

# Prime Finance & Investment Limited

## Disclosures on

### Capital Adequacy and Market Discipline - Pillar III Based on 31 December, 2023

This disclosure is given as per the requirement of Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline (CAMD) for Financial Institutions. The disclosure framework of the company containing the key pieces of information on the assets, risk exposures, risk assessment processes, and the capital adequacy to meet the risks is given below:

#### A. Scope of application

	<p>a) The name of the top corporate entity in the group to which this guidelines applies.</p> <p>Prime Finance &amp; Investment Limited</p> <p>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> <p>Prime Finance has one subsidiary company to include for preparation of consolidated financial statements as per Bangladesh Financial Reporting Standard (BFRS) 10, 'Consolidated Financial Statements'. The consolidation of the financial statements has been prepared by using uniform accounting policies and after eliminating all material intra group balances, income and expenses arising from intra-group transactions. Besides, Prime Finance has 03 (three) associate companies. The results of operations of the associates have been included in these financial statements following the equity method of accounting as per Bangladesh Accounting Standard (BAS) 28, 'Investment in associates'. A brief description of the companies is described below:</p> <p><b>Prime Finance capital management Limited</b> (Subsidiary Company)</p> <p>Prime Finance Capital Management Limited is a public limited company incorporated on 18 March 2010 in Bangladesh under the Companies Act 1994. The main objectives of the company are to carry on business of merchant banking. Prime Finance holds 60 percent shares in its subsidiary.</p> <p><b>PFI Securities Limited</b> (Associate Company)</p> <p>PFI Securities Limited is a public limited company incorporated in Bangladesh on 06 August 1997 under the Companies Act 1994. The principal activity of the company is to carry on stock brokerage activities having DSE's TREC No. 079. Prime Finance holds 46.15 percents shares in PFI Securities Limited.</p> <p><b>Prime Finance asset management company Limited</b> (Associate Company)</p> <p>Prime Finance Asset Management Company Limited was incorporated in Bangladesh on 09 June 2008 as a public limited company incorporated under the Companies Act 1994 and licensed under the BSEC. The main objective of the company is to manage the assets of any Trust or Fund</p>

	<p>of any type and/or character and hold, acquire, sell or deal in such asset or any trust funds, take part in the management of any mutual fund operation. Prime Finance owns 49% shares in this company.</p> <p><b>Prime Prudential Fund Limited (Associate Company)</b></p> <p>Prime Prudential Fund Limited is a public limited company incorporated on 16 July 2009 in Bangladesh under the Companies Act 1994. The main objectives of the company are to manage funds of the company and its investors and provide other financial services including corporate advisory services, merger &amp; acquisition, equity investment, joint venture sourcing and consummation, corporate restructuring, financial and socio-economic consultancy, corporate research and project studies, privatization and other related services. Prime Finance owns 40% shares in this company.</p> <p>c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.</p> <p>Not Applicable.</p>
<b>Quantitative disclosures</b>	<p>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.</p> <p>Not Applicable.</p>

**b. capital structure**

<b>Qualitative disclosures</b>	<p>a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Tier 2.</p> <p>As per Prudential Guidelines on Capital Adequacy and Market Discipline for Financial Institutions, Tier-1 Capital of Prime Finance consists of (i) Fully Paid-up Capital, (ii) Statutory Reserve, (iii) Retained Earnings and (iv) Minority Interest in Subsidiaries.</p> <p>Tier-2 Capital consists of (i) General Provision against unclassified loans up to specified limit, SMA, Off-balance sheet exposures and 50% of Asset revaluation reserve.</p>																																			
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### c. capital adequacy

Qualitative disclosures	<p>a) A summary discussion of the FI's approach to assessing the adequacy of its capital to support current and future activities.</p> <p>Prime Finance 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.</p>																							
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### d. credit Risk

