
Global Economy

Global growth slowed down in 2016 and was 31 percent but this is expected to recover to 3.4 percent in 2017. The forecast, revised down by 01 percentages for 2016 and 2017 reflects subdued outlook for advanced economies following the June U.K. vote in favor of leaving the European Union (Brexit) and weaker-than-expected growth in the United States. These developments have put further pressure on global interest rates as monetary policy is now expected to remain accommodative for longer. Global output growth was estimated at about 3 percent (at an annualized rate) for the third quarter of 2016 broadly remained unchanged relatively than the first two quarters of the year. This stable average growth rate, however, masks divergent developments in different countries groups. There has been a stronger-than-expected pickup in growth in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output. In contrast, it is matched by an unexpected slowdown in some emerging market economies, mostly reflecting idiosyncratic factors.

Among the advanced economies, activities rebounded strongly in the United States after a weak first half of 2016. Output remained below potential in a number of advanced economies, notably in the euro-zone. Preliminary third-quarter growth figures were somewhat stronger than previously forecast in some economies such as Spain and the United Kingdom where domestic demand held up better than expected in the aftermath of the Brexit voting. Historical growth revisions indicate that Japan’s growth rate in 2016 and in preceding years was stronger than previously estimated.

The picture for emerging market and developing economies remains much more diverse. The growth rate in China was a bit higher than expected supported by continued policy stimulus. But activities was weaker than expected in some Latin American countries currently in recession, such as Argentina and Brazil as well as in Turkey, which faced a sharp contraction in tourism revenues. Activities in Russia were slightly better than expected, in part reflecting firmer oil prices.

Oil price has increased in recent weeks reflecting an agreement among major producers to trim supply. With strong infrastructure and real estate investment in China as well as expectations of fiscal easing in the United States, prices for base metals have also strengthened. Headline inflation rates have recovered in advanced economies in recent months with the bottoming out of commodity prices but core inflation rates have remained broadly unchanged and generally below target. Inflation ticked up in China as capacity cuts and higher commodity prices have pushed producer price inflation to positive territory after more than four years of deflation.

Bangladesh Economy

The Bangladeshi economy is weathering sluggish international demand and rising global uncertainties relatively well. Bold government spending aimed at upgrading the country’s infrastructure and robust private consumption due to higher salaries and low inflation are the backbone of Bangladesh’s solid growth trajectory. Despite weak global demand, the all-important garment industry continues to support the external sector due to cheap labor. This situation could, however, seriously backfire as the country has so far is specialized in low-end products instead of moving up the value chain. A substantial hike in public sector wages and solid infrastructure investment have done promise to shore up growth during this fiscal year. Growth, however, will be limited by declining remittances, a widening budget deficit and weak global trade.

External factors such as export, import, remittances and foreign aid have always played important roles to Bangladesh’s economy, though the relative importance of various external factors has changed over time. Based on the past performance and changes in the global economy, the study has projected the growth prospect and likely behavior of Bangladesh’s external sector under three scenarios: (i) optimistic scenario (8% GDP growth per annum), (ii) business as usual scenario (6% GDP growth per annum), and (iii) base case scenario (4% GDP growth per annum). Under these three scenarios, the study has projected the level of total GDP and per capita GDP of Bangladesh till FY2020. Projections have been made about required level of exports, imports, remittances, foreign aid and foreign investment to attain a consistent GDP growth at the rate of 4%, 6% and 8% up to the year 2020. Bangladesh needs a steady growth based on industrialization both in the form of local & foreign investment, service income and trade. Future growth of Bangladesh will depend on promoting export, sustaining remittances, and triggering export. Bangladesh will require a breakthrough in the performance of the external sector which will largely depend on effective integration
of Bangladesh’s economy with the global economy and accommodative political leadership to undertake necessary policy reforms and institution building measures.

Industry Outlook

With modest fiscal expansion and easing of the infrastructure bottlenecks, GDP growth is projected to rise gradually towards 7 plus percent. Bangladesh needs strong structural reforms and effective public investment efforts to be on a higher and faster growth path. Weak bank balance sheets and governance divert credit away from productive investment and impose large fiscal recapitalization costs.

