The Premier Bank Limited

Disclosures on Risk Based Capital Adequacy (Basel III)

For the year ended December 31, 2016

With the growing complexity of operations, service innovations and technology based products, Banks have progressively become exposed to a diverse set of Risks. Basel- I was a one-fits-all approach to address only credit risk, Basel-II guidelines covers all types of risk except liquidity concept. But the New Risk Based Capital Adequacy (Basel – III) addresses an additional Liquidity risk such as Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Leverage Ratio. The Premier Bank Limited has formed a Basel unit, a Supervisory Review Process (SRP) Team and a Risk Management Unit (RMU) for developing a process for assessing overall capital adequacy in relation to the Bank's risk profile and strategy for maintaining the Bank's capital at an adequate level following the specific guidelines of Bangladesh Bank. The Premier Bank Limited is conducting intensive training & workshops on Basel-III Implementation on a regular basis. The Premier Bank Limited is following approaches stated below for calculating Risk Weighted Assets (RWA) as per Basel III guidelines of BRPD Circular No.18 dated December 21, 2014 of Bangladesh Bank.

Guidelines on Risk Based Capital Adequacy are structured around the following three aspects or pillars of Basel III:

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

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

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

The Premier Bank Ltd has effectively implemented Basel III and submits the quarterly Capital Adequacy report to Bangladesh bank on time.

1. **Scope of Application:**

Qualitative Disclosures	
a) The name of the top corporate entity in the group which this guidelines applies:	The Risk Based Capital Adequacy framework applies to The Premier Bank limited on 'Solo' basis as well as 'Consolidated' basis as there is one subsidiary of the Bank as on 31 December 2016. The name of the subsidiary company is Premier Bank Securities Limited.
b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated;(ii) that are given a deduction treatment; and (iii) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	A brief description of the Bank and its subsidiaries are given below: **The Premier Bank Limited** The Premier Bank Limited ("the Bank") is one of the third generation private commercial bank incorporated in Bangladesh on 10 June 1999 as a public company limited by shares under the Companies Act, 1994, governed by the Banking Companies Act, 1991. The Bank went for public issue of its share by initial public offering in 2007 and its share is listed with Dhaka Stich Exchange Limited and Chittagong Stock Exchange Limited. At present the Bank has 99 branches including 12 SME Service Centers/Agricultural Branches and 21 own ATM booths with no overseas branch. The Bank has one subsidiary companies namely, Premier Bank Securities Limited. The Bank also operates one Offshore Banking Unit (OBU) after obtaining its license from Bangladesh Bank on 10 November 2009. The principal activities of the Bank are to provide all kinds of commercial banking services to its customers through its branches. **Premier Bank Securities Limited** Premier Bank Securities Limited, a majority owned subsidiary company of The Premier Bank Limited was incorporated as a private company limited by share in Bangladesh on 23 June 2010 bearing certificate of incorporation no. C-85332/10 under the Companies Act, 1994 having its registered office at Iqbal Centre(3rd Floor), 42 Kamal Ataturk Avenue, Banani, Dhaka-1213, Bangladesh. which commenced its business from the 17 April 2011.

c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	Not applicable
Quantitative disclosure	
d) The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	Not applicable

2. Capital Structure

Qualitative Disclosure

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

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

Tier I comprises the highest quality capital components, Tier II or Supplementary Capital comprises capital elements that fall short of some of the characteristics of core capital but contribute to overall strength of the Bank.

The eligible regulatory capital fund of The Premier Bank Limited stood at Tk. 1,560.77 crore as of 31st December 2016 comprising of 62.10% Tier -1 Capital and 37.90% Tier - 2 Capital. The Bank's total Tier -1 Capital consists of Common Equity Tier 1 Capital only as The Bank has no additional Tier 1 Capital. Common Equity Tier 1 Capital comprises of Tk. 682.08 crore as Paid up capital, Tk. 334.20 crore as Statutory Reserve, Tk. 157.81 crore as Retained Earning with an adjustment of Tk. 204.82 crore as per regulatory requirement.

