Financial Statements

for the year ended 31 December 2022

e) Loans and advances/investments are written-off when there is no realistic prospect of recovery of these amounts and in accordance with BRPD circular No.01 (06 February 2019), BRPD circular No.13 (07 November 2013) and BRPD circular No.2 (13 January 2003). These write-offs however will not undermine/affect the claim amount against the borrowers. Detailed memorandum records for all such write off accounts are meticulously maintained and followed up.

f) Amounts receivable on credit cards are included in loans and advances to customers at the amounts expected to be recovered.

2.2.3 Investments

All investment securities are initially recognized at cost, being fair value of the consideration given, including acquisition charges associated with the investment. Premiums are amortized and discounts accredited, using the effective yield method are taken to discount income. The valuation method of investments used are:

Held to maturity (HTM)

Investments which have 'fixed or determinable payments', and are intended to be 'held to maturity', other than those that meet the definition of 'held at amortized cost-others' are classified as held to maturity. Investment (HTM) is shown in the financial statements at cost price.

Held for trading (HFT)

Investments classified in this category are acquired principally for the purpose of selling or repurchasing -in short-trading or if designated as such by the management. After initial recognition, investments are measured at market value and any change in the market value is recognized in the profit and loss account for the period in which it arises. These investments are subsequently revalued at current market value on a weekly basis as per Bangladesh Bank Guideline. Revaluation gain has been shown in the revaluation reserve account & revaluation loss has been shown in Profit & Loss account.

Value of investments has been enumerated as follows ;

Items	Applicable accounting value
Government treasury bills-HTM	Amortized value
Government treasury bills-HFT	Market value
Government treasury bonds-HTM	Amortized value
Government treasury bonds-HFT	Market value
Prize bond	At cost

Investment in listed securities

These securities are bought and held primarily for the purpose of selling them in future, or held for dividend income. These are reported at cost. Unrealized gains are not recognized in the profit and loss account. But provision for diminution in value of the investment is provided in the financial statements where market price is below the cost price of investments as per Bangladesh Bank guideline **(note-14a)**.

Investment in unquoted securities

Investment in unlisted securities is reported at cost under cost method. Adjustment is given for any shortage of book value over cost for determining the carrying amount of investment in unlisted securities.

Investments in subsidiary

Investment in subsidiaries is accounted for under the cost method of accounting in the Bank's financial statements in accordance with the IAS-27. Accordingly, investments in subsidiaries are stated in the Bank's balance sheet at cost.

2.2.4 Property, plant and equipment

Property, plant & equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Bank and the cost of the assets can be reliably measured.

a) All fixed assets are stated at cost/revalued amount less accumulated depreciation as per IAS-16 " Property, Plant and Equipment". The cost of acquisition of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition for its intended use inclusive of inward freight, duties and non-refundable taxes.

b) The Bank recognizes, in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is normally charged off as revenue expenditure in the period in which it is incurred.

c) Revaluation of Land and Building: As per International Accounting Standard (IAS-16) revaluation should be made with sufficient regulatory compliance to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. The fair value of Land and Buildings is usually determined from market-based evidence by an appraisal that is normally undertaken by professionally qualified Valuers. Such revaluation reserves are transferred to retained earnings at the time of disposal/adjustment of the relevant assets.

d) Depreciation is charged for the year at the following rates on reducing balance method on all fixed assets other than vehicles and all fixed assets of ATM related on which straight line depreciation method is followed and no depreciation is charged on land:

Category of fixed assets	Rate
Land	Nil
Buildings	2.50%
Furniture and fixtures	10%
Office equipment	20%
Vehicles	20%
Furniture and fixtures (ATM)	10%
Office equipment (ATM)	20%

e) For additions during the year, depreciation is charged from the date of recognition to remaining days of the year and for disposal depreciation is charged up to the date of disposal.

f) On disposal of fixed assets, the cost and accumulated depreciation are eliminated from the fixed assets schedule and gain or loss on such disposal is reflected in the profit and loss account, which is determined with reference to the net book value of the assets and net sale proceeds.

g) Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset as per IAS-23.

2.2.5 Intangible assets

a) An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably.

b) Software represents the value of computer application software licensed for use of the Bank, other than software applied to the operation software system of computers. Intangible assets are carried at its cost, less accumulated amortization and any impairment losses.