Bangladesh’s banking sector is one of the weakest in emerging Asia. Low capital adequacy, inadequacy in earning capacity of asset portfolio, inefficiency in management quality etc. have been identified as main flaws to challenge solvency and profitability. Under the Basel III framework, Bangladesh banks are legally required to maintain a capital to risk-weighted asset ratio (CRAR) of at least 10 per cent and tier 1 capital ratio of at least 6 percent. Although the banking sector as a whole was able to maintain its CRAR above the minimum required level, state-owned commercial banks and financial institutions or specialized banks are still struggling to maintain adequate capital against their core risks. Moreover, banking sector’s aggregate CRAR has been in a downward trend since 2013 which needs to be focused on for improvement & enhancement of banking sector’s ability to absorb shocks arising from financial & economic stress at any point of time.

The year 2016 witnessed an intense competition among banks in terms of rates, but it was a boon for the clients as they got improved services and better facilities at costs lower than before. Increasing off-shore borrowing by reputed local business houses has reduced banks’ scope to lend more, while rising non-performing loans have eaten up profits in the name of provision. Banks with surplus liquidity also offered additional benefits in the just-concluded year to retain good customers who have a record of regular loan payments. The overall non-performing loan (NPL) situation reveals a higher percentage of impaired loans which is around 10 percent of total outstanding loan of the banking industry. Due to rising levels of NPLs, banks will be forced to increase their loan-loss provisions which have an adverse impact on their profitability. Prime Bank Directors have already recommended following steps:

i) Strengthening vigilance

ii) Enhancing the level of efficiency in lending operation through centralization

iii) Enhancing risk management in order to contain the volume of NPLs.

Finally, banks were in a dilemma regarding a central bank order that asked all banks to give 10 percent rebate on the interests they earned from borrowers with three years of a regular loan repayment record. Payment requirement of this incentive by the Banks has been made effective from first day of January 2016.

Background of the Bank

PBL started its journey in the year 1995 with the firm commitment of excellence in customer service with a difference. Its vision remained to be the best private commercial bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, profitability along with strong liquidity.

PBL formally launched its business in April 1995 with one branch at Motijheel Commercial Area, Dhaka. It started its Islamic banking operations in December of the same year. It was listed with both the bourses of Bangladesh viz. Chittagong Stock Exchange and Dhaka Stock Exchange in 1999 and 2000 through initial public offering.

PBL became primary dealer for buying and selling securities under the license issued by Bangladesh Bank in 2003. With the aim to offer innovative banking service to the Non Resident customers, PBL opened its first Offshore Banking unit in 2007 at DEPZ, Savar, and a new dimension in its customer friendly business activities. The bank opened two more Offshore Banking Units at CEPZ, Chittagong and Adamjee EPZ, Narayanganj subsequently.

It was registered as Merchant Banker with the Bangladesh Securities and Exchange Commission, Bangladesh in 2001 for starting its Investment Banking and Advisory services. As per directives and permission of the Bangladesh Bank, PBL converted its Merchant Banking and Investment Division (MBID) into a subsidiary in the name and style “Prime Bank Investment Ltd.” in 2010. With the view to business diversification, the bank also established another subsidiary in the name and style “Prime Bank Securities Ltd.” to provide brokerage services in the stock market.

PBL has also expanded its services beyond the border with a view to providing banking services globally. It opened its first fully owned subsidiary ‘Prime Exchange Co. Pte. Ltd.’ in Singapore and started their operation from July 2006 to offer remittance services to Bangladeshi Nationals living in Singapore. This is the first ever fully owned Exchange Company of a Private Sector Bank of Bangladesh established in Singapore with the approval of the Bangladesh Bank and the Monetary Authority of Singapore.

With permission from the Bangladesh Bank and registration of Financial Services Authority, UK, another fully owned subsidiary of PBL, Prime Exchange (UK) Limited started its operation from August 2010 in the UK along with its three branches in London, Birmingham and Manchester for engaging in remittance services.

PBL Finance (Hong Kong) Limited, a fully owned subsidiary of PBL started its operation in September 2011. The main functions of the subsidiary are to advise, negotiate, confirm and provide discounting facilities against LCs originating from PBL and other banks in Bangladesh. The company also handles remittance business.

At present, the bank has been working with 145 branches including 18 SME branches. The introduction and expansion of ATM network, Internet Banking, SMS Banking, Phone Banking, Mobile Banking, Biometric Smart Card and KIOSK ushered a new era and PBL is now well poised towards sustainability.
Vision, Mission, Corporate Philosophy, Strategic Priorities and Corporate Conduct

PBL's vision, mission, corporate philosophy, strategic priorities and corporate conduct are presented at the beginning of this annual report. In achieving bank's vision, mission and strategic priorities, the highest level of ethical standards have been vowed to be maintained.

