

Disclosures on Risk Based Capital Adequacy (Basel III) For the year ended December 31, 2019

The Premier Bank Limited

Disclosures on Risk Based Capital Adequacy (Basel III)

For the year ended December 31, 2019

With the growing complexity of operations, service innovations and technology based products, Banks have progressively become exposed to a diverse set of Risks. Basel- I was a one-fits-all approach to address only credit risk, Basel-II guidelines covered all types of risk except liquidity concept. Bangladesh Bank vide its BRPD Circular No.18 dated December 21, 2014 implemented revised regulatory capital framework for banks in line with Basel III in Bangladesh with effect from January 01, 2015. Implementation process of this framework has started in January 2015. The new Risk Based Capital Adequacy (Basel – III) addresses an additional Liquidity risk such as Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Leverage Ratio.

Risk Based Capital under Basel III are structured around the following three aspects or pillars:

- i) Minimum Capital Requirements against Credit, Market and Operational Risk under Pillar-I;
- ii) Supervisory Review Process for assessing overall capital adequacy in relation to a Bank's risk profile and a strategy for maintaining its capital at an adequate level under Pillar-II
- iii) Market Disclosure of information on the Banks's risk profiles, Capital Adequacy and risk management under Pillar-III.

Market discipline i.e. Pillar-3 comprises a set of disclosures on the capital adequacy and risk management framework of the Bank. The purpose of Market discipline in the Revised Capital adequacy Framework is to complement the minimum capital requirements and the supervisory review process. The aim of introducing Market discipline in the revised framework is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets.

1. Scope of Application:

Qualitative Disclosures	
a) The name of the top corporate entity in the group which this guidelines applies:	The Premier 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 (i) that are fully consolidated; (ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	<p>The Risk Based Capital Adequacy framework applies to The Premier Bank Limited on 'Solo' basis as well as on 'Consolidated' basis.</p> <p>'Solo Basis' refers to all position of the Bank including the Offshore Banking Unit.</p> <p>'Consolidated Basis' refers to all position of the Bank and its subsidiary company namely Premier Bank Securities Limited.</p> <p>A brief description of the Bank and its subsidiaries are given below:</p> <p><u>The Premier Bank Limited</u></p> <p>The Premier Bank Limited is a third generation private commercial bank incorporated in Bangladesh on 10 June 1999 as a public company limited by shares under the Companies Act, 1994, governed by the Banking Companies Act, 1991. The Bank went for public issue of its share by initial public offering in 2007 and its share is listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited.</p>

	<p>At present the Bank has 115 branches including 12 SME Service Centers/Agricultural Branches, 61 own ATM booths and 6 Cash Booths. The Bank has one subsidiary companies namely, Premier Bank Securities Limited. The Bank also operates one Offshore Banking Unit (OBU) after obtaining its license from Bangladesh Bank on 10 November 2009.</p> <p>The principal activities of the Bank are to provide all kinds of commercial banking services to its customers through its branches.</p> <p><u>Premier Bank Securities Limited</u></p> <p>Premier Bank Securities Limited, a majority owned subsidiary company of The Premier Bank Limited was incorporated as a private company limited by share in Bangladesh on 23 June 2010 under the Companies Act, 1994 and commenced its business from the 17 April 2011. Its 100% shares are owned by The Premier Bank Limited.</p> <p>Its registered office at Iqbal Centre (3rd Floor), 42 Kamal Ataturk Avenue, Banani, Dhaka-1213, Bangladesh and at present it has 5 branches at Dhaka & Chittagong city.</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 surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	Not applicable

2. Capital Structure

Qualitative Disclosure

Capital structure of The Premier Bank Limited consists of Tier I and Tier II capital. For the purpose of calculation of capital under capital adequacy framework in line with Basel III guidelines of Bangladesh Bank, the capital of the Bank shall be classified into two tiers.

1. Tier 1 Capital (Going-Concern Capital):
 - a) Common Equity Tier 1 Capital;
 - b) Additional Tier 1 Capital;
2. Tier 2 Capital (Gone-Concern Capital)

'Common Equity Tier-1 (CET 1)' Capital of The Premier Bank Limited consists of (i) Paid-up Capital, (ii) Statutory Reserve, (iii) Retained Earnings and (iv) Minority Interest in Subsidiaries.

The Premier Bank Limited does not have 'Additional Tier 1 (AT 1)' Capital since it did not issue any instrument that meets the qualifying criteria for Additional Tier 1 Capital.

Tier-2 Capital consists of (i) General Provision (ii) Subordinated Debt/Instruments that meet the qualifying criteria for Tier 2 Capital.

The Bank complied with all the required conditions for calculation of capital as stipulated in the Risk Based Capital Adequacy (RBCA) guidelines by Bangladesh Bank as per following details:

Conditions	Compliance of the Bank
a) Minimum Total Capital plus Capital Conservation Buffer should be at least 12.5% of the total risk weighted assets.	The Premier Bank Limited has maintained Capital to Risk-weighted Asset Ratio (CRAR) of 12.61% on Solo basis and 12.59% on Consolidated basis as of 31st December 2019.
b) Common Equity Tier 1 Capital should be at least 8.50% of the total risk weighted assets (RWA).	Common Equity Tier 1 Capital ratio of the Bank was 8.59% on Solo basis and 8.59% on Consolidated basis as of 31st December 2019.
c) Additional Tier 1 Capital can be admitted maximum up to 1.50% of RWA or 33.33% of CET1, whichever is higher	The Premier Bank Limited has no component of Additional Tier 1 Capital.
d) Tier 1 Capital should be at least 6.00% of the total risk weighted assets.	The Premier Bank Limited has maintained Tier 1 Capital ratio 8.59% on Solo basis and 8.59% on Consolidated basis as of 31st December 2019.
e) Tier 2 Capital can be admitted maximum up to 4.00% of the total RWA or 88.89% of CET1 whichever is higher.	Tier 2 capital of the Bank was 46.85% of CET1 capital on solo basis & 46.57% on consolidated basis.