Initial cost comprises license fees paid at the time of purchase and other directly attributable expenditure that are incurred in customizing the software for its intended use.

c) Expenditure incurred on software is capitalized only when it enhances and extends the economic benefits of computer software beyond their original specifications and lives and such cost is recognized as capital improvement and added to the original cost of software.

d) Software is amortized using the straight line method over the estimated useful life of 10 (ten) years commencing from the date of the application. Software is available for use over its useful economic life.

2.2.6 Impairment of Assets:

The Bank assesses at the end of each reporting period or more frequently if events or changes in circumstances indicate that the carrying value of an asset may be impaired, whether there is any indication that an asset may be impaired. If any such indication exits, or when an annual impairment testing for an asset is required, the bank makes an estimate of the asset's recoverable amount. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered as impaired and is written down to its recoverable amount by debiting to the profit & loss account.

Fixed assets are reviewed for impairment whenever events or charges in the circumstances indicate that the carrying amount of an asset may be impaired.

2.2.7 Other assets

Other assets include all balance sheet accounts not covered specifically in other areas of the supervisory activity and such accounts may be quite insignificant in the overall financial condition of the Bank.

2.2.8 Securities purchased under re-sale agreement

Securities purchased under re-sale agreements are treated as collateralized lending and recorded at the consideration paid and interest accrued thereon. The amount lent is shown as an asset either as loans and advances to customers or loans to other banks.

The difference between purchase price and re-sale price is treated as interest received and accrued evenly over the life of Repo agreement.

2.2.9 Receivables

Receivables are recognized when there is a contractual right to receive cash or another financial asset from another entity.

2.2.10 Leasing

IFRS 16 Leases, defines a lease as "A contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration". In order for such a contract to exist the user of the asset needs to have the right to:

- obtain substantially all the economic benefits from the use of asset (identifiable asset)
- direct the use of asset

The Bank as a Lessor (Note 7a.2)

Amount due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the leases (note-7a.2). Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

The Bank as a lessee (Note 9.a)

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Bank assesses whether the contract meets two key evaluations which are whether:

• the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank

• the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis over the remaining useful life of the asset. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit and loss account on a straight-line basis over the lease term.

On the balance sheet, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in other liabilities.

2.2.11 Non-banking assets

Non-banking assets are acquired on account of the failure of a borrower to repay the loan on time after receiving the decree from the Court regarding the right and title of the mortgage property. The Bank has been awarded ownership of the mortgage properties according to the verdict of the Honorable Court in accordance with the section 33 (7) of "Artharin Adalat-2003". The value of Non-banking Assets has been determined and reported in the financial statements on the basis of the valuation report of an independent valuer, details of which is presented in **note-11.**

2.2.12 Reconciliation of inter-bank and inter-branch account

Accounts with regard to inter-bank (in Bangladesh and outside Bangladesh) are reconciled regularly and there are no material differences which may affect the financial statements significantly. Un-reconciled entries / balances in the case of inter-branch transactions as on the reporting date are not material.

2.3 Share Capital

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

2.3.1 Authorized Capital

Authorized capital is the maximum amount of share capital that the Bank is authorized by its Memorandum and Articles of Association. Details are shown in note **15.1.**

2.3.2 Paid up Capital

Paid up capital represents total amount of shareholders' capital that has been paid in full by the ordinary shareholders. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at shareholders' meetings. In the event of a winding-up of the Bank, ordinary shareholders are ranked after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation. Details are shown in note **15.2.**

2.4 Statutory reserve

The Bank is required to transfer at least 20% of its profit before tax to the Statutory Reserve in accordance with provisions of section 24 of the Banking Companies Act, 1991. This is mandatory until such reserve is equal to the paid-up capital together with amount in the share premium account.

2.5 Revaluation reserve

When an asset's carrying amount is increased as a result of revaluation, the increased amount should be credited directly to equity under the head of the revaluation surplus / reserve as per IAS-16: "Property, Plant and Equipment". The Bank revalued its land and buildings during the year 2008, 2013 & 2022 which are absolutely owned by the Bank and the increased amount was transferred to revaluation reserve account accordingly. The tax effects on revaluation gain are measured and recognized in the financial statements as per IAS-12: Income Taxes.