Principal Activities

The principal activities of the bank are banking and related businesses. The banking businesses include deposits taking, cash withdrawal, extending credit to corporate organizations, organizing syndication deals, Consumer and MSME financing, trade financing, project financing, lease and hire purchase financing, credit cards, remittance services etc. The mode of banking includes both conventional and Islamic banking. The services are provided through both traditional and modern IT based products. The bank performs investment banking and advisory services through Prime Bank Investment Limited and brokerage services through Prime Bank Securities Limited. Bank’s subsidiaries at Singapore and UK are engaged in providing remittance facilities to expatriate Bangladeshis. PBL Finance (Hong Kong) Limited advises, negotiates, confirms and provides discounting facilities against LCs originating from PBL and other banks in Bangladesh. The company also handles remittance business. Three (3) Off-shore Banking Units offers banking services involving foreign currency denominated assets and liabilities.

Delegation of Business authority

Simultaneously, in order to concentrate on the policies and large loan issues alone as per central bank’s guidelines, Board decided to delegate more Business authority to the Management and the Executive Committee of the Board in conformity with the vision of centralization. The Board took this decision considering the requirement of professional due-diligence for diversified business propositions received at the different counters of the bank. The idea is also to allow flexibility in dealing with customers’ requirements in line with the vision of becoming customer-centric.

Risk Management

The identification, evaluation and management of risks, together with the way we respond to changes in the external operating environment are the key approach for moving towards sustainable growth and underpin the robustness of our business plans and strategic objectives, protecting our license to operate and our reputation and helping create a long-term source of competitive advantage. Risk management is embedded in Prime Bank’s organizational structure, operations and management systems. Business risks across the Group are addressed in a structured and systematic way through a predefined risk management structure. This ensures that the Board’s assessment of risk is informed by risk factors and mitigating controls originating from and identified by the Group’s assets, functional departments and operations, including the Company’s subsidiaries. Moreover, Prime Bank possesses a detailed risk management system with procedures in place to support risk evaluation across the Group. The risks associated with the delivery of the business plan and annual work programs and the related mitigation measures are maintained in asset and project risk matrices and registers. Prime Bank has formed different committees for risk management. The Credit Committee and Asset and Liability Committee (ALCO) consists of the members of Bank’s senior management who regularly review issues related to the product pricing, market, credit & liquidity and, accordingly, recommend and implement appropriate measures to proactively identify and mitigate risks. The Bank has an approved Asset Liability Management (ALM) policy which is being followed and reviewed by the ALCO members. The Credit Risk Management (CRM) division independently scrutinizes projects & assesses creditworthiness, business stability & capacity for generating cash flows from operation and asset quality of the borrowers before going to funding. They also assist relevant departments in setting business development priorities. These are aligned with the Bank’s risk appetite while optimizing the risk-return trade-off derived from relevant risk exposures. The CRM team also defines exceptionally high-risk sectors and gives signal to business divisions for declining proposals received from them considering the criteria set by the Bank in terms of environmental, social or ethical standards. Details of risk management are given in the “Risk Management” Chapter of this Annual Report.

Corporate Sustainability

Sustainability report conveys disclosures of an organization’s most critical aspects, be those positive or negative on the environment, society and the economy. By using Global Reporting Initiative (GRI) guidelines, reporting organizations can generate reliable, relevant and standardized information to assess opportunities and risks, and enable more informed decision-making - both within the business and among its stakeholders. By developing and communicating their understanding about the connections between sustainability and business, Banks can enhance their value, measure and manage change and drive improvement and innovation. G4, the fourth generation of the guidelines, was launched in May 2013. The aim of G4 is simple: to help reporters prepare sustainability reports that matters and make robust, purposeful sustainability reporting standard practices.

Every organization tries to make their operations sustainable. Moreover, expectations that long-term profitability should go hand-in-hand with social justice and protecting the environment are achieving ground worldwide. These expectations are only set to increase and intensify the need to move to a truly sustainable economy is understood by companies’ and organizations’ financiers, customers and other stakeholders. Sustainability reporting helps Banks set goals, measure performance, and manage change in order to make their operations more sustainable. In doing so, sustainability reporting makes abstract issues tangible and concrete thereby assisting in understanding and managing the effects of sustainability developments on the Bank’s activities and strategies. Internationally agreed disclosures and metrics enable information contained within sustainability reports is made accessible and comparable providing stakeholders with enhanced information on their decisions.

