Pubali Bank Limited

Market Discipline-Pillar-III Disclosures under Basel-II

As on 31 December 2012

Capital Adequacy under Basel-II

Banks operating in Bangladesh are maintaining capital since 1996 on the basis of risk weighted assets in line with the Basel Committee on Banking Supervision (BCBS) capital framework published in 1988. Considering present complexity and diversity in the banking industry and to make the banks' capital requirement more risk sensitive, Bangladesh Bank, being the central bank of the country has decided to adopt the Risk Based Capital Adequacy for banks in line with capital adequacy framework devised by the BCBS popularly known as 'Basel II'. Bangladesh Bank prepared a guideline to be followed by all scheduled banks from January 2009. Both the existing capital requirement rules on the basis of Risk Weighted Assets and revised Risk Based Capital Adequacy Framework for Banks as per Basel II were followed simultaneously initially for one year. For the purpose of statutory compliance during the period of parallel run i.e. 2009, the computation of capital adequacy requirement under existing rules prevailed. On the other hand, revised Risk Based Capital Adequacy Framework as per Basel II had been practiced by the banks during 2009 so that Basel II recommendation could effectively be adopted from 2010. From January 2010, Risk Based Capital Adequacy Framework as per Basel II have been fully practiced by the banks replacing the previous rules under Basel-I. Pubali Bank Limited is maintaining its capital requirements at adequate level by adopting the Risk Based Capital Adequacy Guidelines of Bangladesh Bank in line with Basel II model.

The guideline is structured around the following three aspects or pillars of Basel-II:

i. Minimum capital requirements to be maintained by a bank against credit, market and operational risk;

ii. Supervisory Review i.e., Process for assessing overall capital adequacy in relation to a bank's risk profile and a strategy for maintaining its capital at an adequate level;

iii. Market Discipline i.e., To make public disclosure of information on the bank's risk profiles, capital adequacy and risk management.

Disclosure framework of Pubali Bank Limited

Disclosure includes the following as per Bangladesh Bank guidelines :

- Scope of Application
- Assets under Banking Book and Trading Book
- Credit risk
- Equity disclosure for Banking Book positions
- Interest rate risk in Banking Book
- Market risk
- Operational risk

Disclosure under Pillar III

Disclosure given below as specified by RBCA Guideline :

A) Scope of Application

Qualitative Disclosure

(a)	The name of the top corporate entity in the group to which this guidelines applies.	**Pubali Bank Limited**
(b)	An out line 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 consolidated financial statements of the Bank include the financial statements of (a) Pubali Bank Limited (b) Pubali Bank Securities Limited (c) Pubali Exchange Company (UK) Limited. A brief description of these are given below: **Pubali Bank limited** Pubali Bank limited (the Bank) was incorporated in the year 1959 under the name and style of Eastern Mercantile Bank Limited under Companies Act 1913. After the country's liberation in 1971, the Bank was nationalized as per policy of the Government of Bangladesh under the Bangladesh Bank (Nationalisation) Order 1972 (PO No. 26 of 1972) and was renamed as Pubali Bank. Subsequently, the Bank was denationalized in the year 1983 and was again incorporated in Bangladesh under the name and style of Pubali Bank Limited in that year. The government transferred the entire undertaking of Pubali Bank to Pubali Bank Limited, which took over the same as a going concern. **Pubali Bank Securities Limited** Pubali Bank Securities Limited (PBSL) was incorporated on the 21st June 2010 under the Companies Act, 1994 as a public limited company. It is a subsidiary company of Pubali Bank Limited holds all the shares of the company except for thirteen shares being held by thirteen individuals. The company has been established as per Securities & Exchange Commission's (SEC) Letter # SEC/Reg/DSE/MB/2009/444/ dated 20.12.2009. The Registered Office of the company is situated at A-A Bhaban (7th floor), 23 Motijheel C/A, Dhaka-1000, Bangladesh. The company has started its commercial activities from 01 February 2011. The main objects of the company is to carry on the business of a stock broker and stock dealer house and to buy, sell, and deal in, shares, stocks, debentures, bonds and other securities and to carry on any business as is permissible for a broker and dealer house duly licensed by the Securities & Exchange Commission of Bangladesh.

