Disclosure on **Basel II**

Overview

The Basel Committee on Banking Supervision published a framework for international convergence of capital measurement and capital standards commonly termed as Basel II which replaced the original 1988 Basel I accord. In Bangladesh, Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel II) came into force fully from January 2010 following the BRPD circular # 20 on December 29, 2009 after parallel existence with Basel I during the year 2009.

MBL believes that Basel II is not merely a reporting system rather it is a new risk management technique for the Bank. Therefore, it has put extensive care and attention to implement Basel II inside the Bank. With a view to facilitating the way of implementation, the Bank has formed a high powered committee under the heading of Basel II implementation Unit. This committee forecast the future; follow up the overall implementation status and way out the probable solution to cope with the international best practices and to make the bank's capital more risk sensitive as well as more shock resilient. The Bank has also formed a Supervisory Review Process (SRP) team to participate the dialogue with the Supervisory Review Evaluation Process (SREP) team of BB for measuring the adequate capital requirement.

The Basel II principle stands on the following three pillars:

- **Pillar-I: Minimum Capital Requirement**

Banks must hold minimum regulatory capital against Credit, Market and Operational Risk inherent with Banking Business.

- **Pillar-II: Supervisory Review Process (SRP)**

The key principle of SRP is that banks have a process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital at an adequate level. The assessment of adequate capital would be the outcome of the dialogue between the bank's SRP and Bangladesh Bank's SREP team.

- **Pillar-III: Market Discipline**

The purpose of Market Discipline in the Revised Capital Adequacy Framework is to complement the minimum capital requirement and the supervisory review process. The aim of introducing Market Discipline in the revised capital framework is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets.

Disclosure Framework

The following detailed qualitative and quantitative disclosures of the Bank is furnished to provide our stakeholders with consistent and understandable disclosure framework to assess the Bank's position regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets as on December 31, 2014 in line with Bangladesh Bank's Risk Based Capital Adequacy (RBCA) guideline.

a) Scope of application

Qualitative Disclosures		
(a)	The name of the corporate entity in the group to which the guidelines applies.	Mercantile Bank Limited (MBL)
(b)	An outline of difference 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).	MBL, the leading third generation private commercial bank incorporated as a public limited company in Bangladesh on May 20, 1999 and commenced business on June 02, 1999. It was listed in DSE and CSE on February 16, 2004 and February 26, 2004 respectively. MBL has 100 (Hundred) branches including 5 (Five) SME/Krishi branches as on reporting date i.e. December 31, 2014. The Bank has 2 (Two) Off-shore Banking Units (OBU) operating at Gulshan and Chittagong EPZ areas. The cardinal activities of the Bank are to serve commercial banking services to its customers. The Bank has 2 (Two) subsidiaries namely 'Mercantile Bank Securities Limited' and 'Mercantile Exchange House (UK) Limited'. **Mercantile Bank Securities Limited** Mercantile Bank Securities Limited (MBSL), a subsidiary company of MBL formed on 27 June 2010 to deal with stock dealing and broking. MBSL has started its commercial operation from 14 September 2011 through obtaining stock dealer and broker license from Bangladesh Securities and Exchange Commission (BSEC). The main operation of the subsidiary is to buy and sell off securities listed with Dhaka and Chittagong stock exchange or approved by BSEC for open market operation for its customer. Margin loan facility is also extended to its customers against their equity for investment in the listed companies. **Mercantile Exchange House (UK) Limited** Mercantile Exchange House (UK) Limited, a fully owned subsidiary company of MBL incorporated as private limited company with companies for England and Wales under registration no. 07456837 dated December 01, 2010. The company commenced its business operation on December 06, 2011. Mercantile Exchange House is committed to provide faster, easier and safer remittance services to the Bangladeshi expatriate living and working in UK.
(c)	Any restriction, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable.
Quantitative Disclosures		
(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.