Quantitative Disclosure:

Amount in Crore Taka

Tier-1 Capital	Solo	Consolidated
1. Common Equity Tier-1 Capital (Going Concern Capital)		
Fully Paid-up Capital	924.09	924.09
Statutory Reserve	563.78	563.78
Retained Earnings	365.38	375.38
Minority Interest in Subsidiaries	-	-
Sub-Total:	1,853.25	1,863.25
Regulatory Adjustments:		
Shortfall in provisions required against Non-performing Loans (NPLs)	-	-
Shortfall in provisions required against Investment in Shares	-	-
Deferred tax Assets (DTA)	206.11	206.11
Sub Total:	206.11	206.11
Total Common Equity Tier-1 Capital	1,647.14	1,657.14
2. Additional Tier-1 Capital		
Tier-2 Capital (Gone concern Capital)		
General Provision	131.70	131.70
Subordinated debt (As per Basel III Guideline)	640.00	640.00
Revaluation Reverses as on 31 December 2014 (50% of Fixed Assets and Securities & 10% of Equities) Regulatory Adjustments:	-	-
Revaluation Reserves for Fixed Assets, Securities & Equity Securities (phase in deductions as per Basel III Guidelines)	-	-
Total Tier-2 Capital Available	771.70	771.70

Maximum Limit of Tier-2 Capital (Tier 2 Capital can be maximum up to 4.00% of total RWA or 88.89 of CET-1, whichever is higher)	1,464.14	1,473.03
Excess amount over Maximum Limit of Tier 2	0.00	0.00
Total Admissible Tier 2 Capital	771.70	771.70
Total Eligible Capital (Tier-1 & Tier-2 Capital)	2,418.85	2,428.85

3. Capital Adequacy

Qualitative Disclosure:

The Premier Bank Limited has followed following approaches to calculate the Minimum Capital Requirement under Pillar I.

- i) Standardized Approach for Credit Risk
- ii) Standardized approach (Rule Based) for Market Risk and
- iii) Basic Indicator Approach for Operational Risk.

The Premier Bank Limited has formed a Basel unit, a Supervisory Review Process (SRP) Team and a Risk Management Division (RMD) for developing a process for assessing overall capital adequacy in relation to the Bank's risk profile and strategy for maintaining the Bank's capital at an adequate level following the specific guidelines of Bangladesh Bank. The Premier Bank Limited is conducting intensive training & workshops on Basel-III Implementation on a regular basis.

Capital Management is aimed at ensuring that there is sufficient capital to meet the requirement of the Bank as determined by its underlying business strategy and that sufficient cushion is available to absorb unexpected shocks that could arise out of adverse market conditions and external factors. To be highly capitalized Bank, The Premier Bank Limited has set a policy to maintain its capital in such a way that maintained capital is higher than the minimum required capital as per Risk Based Capital Adequacy.

A sound risk management process, strong internal controls and well documented policies and procedures are the foundation for ensuring the safety and soundness of the Bank. The Risk Management Committee of the Board of Directors and management of the Bank ensure that capital levels are adequate for the Bank's risk profile. They also ensure that the risk management and control processes are appropriate in the light of the Bank's risk profile and business plans.

Major responsibilities of the Risk Management Committee are as follows:

1. Oversight of Basel implementation and new requirements
2. Annual review of risk limits and concentration
3. Capital Planning.
4. Quarterly risk assessment and capital adequacy review against target
5. Annual review of ICAAP.

Under the supervision of the Board of Directors, Risk Management Division discusses reviews and manages the material risk faced by the bank. The Chief Risk Officer along with the senior management of the Bank always monitor and control the overall risk management process of the Bank. The Risk Management Committee meets at least once in a month to review the current material risk faced by the Bank.

The Bank's Asset Liability Committee (ALCO) is responsible for the review of overall asset and liability position, liquidity position, capital adequacy, balance sheet risk and interest rate risk. The object of liquidity risk management is to ensure that all foreseeable funding commitments and deposit withdrawal can be met when due and regularly monitored. As per the Bangladesh Bank guideline, The Bank has implemented all the core risk management guidelines.

Quantitative Disclosure:

Amount in Crore Taka

	Particulars	Solo	Consolidated
1	Capital requirement for Credit Risk	1,688.00	1,694.93
2	Capital requirement for Market Risk	58.17	59.96
3	Capital requirement for Operational Risk	171.36	174.67
	Total Capital Requirement	1,917.53	1,929.56
4	Total Risk Weighted Assets (RWA)	19,175.24	19,295.58
5	Total Regulatory Capital (Tier 1 & Tier 2)	2,418.85	2,428.85
6	Common Equity Tier 1 (CET 1)	1,647.14	1,657.14
7	Tier – 1 Capital	1,647.14	1,657.14
8	Tier – 2 Capital	771.70	771.70
9	Capital To Risk Weighted Asset Ratio (CRAR)	12.61%	12.59%
10	Common Equity Tier 1 (CET 1) to RWA Ratio	8.59%	8.59%
11	Tier - 1 Capital to RWA Ratio	8.59%	8.59%
12	Tier – 2 Capital to RWA Ratio	4.02%	4.00%
13	Capital Conservation Buffer (Minimum 2.50% of RWA)	2.59%	2.59%
14	Available Capital under Pillar II Requirement	21.94	16.90

4. Credit Risk**Qualitative Disclosure:**

Credit risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to the Bank. Credit risk arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions.