Tier - 2 Capital comprises of Tk. 65.96 crore as General Provision, Tk. 5.54 crore as Adjusted Asset Revaluation Reserve and Tk. 520.00 crore as Sub-ordinated Bond.

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

Conditions	Compliance of the Bank
a) Minimum CRAR of 10% of the Risk Weighted Asset.	The Premier Bank Limited has maintained total capital 12.38% CRAR as of 31st December 2016.
b) Common Equity Tier 1 Capital should be at least 4.5% of the total risk weighted assets.	Common Equity Tier 1 Capital ratio of the Bank was 7.69% of RWA.

c) Additional Tier 1 Capital can be admitted maximum up to 1.50% of RWA or 33.33% of CET1, whichever is higher	The Premier Bank Limited has no component of Additional Tier 1 Capital.
d) Tier 1 Capital should be at least 5.50% of the total risk weighted assets.	The Premier Bank Limited has maintained Tier 1 ratio 7.69% as of 31st December 2016.
e) Tier 2 Capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET1 whichever is higher.	The Premier Bank has Tier 2 capital of Tk. 591.50 crore which is 4.69% of RWA and 61.03% of CET1 capital.

Quantitative Disclosure:

1. Common Equity Tier-1 Capital (Going Concern Capital)		**Solo**	**Consolidated**
1.1	Fully Paid-up Capital	682.08	682.08
1.2	Statutory Reserve	334.20	334.20
1.3	Retained Earnings	157.81	157.49
1.4	**Sub-Total: (1.1 to 1.3)**	**1,174.09**	**1,173.78**
	Regulatory Adjustments:		
1.5	Shortfall in provisions required against Non-performing Loans (NPLs)	94.63	94.63
1.6	Shortfall in provisions required against Investment in Shares	32.56	32.56
1.7	Deferred tax Assets (DTA)	77.63	77.63
1.8	Sub Total (1.5 - 1.7)	**204.82**	**204.82**
	Total Common Equity Tier-1 Capital	**969.27**	**968.96**

2. Tier-2 Capital (Gone concern Capital)		**Solo**	**Consolidated**
2.1	General Provision	65.96	65.96
2.2	Subordinated debt	520.00	520.00
2.3	Revaluation Reveres as on 31 December 2014 (50% of Fixed Assets and Securities & 10% of Equities)	9.23	9.23
	Sub-Total (2.1 to 2.3)	**595.19**	**595.19**
	Regulatory Adjustments:		
2.4	Revaluation Reserves for Fixed Assets, Securities & Equity Securities (phase in deductions as per Basel III Guidelines)	3.69	3.69
	Total Adjustments	**3.69**	**3.69**
	Total Tier-2 Capital Available	**591.50**	**591.50**

3. CAPITAL ADEQUACY

Qualitative Disclosure:

The Premier Bank Limited relies on and is complementary to its Corporate Governance and Risk Management framework, which balances corporate oversight with independent risk management functions within each business,

Capital Management is aimed at ensuring that there is sufficient capital to meet the requirement of the Bank as determined by its underlying business strategy and that sufficient cushion is available to absorb unexpected shocks that could arise out of adverse market conditions and external factors. To be highly capitalized Bank, The Premier Bank Limited has set a policy to maintain its capital in such a way that maintained capital is higher than the minimum required capital by 1-2% as per Risk Based Capital Adequacy.