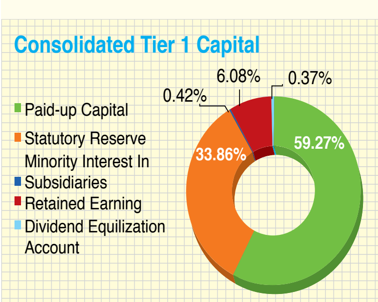
b) Capital Structure

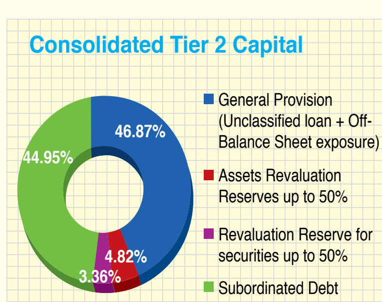
Qualitative Disclosures		
(a)	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Tier 2.	Conditions set by BB for maintaining Regulatory Capital i.e. Tier 1 capital, Tier 2 capital and Tier 3 capital are as under: a) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 Capital. b) 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 Capital. c) Subordinated bond shall be limited to a maximum of 30% of the amount of Tier 1 Capital. d) Limitation of Tier 3: A minimum of about 28.50% of Market risk needs to be supported by Tier 1 Capital. Supporting of Market Risk from Tier 3 Capital shall be limited up to maximum of 250% of a Bank's Tier 1 Capital that is available after meeting credit risk capital requirement. **In order to obtain the eligible regulatory capital for the purpose of calculating Capital Adequacy Ratio (CAR), the following deductions are required from bank's Tier 1 capital:** a) Book Value of Intangible Assets that have been shown as assets. b) Shortfall in provisions required against classified assets. c) Shortfall in provisions required against investment in shares. d) Remaining deficit on account of revaluation of investments in securities after netting off any other surplus on the securities. e) Reciprocal/Crossholding of bank's capital/subordinated debt. f) Unauthorized amount of share holding. g) Investments in subsidiaries which are not consolidated.

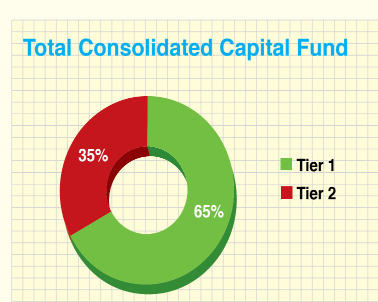
Quantitative Disclosures

(b) The amount of Consolidated Tier 1 capital, with separate disclosure of:

	Particulars	Solo	Consolidated
		BDT in Crore	
i.	Paid Up Capital	739.15	739.15
ii.	Statutory Reserve	422.31	422.31
iii.	Non-repayable Share Premium account	-	-
iv.	General Reserve	-	-
v.	Retained Earning	76.74	75.76
vi.	Minority Interest in Subsidiaries	-	5.26
vii.	Non-Cumulative Irredeemable Preferences Shares	-	-
viii.	Dividend Equalization Account	4.57	4.57
ix.	Others (If any item approved by Bangladesh Bank)	-	-
	Sub-Total (A)	**1,242.77**	**1,247.05**
i.	Amount of Tier-2 capital	667.62	667.62
ii.	Amount of Tier-3 capital	-	-
	Sub-Total amount of Teri-2 and Tier-3 capital (B)	**667.62**	**667.62**
	Other deductions from capital	-	-
	Total Eligible Capital (A+B)	**1,910.39**	**1,914.67**