Definitions of past due and impaired

All the loans and advances are grouped into four categories for the purpose of classification, which are; (i) Continuous Loan (ii) Demand Loan (iii) Fixed Term Loan and (iv) Short-term Agricultural and Micro-Credit.

Continuous, Demand Loans & Term Loans are classified as:

- ✓ Sub-standard - if past due for 3 months or more, but less than 9 months;
- ✓ Doubtful - if past due for 9 months or more, but less than 12 months;
- ✓ Bad/Loss - if past due for 12 months or more.

Short-term Agricultural and Micro Credit are classified as:

- ✓ Sub-standard - if the irregular status continues after a period of 12 (twelve) months;
- ✓ Doubtful - if the irregular status continues after a period of 36 (thirty-six) months;
- ✓ Bad/Loss - if the irregular status continues after a period of 60 (sixty) months.

A continuous credit, demand loan or term loan which remains overdue for a period of 02(two) and above but less than 03(three) months is classified as a "Special Mention Account (SMA)".

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		Short Term Agri. Credit	Consumer Financing			SMEF	Loans to BHs/MBs/SDs	All other Credit
			Other than HF,LP	HF	LP			
UC	Standard	1%	5%	1%	2%	0.25%	2%	1%
	SMA	1%	5%	1%	2%	0.25%	2%	1%
Classified	SS	5%	20%	20%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	50%	50%
	B/L	100%	100%	100%	100%	100%	100%	100%

General Provision requirement for Unclassified Loans and advances:

Type of Loan	Standard	Special Mention Account
Small & Medium Enterprise Financing (SMEF)	0.25%	0.25%
Consumer Financing (Other than HF & LP)	5%	5%
Consumer Financing (Other than HF & LP) - Credit Card	2%	2%
Consumer Financing (House Financing, HF)	1%	1%
Consumer Financing (Loans for Professional to setup business, LP)	2%	2%
Loans to BHs/ MBs/ Sds against Shares etc.	2%	2%
All Other Credit	1%	1%
Short Term Agri Credit & Micro Credit	1%	1%

Specific Provision requirement for Classified Loans and advances

Loan Status	Type of Loan	Rate of Provision
Substandard	Short Term Agri Credit & Micro Credit	5%
	Other than Short Term Agri Credit & Micro Credit	20%
Doubtful	Short Term Agri Credit & Micro Credit	5%
	Other than Short Term Agri Credit & Micro Credit	50%
Bad/Loss	All types of credit facilities	100%

Methods Used to Measure Credit Risk

The Capital requirement for credit risk is based on the risk assessment made by External Credit Assessment Institutions (ECAIs) recognized by Bangladesh Bank for capital adequacy purposes. The Bank assigned risk weights to all their on-balance sheet and off-balance sheet exposures. Risk weights are based on external credit rating (solicited) which mapped with the Bangladesh Bank rating grade or a fixed weight that is specified by Bangladesh Bank.

The Premier Bank Limited has also used FDR, MIS (Monthly Income Scheme), MSS (Monthly Savings Scheme), Double Benefit Scheme, Special Deposit Scheme & other collateral securities such as listed shares as Credit Risk Mitigation (CRM) collateral under Standardized Approach.

Credit Risk Management

Credit risk regulatory capital requirements are computed based on the standardized approach prescribed by Bangladesh Bank. In the Standardized Approach credit risk is measured in a standardized manner supported by external credit assessments. Under this approach, risk weightings are mapped to exposure types.

Credit Risk Management Process

A thorough credit risk assessment is done before extending loan. The credit Risk assessment includes borrower risk analysts, industry risk analysts, historical financial analysts, projected financial performance, the conduct of the account, and security of proposed loan. The assessment originates from relationship manager/ account officer and approved by Credit Review Committee

at Head Office. The Credit Committee under elevated authority approves the credit proposals. Executive Committee of the Board approves the proposal beyond the authority limit of the management. The Board of Directors reviews the proposals approved by the Executive Committee.

In determining single borrower/Large loan limit, the instruction of Bangladesh Bank is strictly followed. Segregation of duties has been established for Credit Approval, Relationship Management and Credit Administration. Internal Audit is conducted on periodical interval to ensure compliance of Bank's and Regulatory policies. Loans are classified as per Bangladesh Bank's guidelines.

Credit Risk Mitigation

Mortgage documents are properly vetted by the Bank's Legal advisor. He/she will also certify that proper documentation, borrower's legal standing and enforcement of securities are in place. Finally, Lawyer's satisfaction certificate shall have to be obtained regarding documentation where there are securities/ collateral other than Personal Guarantee and Financial Obligation. Exposures and collateral values are continuously monitored, and margin calls or close-out procedures are enforced, when the market value of collateral falls below a predefined trigger level.

Policies and Processes for Collateral Valuation and Management

The Premier Bank Limited has a set of EC approved policy on Collateral Valuation and Management. The Bank appoints approved surveyors for valuation of collateral/securities objectively. The methodology of valuation that the Bank usually applies, are forced Sale Value (FSV), Market Value (MV) etc. The Bank creates legal claims on collateral/securities through mortgage; charge creation and other legal documentation.