	Pubali Exchange Company (UK) Limited Pubali Exchange Company (UK) Ltd. was incorporated on the 22 March, 2010 with the Registrar of Companies for England and Wales under the Companies Act 2006 with Company No.7197488. The Company received Certificate of Registration for Money Laundering Regulation (MLR) No.12589712 issued by HM Customs & Excise, UK on 10 June 2010. Financial Services Authority (FSA), UK has approved registration of Pubali Exchange Company (UK) Ltd. with effect from 3 December, 2010. The Registration Number is PSD/522085. The Company has started its operation from January, 2011. The main objective of the company is to facilitate the Bangladeshi expatriates living and working in the UK to route their remittances through legal channel in a speedy and safe way to their families and dear & near one.
(c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable

Quantitative Disclosure

(d) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	Not applicable

B) Capital Structure

Qualitative Disclosure

(a) Summary information of the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier-I or Tier-II.	The terms and conditions of the main features of all capital instruments have been segregated in line with of the eligibility criteria set forth vide BRPD Circular No. 35 dated 29 December 2010 and other relevant instructions given by Bangladesh Bank from time to time. The main features of the capital instruments are as follows: **Tier - I Capital instruments** **Paid-up share capital** : Issued, subscribed and fully paid up share capital of the Bank. It represents Paid up Capital, Right Shares as well as Bonus Shares issued from time to time. **Statutory Reserve** : As per Section 24(1) of the Bank Companies Act, 1991, an amount equivalent to 20% of the profit before taxes for each year of the Bank has been transferred to the Statutory Reserve Fund.

	Bank is complied in this respect. **General reserve** : Any reserve created through Profit and Loss Appropriation Account for fulfilling any purpose **Bank is complied in this respect.** **Retained Earnings** : Amount of profit retained with the banking company after meeting up all expenses, provisions and appropriations. **Bank is complied in this respect.** **<u>Tier - II capital instruments</u>** **General provision maintained against unclassified loans and off-balance sheet exposures** : As per BB directive, amount of provision maintained against unclassified loans and off-balance sheet exposures as of the reporting date has been considered. **Asset revaluation reserve** : 50% of Assets Revaluation Reserve is considered as Tier 2 Capital. The revaluation reserve was formally conducted by the Professionally Qualified valuation firm and duly certified by the external auditor of the Bank. **Revaluation reserves of securities** : As per Bangladesh Bank's instruction, up to 50% of revaluation reserves of Governments securities has been considered as Tier 2 Capital. This comprises of revaluation results of HFT and HTM securities.

Quantitative Disclosure

Taka in million

			Bank	**Consolidated**
(b)	The amount of Tier I Capital, with separate disclosure of : (as of 31.12.2011)	✓ Paid up Capital	8,384.50	8,384.50
		✓ Non –repayable share premium account	-	-
		✓ Statutory reserve	6,177.00	6,177.70
		✓ General reserve	1,419.10	417.73
		✓ Retained earnings	-	-
		✓ Minority Interest in subsidiaries	-	-
		✓ Non-cumulative irredeemable preference share	-	-
			15,980.60	14,978.80
(c)	Total amount of Tier - II Capital & Tier - III Capital		3,712.00	3,580.00
(d)	Other deduction from Capital		-	-
(e)	**Total eligible capital**		**19,692.60**	**18,558.80**

C) Capital Adequacy

Qualitative Disclosure

(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 so as to protect the depositors and general creditors interest against such losses. In line with BRPD Circular No. 35 dated 29 December, 2010, the Bank has adopted Standardized Approach for Credit Risk, Standardized (Rule Based) Approach for Market Risk and Basic Indicator Approach for Operational Risk for computing Capital Adequacy.

Quantitative Disclosure

Taka in million

	Bank	Consolidated
(b) Capital requirement for Credit Risk:	12,686.93	12,293.02
(c) Capital requirement for Market Risk:	1,967.21	2,311.37
(d) Capital requirement for Operational Risk:	1,313.30	1,315.57
(e) Total and Tier I Capital Ratio :		
➢ For the Bank alone	Total = 12.33% and Tier I = 10.01%	-
➢ For the consolidated group	-	Total = 11.66% and Tier I = 9.41%

D) Credit Risk

Qualitative Disclosure

(a) The general qualitative disclosure requirement with respect to credit risk, including:	Bank classifies loans and advances (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. An NPA is defined as a loan or an advance where interest and / or installment of principal remain overdue for more than 90 days inrespect of a Continuous credit, Demand loan or a 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/over due for 6 months or beyond but less than 9 months. > "Doubtful' if it is past due/over due for 9 months or beyond but less than 12 months. > ‘Bad/Loss' if it is past due/over due for 12 months or beyond.

* Definitions of past due and impaired (for accounting purposes)

Any **demand Loan** will be classified as :

> Sub-standard' if it remains past due/over due for 6 months or beyond but not over 9 months from the date of claim by the bank or from the date of creation of forced loan.
> Doubtful' if it remains past due/over due for 9 months or beyond but not over 12 months from the date of claim by the bank or from the date of creation of forced loan.
> Bad/Loss' if it remains past due/over due for 12 months or beyond from the date of claim by the bank or from the date of creation of forced loan.