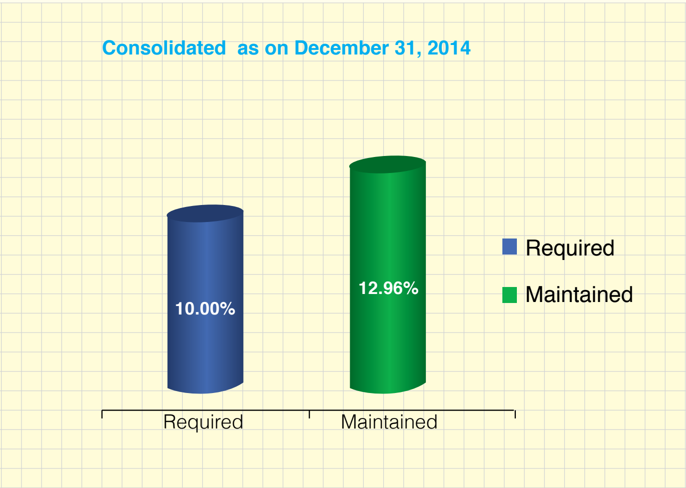


c) Capital Adequacy

Qualitative Disclosures		
(a)	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	MBL has adopted Standardized Approach for computation of Capital Charge for Credit Risk and Market Risk while Basic Indicator Approach for Operational Risk. Total Risk Weighted Assets (RWA) of the Bank is determined by multiplying the capital charge for market risk and operational risk by the reciprocal of the minimum capital adequacy ratio i.e. 10% as on December 2014 and adding the resulting figures to the sum of risk weighted assets for credit risk. Total RWA is then used as denominator while total Eligible Regulatory Capital as on numerator to derive Capital Adequacy Ratio (CAR) i.e. $$CAR = \frac{\text{Eligible Regulatory Capital x 100}}{\text{RWA}}$$ The Bank's CAR on the basis of Consolidated and Solo are 12.96% and 12.95% respectively against minimum requirement of 10% as on December 31, 2014. MBL's policy is to manage and maintain its capital at an adequate level to raise its CAR well above than minimum requirement in line with Basel II. Ultimate goal of the capital management process of MBL is to ensure that the Bank maintains its capital base at a level to absorb all the material risks. The Bank also ensures that the capital levels comply with all regulatory requirements.

Quantitative Disclosures

	Particulars	Solo	Consolidated
		BDT in Crore	
(b)	Capital Requirement for Credit Risk	12,833.42	12,857.77
(c)	Capital Requirement for Market Risk	669.72	669.73
(d)	Capital Requirement for Operational Risk	1,245.30	1,249.35
(e)	Total and Tier 1 capital ratio		
	Total CAR	12.95%	12.96%
	Tier-1 CAR	8.43%	8.44%
	Tier-2 CAR	4.52%	4.52%



d) Credit Risk

Qualitative Disclosures		
(a)	The general qualitative disclosure requirement with respect to credit risk, including:	
	i) Definition of past due and impaired (for accounting purposes);	As per guideline of Bangladesh Bank, All Loans and Advances are grouped into 4 (four) categories namely- Continuous Loan, Demand Loan, Fixed Term Loan and Short-Term Agricultural Credit & Micro Credit for the purpose of classification. **Any continuous Loan will be classified as:** Sub-standard- if it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months. Doubtful- if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months Bad/Loss- if it is past due/overdue for 09 (nine) months or beyond. **Any Demand Loan will be classified as:** Sub-standard- if it remains past due/overdue for 03 (three) months or beyond but not over 06 (six) months from the date of expiry or claim by the bank or from the date of creation of forced loan. Doubtful- if it remains past due/overdue for 06 (six) months or beyond but not over 09 (nine) months from the date of expiry or claim by the bank or from the date of creation of forced loan. Bad/Loss- if it remains past due/overdue for 09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan. Fixed Term Loan will be classified as: • **If Fixed Term Loan amounting up to BDT 10 Lacs:** Sub-standard- If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as "Sub-Standard". Doubtful-If the amount of past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as "Doubtful". Bad/Loss- If the amount of 'past due installment is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as "Bad/Loss". • **If Fixed Term Loan amounting more than BDT 10 Lacs:** Sub-standard- If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loan will be classified as "Sub-Standard". Doubtful-If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as "Doubtful". Bad/Loss- If the amount of 'past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months, the entire loan will be classified as "Bad/Loss". **Short-Term Agricultural Credit & Micro Credit:** Sub-standard- If the irregular status continues, after a period of 12 (twelve) months the credit will be classified as "Sub-standard". Doubtful- If the irregular status continues, after a period of 36 (thirty Six) months the credit will be classified as "Doubtful". Bad/Loss- If the irregular status continues, after a period of 60 (sixty) months the credit will be classified as "Bad/loss". A Continuous Loan, Demand Loan or a Term Loan which will remain overdue for a period of 02 (two) months or more, will be put into the Special Mention Account (SMA).