Qualitative disclosures	<p>a) The general qualitative disclosure requirement with respect to credit risk, including:</p> <ul style="list-style-type: none"> <li>• Definitions of past due and impaired (for accounting purposes)</li> </ul> <p>As per the Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline for Financial Institutions, the unsecured portion of any claim or exposure (other than claims secured by residential property) that is past due for 90 days or more, net of specific provisions (including partial write-off) will be risk weighted as per risk weights of respective balance sheet exposures. For the purpose of defining the net exposure of the past due loan, eligible financial collateral (if any) may be considered for Credit Risk Mitigation.</p> <ul style="list-style-type: none"> <li>• Description of approaches followed for specific and general allowances and statistical methods</li> </ul> <p>Specific and General provisions are maintained according to the relevant Bangladesh Bank guideline. For example, 0.25% provision is maintained against SME-Standard loan/ lease, 1% provision is maintained against good loans (other than SME Standard loan/ lease, 5% against SMA loan/ lease, 20% against sub-standard loan/ lease, 50% against doubtful loan/ lease and 100% against bad/loss loan/ lease after deducting the amount of interest suspense and value of eligible securities from the outstanding balance of classified accounts.</p> <ul style="list-style-type: none"> <li>• Discussion of the FI's credit risk management policy.</li> </ul> <p>To come across and mitigate credit risk the following control measures are taken place at Prime Finance:</p> <ol style="list-style-type: none"> <li>1. Looking into payment performance of customer before financing;</li> <li>2. Annual review of clients;</li> <li>3. Adequate insurance coverage for funded assets;</li> <li>4. Vigorous monitoring and follow up by Special Assets Management and Recovery Team;</li> <li>5. Strong follow up of compliance of credit policies by CRM Department;</li> </ol>
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	<p>6. Taking collateral and performing valuation and legal vetting on the proposed collateral;</p> <p>7. Seeking legal opinion from internal and external lawyer for any legal issues;</p> <p>8. Separate Credit Risk Management (CRM) Department;</p> <p>9. Following arm's length approach in related party transactions;</p> <p>10. Regular review of market situation and industry exposure;</p> <p>11. Sector-wise portfolio is maintained within specific limits to ensure diversification of loan assets.</p> <p>12. Early Warning System as well as NPL Management System;</p> <p>13. Independent Internal Control and Compliances Department (ICC)</p> <p>For assessing, identifying and measuring risks, Prime Finance also considers Guidelines for Managing Core Risks of financial institutions issued by the Bangladesh Bank; vide FID Circular No. 10 dated September 18, 2005 for management of risks.</p>																																																
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i. Pharmaceuticals and chemicals	7.88
ii. Cement and allied industry	-
iii. Telecommunication and information technology	0.08
iv. Paper, printing and packaging	8.56
v. Glass, glassware and ceramic industry	-
vi. Ship manufacturing industry	-
i. Electronics and electrical products	-
ii. Power, gas, water and sanitary service	0.05
iii. Transport and aviation	3.64
<b>agriculture</b>	<b>22.74</b>
<b>housing</b>	<b>13.86</b>
<b>Others:</b>	
i. Merchant banking	249.08
ii. Margin Loan	-
iii. Others	51.28
<b>grand Total</b>	<b>1,127.78</b>

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

<b>Period</b>	<b>amount in crore (Tk)</b>
Repayable on demand	-
Over 1 month but not more than 3 months	2.32
Over 3 months but not more than 1 year	172.65
Over 1 year but not more than 5 years	415.72
Over 5 years	537.08
<b>Total</b>	<b>1,127.78</b>

f) By major industry or counterparty type:

• Amount of impaired loans and if available, past due loans, provided separately:

The amount of impaired loans, leases and advances of the company are given below as per Bangladesh Bank guidelines.

<b>Particulars</b>	<b>amount in crore (Tk)</b>
Lease Finance	10.77
Term Finance	1,098.46
Real Estate Finance	4.91
Housing Finance	8.95
Other Finance	4.69
<b>Total</b>	<b>1,127.78</b>

• Specific and general provisions:

Specific and general provisions were made on the amount of classified and unclassified loans, advances and leases, and diminution in value of investment of the company according to the Bangladesh Bank guidelines.

<b>Particulars</b>	<b>amount in crore (Tk)</b>
Provision on classified loans, advances and leases	201.15
Provision on unclassified loans, advances and leases	6.19
Provision for diminution in value of investments	36.52
<b>Total</b>	<b>243.86</b>

•Charges for specific allowances and charge-offs during the period: Movement of Non Performing Assets (NPA)

<b>Particulars</b>	<b>amount in crore (Tk)</b>
Opening Balance	726.64
Addition/adjustment during the year	39.12
<b>closing balance</b>	<b>765.76</b>

Movement of specific provisions for NPAs

<b>Particulars</b>	<b>amount in crore (Tk)</b>
Opening balance	92.68
Provisions made during the period	108.47
Write-off	-
Write-back of excess provisions	-
<b>closing balance</b>	<b>201.15</b>

g) Gross Non Performing Assets ( NPAs)

Non Performing Assets (NPAs) to Outstanding Loans & advances:

**movement of non Performing assets (nPa)**

<b>Particulars</b>	<b>amount in crore (Tk)</b>
Opening Balance	726.64
Addition/adjustment during the year	39.12
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<b>Particulars</b>	<b>amount in crore (Tk)</b>
Opening balance	92.68
Provisions made during the period	108.47
Write-off	-
Write-back of excess provisions	-
<b>closing balance</b>	<b>201.15</b>

