Probashi Kallyan Bank

Disclosure on Risk Based Capital Under BASEL III
As on 30th June, 2023 (Based on Audited Financial Report)

Qualitative and Quantitative Disclosures

The following disclosure has been made in accordance with the Bangladesh Bank BRPD Circular No-18 dated 21 December 2014 as guidelines on "Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in Line with Basel III ". The purpose of this disclosure is to complement the minimum capital requirements and the supervisory review process. It aims to establish more transparent and more disciplined financial market so that stakeholders can assess the position of the bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to put back probable losses of assets. With a view to attain the purposes Probashi Kallyan Bank (PKB) has developed a set of disclosure containing the key pieces of information on the assets, risk exposures, risk assessment processes overall the capital adequacy to mitigate the looming risks.

a) Scope of application:

Qualitative Disclosures	(a)	**The name of the top corporate entity in the group to which this guidelines applies :** ❖ Probashi Kallyan Bank (PKB) is a scheduled state owned specialized Bank established under Govt. gazette notification dated 12 October 2010 under Probashi Kallyan Bank Act 2010 (Act no. 55 of 2010). The requirements of the Banking Companies Act and other prevailing Regulations related to the Banking Companies Act are applicable to the Bank. ❖ PKB started functioning on 20 April 2011. The Head Office of the bank is stationed at Dhaka. The branch network comprises of 120 branches at the reporting date. ❖ PKB provide collateral free loan to migrant workers for employment, provide loan to returnees to help them out employment within the country, facilitate sending remittance and encourage the wage-earners to invest in the country related to socio-economic development and poverty alleviation programs.
	(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) :** ❖ The Bank prepares solo basis financial statements.

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b) Capital structure

Qualitative Disclosures (a)

Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET-1 or Tier 2 :

- The composition of regulatory capital is different from that of accounting capital in line with Basel regime. The terms and conditions of the main features of all capital instruments have been segregated in line with the eligibility criteria set forth vide BRPD Circular No. 18 dated 21 December, 2014 and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments of the bank are:

  Tier 1 capital instruments

  Paid-up capital: Probashi Kallyan Bank is a scheduled specialized state owned Bank. Its authorized capital is approved and Paid up Capital is being paid by government.

  General Reserve: All types of reserve (general & special) are created through Profit and Loss Account for fulfilling the specific purpose.

  Retained Earnings: Amount of Loss is retained with the banking company after meeting up all expenses and provisions.

  Tier 2 capital instruments

  General provision maintained against unclassified loans: As per Bangladesh Bank BRPD Circular No. 05, dated 31.05.2016, the entire general provision maintained against unclassified loans and advances is considered as Tier-2 capital.

Quantitative Disclosures	(b)	Capital Structure of the bank	Taka In crore
	1.	**Tier 1 capital:**	
	a.	Paid up capital	500.00
	b.	Statutory reserve	55.67
	c.	General reserve	30.17
	d.	Retained earnings	36.79
	e.	Others (if any item approved by BB)	513.97
		Regulatory Adjustment (Deferred Tax Assets)	-19.45
		Total of Tier 1 Capital /CET-1	1,117.15
	2.	**Tier 2 Capital:**	
	a.	General Provision against UC loan	14.72
		Total Tier 2 Capital	14.72
	3.	**Total amount of eligible capital.**	**1131.87**

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c) Capital Adequacy

Qualitative Disclosures	(a)	**A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities :** ❖ Capital Adequacy is the cushion required to be maintained for covering the credit risk, market risk and operational risk with a view to protecting the depositor's and general creditor's interest against such losses. In line with BRPD Circular No. 18 dated 21 December, 2014 [Guidelines on Risk Based Capital Adequacy (Revised regulatory Capital Framework for banks in line with Basel III)] the bank has adopted Standardized Approach for Credit Risk and Market Risk, Basic Indicator Approach for Operational Risk for computing Capital Adequacy. ❖ In Parallel to business growth, the bank effectively manage its capital to meet regulatory requirement considering the risk profile. Below the few highlight: ❖ Currently Bangladesh bank prescribed Minimum Capital to Risk Weighed Assets Ratio (CRAR) is 10% whereas as June 2023 the CRAR of the Bank was 53.44%. ❖ During the same period Minimum Capital Requirement (MCR) of the Bank was BDT 500.00 Crore and eligible Capital was BDT 1131.87 crore.	
Quantitative Disclosures	(b)	Capital requirement for Credit Risk	2103.49
	(c)	Capital requirement for Market Risk	0.20
	(d)	Capital requirement for Operational Risk	82.31
	(e)	Total Minimum Capital Required (MCR) as per Basel III	500.00
	(f)	Total and Tier 1 capital ratio:	
		Capital to Risk Weighted Asset Ratio (CRAR)	53.44%
		Tier 1 Capital to Risk Weighted Asset	52.77%