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

Major responsibilities of the Risk Management Committee are as follows:

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

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

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

Quantitative Disclosure:

Sl	**Particulars (**Amount in Crore Taka)	**Solo**	**Consolidated**
1	Capital requirement for Credit Risk	1,089.28	1,076.55
2	Capital requirement for Market Risk	75.18	75.18
3	Capital requirement for Operational Risk	95.96	98.22
	Total Capital Requirement	**1,260.42**	**1,249.95**
4	**Total Risk Weighted Assets (RWA)**	12,604.25	12,499.46

5	**Total Regulatory Capital (Tier 1 & Tier 2)**	**1,560.77**	**1,560.46**
6	Common Equity Tier 1 (CET 1)	969.27	968.96
7	Tier – 1 Capital	969.27	968.96
8	Tier – 2 Capital	591.50	591.50
9	Capital To Risk Weighted Asset Ratio (CRAR)	12.38%	12.48%
10	Common Equity Tier 1 (CET 1) to RWA Ratio	7.69%	7.75%
11	Tier - 1 Capital to RWA Ratio	7.69%	7.75%
12	Tier – 2 Capital to RWA Ratio	4.69%	4.73%
13	Capital Conservation Buffer (0.625% of RWA)	78.78	78.12

4. Credit Risk

Qualitative Disclosure:

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

Definitions of past due and impaired

Sub–standard:
These are the loans where bank has reason to doubt about the repayment of the loan although recovery prospect is encouraging.

Doubtful:
Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.

Bad /Loss:
These are the loans that have a bleak recovery possibility.

Unclassified:
These are the loans where bank is fully satisfied about its repayment.

Special Mention Account:
These assets have potential weaknesses thus deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.

General Provision:
Bank maintains general provision in the following way
For Unclassified Loan:

Type of Loan	Rate of Provision
Small & Medium Enterprise Financing (SMEF)	0.25%
Consumer Financing (Other than HF & LP)	5%
Consumer Financing (House Financing, HF)	2%
Consumer Financing (Loans for Professional to setup business, LP)	2%
Loans to BHs/ MBs/ Sds against Shares etc.	2%
All Other Credit	1%
Short Term Agri Credit & Micro Credit	2.5%

<u>Special Mention Account:</u>

Type of Loan	Rate of Provision
Small & Medium Enterprise Financing (SMEF)	0.25%
Consumer Financing (Other than HF & LP)	5%
Consumer Financing (House Financing, HF)	2%
Consumer Financing (Loans for Professional to setup business, LP)	2%
Loans to BHs/ MBs/ Sds against Shares etc.	2%
All Other Credit	1%
Short Term Agri Credit & Micro Credit	2.5%

Specific Provision:

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

Methods Used to Measure Credit Risk

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

Credit Risk Management

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

Credit Risk Management Process

A thorough credit risk assessment is done before extending loan. The credit Risk assessment includes borrower risk analysts, industry risk analysts, historical financial analysts, projected financial performance, the conduct of the account, and security of proposed loan. The assessment originates from relationship manager/ account officer and approved by Credit Review Committee at Head Office. The Credit Committee under elevated authority approves the credit proposals. Executive Committee of the Board approves the proposal beyond the authority limit of the management. The Board of Directors reviews the proposals approved by the Executive Committee.

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

Credit Risk Mitigation

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

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

Policies and Processes for Collateral Valuation and Management

The Premier Bank Limited has set a policy on Collateral Valuation and Management. The bank appoints approved surveyors for valuation of collateral/securities objectively. The methodology of valuation that the Bank usually applies, are forced sale/ fire sale value, fair/market value etc. The Bank creates legal claims on collateral/securities through mortgage; charge creation, legal documentation etc.

Quantitative Disclosure:

Risk Weighted Assets (RWA)	Tk. In Crore
Credit Risk	
For On- Balance sheet Assets	8,138.84
For Off-Balance sheet Assets	2.754.00
Total RWA for Credit Risk	**10,892.84**

