;</li> <li>▪ 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 are also being reviewed:             <ul style="list-style-type: none"> <li>▪ Operational Risk</li> <li>▪ Market Risk</li> <li>▪ Liquidity Risk</li> <li>▪ Reputation risk</li> <li>▪ Insurance Risk</li> <li>▪ Sustainability Risk</li> </ul> </li> <li>▪ Setting the portfolio objectives and tolerance limits/parameters for each of the risks;</li> <li>▪ 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;</li> <li>▪ Development of information systems/MIS inflow and data management capabilities to support the risk management functions of the Bank.</li> <li>▪ Ensure compliance with the core risks management guidelines at the department level, and at the desk level;</li> <li>▪ 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;</li> <li>▪ Analysis of self resilience capability of the Bank;</li> <li>▪ Initiation to measure different market conditions, vulnerability in investing in different sectors;</li> <li>▪ The unit will also work for substantiality of capital to absorb the associated risk in banking operation.</li> </ul> <p><b>Activities undertaken by "Risk Management Division" since inception and recent approaches</b></p> <ul style="list-style-type: none"> <li>▪ Risk Management in Prime Bank as it is now, is comparatively new. Risk Management Division (RMD) started its journey in September 2012. There is also a Risk Management Unit (RMU) consisting of related Divisional Heads. Risk Management Committee (RMC) of the Board also formed in year 2013;</li> <li>▪ The primary objective of RMD is to develop and execute plans that protect people, assets, earnings, reputation, resiliency and market share, to support the strategic and operational objectives of the organization, to minimize long-term cost of risk while doing all of those wonderful things.</li> <li>▪ 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 quarterly basis;</li> </ul>
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	v) Approach for calculating capital charge for operational risk.	<p>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:</p> $K = [(GI_1 + GI_2 + GI_3) a]/n$ <p>Where-</p> <p>K = the capital charge under the Basic Indicator Approach</p> <p>GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)</p> <p>a = 15 percent</p> <p>n = number of the previous three years for which gross income is positive.</p> <p>Gross income: Gross Income (GI) is defined as “Net Interest Income” plus “Net non-Interest Income”. It is intended that this measure should:</p> <ol style="list-style-type: none"> <li>be gross of any provisions;</li> <li>be gross of operating expenses, including fees paid to outsourcing service providers;</li> <li>exclude realized profits/losses from the sale of securities held to maturity in the banking book;</li> <li>exclude extraordinary or irregular items;</li> <li>exclude income derived from insurance.</li> </ol>

Quantitative disclosure	Particulars	Solo Basis	Consolidated
		Taka in Crore	
b)	The capital requirement for operational risk	205.03	214.68