<table>
<tr><td rowspan="15"></td><td rowspan="15">ii) Description of approaches followed for specific and general allowances and statistical methods;</td><td colspan="2">As per Bangladesh Bank's guideline, MBL maintains General and Specific provision in the following way:</td></tr>
<tr><td>Particulars</td><td>Rate (%)</td></tr>
<tr><td>General provision on all unclassified loans/SMA of Small and Medium Enterprise (SME)</td><td>0.25%</td></tr>
<tr><td>General provision against all unclassified loans/SMA (other than loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock Dealers etc., Special Mention Account as well as SME
Financing.)</td><td>1%</td></tr>
<tr><td>General provision on the unclassified/SMA amount for Consumer Financing (other than Housing Finance and Loans for professionals to set up business)</td><td>5%</td></tr>
<tr><td>General provision on the unclassified/SMA amount for Housing Finance and Loans for professionals to set up business under consumer financing scheme</td><td>2%</td></tr>
<tr><td>General provision on the unclassified/SMA amount for Loans to Brokerage House, Merchant Banks, Stock Dealers, etc.</td><td>2%</td></tr>
<tr><td>General provision on the Off-Balance sheet exposures</td><td>1%</td></tr>
<tr><td>Specific Provision for classified Continuous, Demand and Fixed Term Loans:</td><td></td></tr>
<tr><td>Substandard</td><td>20%</td></tr>
<tr><td>Doubtful</td><td>50%</td></tr>
<tr><td>Bad/Loss</td><td>100%</td></tr>
<tr><td>Specific Provision for Short-Term Agricultural and Micro-Credits</td><td></td></tr>
<tr><td>All credits except 'Bad/Loss'</td><td>5%</td></tr>
<tr><td>Bad/Loss</td><td>100%</td></tr>
<tr><td></td><td>iii) Discussion of the Bank's credit risk management policy</td><td colspan="2">The Bank bas adopted numerous strategies to manages its credit risk including:
• Creating credit risk awareness culture
• Approved credit policy by the Board of Directors
• Separate credit risk management division
• Formation of law and recovery division
• Formation of Recovery Team with Senior Executives
• Independent internal audit and direct access to Board/Audit committee
• Credit quality and portfolio diversification
• Early warning system
• Provision and suspension of interest
• Scientific lending and credit approval process
• Counterparty credit rating
• Strong NPL management system</td></tr>
</table>