Quantitative Disclosure:

Risk Weighted Assets (RWA)	Tk. In Crore
Credit Risk	
For On- Balance sheet Assets	13,114.36
For Off-Balance sheet Assets	3,765.65
Total RWA for Credit Risk	16,880.01

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

Exposure Type	Amount in Crore Taka	
	Exposure	Risk weighted Asset
Credit Risk for On-Balance Sheet Exposures:		
Cash and Cash equivalents	232.99	0.00
Claims on Bangladesh Government (other than PSEs) and Bangladesh Bank	3,819.31	0.00
Claims on Public Sector Entities (excluding equity exposure)	3.79	1.90
Claims on Banks and NBFIs	2,150.00	643.24
Claims on Corporate (excluding equity exposures)	8,858.20	5,183.12
Claims on SME	4,132.54	2,791.23
Claims under Credit Risk Mitigation (CRM)	1,509.63	237.10
Consumer Finance	225.26	225.26
Claims fully secured by residential property	190.16	95.08
Claims fully secured by commercial real estate	594.44	594.44
Past Due Claims (net of specific provision)	992.81	1,287.20
Capital Market Exposure	101.2	126.50

Investment in equity and other regulatory capital instruments issued by other banks and Merchant Banks/Brokerage Houses/Exchange Houses which are no listed in the Stock Exchanges (other than those deducted from capital) held in banking book	502.77	628.46
Investments in premises, plant and equipment and all other fixed assets	264.96	264.96
All other assets		
i) Claims on GoB & BB	195.42	0.00
ii) Staff loan / investment	56.05	11.21
iii) Other assets (net off specific provision)	1,024.66	1024.66
Sub Total	24854.19	13,114.36
Credit Risk for Off-Balance Sheet Exposures:		
Claims on Corporate	3,792.32	2,070.11
Claims on SME	1,005.92	651.42
Claims on Banks and NBFIs	2,084.93	1,044.12
Sub Total	6,883.17	3,765.65
Grand Total	31,737.36	16,880.01

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

<u>Urban</u>	(Tk. In Crore)
Dhaka Division	155,350,661,276
Chittagong Division	17,346,387,110
Khulna Division	1,696,720,147
Sylhet Division	1,064,387,701
Rajshahi Division	2,091,276,636
Barisal Division	499,390,208
Rangpur Division	312,708,385
Mymensingh Division	392,996,428
	178,754,527,891

<u>Rural</u>	(Tk. In Crore)
Dhaka Division	9,107,424,034
Chittagong Division	773,555,772
Rajshahi Division	35,428,085
Khulna Division	18,030,849
Mymensingh Division	256,499,747
	10,190,938,487
	188,945,466,378

C. Industry type distribution of exposures, broken down by major types of credit exposure of the Bank:

S/L	Sector	(Tk. In Crore)
1	Agricultural Loan	208.01
2	Industrial Loan (other than working capital)	2,486.54
3	Working capital Loan	4,561.34
4	Export Credit	326.40
5	Import Credit	1,402.60

6	Commercial Loan	1,873.36
7	RMG & Textile	4,303.43
8	Ship building and ship breaking Loan	129.41
9	Construction Loan	827.78
10	Transport and Communication Loan	167.65
11	Consumer Credit	615.18
12	All Others Loans	1,992.87
	Total	18,894.55

D. Residual maturity break down of major types of credit exposure of the Bank:

Particulars	(Tk. In Crore)
Up to 1 month	17,704.27
More than 1 month but not more than 3 months	11.17
More than 3 months but not more than 1 year	152.70
More than 1 year but not more than 5 years	823.83
More than 5 years	202.59
Total	18,894.55

E. Classification of Loans & Advances

Particulars	(Tk. In Crore)
Standard	17,347.81
Special mention account	280.93
Substandard	203.14
Doubtful	50.50
Bad/Loss	1012.17
Total	18,894.55

F. Specific and general provisions

Particulars	(Tk. In Crore)
Provision for Classified Loans & Advances	552.62
Provision for Unclassified Loans & Advances	87.16
Provision for Off-balance sheet items	44.54
Provision for Investment in Shares	108.33
Provision for Other Assets	27.22

G. Gross Non-Performing Loans (NPLs)

Gross Non-Performing Loans (NPLs)	1,265.81
Total Loans & Advances	18,894.55
Non-Performing Loans (NPLs) to Outstanding Loans and advances	6.70%

H. Movement of Non-Performing Loans (NPLs)

Opening balance	626.70
Addition during the year	823.16
Reduction during the year	184.05
Closing balance	1,265.85

I. Movement of specific provisions for NPLs

Opening balance	288.62
Add: Provisions made during the period	262.73
Less :Write-off	-
Add: Recovery of amounts previously written off	1.27
Closing balance	552.62

5. Equities: Disclosures for Banking Book Position**Qualitative Disclosure:**

As per BAS 25, investment is defined as an investment is an asset held by any enterprises for the accretion of wealth through distribution (such as interest, royalties, dividends and rentals), for capital appreciation for other benefits to the investing enterprise such as defined in BAS 2 – Inventories, are not Investments. Property, Plant and Equipment as defined in BAS 16, Property, Plant and Equipment, (other than investment properties) are not investments.

Guidelines on Risk Based Capital Adequacy are formulated to guide the categorization of banking book credit risk exposures of commercial banks, so as to enhance their credit risk management. In the light of Guidelines on Risk Based Capital Adequacy issued by Bangladesh Bank, Equities of Banking Book of a Bank are equity investments in shares which are not listed in the Stock Exchanges and other regulatory capital instruments issued by other banks and Merchant Banks/Brokerage Houses/Exchange Houses.