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

Exposure Type	Amount in Crore Taka	
	Exposure	**Risk weighted Asset**
Credit Risk for On-Balance Sheet Exposures:		
Cash	120.73	0.00
Claims on GoB and BB	2242.43	0.00
Claims on Public Sector Entities (excluding equity exposure)	9.30	4.65
Claims on Banks and NBFIs (denominated in domestic as well as foreign currency)	397.84	163.09
Claims on Corporate (excluding equity exposures)	6635.24	3783.21
Claims on SME	1,959.01	1,346.22
Claims under Credit Risk Mitigation for Corporate	262.10	27.00
Claims under Credit Risk Mitigation for Retail & SME	225.05	1.14
Consumer finance	93.53	93.53
Claims fully secured by residential property	86.54	43.27
Claims fully secured by commercial real estate	400.18	400.18
Past Due Claims		
Where specific provisions are less than 20 % of the outstanding amount of the past due claim	203.43	305.15
Where specific provisions are no less than 20 % of the outstanding amount of the past due claim.	54.91	54.91
Where specific provisions are more than 50 % of the outstanding amount of the past due claim.	31.68	15.84
Claims fully secured against residential property that are past due for more than 60 days and/or impaired specific provision held there-against is less than 20% of outstanding amount	7.06	7.06
Loans and claims fully secured against residential property that are past for more than 60 days and /or impaired and specific provision held there-against is more than 20% of outstanding amount	0.26	0.20
Capital Market Exposure	267.39	334.24

Investment in Venture Capital	0.00	0.00
Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book.	211.58	264.48
Investments in premises, plant and equipment and all other fixed assets	240.62	240.62
All other assets		
i) Claims on GoB & BB	53.67	0.00
ii) Staff loan / investment	46.07	9.21
ii) Claims on Off-shore Banking Units (OBU)	404.98	404.98
iii) Other assets (net off specific provision)	639.88	639.88
Sub Total	**14,593.46**	**8,138.84**
Credit Risk for Off-Balance Sheet Exposures:		
Claims on Corporate	3,132.85	2,696.82
Claims on SME	76.23	57.18
Sub Total	**3,209.08**	**2,754.00**
Grand Total	**17,802.54**	**10,892.84**

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

Urban	**(Tk. In Crore)**
Dhaka Division	9,115.41
Chittagong Division	1,407.92
Khulna Division	165.32
Sylhet Division	29.85
Rajshahi Division	93.94
Barisal Division	13.06
Rangpur Division	28.85
	10,854.35
Rural	
Dhaka Division	377.16
Chittagong Division	140.82
Rajshahi Division	0.05
	518.03
	11,372.38

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

S/L	Sector	(Tk. In Crore)
1	Agricultural Loan	295.42
2	Industrial Loan (other than working capital)	1,363.56
3	Working capital Loan	1,906.33
4	Export Credit	771.88
5	Import Credit	508.59
6	Commercial Loan	2,429.31
7	RMG & Textile	1,558.19
8	Ship building and ship breaking Loan	88.70
9	Construction Loan	865.15
10	Transport and Communication Loan	99.07
11	Consumer Credit	282.55
12	All Others Loans	1,203.63
	Total	**11,372.38**

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

Particulars	(Tk. In Crore)
Not more than 3 months	4,232.79
More than 3 months but not more than 6 months	1,362.83
More than 6 months but not more than 9 months	1,745.07
More than 9 months but not more than 12 months	801.51
Over 1 year	3,230.18
Total	**11,372.38**

E. Classification of Loans & Advances

Particulars	(Tk. In Crore)
Standard	10,469.01
Special mention account	315.19
Substandard	50.49
Doubtful	27.71
Bad/Loss	509.98
Total	**11,372.38**

F. Specific and general provisions

Particulars	(Tk. In Crore)
Provision on classified loans/investments	196.24
Provision on unclassified loans/investments	42.42
Provision for off-balance sheet items	23.54
Provision for investment in shares	39.25
Provision for gratuity	7.64
Provision for other assets	1.87
Total	**310.97**

G. Gross Non-Performing Loans (NPLs)	**588.18**
Total Loans & Advances	**11,372.38**
Non-Performing Loans and advances	
Sub-standard	50.49
Doubtful	27.27
Bad/ Loss	509.98
Non-Performing Loans (NPLs) to Outstanding Loans and advances	**5.17%**

H. Movement of Non-Performing Loans (NPLs)	
Opening balance	606.13
Addition during the year	324.25
Reduction during the year	342.20
Closing balance	**588.18**