The emerging idea of integrating strategic sustainability-related information with other material financial information is a significant and positive development. Sustainability is, and will increasingly be, central to the change that Banks, Companies, Markets and Society will be navigating. Sustainability information
that is relevant or material to a bank's value prospects should therefore be at the core of integrated reports.

Apart from the CSR activities done by the Prime Bank Foundation, the Bank directly conducted various CSR activities during the year 2016, details of which are given in "Corporate Sustainability" and "Green Banking" chapters of this Annual Report.

**Corporate Governance**

The bank adheres strictly to the regulatory guidelines on corporate governance. Disclosures on corporate governance, in accordance with the regulations of Bangladesh Securities and Exchange Commission & Bangladesh Bank guidelines are provided in the “Corporate Governance” chapter of this Annual Report.

**Human Resources**

PBL is working with a vision of converting human resources into human capital through appropriate knowledge, skills, abilities and personal attribution. A healthy environment has been created where employees enjoy working with pride. Trusting that the human resources are main elements behind the success and long term sustainability, the Bank is developing and motivating the workforce with contemporary HR policies and attractive benefits. PBL considers its human resources as the most important asset. The Company continues to implement effective human resource policies and procedures with a view to ensuring employee development as well as achieving corporate goals and objectives. We mobilise people and teams through engaging them with leading and cutting-edge financial industry practices and also do for them as an attractive employer. The Company offers a broad spectrum of opportunities for both professional and personal developments as well as a work environment that is characterised by respect, trust, cooperation and collaboration. We do so because the skills and enthusiasm of our employees are major force that is helping us grow.

**Sufficient Accounting Records**

The directors’ responsibilities also include overseeing whether adequate accounting records are being maintained, an effective system of risk management is working in place and preparation of the supplementary schedules has been done for inclusion in these Financial Statements. The directors have also made an assessment of the Bank’s ability to continue as a going concern and have no reason to believe that the business will not be a going concern in the years ahead.

**Accounting Policy and Implementation of BAS/BFRS**

The Board of Directors is responsible for ensuring good governance within the Bank and does supervise Management for the preparation and fair presentation of the Bank’s Annual Financial Statements comprising the Balance Sheet as at 31 December 2016 and the Profit & Loss Account, Cash Flow Statements, Statement of changes in equity for the year along with the notes to the Financial Statements including a summary of significant accounting policies and other explanatory notes and the Directors’ report in accordance with the Bangladesh Accounting Standards (BAS)/Bangladesh Financial Reporting Standards (BFRS) and in the manner as required by the Bank Company Act 1991 (as amended up to 2013) and the Companies Act 1994. The directors’ responsibilities also include supervision for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these Financial Statements those are free from material misstatement, whether due to fraud and error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Internal Control System**

Board of directors have the responsibility for approving the review of overall business strategies and significant policies of the bank; understanding the major risks run by the bank; setting acceptable levels for these risks and ensuring that senior management takes steps necessary to identify, measure, monitor and control those risks; Senior management have the responsibility for implementing strategies and policies approved by the Board; developing processes that identify, measure, monitor and control risks incurred by the bank; maintaining an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensuring that delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitoring adequacy and effectiveness of the internal control system. An effective internal control system also requires that an appropriate control structure is set up with control activities defined at every business level. These include: top level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorizations; and a system of verification and reconciliation.

**Standards of Reporting**

The financial statements have been prepared in accordance with Bangladesh Financial Reporting Standards (BFRS) as adopted by The Institute of Chartered Accountants of Bangladesh and applicable provisions of the Bank Company Act 1991 (amended up to 2013) and the Companies Act 1994 and the circulars & guidelines issued by the Bangladesh Bank. Management accepts responsibility for the integrity and objectivity of these financial statements as well as for various estimates and judgments used therein. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis so that the financial statements reflect financial performance status of the Bank in a true and fair manner.