Quantitative Disclosure:

Banking Book Equities Investments to Non-Listed Securities of The Premier Bank Limited stood at Tk. 502.77 Crore including Investment in subsidiary company of Tk. 250.00 crore as of 31st December 2019:

Sl.	Name of Companies	Amount in crore Taka
01.	Central Depository Bangladesh Limited	0.31
02.	SWIFT	0.56
03.	Energy Prima Limited	0.95
04.	Lanka Bangla Securities Limited	0.50
05.	ICB AMCL 2nd NRB	0.45
06.	Bangladesh Fixed Income Special Purpose Vehicle	225.00
07.	RACE Special Opportunities Unit Fund	25.00
	Sub Total	252.77
08.	Premier Bank Securities Ltd. (Investment in subsidiary company)	250.00
	Total	502.77

Banking Book Equities investments to Non-Listed Securities of The Bank's subsidiary company namely – Premier Bank Securities Limited as of 31st December 2019 stood at Tk. 66.75 crore as per following details

Sl.	Name of Companies	Amount in crore Taka
01.	Dhaka Stock Exchange Ltd.	48.75
02.	Chittagong Stock Exchange Ltd	18.00
	Total	66.75

Particulars	Disclosure of the Bank
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.	Investment in equities of Banking Book position of The Premier Bank Limited on SOLO Basis and Consolidated basis as of 31st December 2019 had been shown at Cost Price amounting Tk. 502.77 crore including Investment in subsidiary company of Tk. 250.00 crore and Tk. 319.52 crore respectively.
The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	No realized gains/ Losses
<ul style="list-style-type: none"> Total unrealized gains (losses) Total latent revaluation gains (losses) Any amounts of the above included in Tier 2 capital. 	No unrealized gains No revaluation gains Not included in Tier-II

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

Qualitative disclosure:

Interest rate risk is the risk where changes in market interest rate 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.

The responsibility of interest rate risk management rests with the bank's Assets Liability Management Committee (ALCO). The bank periodically computes the interest rate risks in the banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. Interest rate risk is assessed and managed by GAP analysis as well as Duration Gap Analysis under stress testing.

Quantitative disclosure:

Maturity Bucket

Figure in crore Taka

Particulars	< 3 Months	3 – 6 Months	6 – 12 Months
Gap	(458.23)	1418.71	399.60
Cumulative Gap	(458.23)	960.48	1,360.08

Interest Rate Stress Test:

	Minor	Moderate	Major
Assumed changes in Interest Rate	1%	2%	3%
Net Interest Income Impact			
< 12 Months	13.60	27.20	40.80
Capital after shock	2,432.45	2,446.05	2,459.65
CAR After Shock (%)	12.69	12.76	12.83
Change in CAR after shock (%)	0.07	0.14	0.21
Reprising Impact			
Change in value of the bond portfolio	(123.78)	(247.57)	(371.35)
Capital after shock	2,308.67	2,198.48	2,088.30

CAR After Shock (Percent)	12.04%	11.47%	10.89%
Change in CAR after shock (%)	(0.65)	(1.29)	(1.94)
Overall change in CAR (NII and re-pricing impact %)	(0.57)	(1.15)	(1.72)

7. Market Risk

Qualitative Disclosure:

Market Risk is the risk of losses in on and off-balance sheet positions arising from movements in market prices. The market risk positions subject of this requirement are:

- a) The risks pertaining to interest rate related instruments and equities in the Trading Book.
- b) Foreign exchange risk and commodities risk throughout the Bank (both in the Banking and Trading Book).

Market risk arises from the following arenas:

- Interest Rate Risk
- Equity Position Risk
- Foreign Exchange Risk
- Commodity Risk

Methods Used to Measure Market Risk

The Bank uses different methods to measure market risk which is appropriate for certain situation. To measure interest rate risk from earnings perspective the Bank uses Duration Gap analysis, Maturity Gap Analysis, Sensitivity Analysis and Marked to Market method. Foreign Exchange risk has been measured by Value at Risk (VAR) analysis. Standardized (Rule Based) Approach is used for calculating Capital Requirement for the following market risks under Basel III.

01. Interest Rate Risk,
02. Equity Price Risk,
03. Commodity Price Risk and
04. Foreign Exchange Risk

Market Risk & Liquidity Risk Management Policies and System

The objective of investment policy covering various facet of Market Risk is to assess and minimize risks associated with treasury operations by extensive use of risk management tools. Broadly it encompasses policy prescriptions for managing systematic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

For market arising out of various products in trading book of the Bank and its business activities, the bank sets regulatory internal and ensure adherence thereto. Limits for exposure to counter-parties, industries and countries are monitored and the risks are controlled through Stop Loss limits, Overnight limit, Daylight limit, Aggregate Gap limit, Inter-bank dealing and investment limit etc.

For the Market Risk Management of the bank, it has a mid-office with separate Desks for Treasury & Asset Liability Management (ALM)

Asset Liability Management Committee (ALCO) is primarily responsible for establishing the market risk management, asset liability management of the bank, procedures thereof, implementing core risk management framework issued by regulator, best risk management practices followed globally and ensuring that internal parameters, procedures, practices/policies and risk management prudential limits are adhered to.

Liquidity risk of the bank is assessed through Gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limit fixed thereon. Further bank is also monitoring the liquidity position through various stock ratios. The bank is proactively using duration gap and interest rate forecasting to minimize the impact of interest rate changes.