In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the due date, the amount of unpaid installment(s) will be termed as `defaulted installment'.
i. In case of Fixed Term Loans, which are repayable within maximum five years of time:
> If the amount of'defaulted installment' is equal to or more than the amount of installment(s) due within 6 (six) months, the entire loan will be classified as "Sub-standard".
> If the amount of'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as "Doubtful".
> If the amount of'defaulted installment' is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loan will be classified as "Bad/Loss".
ii. In case of Fixed Term Loans, which are repayable in more than five years of time:
> If the amount of defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as "Sub-standard".
> If the amount of defaulted installment' is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loan will be classified as "Doubtful".
> If the amount of defaulted installment' is equal to or more than the amount of installment(s) due within 24 (twenty four) months, the entire loan will be classified as ''Bad/Loss''.

Particulars		Short Term Agri. Credit	Consumer financing			SMEF	Loans BHs/MBs/SDs against shares etc.	All other credit
			Other than HF, LP	HF	LP			
UC	Standard	5%	5%	2%	2%	0.25%	2%	1%
	SMA	-	5%	5%	5%	5%	5%	5%
Classified	SS	5%	20%	20%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	50%	50%
	B/L	100%	100%	100%	100%	100%	100%	100%

- Discussion of the Bank's credit risk management policy

The Board approaves the credit policy keeping in view relevant Bangladesh Bank guide lines to ensure best practice in credit risk management and maintain quality of assets. Authorities are properly delegated in ensuring check and balance in credit operation at every stage i.e. screening, assessing risk, identification, management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early warning system. There is a separate Credit Risk Management Division for ensuring proper risk

	management of Loans and Credit Monitoring and Recovery Division for monitoring and recovery of irregular loans. Adequate provision is maintained against classified loans as per Bangladesh Bank Guidelines. Status of loans are regularly reported to the Board/Board Audit Committee. Besides, Credit risk management process involves focused on monitoring of Top- 30 Loans, Top-20 Defaulters, Sectoral exposures viz-a-viz among others limit.

Quantitative Disclosure

Amounts in Taka

(b) Total gross credit risk exposures broken down by major types of credit exposure	Loans	30,410,993,326
	Cash credits	22,302,873,798
	Overdrafts	28,429,616,571
	Loans against merchandise	14,770,255
	Packing credits	378,853,343
	Loans against trust receipt	18,142,184,824
	Agriculture credits	1,775,505,018
	Pubali prochesta	2,576,177,837
	Non-resident credit scheme	2,583,212
	Pubali Subarna	2,784,390,580
	Pubali Karmo Uddog	64,844,966
	Pubali Sujon	35,176,814
	Payment against documents	2,464,433,163
	Consumers' loans scheme	6,754,218,752
	Lease finance	3,004,807,726
	Margin finance	-
	Bills purchased and discounted	1,063,518,312
	Others	1,863,569,857
	Total	**122,068,518,354**
(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure	**Urban**	
	Dhaka	75,325,159,575
	Chittagong	27,400,747,178
	Sylhet	5,970,183,610
	Barisal	1,175,971,283
	Khulna	2,585,176,191
	Rajshahi	1,500,241,493
	Rangpur	1,365,422,297
		115,322,901,627
	Rural	
	Dhaka	2,175,319,742
	Chittagong	831,231,403
	Sylhet	1,493,287,694
	Barisal	225,068,409
	Khulna	810,848,606
	Rajshahi	397,962,720
	Rangpur	696,428,101
		6,630,146,675

	<u>Outside Bangladesh</u>	
	Foreign bills/drafts purchase	115,470,052
		-
	Total	**122,068,518,354**
(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure	Agriculture	5,175,881,049
	Jute	217,165,881
	Textile	10,342,927,234
	Ready-made garments	12,125,634,263
	Steel and Engineering	6,705,438,720
	Ship scraping	1,763,594,483
	Edible oil	5,100,657,351
	Cement	2,830,154,216
	Food and allied products	4,856,263,263
	Paper and packing	620,183,536
	Construction	8,045,566,075
	Energy and power	805,139,322
	Transport and communication	1,662,483,289
	Pharmaceuticals	1,449,675,530
	Leather	332,426,003
	Service industries	936,241,522
	Others	3,544,667,122
		66,514,098,859
(e) Residual contractual maturity break down of the whole portfolio, broken down by major types of credit exposure.	**<u>Loans and advances</u>**	
	Repayable on demand	9,993,783,509
	Below 3 months	12,399,313,661
	Over 3 months but below 1 year	57,099,246,492
	Over 1 year but below 5 years	33,254,344,196
	Over 5 years	8,258,312,184
		121,005,000,042
	<u>Bills purchased and discounted</u>	
	Repayable on demand	153,013,273
	Below 3 months	688,033,908
	Over 3 months but below 1 year	222,471,131
		1,063,518,312
	Total	**122,068,518,354**
(f) By major industry or counterparty type:		
i. Amount of impaired loans and if available, past due loans,		6,029,324,754
ii. Specific and general provisions		4,217,734,739
iii. Charges for specific allowances and charge-offs during the period		729,800,482