I. Movement of specific provisions for NPLs	
Opening balance	104.73
Add: Provisions made during the period	91.00
Less :Write-off	-
Add: Recovery of amounts previously written off	0.51
Closing balance	**196.24**

5. Equities: Disclosures for Banking Book Position

Qualitative Disclosure:

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

Guidelines on Risk Based Capital Adequacy are formulated to guide the categorization of banking book credit risk exposures of commercial banks, so as to enhance their credit risk management. In the light of Guidelines on Risk Based Capital Adequacy issued by Bangladesh Bank and BAS 25, Equities of Banking Book of a bank are equity investments in unquoted / non-listed shares that are normally held to maturity.

Banking Book Equities Investments of The Premier Bank Limited as of 31st December 2016 were the equity investments of the following companies:

01. Central Depository Bangladesh Limited
02. SWIFT
03. Premier Bank Securities Ltd.
04. Energy Prima Ltd , Lanka Bangla Securities Ltd & Runner Automobiles Ltd .

Banking Book Equities Investments of Premier Bank Securities Limited – a subsidiary of The Premier Bank Limited as of 31st December 2016 were the equity investments of the following companies:

01. Dhaka Stock & Exchanges Ltd.
02. Chittagong Stock & Exchanges Ltd.

Quantitative Disclosure:

Banking Book Equities Investments of The Premier Bank Limited as of 31st December 2016 stood at Tk. 211.58 Crore as per following details:

Sl.	Name of Companies	Amount in crore Taka	Remarks
01.	Central Depository Bangladesh Limited	0.51	
02.	SWIFT	0.12	
03.	Energy Prima Ltd , Lanka Bangla Securities Ltd & Runner Automobiles Ltd .	4.95	Unquoted share
04.	FSIBL Subordinated Bond	6.00	FSIBL Subordinated Bond
05.	Bangladesh Fixed Income Special Purpose Vehicle	150.00	
06.	Premier Bank Securities Ltd.	50.00	Subsidiary company
	Total	**211.58**	

Banking Book Equities investments of The Bank's subsidiary company namely - Premier Bank securities limited as of 31st December 2016 stood at Tk. 83.00 crore as per following details

Sl.	Name of Companies	Amount in crore Taka
01.	Dhaka Stock Exchange Ltd.	65.00
02.	Chittagong Stock Exchange Ltd	18.00
Total		**83.00**

Particulars	Disclosure of the Bank
Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Investment in equities of banking Book position of The Premier Bank Limited on SOLO Basis and Consolidated basis as of 31st December 2016 had been shown at cost Price amounting Tk. 211.58 Crore and 244.58 crore respectively.
The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	No realized gains/ Losses
• Total unrealized gains (losses) • Total latent revaluation gains (losses) • Any amounts of the above included in Tier 2 capital.	No unrealized gains No revaluation gains Not included in Tier-II

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

Qualitative disclosure:

Interest rate risk is the risk where changes in market interest rate might adversely affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as well as the net worth of the bank (economic value perspective). Re –pricing risk is often the most apparent source of interest rate risk for a bank and is often gauged by comparing the volume of a bank's assets that mature or re-price within a given time period with the volume of liabilities that do so.

The short term impact of changes in interest rates is on the bank's Net interest Income (NII). In a longer term, changes in interest rates impact the cash flows on the assets, liabilities and off-balance sheet items, giving rise to a risk to the net worth of the bank arising out of all re-pricing mismatches and other interest rate sensitive position.