2.5.1 Non controlling interest in subsidiaries

Non-controlling interest in business is an accounting concept that refers to the portion of a subsidiary corporation's stock that is not owned by the parent corporation. The magnitude of the non-controlling interest in the subsidiary company is always less than 50% of outstanding shares, else the corporation would cease to be a subsidiary of the parent. Non-controlling interest belongs to other investors and is reported on the consolidated balance sheet of the owning company to reflect the claim on assets belonging to other, non-controlling shareholders.

Also, non-controlling interest is reported on the consolidated profit and loss account as a share of profit belonging to non-controlling shareholders.

2.5.2 a) Prime Bank Sub-ordinated Bond-2

Prime Bank subordinated bond-2 was issued on February 19, 2015 after obtaining approval from Bangladesh Securities & Exchange Commission and Bangladesh Bank vide their letter BSEC/CI/DS-16/2014/735 dated October 29, 2014 and BRPD (BFIS) 661/14B (P)/2014-8043 dated December 18, 2014 respectively. The bond bears interest with floating rate payable semi-annually on 19th February and 19th August each year. Floating rate is determined by calculating a benchmark rate i.e. peer banks' most recent average FDR rate and 2.75% margin with a floor at 11.50% and capped at 14.00% p.a.

b) Prime Bank Sub-ordinated Bond-3

Prime Bank subordinated bond-3 was issued on August 12, 2018 after obtaining approval from Bangladesh Securities & Exchange Commission and Bangladesh Bank vide their letter BSEC/CI/DS-16/2014/230 dated April 03, 2018 and BRPD (BFIS) 661/14B (P)/2018-3296 dated May 22, 2018 respectively. The bond bears interest with floating rate payable semi-annually on 12 August and 12 February each year. Floating rate is determined by calculating a benchmark rate i.e. peer banks' most recent average FDR rate and 2.00% margin with a floor at 7.00% and capped at 10.50% p.a.

2.5.3 Share premium

Share premium is the capital that the Bank raises upon issuing shares that is in excess of the nominal value of the shares. The share premium may be applied by the Bank in paying up unissued shares to be allotted to members as fully paid bonus shares or writing-off the preliminary expenses of the Bank or the expenses of or the commission paid or discount allowed on, any issue of shares or debentures of the Bank or in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the Bank as per the provision of section 57 of the Companies Act 1994. Share premium was shown in accounts after deduction of income tax @ 3% on share premium as per finance Act-2010.

2.6 Contingent liabilities

A contingent liability is -

A possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or

A present obligation that arises from past events but is not recognized because:

a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

b) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized but disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is reliably estimated.

Contingent assets are not recognized in the financial statements as this may result in recognition of income which may never be realized.

2.7 Deposits and other accounts

Deposits by customers and banks are recognized when the Bank enters into contractual provisions of the arrangements with the counterparties, which is generally on trade date, and initially measured at the consideration received.

2.8 Borrowings from other banks, financial institutions and agents

Borrowed funds include call money deposits, borrowings, re-finance borrowings and other term borrowings from banks, financial institutions and agents. These are stated in the balance sheet at amounts payable. Interest paid / payable on these borrowings is charged to the profit & loss account.

Disclosures of borrowings against Repo are shown in notes- 6a.7 to 6a.8 and 47

2.9 Basis for valuation of liabilities and provisions

2.9.1 Provision for current taxation

Provision for current tax for the year has been made based on tax rates and tax laws which are enacted at the reporting date, including any adjustment for tax payable in previous periods. Provision for current income tax has been made @ 37.5% on the taxable business income, @ 20% on taxable dividend income and @ 10% on realized gain on trading of shares as prescribed in the Finance Act 2022.

2.9.2 Deferred taxation

Deferred tax is accounted for in accordance with IAS 12: "Income Taxes". Deferred tax assets and liability being recognized within the Statement of Financial Position. IAS 12 defines a deferred tax liability as being the amount of income tax payable in future periods. Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.9.3 Benefits to the employees

The benefits accrued for the employees of the Bank as on reporting date have been accounted for in accordance with the provisions of International Accounting Standard-19, "Employee Benefit". Basis of enumerating the benefit schemes operated by the Bank are outlined below:

a) Provident fund

Provident fund benefits are given to the permanent employees of the Bank in accordance with Bank's service rules. Accordingly, a trust deed and provident fund rules were prepared. The Commissioner of Income Tax, Taxes Zone-5, Dhaka has approved the Provident Fund as a recognized provident fund within the meaning of section 2(52), read with the provisions of part - B of the First Schedule of Income Tax Ordinance 1984. The recognition took effect from July 07, 1997. The Fund is operated by a Board of Trustees consisting six members (03 members from management and other 03 members from the Board of Directors) of the Bank. All confirmed employees of the Bank are contributing 10% of their basic salary as subscription to the Fund. The Bank also contributes equal amount of the employees' contribution. Interest earned from the investments is credited to the members' account on yearly basis.