**Going Concern**

Going concern is one of the fundamental assumptions in accounting on the basis of which financial statements are prepared. Financial statements are prepared assuming that a business entity will continue to operate in the foreseeable future without the need or intention on the part of management to liquidate the entity or to significantly curtail its operational activities. Therefore, it is assumed that the entity will realize its assets and settle its obligations in the normal course of the business. It is the responsibility of the management of a bank to determine whether the going concern assumption is appropriate in the preparation of financial statements. The management of Prime Bank has calculated all the ratios related to the maintenance of regulatory capital & liquidity such as CRAR, LCR, NSFR, Leverage ratio, CRR & SLR and assessed adequacy of bank’s liquidity as per structured liquidity profile, and has performed
stress testing to determine bank’s shock absorbent capacity in different distress scenario. All the ratios and results thus calculated reveal that Prime Bank is running well above the level of different parameters set by the respective guidelines of Bangladesh Bank.

Control Environment

Control activities are the policies and procedures which help ensure that management directives are carried out and the necessary actions are taken to minimize the risks of failure to meet stated objectives. Policies and procedures are effectively established within the Bank and are continuously reviewed for compliance, adequacy and improvement opportunities. The Board of Directors sets the tone for an effective control environment through regular reviews of the processes for identifying, evaluating, and managing significant risks. The Standard Operating Procedures (SOP) are signed off by each Head of Department to provide assurance that these standards are communicated, understood and compiled with. An effective Control environment is set by top management and cascades across all business functions. Every year the top team conducts a self-assessment of key controls that affect the business and develops action plans to make the internal control environment more robust.

Supplier Payment Policy

Prime Bank follows a set of payment policies for all suppliers. While selecting vendors as per the methods prescribed in the bank’s Procurement Policy, payment terms and conditions are communicated explicitly before issuing work order or purchase order. Bills are paid according to the payment terms and withholding taxes are deducted from bills as per law. As of date there is no legal case filed by the Bank or filed against the Bank by any supplier.

Business Review

Review of Operations, Products and Services of PBL:

Review of operations along with products and services of the bank has been given in “Management Report and Analysis”, and other chapters in this report.

Prime Bank Investment Limited (PBIL)

PBIL was registered as Merchant Banker with the Bangladesh Securities and Exchange Commission, Bangladesh in 2001 for starting Investment Banking and Advisory services. As per directives of the Bangladesh Bank, PBIL converted its Merchant Banking and Investment Division (MBID) into a subsidiary in the name and style “Prime Bank Investment Ltd.” in 2010. During the year 2016, the company made operating loss of Taka 169.73 million compared to Taka 151.4 million in 2015.

Prime Bank Securities Limited (PBSL)

PBSL was established to provide brokerage services in the stock market. During the year 2016, the company made an operating loss of Taka 26.31 million as against Taka 35.12 million in 2015.

Prime Exchange Co. Pte. Ltd., Singapore

The company operates with two branches in ‘Desker Road’ and ‘Jurong East’ complying with the regulations of both Bangladesh Bank and Monetary Authority of Singapore (MAS). Growth in business of the company was possible due to marketing efforts, personalized service, efficient service platform under ‘RemitFast’ software and enhanced distribution network. The business of the company declined in 2016 due to stiff competition. Total volume of remittance was SGD 80.80 million in 2016 compared to SGD 87.76 million in 2015. The company made profit before tax of SGD 48.432 in 2016 compared to SGD 99,987 in 2015.

PBL Exchange (UK) Limited:

The company has been operating with three branches in London, Birmingham and Manchester. The business volume has marked growth despite stiff competition. The volume of remittance was GBP 19.84 million in 2016 which was GBP 19.77 million in 2015. The company made operating profit of GBP 75,397 in 2016 compared to operating loss of GBP 9,992 in 2015. The subsidiary has taken some pragmatic steps for further acceleration of business growth.

PBL Finance (Hong Kong) Limited

Total assets of the company reached to HKD 219.25 million as on December 31, 2016 compared to HKD 160.04 million on December 31, 2015. The company made a net profit after tax of HKD 5.29 million in 2016 compared to HKD 708 million in 2015. The main functions of the subsidiary are to advise, negotiate, confirm and provide discounting facilities against LCs originating from PBL and other Bangladeshi Banks. The company also handles remittance business. The company has been running by executives and officials having diverse experience in foreign trade business both in Hong Kong and Bangladesh.