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

Quantitative disclosure:

Maturity Bucket

Figure in crore Taka

Particulars	< 3 Months	3 – 6 Months	6 – 12 Months
Gap	762.20	(2413.50)	(1051.45)
Cumulative Gap	762.20	(1651.30)	(2702.75)

Interest Rate Stress Test:

	Minor	Moderate	Major
Assumed changes in Interest Rate	**1%**	**2%**	**3%**
Net Interest Income Impact			
< 12 Months	-27.03	-54.06	-81.08
Capital after shock	1533.74	1506.72	1479.69
CAR After Shock (%)	**12.17**	**11.95**	**11.74**
Change in CAR after shock(%)	-0.21	-0.43	-0.64
Reprising Impact			
Change in value of the bond portfolio	-34.17	-68.34	-102.51
Capital after shock	1499.57	1438.38	1377.18
CAR After Shock (Percent)	**11.90**	**11.41**	**10.93**
Change in CAR after shock (%)	-0.27	-0.54	-0.81
Overall change in CAR (NII and re-pricing impact %)	-0.49	-0.97	-1.46

7. Market Risk

Qualitative Disclosure:

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

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

Market risk arises from the following arenas:

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

Methods Used to Measure Market Risk

Under Standardized Approach, The Premier Bank Limited had determined separately the capital requirement for the following market risks:

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

Market Risk & Liquidity Risk Management Policies and System

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

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

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

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

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

Quantitative Disclosures:

Capital Charges for Market Risk:

Sl.	Details	Capital Charge for Specific Risk	Capital Charge for General Market Risk	Total Capital Charge for Market Risk
1	**2**	**3**	**4**	**5 = (3+4)**
A.	Interest Rate Related instruments	0.00	4.22	4.22
B.	Equities	27.49	27.49	54.97
C.	Foreign Exchange Position	0.00	15.99	15.99
D.	Commodities	0.00	0.00	0.00
	Total (A+B+C+D)	**27.49**	**47.70**	**75.19**

8. OPERATIONAL RISK

Qualitative Disclosure:

Views of BOD on system to reduce Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example failed IT systems, or fraud perpetrated by a Bank's employee), or from external causes, whether deliberate, accidental or natural. It is inherent in all of the Bank's activities. Operational risks are monitored and, to the extent possible, controlled and mitigated.
The Bank's approach to operational risk is not designed to eliminate risk altogether rather to contain risks within levels deemed acceptable by senior management.

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

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

Performance Gap of Executives and Staffs

The Premier Bank Ltd. always tries to be the best pay master in the sector and ensure best workplace safety for its employees to avoid inconsistent employment practices and unsound workplace safety by way of discrimination regarding employee's compensation, health and safety.

Potential External Events

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

Approach for calculating Capital Charges for Operational Risks

For local regulatory capital measurement process, the Bank follows the basic indicator approach:

Quantitative Disclosure:
Capital Requirement for operational Risks:

Taka in crore

Particulars	**Y-2016**	**Y-2015**	**Y-2014**
Gross Income*	845.02	553.53	520.57
Total gross Income of three previous	1,919.12		
Average Gross Income	639.71		
Previous three years Capital Charge (15% of Average Gross Income)	95.96		

* Including Interest Suspense.

Risk Management Unit

The Premier Bank Limited has formed a separate "Risk Management Unit" under Chief Risk Officer to ensure following things:

- Designing of organizational structure by clearly defining roles and responsibilities of individuals involved in risk taking as well as managing it:
- Formulation of overall risk assessment and management policies, methodologies, guidelines and procedures for risk identification, risk measurement, risk monitoring, defining an acceptable level of risk, mitigation of all the core risks in line with their respective guidelines provided by Bangladesh Bank:
- Reviewing and updating all risks on systematic basis as necessary at least annually, preferably twice a year, ensuring that adequate controls exist and that the related returns reflect these risks and the capital allocated to support them. The main risk areas will be balance sheet Risk Management, Credit Risk, Foreign Exchange Risk, Internal Control and Compliance Risk, Money Laundering Risk and IT Risk. The following risks have also to be reviewed :
    - ✓ Operational Risk
    - ✓ Market Risk
    - ✓ Liquidity Risk
    - ✓ Reputation Risk
    - ✓ Insurance Risk
    - ✓ Sustainability Risk
- Setting the portfolio objectives and tolerance limits/ parameters for each of the risks;
- Formulation of strategies and different models in consistency with risk management policy based on IT policy and in house IT support which can measure, monitor and maintain acceptable risk levels of the bank;

- Development of information systems/MIS inflow and data management capabilities to support the risk management functions of the bank.
- Ensure compliance with the core risks management guidelines at the department level, and at the desk level;
- The unit will work under bank's organizational structure and suggest to the Managing Director to take appropriate measures to overcome any existing and potential financial crisis;
- Analysis of self resilience capability of the bank;
- Initiation to measure different market conditions, vulnerability in investing in different sectors;
- The unit will also work for substantiality of capital to absorb the associated risk in banking operation.