Financial Reporting Council (FRC) guided to comply with section 263 of the Labor Rules 2015 and for necessary amendments in the Employees' Provident Fund Rules. On this, the Bank has obtained a legal opinion who suggested necessary amendments of the Fund Rules to comply with the guidance of the FRC and with the view to that an expert has further been appointed by the bank to make the lawful possible amendments in the above Rules including obtaining necessary regulatory approval.

b) Gratuity fund

The Bank operates a funded gratuity scheme on "Continuing Fund Basis", in respect of which provision is made regularly according to the recommendation of Actuarial which is covering all its permanent eligible employees in accordance with Bank Service Rules. The Second Secretary (Tax Exemption), National Board of Revenue, Sogun Bagicha, Dhaka has approved the Prime Bank Limited Employees' Gratuity Fund as a recognized Gratuity Fund (Letter Ref no. 08.01.0000.035.02.0016.2013/217, dated 22/07/2013) within the meaning of Para 2,3 & 4, read with the provisions of Part - C of the First Schedule of Income Tax Ordinance 1984. The recognition took effect from July 22, 2013. The Fund is operated by a Board of Trustees consisting six members (03 members from the Board of Directors and other 03 members from management) of the Bank. Actuary valuation of gratuity scheme has been made based on the data of 31 December 2021 and which is effected from 01 January 2022 to assess the adequacy of the liabilities provided for the scheme as per IAS-19 "Employees Benefit".

2.9.4 Other liabilities

Other liabilities comprise items such as provision for loans and advances/investments, provision for taxation, interest payable, interest suspense, accrued expenses, obligation under finance lease etc. Other liabilities are recognized in the balance sheet according to the guidelines of Bangladesh Bank, Income Tax Ordinance 1984, International Accounting Standards and internal policy of the Bank.

2.9.5 Provision for liabilities

A provision is recognized in the balance sheet when the Bank has legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligations, in accordance with the IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

2.9.6 Provision for Off-balance sheet exposures

Off-balance sheet items have been disclosed under contingent liabilities and other commitments as per Bangladesh Bank guidelines. Banks are required to maintain provision against Off-balance sheet items as per BRPD Circular # 14, dated September 23, 2012 and BRPD Circular # 07 dated June 21, 2018.

2.9.7 Provision for nostro accounts

As per instructions contained in the circular letter no. FEPD (FEMO) / 01 / 2005-677 dated 13 September 2005 issued by Foreign Exchange Policy Department of Bangladesh Bank, provision is to be maintained for the un-reconciled debit balance of nostro account more than 3 months as on the reporting date of these financials. Since there are no unreconciled entries which are outstanding more than 3 months, no provision is required to be maintained.

2.9.8 Provision for rebate to good borrower

As per BRPD Circular No. 06, dated 19 March 2015 and BRPD Circular Letter No. 03, dated 16 February 2016 issued by Bangladesh Bank are required to provide 10% rebate on the interest closed from "Good Borrowers" subject to some qualifying criteria. Subsequently, Bangladesh Bank issued another BRPD circular No. 14 dated 18 June 2020 and withdrew the provision of mandatory payment of good borrowers' incentive after 30 September 2019.

2.9.9 Start Up Fund

SMESPD (SME and Special Programs Department) Circular No. 05 (26 April 2021) issued by Bangladesh Bank, instructs Banks to maintain a 'Start Up Fund' by transferring 1% money from yearly net profit.

2.10 Revenue recognition

2.10.1 Interest income (Conventional Banking)

Interest income is recognized on accrual basis. Interest on unclassified loans and advances are calculated at the prescribed rates to be taken into income. Interest is ceased to be taken into income when such loans and advances are marked as classified as per criteria prescribed by the Bangladesh Bank. It is then kept in interest suspense account. Interest/Profit on classified advances/investment is accounted for on a cash receipt basis.