Quantitative Disclosures:**Capital Charge for Specific Risk****(Tk. In Crore)**

Sl.	Details	Capital Charge for Specific Risk	Capital Charge for General Market Risk	Total Capital Charge for Market Risk
A.	Interest Rate Related instruments	0.000	7.68	7.68
B.	Equities	18.19	18.19	36.38
C.	Foreign Exchange Position	0.000	14.11	14.11
D.	Commodities	0.000	0.00	0.00
Total (A+B+C+D)		18.19	39.98	58.17

8. Operational Risk**Qualitative Disclosure:****Views of BOD on system to reduce Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example failed IT systems, or fraud perpetrated by a Bank's employee), or from external causes, whether deliberate, accidental or natural. It is inherent in all of the Bank's activities. Operational risks are monitored and, to the extent possible, controlled and mitigated.

The Bank's approach to operational risk is not designed to eliminate risk altogether rather to contain risks within levels deemed acceptable by senior management.

All functions, whether business, control or logistics functions, must manage the operational risks that arise from their activities. Operational risks are pervasive, as a failure in one area may have a potential impact on several other areas. The Bank has therefore established a cross-functional body to actively manage operational risk as part of its governance structure.

The foundation of the operational risk framework is that all functions have adequately defined their roles and responsibilities. The functions can then collectively ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability. The functions use their controls to monitor compliance and assess their operating effectiveness in several ways, including self-certification by staff, tracking of a wide range of metrics (for example, the number and characteristics of client complaints, deal cancellations and corrections, un-reconciled items on cash and customer accounts, and systems failures), and the analysis of internal and external audit findings.

Performance Gap of Executives and Staffs

The Bank believes that training and knowledge sharing is the best way to reduce knowledge gap. Learning and Talent Development Center (LTDC) of the Bank arranged different task based and content based learning where participants were taught necessary concepts and skills, which they can implement in their day to day task. Upon completion of a successful training program, participants become more efficient at their desk job, which uphold the brand promise of our bank. At LTDC, emphasis is given on hands-on activities, which require participants to be interactive. Both individual and collaborative learning are included in teaching methodology.

The bank offers competitive pay package to its employees based on performance and merit. It always tries to develop a culture where all employees can apply his/her talent and knowledge to work for the organization with high ethical standards in order to add more value to the company and for the economy. In this process, the Bank kept the performance gap of executives and staffs to a minimum level.

Potential External Events

The Bank invests heavily in IT infrastructure for better automation and online transaction environment. The bank also has huge investment on alternative power supply (both UPS & generators) and network links to avoid business description and system failure. The Bank's IT system does not allow any kind of external access to avoid external fraud by way of theft/ hacking of information assets, forgery etc. Premier Bank invests heavily on security from terrorism and vandalism to avoid damage to physical assets.

Policies and Processes for Managing Operational Risk

The Premier Bank Limited 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 balance sheet Risk Management, Credit Risk, Foreign Exchange Risk, Internal Control and Compliance Risk, Money Laundering Risk and 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 Managing Director 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.

Risk Management Division of The Premier Bank Limited has already prepared a stress testing model in line with the Bangladesh Bank's guideline which initially focused on "Simple Sensitivity and Scenario Analysis" on the following five risk factors:

- Interest rate;
- Forced sale value of collateral;
- Non-Performing Loans (NPLs);
- Share Prices; and
- Foreign exchange rate.

The Premier Bank Limited follows the General framework as per guidelines of Bangladesh Bank to measure the Stress Testing. The aim of the Stress Testing is

- To identify specific vulnerabilities or areas of concern;
- Constitute a scenario;
- To perform the numerical analysis;
- To consider the numerical analysis and
- Summarizing and interpreting the results.

Stress testing of The Premier Bank Limited reflects the strength of the bank to absorb the shocks against all the risk factors. It has been observed that at any level of shocks, the bank will be able to maintain the capital adequacy ratio at the level which is in line with the standard set by Bangladesh bank.

Approach for calculating Capital Charges for Operational Risks

The Bank has adopted Basic Indicator Approach (BIA) to compute capital charge against operational risk under Basel-III as per Bangladesh Bank Guidelines.

Quantitative Disclosure:

Capital Requirement for operational Risks	Solo	Consolidated
	Tk. 171.36 Crore	Tk. 174.67 Crore

9. Liquidity Ratio:

We define liquidity risk in a narrower sense as the risk that The Premier Bank Limited will be unable to meet its payment obligations on a day-to-day basis. In a broader sense, liquidity risk describes the risk that future payments cannot be funded to the full amount, in the required currency or at standard market conditions, as and when they are due.

Views of BOD on system to reduce liquidity Risk:

The Board of Directors adopts the business strategy and the Bank's risk tolerance, which is associated with it. Liquidity risk tolerance is then operationalized by defining the liquidity reserve period and the limit framework. The board sets liquidity risk tolerance levels for liquidity stress survival horizons, short term wholesale borrowing, minimum advances to deposits and liquidity coverage ratio. In order to ensure an appropriate liquidity risk management process, the Board of Directors delegates certain competences and responsibilities in connection with the Bank-wide liquidity risk strategy to the Risk and Treasury functions. The Asset Liability Committee (ALCO) is responsible for limiting, analyzing and monitoring liquidity risk and for strategic liquidity positioning. In this, it is supported by the ALM function within the board tolerance.