Performance of PBL

The Bank has maintained satisfactory growth of asset and liabilities in spite of challenges during the year 2016. Trade finance and other ancillary businesses recorded considerable growth in spite of all odds and economic turmoil. The Bank has been able to maintain a positive growth in the bottom line of Income Statement which has helped for adding a better retained earnings balance in Shareholders’ equity compared to last year.

Offshore Banking

PBL is offering Offshore Banking facilities through 3 (three) Offshore Banking Units (OBU) located in Dhaka Export Processing Zone (DEPZ), Chattogram Export Processing Zone (CEPZ) and Adamjee Export Processing Zone (AEPZ). The total loans and advances of three OBUs reached to USD 226.94 million (equivalent to BDT 17,860 million) as on December 31, 2016 compared to USD 159.44 million (equivalent to BDT 12,516 million) as on December 31, 2015 recording a growth of 42 percent. During the year 2016, OBUs made operating profit of USD 2.74 million (equivalent to BDT 214.89 million) as against USD 1.65 million (equivalent to BDT 128.97 million) in 2015 with a negative growth of 3 percent.

Capital Management

Capital management of the bank is based on the objective to maintain an adequate capital base to support the projected business and regulatory requirement. This is done by drawing an annual planned business growth vis-à-vis capital requirement. PBL recognizes the impact of shareholders’ returns on the level of equity and seeks to maintain a prudent balance between Tier-I and Tier-II capital in accordance with Basel framework. As per guideline issued by Bangladesh Bank, the Banks are required to maintain minimum total capital at 10.00 percent of risk-weighted assets. Tier-I capital will be minimum 6.00 percent of total capital.
Banks will have to maintain Minimum Total Capital plus Capital Conservation Buffer at 12.50 percent of risk-weighted assets.

Total consolidated capital fund of the bank increased by Taka 2,264 million and stood at Taka 31,566 million during 2016. Tier-I capital has increased by Taka 563 million and stood at Taka 23,562 million during the year under review. Total consolidated capital fund is equivalent to 12.30 percent of total risk weighted assets. More details regarding capital management are given in the “Market Discipline- Disclosures on Risk Based Capital (Basel-III)” chapter of this Annual Report.

**Financial Analysis**

**Total Assets**


**Cash and Balance with Bangladesh Bank & its Agent**

Consolidated position of the Bank is Taka 17,786 million in 2016 as against Taka 17,518 million in 2015. PBL's position increased from Taka 17,461 million in 2015 to Taka 17,733 million in 2016.

**Balance with other banks and financial institutions**

Consolidated position of the bank is Taka 3,579 million in 2016 as against Taka 2,011 million in 2015. PBL's position increased from Taka 1,958 million in 2015 to Taka 3,365 million in 2016.

**Investment**

PBL's investment decreased during the year by Taka 14,484 million and stood at Taka 48,249 million at 31 December 2016.

**Loans and Advances / Investments**

Consolidated loans and advances/investments (credit under Islamic Shari'ah) of the bank stood at Taka 172,490 million in 2016. Loans and advances of PBL was Taka 170,212 million during 2016. Investment of Islamic banking branches was Taka 11,251 million and with growth of 0.32 percent during 2016. Outstanding loans and advances of off-shore banking units was Taka 17,860 million showing a growth of 42 percent. Concentration of loans and advances was well managed and details of credit are given at notes to accounts no. 7(a)5. Ratio of nonperforming loan of PBL was 5.96 percent which was much below the industry average of 9.23 percent.

**Liabilities**


**Borrowings from other banks, financial institutions and agents**

The borrowing of PBL stood at Taka 12,930 million which represents PBL's borrowing against PBL Bond, refinance against SME loan from Bangladesh Bank and some other foreign Banks & financial institutions. The borrowed amount was mainly used for financing purpose as well as maintaining capital adequacy.

**Deposits**

In 2016, total deposits of the Bank stood at Taka 197,934 million which was Taka 194,825 million in 2015. The Bank continued its efforts for mobilization of low cost and no cost deposits to reduce cost of fund. However, high cost deposits have been utilized considering their remaining maturity for medium term funding under various projects.

**Shareholders’ Equity**

PBL's shareholders’ equity decreased by 4.28 percent during 2016. Paid-up capital of PBL stood at Taka 10,293 million during 2016. The statutory reserve increased by Taka 469 million during the year and stood at Taka 9,204 million. Distributable profit stood at Taka 2,018 million during the year. Shareholders’ equity decreased by 4.28% due to transferring revaluation reserve of govt. securities to income through realization of their sale proceeds. But, this income has ultimately been utilized for building up loan provision.