2.10.2 Profit on investment (Islamic Banking Branches)

Mark-up on investment is taken into income account proportionately from profit receivable account. Overdue charge / compensation on classified investments is transferred to compensation suspense account instead of income account.

2.10.3 Investment income (Conventional Banking Branches)

Interest income on investments is recognized on accrual basis. Capital gain on investments in shares is also included in investment income. Capital gain is recognized when it is realized.

2.10.4 Fees and commission income

Fees and commission income arising on services provided by the Bank are recognized when those are realized. Commission charged to customers on letters of credit and letters of guarantee is credited to income at the time of transactions being recorded in the books of accounts.

2.10.5 Dividend income on shares

Dividend income on shares is recognized during the period when right to receive is established.

2.10.6 Interest paid and other expenses (Conventional Banking Branches)

In terms of the provisions of IAS-1 "Presentation of Financial Statements" interest and other expenses are recognized on accrual basis.

2.10.7 Profit paid on deposits (Islamic Banking Branches)

Profit paid to mudaraba depositors is recognized on accrual basis as per provisional rate.

2.10.8 Dividend payments

Interim dividend is recognized when recommended by the Board of Directors. Final dividend is recognized when it is approved by the shareholders.

The proposed dividend for the year 2022 has not been recognized as a liability in the balance sheet in accordance with the IAS-10 : Events After the Reporting Period.

Dividend payable to the Bank's shareholders is recognized as a liability and deducted from the shareholders' equity in the period in which the shareholders' right to receive payment is established.

2.11 Risk management

Risk is inherent to the banking business and Bank adds shareholders' value by converting opportunities into profit. The Bank evaluates its opportunities in terms of risk-reward relationship. The risks that are taken by the Bank are reasonable, controlled, within its financial resources and credit competence.

In Prime Bank, risk is managed through a clear organizational structure, risk management and monitoring process that are closely aligned with the activities of the Bank's risk management policy and process as well as in line with the guidelines provided by the country's Central Bank, Bangladesh Bank.

The Bank's risk management policy and process are composed with all the structure, policies, process and strategies within the Bank so that it does not conflict with other risk management policies.

The essential elements of an effective risk management framework are:

1. Clearly defined roles and responsibilities to avoid conflict of interest between business lines.
2. Developing a risk culture where everyone will understand the impact of risk before taking any business decision.
3. Robust risk management and governance by the board for understanding the risks taken by the Bank for safety and protection of the assets.

2.12 Core risk management

BRPD circular no. 17 dated 07 October 2003 and BRPD circular no. 04 dated 05 March 2007 require banks to put in place an effective risk management system. The risk management system of the Bank covers the following risk areas.

2.12.1 Credit risk

It arises mainly from lending, trade finance, leasing and treasury businesses. This can be described as potential loss arising from the failure of a counter party to perform as per contractual agreement with the Bank. The failure may result from the unwillingness of the counter party or decline in his / her financial condition. Therefore, the Bank's credit risk management activities have been designed to address all these issues.

The Bank has segregated duties of the officers / executives involved in credit related activities. A separate Corporate Division has been formed at Head Office which is entrusted with the duties of maintaining effective relationship with the customers, marketing of credit products, exploring new business opportunities, etc. Moreover, credit approval, administration, monitoring and recovery functions have been segregated. For this purpose, three separate units have been formed within the credit division. These are (a) Credit Risk Management Unit (b) Credit Administration Unit and (c) Credit Monitoring and Recovery Unit. Credit Risk Management Unit is entrusted with the duties of maintaining asset quality, assessing risk in lending to a particular customer, sanctioning credit, formulating policy / strategy for lending operation, etc. Adequate provision has been made on classified loans / investments is shown in **note-14a.3.**

A thorough assessment is done before sanction of any credit facility at Credit Risk Management Unit. The risk assessment includes borrower risk analysis, financial analysis, industry analysis, historical performance of the customer, security of the proposed credit facility, etc. The assessment process at Head Office starts at Corporate Division by the Relationship Manager / Officer and ends at Credit Risk Management Unit when it is approved / declined by the competent authority. Credit approval authority has been delegated to the individual executives. Proposals beyond their delegation are approved / declined by the Executive Committee and / or the Management of the Bank. Concentration of credit risk is shown in **note -7a. 4.**