Stress Testing

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

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

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

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

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

9. Liquidity Ratio:

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

Views of BOD on system to reduce liquidity Risk:

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

Methods used to measure liquidity risk:
The Bank conducts a range of liquidity related stress testing analyses, both for internal and regulatory purposes. Internally, a more realistic analysis of survival horizons considers potential currency mismatches between stress outflows and inflows. Particular focus is paid to mismatches in less liquid currencies and those that are not freely convertible. This is overseen by the Banks ALCO. Bank's traditionally use the statutory liquidity reserve and their borrowing capacity in the volatile inter-bank money market as the source of liquidity. A bucket wise (e.g. next day, 2-7 days, 7 days to 1 months, 3-6 month, 6 months -1 year, 1-2 years , 3-4 years , 4-5 years and over 5 years) maturity profile of the assets and liabilities shall be prepared to understand mismatch in every bucket.
A forecasted balance sheet also prepared where the assets and liabilities of the nature of current, overdraft etc. are divided into "core and noncore " balances where core is defined as the portion that is expected to be stable and will stay with the bank, and non-core to be less stable. The distribution of core and non-core is determined through historical trend, customer behavior, statistical forecast and managerial judgment, the core balance can be put into over 1 year bucket whereas non- core can be into 2-7 days or 3 months bucket.

Policies and process for mitigating liquidity risk:

In 2015, The Premier Bank Limited revised its liquidity risk framework, adapting it to current business and regulatory conditions. Important features of this include the new methodology and parameterization of the liquidity risk modeling, taking into account regulatory requirements and adjusted limits. The combination of modeling and limits results in the quantitative structuring of our liquidity risk tolerance, which is in line with the overall risk strategy. The liquidity gap profile is shown for the whole of the modeling horizon across the full spectrum of maturities. The processes of producing and analyzing the liquidity gap profile have been significantly improved by redesigning the IT infrastructure. In addition, the management of the regulatory liquidity coverage ratio (LCR) has been integrated into the liquidity risk model. Based on the new methodology of the liquidity gap profile, management mechanisms such as recovery and early warning indicators have been adjusted and supplemented. Furthermore, hard limits are defined for the time horizon of up to one year, although for time horizons of over a year there are review triggers to limit the liquidity risk in line with our funding capacity. The Bank limits are broken down into individual currencies and Bank units. At the end of the year, the liquidity coverage ratio stood at 100.12%. The size of the liquidity reserve portfolio held to compensate for unexpected short-term liquidity outflows, and the limits in the various maturity bands. The liquidity reserve portfolio is maintained and monitored separately by the Treasury. This ensures that it functions as a buffer in stress situations. The liquidity reserve portfolio is funded in line with liquidity risk tolerance in order to ensure that it is kept at the required size throughout the reserve period stipulated by the Board of Directors. The internal liquidity risk model is complemented by the regular analysis of additional inverse stress scenarios.

Quantitative disclosure

Particulars	
Liquidity coverage ratio	**100.12%**
Net stable funding ratio (NSFR)	**123.50%**
Stock of high quality liquid assets	**2,631.74 Crore**
Total net cash outflow over the next 30 calendar days	**2,628.59 Crore**
Available amount of stable funding	**13,929.34 Crore**
Required amount of stable funding	**11,278.70 Crore**

10. Leverage Ratio:

Views of BOD on Leverage Ratio:

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

Bank has clearly laid down policy and procedure to manage its exposure level (both on and off-balance sheet) enumerated in its Asset Liability Management policy. Leverage parameter of the policy acts as a credible supplementary measure to the risk based capital requirement to control the leverage of the bank. This reflects bank's tier 1 capital over total exposure of the bank. Reference level of leverage ratio is currently 3% (minimum) and it is expected to be reviewed in 2017 in line with the BB directive.