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d) Credit Risk:

Qualitative Disclosures	(a)	**The general qualitative disclosure requirement with respect to credit risk, including :** **Discussion on the bank's credit risk management policy :** ❖ Credit risk is the potential that a bank's borrower or counterparty fails to meet its obligations in accordance with the agreed terms. Bank is exposed to credit risk from its dealing with or lending to corporate, individuals and other banks or financial institutions. ❖ The Bank has a well-structured delegation of credit approval authority for ensuring good governance and better control in credit approval system. Considering the key elements of credit risk, the bank has established Lending Policy Manual in line with the Bank's Credit Risk Management (CRM) guideline. ❖ The Board approves the credit policy keeping in accordance with Bangladesh Bank guidelines to ensure the best practice in credit risk management and to maintain quality of assets. Loans and Advances Department at head office dedicated to credit risk management and perfection of securities. There are also Loan Recovery & Law Department for monitoring irregularities and recovering loans. Loan Recovery & Law Department of the bank independently assesses Quality & compliance status of loans. Adequate provision is maintained against loans as per Bangladesh Bank guidelines. Statuses of loans are regularly reported to the Bank Management and Board of Directors.

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Definitions of past due and impaired Credit (accounting purposes)

- All loans and advances are classified into performing and non- performing (NPL) in accordance with the Bangladesh Bank guidelines in this respect. An impaired credit is defined as a loan or an advance where interest and/or installment of principal remain overdue for more than 90 days in respect of Continuous credit, Demand loan and Term Loan etc.

  Classified loan is categorized under following 03 (three) categories:
  > Sub-standard
  > Doubtful
  > Bad & Loss

- ✓ Any **Continuous Loan** will be classified as:
  > "Sub-standard" if it is past due/overdue for 03 months or beyond but less than 09 months.
  > "Doubtful" if it is past due/overdue for 09 months or beyond but less than 12 months.
  > "Bad/Loss" if it is past due/overdue for 12 months or beyond.

- ✓ In case of **Fixed Term Loan** installment or part of installment is not repaid/renewed within the due date given by the bank, the amount of such loan will be considered as overdue after expiring 6 months from the due date :
  > If the amount of past due or overdue installment is equal to or more than the amount of installment(s) due for 03 months or beyond but less than 09 months, the entire loan will be classified as "Sub-standard".
  > If the amount of past due or overdue installment is equal to or more than the amount of installment(s) due for 09 months or beyond but less than 12 months, the entire loan will be classified as "Doubtful".
  > If the amount of past due or overdue installment is equal to or more than the amount of installment(s) due for 12 months or more, the entire loan will be classified as "Bad/Loss".

- ✓ **The Short-term Agricultural and Micro-Credit** will be considered irregular if not repaid within the due date as stipulated in the loan agreement. If the said irregular status continues, the credit will be classified as "Substandard" after a period of 12 months, as 'Doubtful' after a period of 36 months and as 'Bad/Loss' after a period of 60 months from the stipulated due date as per the loan agreement.

✓ Any Continuous Loan, Demand Loan, Fixed Term Loan of **Cottage, Micro and Small credits under CMSME** will be classified as:

> "Sub-standard" if any installment(s)/ part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 06 months or beyond but less than 18 months.

> "Doubtful" if any installment(s)/part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 18 months or beyond but less than 30 months.

> "Bad/Loss if any installment(s)/part of installment(s) of a Fixed Term Loan remain(s) past due/overdue for a period of 30 months or beyond.