Quantitative Disclosures			
(b)	Total gross credit risk exposures broken down by major types of credit exposure.	Total Gross Credit Risk exposures broken down by major types of credit exposure as on December, 2014 is as under:	
		Particulars	BDT in Crore
		Loan General	206.11
		Term Loan	2,495.24
		Time Loan	1,460.74
		Small and Medium Enterprise	906.87
		Consumer Finance	99.67
		Loan against Trust Receipt	533.56
		Home Loan	0.72
		Packing Credit	115.56
		House Building Loan	291.46
		Lease Finance	100.06
		Hire Purchase	680.06
		EDF Loan	453.88
		Payment Against Documents	46.48
		Cash Credit (Hypo)	1,136.13
		Overdraft	2,166.55
		Personal Loan	32.43
		Consumer Credit Scheme	2.30
		Other Credit Scheme	1.19
		Staff Loan	65.18
		Credit Card	26.42
		Agricultural Credit	178.58
		Bill Purchased and Discounted-Inland	521.77
		Bill Purchased and Discounted-Foreign	185.04
		Total	**11,706.00**
(c)	Geographical distribution of exposure, broken down in significant areas by major types of credit exposure	Geographical Distribution of total exposure as on December, 2014 is as under:	
		Particulars	**BDT in Crore**
		Urban:	
		Dhaka	8,065.48
		Chittagong	2,166.37
		Rajshahi	680.87
		Sylhet	72.63
		Khulna	87.99
		Rangpur	169.86
		Barisal	75.58
		Sub-Total (A)	**11,318.78**
		Rural:	
		Dhaka	133.54
		Chittagong	166.26
		Rajshahi	67.49
		Sylhet	3.66
		Rangpur	16.27
		Sub-Total (B)	**387.22**
		Grand Total (A+B)	**11,706.00**

(d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	**Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.**	
		Particulars	**BDT in Crore**
		Garments	1,659.92
		Trading	950.86
		Engineering	1,558.60
		Contractor Finance	80.68
		Leasing Company	218.08
		Housing	591.04
		Food, Food product, Beverage, Edible oil etc	736.36
		Pharmaceuticals	182.45
		Tele-communication	46.11
		Transport	305.49
		Leather & Leather Product	113.85
		Jute Industries	163.75
		Textile	415.80
		Information Technology	18.87
		Hospital & Medical Service	221.96
		Paper, Paper Production & Publication	247.33
		Plastic & Plastic Materials	181.11
		Storage	63.01
		Glass & Glass Product	0.35
		Agriculture	178.58
		SME Loan	906.87
		Credit Card	26.48
		Consumer Loan	148.09
		Loans to Brokerage House	487.90
		Others	2,202.46
		Total	**11,706.00**
(e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	**Residual contractual maturity breakdown of total exposure as on December, 2014 is as under:**	**BDT in Crore**
		Up to 1 (one) month	3,220.33
		Over 1 (one) month but not more than 3 (three) months	1,529.29
		Over 3 (one) months but not more than 1 (one) year	3,309.49
		Over 1 (one) year but not more than 5 (five) years	2,445.64
		Over 5 (five) years	1,201.25
		Total	**11,706.00**
(f)	By major industry and counter party type:		
	i) Amount of impaired loans and if available, past due loans, provided separately.	**Impaired Loan under 4 (four) broad categories as on December 31, 2014 is as under**	
		Particulars	**BDT in Crore**
		Continuous Loan	95.69
		Demand Loan	140.63
		Term Loan	246.17
		Short Term Agro Credit and Micro Credit	0.67
		Total	**483.16**
	ii) Specific and general provisions; and	**Specific and general provisions made following Bangladesh Bank's guideline as on December 31, 2014 is as under**	
		Particulars	**BDT in Crore**
		General Provision (including SMA)	254.48
		Specific Provision (SS, DF, Bad/Loss)	240.51
		Provision for Off-balance Sheet Exposure	58.30