(g) Gross Non Performing Assets (NPAs) : Non Performing Assets(NPAs) to Outstanding Loans & advances	**Movement of Non Performing Assets(NPAs) :** Opening Balance Additions Reductions Closing Balance	 2,146,381,000 3,882,943,754 - 6,029,324,754
	Movement of Specific Provision for Non Performing Assets(NPAs) : Opening Balance Provision made during the year Write-off Recoveries of amounts previously write –off Provision transferred in Write-back of excess provision Closing Balance	 776,140,876 1,929,659,402 (839,858) 69,369,712 - - **2,774,330,132**

E) Equities: Disclosures for Banking Book Positions

Qualitative Disclosure

(a) The general qualitative disclosure requirement with respect to the equity risk, including:	
*differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and	Investment in equity mainly for capital gain purpose but Bank has some investment for relationship and strategic reasons.
*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.	Quoted shares are valued at cost. Necessary provision is maintained if market price fall below the cost price. Unquoted shares are valued at cost.

Quantitative Disclosure

(b) Value disclosed in the balance sheet of investment, 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.	Cost price of quoted share BDT 4,418,000,000 & Market value of quoted share BDT 7,969,000,000
(C) The cumulative realized gains(losses) arising from shares and liquidations in the reporting period.	BDT 214,650,403
(d) * Total unrealized gains (losses) * Total latent revaluation gains (losses) *Any amounts of the above included in Tier 2 capital	BDT 839,455,815 - -
(e) Capital requirements broken down by appropriate equity grouping, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements	Nil

F) Interest rate risk in the banking book (IRRBB)

Qualitative Disclosure

(a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	Interest rate risk is the potential that the value of the On Balance Sheet and the Off Balance Sheet position of the Bank would be negatively effected with the change in the Interest rate. The vulnerability of an institution towards the advance movement of the interest rate can be gauged by using Duration GAP under Stress Testing Analysis. Pubali Bank Limited has also been exercising the Strees Testing using the Duration GAP for measuring the Interest Rate Risk on its On Balance Sheet exposure for estimating the impact of the net change in the market value of equity on the Capital Adequacy Ratio (CAR) due to change in interest rates only on its On Balance Sheet position (as the Bank holds no interest bearing Off Balance Sheet positions and or Derivatives). Under the assumption of three different interest rate changes i.e. 1%, 2% and 3%.

Quantitative Disclosure

Fig. in million

(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management method for measuring IRRBB, broken down by currency (as relevant).	Market Value of Assets Market Value of Liability Weighted Avg. Duration GAP	191,939.40 174,015.90 10.40

G) **Market Risk**

Qualitative Disclosure

(a) Views of BOD on trading / investment activities	The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to provide cost effective funding last year to finance asset growth and trade related transaction.
(b) Methods used to measure Market risk	Standardized approach has been used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for 'specific risk' and 'general market risk'.
(c) Market risk Management system	The Treasury Division manage market risk covering liquidity, Interest rate and foreign exchange risks with oversight from Asset-Liability management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. Alco meets at least once in a month.
(d) Policies and process for mitigating market risk	There are approved limits for Market risk related instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against market risks. The exchange rate committee of the Bank meets on a daily basis to review the prevailing market condition, exchange rate, forex position and transactions to mitigate foreign exchange risks.

Quantitative Disclosure

Taka in million

	Bank	**Consolidated**
(b) The capital requirements for :		
Interest rate risk	45.50	45.50
Equity position risk	1,593.80	1,938.00
Foreign exchange risk	327.90	327.90
Commodity risk	-	-

H) Operational Risk

Qualitative Disclosure

(a) ➢ Views of BOD on system to reduce Operational Risk	The policy for operational risks including internal control & compliance risk is approved by the board taking into account relevant guidelines of Bangladesh bank. Audit committee of the Board oversees the activities of Internal Control &

	Compliance Division (ICCD) to protect against all operational risk.
➢ Performance gap of executives and staffs	Pubali Bank Limited has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. Pubali Bank strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.
➢ Potential external events	No potential external events is expected to expose the Bank to significant operational risk.
➢ Policies and processes for mitigating operational risk	The policy for operational risks including internal control & compliance risk is approved by the Board taking into account relevant guidelines of Bangladesh bank. Policy guidelines on Risk Based Internal Audit system is in operation as per RBA branches are rated according to their risk status and branches scoring more on risk status are subjected to more frequent audit by Internal Control & Compliance Division (ICCD). 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. ICCD directly report to Audit Committee of the Board.
➢ Approach for calculating capital charge for operational risk	Basic Indicator Approach is used for calculating capital charge for operational risk as of the reporting date.

Quantitative Disclosure

Taka in million

	Bank	Consolidated
(b) The capital requirements for Operational Risk	1,313.30	1,315.50