Methods used to measure liquidity risk:

The Bank conducts a range of liquidity related stress testing analyses, both for internal and regulatory purposes. Internally, a more realistic analysis of survival horizons considers potential currency mismatches between stress outflows and inflows. Particular focus is paid to mismatches in less liquid currencies and those that are not freely convertible. This is overseen by the Banks ALCO. Bank's traditionally use the statutory liquidity reserve and their borrowing capacity in the volatile inter-bank money market as the source of liquidity. A bucket wise (e.g. Call, 2-7 days, 8 days to 1 months, 1-3 month, 3 months -12 months, 1-5 years and more than 5 years) maturity profile of the assets and liabilities shall be prepared to understand mismatch in every bucket.

A forecasted balance sheet also prepared where the assets and liabilities of the nature of current, overdraft etc. are divided into "core and noncore " balances where core is defined as the portion that is expected to be stable and will stay with the bank, and non-core to be less stable. The distribution of core and non-core is determined through historical trend, customer behavior, statistical forecast and managerial judgment, the core balance can be put into over 1 year bucket whereas non- core can be into 2-7 days or 3 months bucket.

Policies and process for mitigating liquidity risk:

The Premier Bank Limited revised its liquidity risk framework, adapting it to current business and regulatory conditions. Important features of this include the new methodology and parameterization of the liquidity risk modeling, taking into account regulatory requirements and adjusted limits. The combination of modeling and limits results in the quantitative structuring of our liquidity risk tolerance, which is in line with the overall risk strategy. The liquidity gap profile is shown for the whole of the modeling horizon across the full spectrum of maturities. The processes of producing and analyzing the liquidity gap profile have been significantly improved by redesigning the IT infrastructure. In addition, the management of the regulatory liquidity coverage ratio (LCR) has been integrated into the liquidity risk model. Based on the new methodology of the liquidity gap profile, management mechanisms such as recovery and early warning indicators have been adjusted and supplemented. Furthermore, hard limits are defined for the time horizon of up to one year, although for time horizons of over a year there are review triggers to limit the liquidity risk in line with our funding capacity. The Bank limits are broken down into individual currencies and Bank units. The size of the liquidity reserve portfolio held to compensate for unexpected short-term liquidity outflows, and the limits in the various maturity bands. The liquidity reserve portfolio is maintained and monitored separately by the Treasury. This ensures that it functions as a buffer in stress situations. The liquidity reserve portfolio is funded in line with liquidity risk tolerance in order to ensure that it is kept at the required size throughout the reserve period stipulated by the Board of Directors. The internal liquidity risk model is complemented by the regular analysis of additional inverse stress scenarios.

Quantitative disclosure

Particulars (based on December 31, 2019)	
Liquidity Coverage Ratio (LCR)	123.90%
Net Stable Funding Ratio (NSFR)	119.31%
Stock of High quality liquid assets	Tk. 4,850.73 Crore
Total net cash outflow over the next 30 calendar days	Tk. 3,915.03 Crore
Available amount of stable funding	Tk. 23,419.88 Crore
Required amount of stable funding	Tk. 19,629.69 Crore

10. Leverage Ratio:**Views of BOD on Leverage Ratio:**

High leverage levels can lead to an excessive expansion of Bank asset size, which maximizes, in the short to medium term, banks' return on equity. At the same time, leverage-fuelled bank capital structures increase bankruptcy risk, since they are an important cause of bank failures. Therefore, to reduce excessive leverage and to manage the overall asset-liability position, management has implemented BOD approved ALM framework within the bank.

Bank has clearly laid down policy and procedure to manage its exposure level (both on and off-balance sheet) enumerated in its Asset Liability Management policy. Leverage parameter of the policy acts as a credible supplementary measure to the risk based capital requirement to control the leverage of the bank. This reflects bank's tier 1 capital over total exposure of the bank. Reference level of leverage ratio is currently 3% (minimum).

Methods of calculating Leverage Ratio:

Leverage ratio of the bank is calculated in line with the RBCA Guideline of BB on quarterly basis. Leverage ratio is calculated by dividing Tier 1 capital with Total exposure. Total exposure comprise of:

- 1) On Balance Sheet exposures net of specific provisions
- 2) Off-balance sheet exposures including commitments (applicable credit conversion factor (CCF) is used for conversion).

Quantitative Disclosures:**(Tk. In Crore)**

	Particulars	Solo	Consolidated
A	Available Tier 1 Capital	1,647.14	1,657.14
B	On-Balance sheet exposures	25,637.43	25,707.87
C	Off-Balance sheet exposures	7,309.89	7,309.89
D	Regulatory adjustment made to Tier1 Capital	206.11	206.11
E	Total Exposure (B+C-D)	32,741.21	32,811.65
	Leverage ratio (A/E*100)	5.03%	5.05%

11. Remuneration:**Qualitative Disclosures**

(a)	Information relating to the bodies that oversee remuneration:
	<p>Senior Management comprising of Managing Director & CEO, Additional Managing Directors, Deputy Managing Directors, Chief Financial Officer, Chief Operating Officer and Chief HR Officer are overseeing the remuneration and its policies every year,</p> <p>The policy deals with performance based remuneration which describes short term and long term benefits. Policy regarding salary, festival bonus, Leave fair assistance, performance bonus, Gratuity, Provident Fund, Reward & recognition for merit and performance etc. are approved by the Board of directors of the Bank.</p> <p>The Bank has no External Consultant regarding remuneration and its process.</p>