Description of approaches followed for specific and general provisions and statistical methods:

Particulars		Short Term Agri. Credit (%)	Other than HF & LP (%)	Credit Card (%)	HF (%)	LP (%)	SMEF (%)	Loans to BHs/MBs/ SDs against Shares (%)	All other Credit (%)
UC	**Standard**	1	5	2	2	2	0.25	2	1
	SMA	0	5	2	2	2	0.25	2	1
Classified	**SS**	5	20	20	20	20	20	20	20
	DF	5	50	50	50	50	50	50	50
	B/L	100	100	100	100	100	100	100	100

Quantitative Disclosures

(b) **Total gross credit risk exposures are segregated by major types of credit exposure :**

▪ Major types of credit exposure as per disclosure in the audited financial statements	Taka In crore
1. Migration Loan	1420.89
2. Rehabilitation Loan	142.38
3. Special Rehabilitation Loan	92.46
4. BB Ovibashi Brihot Poribar Loan	82.93
5. Self Employment Loan	29.58
6. Women Migration Loan	3.41
7. Women Rehabilitation Loan	1.19
8. Stuff Loan	6.45
Total:	1779.29

Quantitative Disclosures	(c)	**Geographical distribution of exposures are segregated in significant areas by major types of credit exposure :**	
		❖ Division wise Loans and Advances asper disclosure in the audited financial statements:	Taka In crore
		Inside Bangladesh	
		1. Dhaka	580.42
		2. Chottogram	350.26
		3. Khulna	226.13
		4. Rajshahi	162.78
		5. Sylhet	93.69
		6. Barisal	104.58
		7. Rangpur	149.01
		8. Mymensingh	112.42
		Total	**1779.29**
	(d)	**Industry or counterparty type distribution of exposures are segregated by major types of credit exposure :**	
		❖ Industry type exposures, as per disclosure in theaudited financial statements as on	In crore Taka
		1. Others	1779.29
		Total	**1779.29**
Quantitative Disclosures	(e)	**Residual maturity of the whole portfolio are segregated by major types of credit exposure :**	
		❖ Residual contractual maturity breakdown of the whole portfolio, as per disclosure in the auditedfinancial statements as on 30 June 2021.	Taka In crore
		1. On demand	-
		2. Within one to three months	307.63
		3. Within three to twelve months	550.10
		4. Within one to five years	920.35
		5. More than five years	1.21
		Total	**1779.29**

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	(f)	**By major industry or counterparty type :**	
		❖ Amount of impaired loans and if available, past due loans, provided separately;	Taka In crore
		1. Standard	1637.71
		2. Sub- Standard	89.26
		3. Doubtful	25.81
		4. Bad/Loss	19.86
		5. Staff loan	6.45
		❖ Specific and general provisions; ▪ Provision Maintained against Loans	48.41
	(g)	❖ Non Performing Loans (NPL)	134.93
		❖ Non Performing Loans (NPL) to Outstanding Loans & Advances	7.78%
		❖ Movement of Non Performing Assets (NPL)	
		▪ Opening balance	146.92
		▪ Additions	25.70
		▪ Reductions	(37.69)
		▪ Closing balance	134.93
		❖ **Movement of Specific Provisions for NPLs :**	
		▪ Opening balance	18.43
		▪ Additions	15.26
		▪ Adjusted during the year	0
		▪ Closing balance	33.69

e) Equities: Disclosures for Banking Book Positions:

Qualitative Disclosures	(a)	**The general qualitative disclosure requirement with respect to equity risk :** ❖ PKB has not invested in any equity share yet.
Quantitative Disclosures	(b)	**Value disclosed in the balance sheet of investments :** Details — Amount in crore Book Value — 0.00 Market Value — 0.00 Gain/Loss — 0.00 Maintained Provision for loss — 0.00

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f) Interest rate risk in the banking book (IRRBB):