Methods of calculating Leverage Ratio:

Leverage ratio of the bank is calculated in line with the RBCA Guideline of BB on quarterly basis. As at 31st December 2016 bank's leverage ratio was 5.31%.
Leverage ratio is calculated by dividing Tier 1 capital with Total exposure. Total exposure comprise of:

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

Quantitative Disclosures:

A.	**Available Tier 1 Capital**	**969.27 Crore**
B.	On-Balance sheet exposures	15,261.80 Crore
C.	Off-Balance sheet exposures	3.211.93 Crore
D.	Regulatory adjustment made to Tier1 Capital	(204.82) Crore
E.	**Total Exposure (B+C-D)**	**18,268.91 Crore**
	Leverage ratio (A/E*100)	**5.31%**

11. Remuneration:

Qualitative Disclosures	(a)	Senior Management comprising of Managing Director, Additional Managing Directors, Chief Financial Officer and Chief HR Officer are overseeing the remuneration and its policies. The policy deals with performance based remuneration which describes short term and long term benefits. Policy regarding salary, festival bonus, LFA, performance bonus, Gratuity, Provident Fund etc. are approved by the Board. The policy does not apply to service contracts with third parties. There were 30 Senior Managers which include Divisional Heads and above as at the end of the reporting period.
	(b)	The objectives of remuneration policies of the Bank are to ensure that all compensation & benefits are fair, justified, valued and promote the performance based reward. All employees including the Senior Management employees are paid competitive remuneration package based on the merit of individuals. The structure and level of remuneration are reviewed time to time based on Bank's performance and affordability. The remuneration also stresses on ensuring internal and external pay equity. Last approved Salary structure is implemented with effect from 1st May, 2014.
	(c)	The Bank has a limited number of programs that emphasizes on short term rewards. In addition to fixed pay, there are very few variable pay components and Bank has ensured some variable facilities for branches for the business procurement purposes. To ensure employee retention and reduce the risk of short term gain, the Bank encourages its employees to earn more in the longer term. Thus, the Bank induces employees to take decisions that bring good results in long term.
	(d)	The Bank has a high performance culture. The compensation of the employees is determined based on performance. The Bank has an annual performance based salary increment, incentive program and promotion. Performance bonus now based on business performance & Employee Engagement KPI for Branch and Head Office employees. Performance appraisal including business KPI is the measurement criteria for Performance.
	(e)	The policy deals with performance based remuneration which describes short term and long term benefits.

		Short term benefits include salary, festival bonus, LFA and performance bonus as variable payments. Long term benefits include Gratuity, Provident Fund and Leave Encashment.
	(f)	Premier Bank has not adopted variable remuneration like cash, shares and share-linked instruments and other forms.
Quantitative Disclosures	(g)	Several discussion meetings were held during the last year to review and revise the salary and benefit structures of the Bank.
	(h)	Two festival bonuses are paid in the form of guaranteed bonus and the total paid amount is Tk. 9.04 Crore in 2016. Total amount of severance payments: Tk. 6.19 crore was made in the reporting period in 2016 which includes Provident Fund and Gratuity.
	(i)	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments & other forms and total amount of deferred remuneration paid out in the financial year are not applicable for Premier Bank.
	(j)	Total amount of Fixed Pay and Variable Pay in 2016 is Tk. 119.74 crore and Tk. 2.41 crore respectively, where performance based incentive bonus is considered as variable pay.
	(k)	Quantitative information about employees' exposure to implicit (eg fluctuations in the value of shares or performance units) and explicit adjustments (eg clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration is not applicable for Premier Bank.