In determining Single borrower / Large loan limit, the instructions of Bangladesh Bank are strictly followed. Internal audit is conducted at periodical intervals to ensure compliance of Bank's and Regulatory policies. Loans are classified as per Bangladesh Bank's guidelines. Concentration of single borrower / large loan limit is shown in **note-7a.8.**

2.12.2 Foreign exchange risk

Foreign exchange risk is the exposure of an institution to the potential impact of movements in foreign exchange rates. The risk is that adverse fluctuations in exchange rates may result in a loss in earnings. As per the guidelines of Bangladesh Bank, Prime Bank Limited has developed a detailed Foreign Exchange Risk Management policy to minimize different types of risks associated with foreign exchange transactions. The Bank has also developed different strategies to handle foreign exchange risk by setting different types of limits and risk parameters to measure and monitor foreign exchange risk exposure of the Bank.

The foreign exchange desk of treasury division is involved in foreign exchange dealing activities with different counterparts; the treasury back office is engaged in transfer of funds and passing of the transaction entries in the books of accounts, and the mid office is responsible for verification of the deals. All foreign exchange transactions are revalued at market rate as per the directive of Bangladesh Bank. All Nostro Accounts are reconciled on a monthly basis and outstanding entries beyond 30 days are reviewed by the management for its settlement.

2.12.3 Asset liability management

Banks are exposed to the several risks such as Liquidity Risk, Interest Rate Risk, Foreign Exchange Risk, Credit Risk and Operational Risk etc. Monitoring and controlling of these risks is vital to the survival of a financial institution. Asset-Liability Management is a tool to oversee whether different balance sheet risks are properly identified, appropriate policies and procedures are well established to control and limit these risks.

Asset-Liability Committee (ALCO) reviews country's overall economic position, the Bank's liquidity position, key performance ratios, interest rate risk, deposit and advance growth, cost of deposit & yield on advances, deposit & lending pricing strategy and different forecasted balance sheet risks of the Bank.

2.12.4 Money laundering risk

Money laundering is the generic term used to describe the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have derived from a legitimate source. If money laundering is done successfully, it allows the criminals to maintain control over their proceeds and ultimately to provide a legitimate cover for their source of income. Money laundering plays a fundamental role in facilitating the ambitions of the drug trafficker, the terrorist, the organized criminal, the insider dealer, the tax evader as well as the many others who need to avoid the attention of the authorities from the sudden wealth accumulated by them from illegal activities. By engaging in this type of activity it is hoped to place the proceeds beyond the reach of any asset forfeiture laws.

Prime Bank Ltd (PBL) has implemented an enterprise-wide AML (Anti-Money Laundering) and CFT (Combating the Financing of Terrorism) compliance program, which covers all the activities of the Bank and is reasonably designed to comply with applicable laws and regulations. It is the policy of PBL to take all reasonable and appropriate steps to prevent persons engaged in money laundering, fraud, or other financial crime, including the financing of terrorists or terrorist operations, from utilizing PBL products and services. PBL makes every effort to remain in full compliance with all applicable AML and CFT laws, rules and standards in the jurisdictions in which it does business.

In order to facilitate compliance with AML and CFT requirements, PBL has appointed one of its Senior Executives as the CAMLCO (Chief Anti-Money Laundering Compliance Officer) and a team of employees with experience on AML and CFT requirements under law, as well as money laundering detection and prevention, to oversee PBL AML and CFT program. PBL has developed and implemented written AML and CFT policies, procedures, internal controls and systems, which include (but are not limited to) a customer identification program and procedures; procedures to collect and refresh, as appropriate, customer due diligence information; processes to assess risk; processes and systems to monitor customer transactions and activities; processes and systems to identify and report suspicious activities; and, processes to keep required records. PBL educates its all employees on AML and CFT requirements and activities and also subjects its AML and CFT program to regular independent testing. PBL cooperates fully with law enforcement and regulatory investigations and inquiries in identifying the criminals involved in Money Laundering and Terrorist Activities/Financing.

2.12.5 Internal control & compliance risk

Internal control is fundamental to the successful operation and day-to-day running of a business and it assists the Bank in achieving its business objectives. It encompasses all controls incorporated into the strategic, governance and management processes, covering the Bank's entire range of activities and operations, and not just those directly related to financial operations and reporting. Its scope is not confined to those aspects of a business that could broadly be defined as compliance matters, but extends also to the performance aspects of a business.