## E. Equities: banking book positions

Qualitative disclosures	<p>a) The general qualitative disclosure requirement with respect to equity risk, including:</p> <ul style="list-style-type: none"> <li>• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</li> </ul> <p>Investment in equity securities are broadly categorized into two parts:</p> <p>i. Quoted Securities (Common &amp; Mutual Fund) that are traded in the secondary market (Trading Book Assets).</p> <p>ii. Unquoted securities are categorized as banking book equity exposures which are further sub-divided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future i.e. held to maturity (HTM), and securities those are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Unquoted securities are valued at cost.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul> <p>Quoted shares are valued at cost prices and if the market value of shares is lower than the cost of shares, then provision are maintained as per terms and condition of regulatory authority. On the other hand, unquoted share is valued at cost price or book value as per latest audited accounts.</p>																																				
Quantitative disclosures	<p>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.</p> <table border="1"> <thead> <tr> <th rowspan="2">Particulars</th> <th colspan="2">amount in crore (Tk)</th> </tr> <tr> <th>consolidated</th> <th>Solo</th> </tr> </thead> <tbody> <tr> <td>Quoted shares</td> <td>79.80</td> <td>14.57</td> </tr> <tr> <td>Unquoted shares</td> <td>5.24</td> <td>4.74</td> </tr> </tbody> </table> <p>c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.</p> <table border="1"> <thead> <tr> <th rowspan="2">Particulars</th> <th colspan="2">amount in crore (Tk)</th> </tr> <tr> <th>consolidated</th> <th>Solo</th> </tr> </thead> <tbody> <tr> <td>Quoted shares</td> <td>0.93</td> <td>0.45</td> </tr> <tr> <td>Unquoted shares</td> <td>-</td> <td>-</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th rowspan="2">Particulars</th> <th colspan="2">amount in crore (Tk)</th> </tr> <tr> <th>consolidated</th> <th>Solo</th> </tr> </thead> <tbody> <tr> <td>d) Total unrealized gains (losses)</td> <td>(3.39)</td> <td>(24.23)</td> </tr> <tr> <td>Total latent revaluation gains (losses)</td> <td></td> <td>-</td> </tr> <tr> <td>Any amounts of the above included in Tier 2 capital</td> <td>(3.39)</td> <td>(24.23)</td> </tr> </tbody> </table>	Particulars	amount in crore (Tk)		consolidated	Solo	Quoted shares	79.80	14.57	Unquoted shares	5.24	4.74	Particulars	amount in crore (Tk)		consolidated	Solo	Quoted shares	0.93	0.45	Unquoted shares	-	-	Particulars	amount in crore (Tk)		consolidated	Solo	d) Total unrealized gains (losses)	(3.39)	(24.23)	Total latent revaluation gains (losses)		-	Any amounts of the above included in Tier 2 capital	(3.39)	(24.23)
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	e) Capital requirements broken down by appropriate equity groupings, consistent with the FI'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)		
	<b>Particulars</b>	<b>amount in crore (Tk)</b>	
		<b>consolidated</b>	<b>Solo</b>
	Specific risk	5.56	1.12
General market risk	5.56	1.12	

## F. Interest rate in the banking book

<b>Qualitative disclosures</b>	<p>a) The general qualitative disclosure requirement including the nature of interest risk and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits. Interest rate risk is the risk where changes in market interest rates might adversely affect a company's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as well as the net worth of the company (economic value perspective). Re-pricing risk is often the most apparent source of interest rate risk for a company and is often gauged by comparing the volume of a company's assets that mature or re-price within a given time period with the volume of liabilities that do so.</p> <p>The short term impact of changes in interest rates is on the company'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 company arising out of all re-pricing mismatches and other interest rate sensitive position.</p>					
	<p>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 interest rate risk broken down by currency (as relevant).</p>					
<b>Quantitative disclosures</b>	<b>Maturity wise Distribution of Assets-Liabilities</b>					
	<b>Particulars</b>	1 to 30/31 day (One month)	Over 1 months to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 1 year
	a. Total rate sensitive liabilities	15.09	17.55	16.71	57.82	88.24
	b. Total rate sensitive assets	20.36	16.22	10.21	38.04	123.67
	c. Mismatch	5.27	-1.33	-6.50	-19.79	-35.43
	d. Cumulative mismatch	5.27	3.95	-2.55	-22.34	-13.09
	e. Mismatch (%)	34.94%	-7.56%	-38.88%	-34.22%	-40.15%
	<b>Interest Rate Risk</b>					
		<b>amount in crore (Tk) (except %)</b>				
	Magnitude of Shock	Minor	Moderate	Major		
		2%	4%	6%		
	Change in the Value of Bond Portfolio	0.00	0.00	0.00		
Net Interest Income (BDT in crore)	0.26	0.52	0.79			
Revised Regulatory Capital (BDT in Crore)	276.47	276.73	276.99			
Risk Weighted Assets (BDT in crore)	1,263.79	1,263.79	1,263.79			
Revised CAR (%)	21.88%	21.90%	21.92%			

## g. market risk

### Qualitative disclosures

#### a) Views of Board of Directors (BOD) on trading/ investment activities.

Market risk is the possibility of losses of assets in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e., interest rate. All the Market Risk related policies/guidelines are duly approved by BOD. The BOD sets limit and review and updates the compliance on regular basis aiming to mitigate the Market risk.