**Key financial figure of the Balance Sheet is given below:**

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>256,599</td>
<td>252,161</td>
<td>254,912</td>
<td>243,869</td>
<td>236,833</td>
</tr>
<tr>
<td>Deposit</td>
<td>197,934</td>
<td>194,825</td>
<td>204,838</td>
<td>201,907</td>
<td>182,053</td>
</tr>
<tr>
<td>Loans &amp; Advances</td>
<td>170,212</td>
<td>151,865</td>
<td>147,367</td>
<td>153,589</td>
<td>160,890</td>
</tr>
<tr>
<td>Shareholder’s Equity</td>
<td>25,285</td>
<td>26,415</td>
<td>24,461</td>
<td>21,907</td>
<td>20,787</td>
</tr>
</tbody>
</table>

**Analysis of Income Statement of PBL**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>13,989</td>
<td>15,551</td>
<td>-10%</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>(10,676)</td>
<td>(14,257)</td>
<td>-25%</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>3,313</td>
<td>1,294</td>
<td>156%</td>
</tr>
<tr>
<td>Non-Interest Income</td>
<td>8,710</td>
<td>10,779</td>
<td>-19%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>6,266</td>
<td>6,166</td>
<td>1.61%</td>
</tr>
<tr>
<td>Profit before Provision</td>
<td>5,757</td>
<td>5,906</td>
<td>-3%</td>
</tr>
<tr>
<td>Profit before Taxes</td>
<td>2,345</td>
<td>2,752</td>
<td>-15%</td>
</tr>
<tr>
<td>Net Profit after Taxes (NPAT)</td>
<td>2,195</td>
<td>2,139</td>
<td>2.62%</td>
</tr>
<tr>
<td>Earnings Per Share</td>
<td>2.13</td>
<td>2.08</td>
<td>2.62%</td>
</tr>
</tbody>
</table>
Interest Income

PBL's interest income decreased by 10 percent during 2016. Interest earned from loan and profit earned on investment was the principal component of interest income. Yield on loans and advance was 9.11 percent in 2016 as against 11.08 percent in the previous year.

Interest Expense

PBL's interest expense decreased by 25 percent during 2016. Interest cost on deposits was the main component of interest expenses whereas interest cost on borrowings also had a significant impact on Bank's cost structure in 2016. Interest cost of deposits decreased to 5.02 percent in 2016 from 6.64 percent.

Investment Income

PBL's investment income consists of interest / discount earned on treasury bills / bonds, gain on government security trading, dividend received on shares and capital gain from sale of securities of listed companies. Investment income decreased by Taka 1,786 million during the year and stood at Taka 6,203 million in 2016. The main reason was sale of govt. securities. As a result, less interest was accrued as income on the remaining balance of securities in hand.

Total Operating Income

Due to the reasons explained above, total operating income of the Bank remained almost at the same level although current year’s figure decreased by 0.41% than previous year.

Total Operating Expense

Total operating expenses has slightly increased by 1.61% due to hiring new office premises to accommodate centralized business model and some other restructuring. Other than office rent, all expenses have been controlled through appropriate supervision & monitoring.

The productivity of the employee continued to grow which is evident from the following ratio:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income per employee</td>
<td>4.06</td>
<td>4.11</td>
</tr>
<tr>
<td>Expense per employee</td>
<td>2.12</td>
<td>2.10</td>
</tr>
<tr>
<td>Profit before provision per employee</td>
<td>1.94</td>
<td>2.01</td>
</tr>
<tr>
<td>Profit before tax per employee</td>
<td>0.79</td>
<td>0.94</td>
</tr>
<tr>
<td>Assets per employee</td>
<td>86.66</td>
<td>85.94</td>
</tr>
</tbody>
</table>

Provision for Classified Loans

The provision against classified loans increased during the year due to building up provision against impaired loans. This figure has also increased due to creating provision for loans which have been written off. Information of non-performing loan is presented below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPL ratio</td>
<td>5.96%</td>
<td>7.82%</td>
</tr>
<tr>
<td>Industry average of NPL ratio</td>
<td>9.23%</td>
<td>8.79%</td>
</tr>
<tr>
<td>Provision adequacy</td>
<td>100.99%</td>
<td>100.14%</td>
</tr>
</tbody>
</table>

Other Provisions

Upon assessing recovery prospects, bank made full provision against protested bills and claims originated during the course of banking operations amounting to Taka 8 million. An amount of Taka 18 million has been kept as provision against impairment loss of equity investment in subsidiaries. Bank has also maintained provision against climate risk fund and rebate to good borrower as per regulatory directives.