	<p>These policies are applicable for all employees of the Bank. The policy does not apply to service contracts with third parties.</p> <p>The members of the Senior Management, Branch managers and the employees engaged in different functional divisions at Head Office and branches (except the employees involved in internal control & compliance and risk management) are considered as the material risk takers of the Bank.</p>
(b)	Information relating to the design and structure of remuneration processes:
	<p>The remuneration policies are applicable for all employees on the basis of their performance, merit and seniority. These policies have no gender biasness.</p> <p>The objectives of remuneration policies of the Bank are to ensure that all compensation & benefits are fair, justified, valued and promote the performance based reward. All employees including the Senior Management employees are paid competitive remuneration package based on the merit of individuals. The structure and level of remuneration are reviewed time to time based on Bank's performance and affordability. The remuneration also stresses on ensuring internal and external pay equity.</p> <p>In 2019, Premier Bank Remuneration Committee has reviewed and updated Key Performance Indicator (KPI), KPI Reward system and other employee related policies i.e. payment of provident fund and gratuity. Premier Bank has introduced different cash incentive award program in the year of 2019. Quarterly we have launched different Product campaign and the best employees are rewarded cash amount and certificates. Card Division has introduced a program i.e. "best employees of the month" and recognizing them for their contribution.</p> <p>Mentionable here that Bank has declared the highest number of promotions which is 93% from eligible employees in the year 2019 for recognition of the contributions and performance. Furthermore, employees have been rewarded crest and certificate for highest KPI achievement.</p> <p>Premier Bank HR has created a dynamic culture by encouraging open communication and strengthening relation among employees. Banks is also providing guidelines for employees' career development as well as encourages new initiatives for risk and compliance. Bank has ensured the Code of conduct, integrity practice, professional grooming and work life balance for the employees.</p>
(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes
	<p>Due to competitive banking business environment employee's turnover, market salary benchmark becoming intense among the private commercial Banks. Talent recruitment, retaining and providing job satisfaction are now the challenges for remuneration measures.</p> <p>For employees' ownership development, Bank has emphasized on learning and development, launching leadership development program, introducing internal communication, providing opportunities to staff to seek aspirational roles through internal job postings and periodic job rotations, streamlining the Performance Management System, making the compensation structure more competitive and introducing the KPI based performance-linked rewards and incentives.</p> <p>For retaining existing talent, Bank has enhanced its Employee participation and social program throughout the year. A congenial working environment with modern facilities in all branches of the bank has been developed in the year 2019. In addition; bank has opened an indoor gymnasium, prayer room & food court at corporate head office.</p> <p>Along with that Bank introduced Training needs survey, outskirt programs, business conference and awarding ceremony for Branch Manager, employees and successful contributors. Also financial recognition to the Banking diploma holders.</p> <p>In addition to fixed pay, there are very few variable pay components and Bank has ensured some variable facilities for branches for the business procurement purposes. To ensure employee retention and reduce the risk of short term gain, the Bank encourages its employees to earn more in the longer term. Thus, the Bank induces employees to take decisions that bring good results in long term.</p>
(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration:
	<p>The Bank deals high performance culture. Employees are assessed by performance measurement system. Performance is measured on structured format on that basis of financial KPI and non-financial KPI and Job competences.</p>

	Managers/ Operation managers/ Divisional Heads will have the Team/Branch KPI and branch/head office employees will have their individual performance KPI. Considering the Branch/Team/Divisional Performance and individual employee's performance on financial KPI and performance appraisal, banks provide the incentive bonus, KPI reward, salary increment and promotion.
(e)	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance:
	The policy deals with performance based remuneration which describes short term and long term benefits. Short term benefits include salary, increment, festival bonus, LFA and performance bonus as variable payments. Long term benefits include Gratuity, Provident Fund. Bank ensured adjustment of any kind of benefits at the time of separation. We also provide zero percent car loan facilities for six years for the executives. We also provide loan at lower interest rate for House Building loan for maximum 18 years for all employees.
(f)	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms
	The Premier Bank Ltd has not adopted any variable remuneration like cash, shares and share-linked instruments and other forms.

Quantitative Disclosures

(g)	Number of meetings held by the main body Overseeing remuneration during the financial year and remuneration paid to its matter	10 (ten) discussion meetings were held during the last year on Incentive Bonus, KPI policy, Promotion policy, KPI reward policy, Integrity Award policy of the Bank.
(h)	Number of employees having received a variable remuneration award during the financial year.	Total 1713 Number of employees received a variable remuneration award during the financial year as performance based incentive bonus.
	Number and total amount of guaranteed bonuses awarded during the financial year	Two festival bonuses paid in the form of guaranteed bonus and the total paid amount is Tk. 14.24 Crore in 2019.
	Number and total amount of sign on awards made during the financial year	No amount was paid as sign-on awards
	Number and total amount of severance payments made during financial year	Total amount of severance payments made was Tk. 12.19 Crore in the reporting period in 2019 which includes Provident Fund and Gratuity.
(i)	Total amount of outstanding deferred remuneration, split into cash, shares and share linked instruments and other forms. Total amount of deferred remuneration paid out in the financial year	Not Applicable for The Premier Bank Ltd
(j)	Breakdown of amount of remuneration awards for the financial year to show: - fixed and variable. - deferred and non-deferred. - different forms used (cash, shares and share linked instruments, other forms)	Fixed remuneration : Tk. 217.74 Crore Variable remuneration awards: Tk.11.18 Crore All remuneration awards are Non-deferred and cash based *performance based incentive bonus is considered as variable remuneration awards.
(k)	Quantitative information about employees' exposure to implicit (eg. fluctuations in the value of shares or performance units) and explicit adjustments (eg. claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration	Not Applicable for The Premier Bank Ltd