<table>
<tr><td>Qualitative Disclosures</td><td>(a)</td><td>The general qualitative disclosure of IRRBB.
Interest rate risk in the banking book arises from mismatches between the future yield of assets and their funding costs. Interest rate risk is the potential that the value of the assets or liabilities of the bank would be negatively affected with the fluctuation of interest rates. Changes in interest rates also affect the underlying value of the bank assets, liabilities and off-balance sheet instruments because the economic value of future cash flows changes when interest rates changes. The bank uses quarterly basis simple sensitivity Analysis to determine its vulnerability against the adverse movement of market variables.</td></tr>
<tr><td>Quantitative Disclosures</td><td>(b)</td><td>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):
<table>
<tr><td>Sl. No</td><td>Particulars</td><td>Amount in Crore</td></tr>
<tr><td>01.</td><td>Risk Sensitive Assets up to 12 Month</td><td>1779.29</td></tr>
<tr><td>02.</td><td>Risk Sensitive Liabilities up to 12 Month</td><td>109.02</td></tr>
</table></td></tr>
</table>

g) Market Risk:

<table>
<tr><td>Qualitative Disclosures</td><td>(a)</td><td>Views of BOD on trading/investment activities
❖ Market Risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in different market variables, which arises due to Interest rate movements, foreign exchange rate movements, Equity price movements, Commodity price movements. The BOD of the Bank views the ' Market Risk' as the risk of the bank's earnings and Capital due to change in the market level of interest rates of securities, foreign exchange and equities as well as the volatilities of those changes.
Methods used to measure Market risk
❖ The Bank uses the standardized approach to calculate market riskfor trading book exposures.
Market Risk Management system
❖ ALCO is the key tool for managing market risk. An ALCO is inplace in the bank to administer the system.</td></tr>
</table>

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Quantitative Disclosures	(b)	**The capital requirements for :** □ Interest rate risk 0.00 □ Equity price risk 0.00 □ Foreign exchange risk 0.00 □ Commodity risk 0.00

h) Operational Risk:

Qualitative Disclosures	(a)	**Views of BoD on system to reduce Operational Risk :** ❖ Operational Risk arises from inadequate processes or systems, inefficient people or external causes, whether intentional, accidental or natural inherent in the bank's activities. The policy for operational risks including internal control & compliance risk is approved by theboard taking into account relevant guidelines of Bangladesh Bank. Audit committee of the Board directly oversees internal control & compliance activities to mitigate operational risk. **Performance gap of executives and staffs :** ❖ There is no material gap in the performance of executives and staffs,except a few exceptions. **Potential external events :** ❖ Probashi Kallyan Bank has developed manuals on Internal Control and Compliance where details of operational policies & Procedures have been stated. The bank regularly monitors and reviews the performance of employees both quantitatively and qualitatively through analysis of achievement of business target in various parameters and behavioral, strategic and leadership aspects through confidential evaluation process. **Policies and processes for mitigating operational risk :** ❖ The bank manages operational risk through a chain based process which is documented, authorized and independent. Policy guidelines on Internal Audit system of the bank is in operation. Branches are audited regularly by Audit Unit of Head Office. It is the policy of the bank to put all the branches of the bank under any form of audit at least once in a year. Internal audit and compliance related department/Unit (Compliance Department, Audit Unit and Monitoring Unit) report to the Audit Committee of the Board. Bank's Anti-Money laundering activities are headed by Head of Money

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		Laundering and Terrorist Financing Prevention & Branches Control Department, DCAMLCO who ensures protection against all money laundering and terrorist finance. There is no record of any money laundering and terrorist finance in the bank. Apart from that, there is adequate check & balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk. **Approach for calculating capital charge for operational risk :** Basic Indicator Approach (BIA) is used for calculating capital charge for operational risk.	
Quantitative Disclosures	(b)	**The capital requirements for operational risk**	Taka in crore
		▪ The capital requirements for operational risk	8.23

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i) Liquidity Ratio:

Qualitative Disclosures	(a)	**Views of BOD on system to reduce liquidity Risk :** ❖ Liquidity risk arises for the inability to meet financial demands which usually occurs due to the failure to convert hard asset to cash without a loss of capital and/or income in the process. PKB emphasizes on maintaining enough liquidity required at all times and in all circumstances. To ensure proper liquidity management PKB has adopted the Basel III framework on liquidity standards as prescribed by Bangladesh Bank (BB) and put in place required systems and processes to enable periodical computation and reporting of the Liquidity Coverage Ratio (LCR) & Net Stable Funding Ratio (NSFR). Central Accounts Department computes the LCR & NSFR and reports the same to the bank management. Liquidity position of the bank is regularly informed to the Board of Director. **Methods used to measure liquidity Risk :** ❖ Following methods are used to measure liquidity risk - Liquidity Coverage Ratio (LCR) - Net Stable Funding Ratio (NSFR) - Cash Reserve Ratio (CRR), - Medium Term Funding Ratio (MTFR) - Maximum Cumulative Outflow (MCO) - Advance Deposit Ratio (ADR) **Liquidity Risk Management system :** ❖ Central Accounts-department of the Bank manages liquidity risk with oversight from Assets-Liability Management Committee (ALCO) comprising senior executives of the Bank headed by the managing Director. ALCO meets once in a month to review strategies on Asset Liability Management.

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j) Leverage Ratio:

Qualitative Disclosures	(a)	**Views of Board of Directors on system to reduce excessive leverage :** ❖ Leverage ratio is introduced in the Basel-III framework to supplement risk-based capital requirements to avoid building up excessive on and off-balance sheet leverage in the banking system. In line with the BASEL III guidelines, PKB emphasizes on improving Leverage Ratio by enhancing Common Equity Tier-1 capital. **Policies and process for managing excessive on and off balance sheet leverage :** ❖ Leverage ratio is calculated dividing the Tier 1 Capital by the total Exposure (after related deduction). Tier 1 Capital is calculated as per BASEL III guidelines. In the case of exposure measurement, PKB includes both on and off balance sheet exposure. **Approach for calculating exposure :** ❖ Leverage ratio of the bank has been worked out under the Basic Indicator Approach of RBCA guidelines in Solo-Basis.
Quantitative Disclosures	(b)	Leverage Ratio 52.05% Total Tier -1 Capital 1153.54 On balance sheet exposure (after related deduction) 2216.81 Crore Off balance sheet exposure 0.00 Crore Total exposure (after related deduction) 2216.32 Crore

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k) Remuneration:

Qualitative Disclosures	(a)	**Information relating to the bodies that oversee remuneration:** ❖ At the management level, primarily Personnel Management Department oversees the 'remuneration' in line with the National pay scale 2015. **External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process :** ❖ Since the bank follows the national pay scale-2015, it requires no advice with regard to the remuneration process from any external consultant and therefore, no commission to this effect is paid toany agencies. **A description of the scope of the bank's remuneration policy (e,g, by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches :** ❖ There is no foreign subsidiary and branch of The bank. Its branches as well as controlling offices are located in Dhaka division of the country. The remuneration policy follows uniform rule of the national pay scale and does not change due to the employees working at diversified geographical locations.
	(b)	**Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that was made :** ❖ As a state owned bank, PKB follows National Pay Scale/2015 from 1st July 2015. Therefore, it cannot review the remuneration policy and make any change to the said policy.
	(c)	**An overview of main performance metrics for bank, top-level business lines and individuals :** ❖ All employees of the bank (including those working in controlling offices) have been imposed a yearly target of loan disbursement and loan recovery (related personnel). But the target achievement does not affect in the remuneration policy of the bank.

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Quantitative Disclosures	(a)	**Number of meeting held by the main body overseeing remuneration during the financial year and remuneration paid to its member :** ❖ Not Applicable
	(b)	**Number of employees having received a variable remuneration award during the financial year :** ❖ Since PKB follows Government remuneration Policy, no variable remuneration policy exists in the bank. **Number and total amount of guaranteed bonuses awarded during financial year :** ❖ Two guaranteed Festival Bonus as well as a Boishakhi Bonus are awarded during the year. In addition to these, every year an incentive bonus is awarded which is subject to the government approval. In the reporting period a total amount of tk. 2.58 crore have been awarded in the form of festival bonuses and Boishakhi bonus. In addition to this, a total amount of tk. 6.73 crore has been preserved for incentive bonus which would be provided after govt. approval.
	(c)	**Total amount of outstanding deferred remuneration, split into cash, share and share-linked instruments and other forms :** ❖ The remuneration of the employees is paid only in the form of cash.

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