Net Profit before Tax

After making above provisions, net profit before tax of PBL stood at Taka 2,345 million registering a negative growth of 15 percent.

Provision for Income Tax

Provision against current year income tax of PBL was Taka 150 million compared to Taka 713 million of preceding year.

Net Profit after Tax

Net profit after tax has stood at Taka 2,195 million registering a growth of 3 percent during 2016. Earnings per share increased to Taka 2.13 as at December 31, 2016 from Taka 2.08 in the previous year. Average ROA and ROE stood at 0.86 percent and 8.49 percent respectively.

Statutory Reserve

As per Bank Company Act 1991, 20 percent of profit before tax is required to be transferred to statutory reserve. As such an amount of Taka 469 million has been transferred to statutory reserve.

Dividends

The fund available for distribution is Taka 2,018 million (Taka 1,726 million from current year profit plus Taka 292 million from retained earnings of previous year). In order to maintain a satisfactory capital adequacy ratio of the bank, the Board decided to recommend 16 percent cash dividend for the year 2016.

Remuneration of the Directors

The Bank does not pay any remuneration to its Directors. As per the BRPD circular no.03 dated 18/01/2010 and BRPD Circular letter no. 11 dated 04/10/2015 that the Chairman may be provided car, telephone, Office chamber and private secretary but other than PS and a Chamber, no other facilities were availed by the Chairman. Directors are only paid fees and relevant benefits for attending the Board, EC, Audit Committee, Risk Management Committee and Shariah supervisory committee meeting as per prevailing directives.
Only Managing Director is paid salaries and allowances as per recommendation of the Board and approval of Bangladesh Bank.

Shareholders’ Value

PBL remains fully committed to delivery of higher shareholders’ value. The high profitability track record underpins the value the shareholders derived from investing in the shares of PBL. The earnings per share increased and stood at Taka 2.13 and return on average equity stood at Taka 8.49 during 2016.

Financial performance of PBL

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and Advances</td>
<td>170,212</td>
<td>151,865</td>
</tr>
<tr>
<td>Investments</td>
<td>48,249</td>
<td>62,733</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>6,590</td>
<td>6,516</td>
</tr>
<tr>
<td>Total Assets</td>
<td>256,599</td>
<td>252,161</td>
</tr>
<tr>
<td>Deposits</td>
<td>197,934</td>
<td>194,825</td>
</tr>
<tr>
<td>Paid-up Capital</td>
<td>10,293</td>
<td>10,293</td>
</tr>
<tr>
<td>Shareholders’ Equity</td>
<td>25,285</td>
<td>26,415</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>5,757</td>
<td>5,906</td>
</tr>
<tr>
<td>Net profit after Tax</td>
<td>2,195</td>
<td>2,139</td>
</tr>
<tr>
<td>EPS</td>
<td>2.13</td>
<td>2.08</td>
</tr>
</tbody>
</table>

Meeting of the Board

During the year 2016 total 14 nos of Board of Directors meeting, 21 nos of Executive Committee meeting, 11 nos of Audit Committee meeting and 5 nos of Risk Management Committee meeting were held.

Appointment of Auditors

External auditors ACNABIN and Syful Shamsul Alam & Co., Chartered Accountants were appointed in 21st AGM for the year 2016 and accordingly, they have completed their audit work. Both the auditors will be retiring this year. The existing audit firms will not be eligible for reappointment as per Bangladesh Bank guideline. Shareholders will appoint Auditors for the year 2017 in the upcoming Annual General Meeting.

Annual General Meeting

22nd Annual General Meeting (AGM) of the Bank will be held on May 08, 2017 at Golf Garden, Army Golf Club, Dhaka Cantonment, Airport Road, Dhaka-1206 at 11:00 AM. In this connection Directors’ Report and financial statements were approved/adopted in the 461 Board Meeting held on March 30, 2017.

On behalf of the Board of Directors

Chairman