Prime Bank Ltd has established a System of Internal Control, which is designed to manage all the risks of failure to a reasonable level, achieve aims and objectives/goals of the Bank and this System provides reasonable assurance of effective & efficient operations covering all controls including financial & operational controls, reliability of the financial information, compliance with applicable laws & regulations, adherence to management policies, safeguarding of Bank's Assets, prevention & detection of fraud & errors, and accuracy & completeness of the accounting records.

The Board of Directors of Prime Bank Ltd regularly reviews the effectiveness of internal control process through its Audit Committee and Executive Committee and the Audit Committee plays an effective role amongst the Board of Directors, Management, Shareholders, Depositors and develops an efficient, powerful and a safe Banking System. The committee also performs a very important role for publishing Bank's financial statements, developing an appropriate internal control system and maintains an effective communication with internal and external Auditors. It significantly contributes in controlling and monitoring various risks factors that arise from the business activities of the Bank. Board Audit Committee reviews the actions taken on internal control issues identified in the reports prepared by the Internal & External Auditors and Regulatory Authorities. It has active oversight on the internal audit's independence, scope of work and resources and it also reviews the functions of Internal Control & Compliance Division of Head Office, particularly the scope of the annual audit plan and frequency of the internal audit activities.

2.12.6 Information and communication technology

The rapid development of information and communication technologies (ICTs) has effectively facilitated in reorganizing business processes and streamlining the provision of its products and services in today's dynamic business environment. Such adoption helps the Bank to develop and maintain competitive advantage for ensuring Bank's profitability and survivability in the market place. The competitive advantage often brings to the Bank numerous benefits including fast business transactions, increasing automation of business processes, improved customer service, and provision of effective decision support in a timely manner. However, the adoption of ICT applications has also brought organizational risks related to ICT such as strategic risk, financial risk, operational risk and technological risk. Risk management plays a critical role in protecting the Bank's information assets. An effective risk management process is an important component of a successful IT security program. ICT risk management is referred to as the essential process to aid enterprise achieving "the new business changes, future investment in information technology system, an increasing ICT threats and an increasing dependence on delivering information in system".

In order to minimize and control these risks successfully, the Bank has developed and implemented ICT risk management policies and strategies, strengthened ICT security infrastructure, acquired centralized real time security monitoring system, implemented centralized hardware system with high availability facility and implemented Disaster Recover Site (DRS), developed Business Continuity Plan (BCP) and human resource backup plan with segregation of duties for different ICT tasks.

2.12.7 Liquidity risk

The object of liquidity risk management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To this end, the Bank is maintaining a diversified and stable funding base comprising of core retail and corporate deposits and institutional balance **(note - 13a)**. Management of liquidity and funding is carried out by Treasury Department under approved policy guidelines. Treasury front office is supported by a very structured Mid office and Back office. The Liquidity management is monitored by Asset Liability Committee (ALCO) on a regular basis. A written contingency plan is in place to manage extreme situation.

2.12.8 Market risk

The exposure of market risk of the Bank is restricted to foreign exchange risk, interest rate risk and equity risk.

Foreign exchange risk

Foreign exchange risk is defined as the potential change in earnings due to change in market prices. The foreign exchange risk of the Bank is minimal as most of the transactions are carried out on behalf of the customers against underlying L/C commitments and other remittance requirements.

Treasury Department independently conducts the transactions and the back office of treasury is responsible for verification of the deals and passing of their entries in the books of account. All foreign exchange transactions are revalued at Mark-to-Market rate as determined by Bangladesh Bank at the month-end. All Nostro accounts are reconciled on a monthly basis and outstanding entry beyond 30 days is reviewed by the management for its settlement. The position maintained by the Bank at the end of day was within the stipulated limit prescribed by the Bangladesh Bank.

Interest rate risk

Interest rate risk may arise either from trading portfolio or non-trading portfolio. The trading portfolio of the Bank consists of Government treasury bills of 28 days maturity. The short-term movement in interest rate is negligible or nil. Interest rate risk of non-trading business arises from mismatches between the future yield of an asset and its funding cost. Asset Liability Committee (ALCO) monitors the interest rate movement on a regular basis.

Equity risk

Equity risk arises from movement in market value of equities held. The risks are monitored by Investment Committee under a well designed policy framework. The market value of equities held was, however, lower than the cost price at the balance sheet date **(Annexure-B)**.