#### • Methods used to measure Market risk.

As per Bangladesh Bank guidelines, Prime Finance applies Standardized Approach for credit risk capital requirement for banking book and Standardized (rule based) Approach for market risk capital charge in their trading book.

#### • Market Risk Management system.

Prime Finance's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardizing the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to control market risk exposures within a tolerable level and maximize risk-adjusted return according to the company's risk appetite.

The Board of Directors assumes the ultimate responsibility to the implementation and monitoring of market risk management. The Senior Management is responsible to execute the strategies, overall policy and system regarding market risk management approved by the Board of Directors. The Market Risk Management Committee of the Senior Management is the review and decision-making organ of the company in respect of market risk management, and is responsible for reviewing important matters of market risk management, and performs its duty in accordance with the Working Regulations for the Market Risk Management Committee. The market risk management teams at different levels are responsible for coordinating the market risk management at respective levels, and the business departments play their roles in implementing market risk management policies and standards in respective business areas.

#### • Policies and processes for mitigating market risk.

To mitigate the several market risks the Prime Finance formed Asset Liability Management Committee (ALCO) who monitors the Treasury Department's activities to minimize the market risk. ALCO is primarily responsible for establishing the market risk management and asset liability management of the company, 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 are adhere to.

Quantitative disclosures	b) The capital requirements for: market risk broken down by currency (as relevant).		
	<b>Particulars</b>	<b>amount in crore (Tk)</b>	
		<b>consolidated</b>	<b>Solo</b>
	Interest rate risk	-	-
	Equity position risk	111.13	22.38
Foreign Exchange Position and Commodity risk (if any)	-	-	

#### h. Operational risk

Qualitative disclosures	<p>a) Views of BOD on system to reduce Operational Risk</p> <p>Operational risk is defined as the risk of loss resulting from insufficient or problematic internal processes, employees and IT systems or from external events, including legal risk, but excluding strategic and reputational risk. There are some major types of operational risks faced by the company, including internal fraud, external fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, IT system events and execution, delivery and process management. Among these, the execution, delivery and process management and external fraud constitute major sources of operational risk losses of the company.</p> <p><b>Performance gap of executives and staffs.</b></p> <p>Prime Finance is an equal opportunity employer. At Prime Finance we recognize the importance of having the right people at right positions to achieve organizational goals. Our recruitment and selection is governed by the philosophies of fairness, transparency and diversity. Understanding what is working well and what requires further support is essential to our performance management system. The performance management process aims to clarify what is expected from employees as well as how it is to be achieved. We aim to foster a sense of pride in working for Prime Finance and to be the employer of choice. As such there exists no performance gap in Prime Finance.</p> <p><b>Potential external events.</b></p> <p>We understand that business operates in an umbrella of inter connected socio-economic and political environment. Few externalities affect business performance directly such as macro-economic conditions, regulatory changes, change in demand, status of infrastructure whereas few factors affect operations of the business directly or indirectly such as force shut down due to political instability etc.</p> <p><b>Policies and processes for mitigating operational risk.</b></p> <p>Prime Finance has also established Internal Control and Compliances Department (ICC) to address operational risk and to frame and implement policies to encounter such risks. ICC assesses operational risk across the Company as a whole and ensures that an appropriate framework exists to identify, assess and manage operational risk. Prime Finance uses basic indicator approach for calculation capital charge against operational risk i.e. 15% of average positive annual gross income of the company over last three years.</p>										
	Quantitative	<p>b) The capital requirements for operational risk:</p> <table border="1"> <thead> <tr> <td rowspan="2"><b>Particulars</b></td> <td colspan="2" style="text-align: center;"><b>amount in crore (Tk)</b></td> </tr> <tr> <td style="text-align: center;"><b>consolidated</b></td> <td style="text-align: center;"><b>Solo</b></td> </tr> </thead> <tbody> <tr> <td>Capital requirements for operational risk</td> <td style="text-align: center;">16.02</td> <td style="text-align: center;">11.35</td> </tr> </tbody> </table>			<b>Particulars</b>	<b>amount in crore (Tk)</b>		<b>consolidated</b>	<b>Solo</b>	Capital requirements for operational risk	16.02
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