2.12.9 Reputation risk arising from money laundering incidents

Money laundering risk is defined as the loss of reputation and expenses incurred as penalty for being negligent in prevention of money laundering. For mitigating the risks, the Bank has a designated Chief Compliance Officer at Head Office and Compliance Officers at branches, who independently review the transactions of the accounts to verify suspicious transactions. Manuals for prevention of money laundering have been established and transaction profile has been introduced. Training is continuously given to all category of Officers and Executives for developing awareness and skill for identifying suspicious activities / transactions.

2.12.10 Operational risk

Operational risk may arise from error and fraud due to lack of internal control and compliance. Management through Internal Control and Compliance Division controls operational procedure of the Bank. Internal Control and Compliance Division undertakes periodical and special audit of the branches and divisions at the Head Office for review of the operation and compliance of statutory requirements. The Audit Committee of the Board subsequently reviews the reports of the Internal Control and Compliance Division.

2.12.11 Audit committee disclosures

Audit Committee of the Board was formed and its roles and responsibilities were defined in line with Corporate Governance Code issued by Bangladesh Securities and Exchange Commission (BSEC) vide BSEC notification BSEC/CMRRCD/2006-158/Admin/80 dated 03 June 2018 and BRPD Circular no. 11 dated 27 October 2013 issued by Bangladesh Bank. The composition of the Audit Committee Members at the year-end is stated below:

Sl No.	Name	Status with Bank	Status with Committee
i)	Mr. Anwaruddin Chowdhury, FCA	Independent Director	Chairman
ii)	Mr. Md. Nader Khan	Director	Member
iii)	Mrs. Salma Huq	Director	Member
iv)	Dr. Sharif M. N. U. Bhuiyan	Independent Director	Member

During the year 2022, the Audit Committee of the Board conducted 8 (Eight) meetings in which the important issues were discussed / reviewed are presented in **note no. 48.**

2.12.12 Disclosures on Risk management committee

The Risk Management Committee is comprised of 05 (Five) members from the Board of Directors in accordance with the Bank Company (Amendment) Act 2003 and it does comply with BRPD Circular no. 11, dated 27 October 2013 and DOS Circular no. 04, dated 08 October 2018. The composition of the Risk Management Committee at the year-end is stated below:

Sl No.	Name	Status with Bank	Status with Committee
i)	Mr. Zaeem Ahmed	Director	Chairman
ii)	Mr. Mafiz Ahmed Bhuiyan	Director	Member
iii)	Mr.C Q K Mustaq Ahmed	Independent Director	Member
iv)	Mr. Anwaruddin Chowdhury, FCA	Independent Director	Member
v)	Mr. Khan Ahmed Sayeed Murshid, PhD	Independent Director	Member

Board Risk Management Committee conducted 4 (Four) meetings during the year where the following important issues were discussed / reviewed:

Policies:

i) Reviewed the "Country Risk Management Policy" of the Bank.
ii) Reviewed the "Outward clearing cheques/original paper instruments retention policy".
iii) Reviewed the "Risk Management Policy" of the Bank.
iv) Reviewed of 11 nos. PBL Information Technology Policy/Procedure/Guideline for ISO 27001 purpose
v) Reviewed of 13 nos. PBL Information Technology Policy/Procedure
vi) Reviewed of Asset Liability Management (ALM) Policy
vii) Reviewed & update of PBL Money Laundering & Terrorist Financing Risk Management Guidelines

Regulatory Reports:

i) Report on Risk appetite for the year 2022.
ii) Quarterly status update on Stress Testing Reports.
iii) Quarterly report on Risk Management of the Bank.
iv) Half yearly report on Comprehensive Risk Management of the Bank.
v) Quarterly report on the restructuring of large loan extended to the customers of the Bank.
vi) Reviewed statements on ICAAP under Supervisory Review Process for the year 2020.
vii) Quarterly Summary report of Key Risk Indicators (KRI)
viii) Half-yearly report on Self-Assessment Report of Branches

Other Issues:

i) Quarterly status update on Borrower Rating of the Bank.
ii) Summary of ERMC Meetings
iii) Reviewed Portfolio Status of CRM, MSME, Consumer, Special Asset Management & wholesale Banking
iv) Reviewed the Approval of the Counterparty limit.
v) Reviewed the Risk Management Function.
vi) Quarterly activities of Sustainable Finance Unit for Q1 of 2022.

Prime Bank