<table>
<tr><td rowspan="5"></td><td rowspan="5">iii) Charges for specific allowances and charge-offs during the periods</td><td colspan="2">During the year 2014 following provisions were made on un classified, classified and off-balance sheet exposure as per Bangladesh Bank's guideline</td></tr>
<tr><td>Particulars</td><td>BDT in Crore</td></tr>
<tr><td>Provision against Un Classified Loans</td><td>155.25</td></tr>
<tr><td>Provision against Classified Loans</td><td>48.53</td></tr>
<tr><td>Other Provision (Off Balance Sheet Items)</td><td>8.42</td></tr>
<tr><td rowspan="16">(g)</td><td rowspan="16">Gross non-performing assets (NPAs):</td><td colspan="2">Gross non-performing assets as on December 31, 2014 is as under</td></tr>
<tr><td>Particulars</td><td>BDT in Crore</td></tr>
<tr><td>Gross non-performing assets (NPAs):</td><td></td></tr>
<tr><td>Non-performing Assets (NPAs) to Outstanding Loans & Advances</td><td>4.12%</td></tr>
<tr><td>Movement of Non Performing Assets</td><td></td></tr>
<tr><td>Opening balance</td><td>465.97</td></tr>
<tr><td>Additions</td><td>49.56</td></tr>
<tr><td>Reductions</td><td>31.20</td></tr>
<tr><td>Closing Balance</td><td>484.33</td></tr>
<tr><td>Movement of specific provisions for NPAs</td><td></td></tr>
<tr><td>Opening balance</td><td>242.50</td></tr>
<tr><td>Recoveries of amount from pre-written off</td><td>2.48</td></tr>
<tr><td>Provisions made during the period</td><td>52.89</td></tr>
<tr><td>Write-off</td><td>52.40</td></tr>
<tr><td>Write-back of excess provisions</td><td>-</td></tr>
<tr><td>Closing Balance</td><td>240.51</td></tr>
</table>

e) Equities: Disclosure for Banking Book Positions

<table>
<tr><td colspan="3">Qualitative Disclosures</td></tr>
<tr><td rowspan="3">(a)</td><td colspan="2">The general qualitative disclosure requirement with respect to equity risk, including:</td></tr>
<tr><td>Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.</td><td>MBL's total equity share holding comprises of two purposes i.e. capital gain and other strategic reason like equity participation and investment diversification. MBL is the director of IDLC finances Ltd and sole purpose of such investment is not capital gain, rather maintain relationship as well as diversify its investment portfolio.

Investment in equity securities are broadly fall under 2 categories:

• Quoted Securities (traded in the secondary market; trading book assets) &
• Unquoted Securities (not traded in secondary market; banking book assets)</td></tr>
<tr><td>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 the practices.</td><td>Quoted shares are recorded at cost prices and after every quarter end if the total cost of entire portfolio is higher than the market value, provision is maintained to the extent of differential amount of cost and market value of the portfolio as per terms and condition of regulatory authority. On the other hand, unquoted share is valued at cost price or book value as per latest audited accounts.</td></tr>
</table>

Quantitative Disclosures			
Particulars		**Solo**	**Consolidate**
(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.	BDT in Crore	
	Quoted shares	60.03	60.03
	Un Quoted shares	186.37	186.37
(c)	The cumulative realized gain (losses) arising from sales and liquidations in the reporting periods.		
	Realized gain (losses) from equity investments	1.29	1.29
(d)	Total unrealized gains (losses)	79.15	79.15
	Total latent revaluation gains (losses)	-	-
	Any amount of the above included in tier 2 Capital	-	-
(e)	Market value of investment in equities as on December 31, 2014	139.19	139.19
	Specific Risk- Capital Requirement is 10% of the said value	13.92	13.92
	Market value of investment in equities as on December 31, 2014	139.19	139.19
	General Risk- Capital Requirement is 10% of the said value	13.92	13.92

f) : Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures		
(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 in the banking book arises from mismatches between the future yield of an assets and their funding cost. Assets Liability Committee (ALCO) monitors the interest rate movement on a regular basis. MBL measure the Interest Rate Risk by calculating Duration Gap i.e. positive Duration Gap affects bank's profitability adversely with the increment of interest rate and negative Duration Gap increase the bank's profitability with the reduction of interest rate.

Quantitative Disclosures

(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant)

Increase of Interest Rate will affect the Bank in the following ways:

Particulars	Minor Shock	Moderate Shock	Major Shock
Magnitude of Shock	1%	2%	3%
Duration Gap (Years)	0.46	0.46	0.46
Total Regulatory Capital (BDT in Cr)	1,910.39	1,910.39	1,910.39
Risk Weighted Assets	14,748.43	14,748.43	14,748.43
CAR	12.95%	12.95%	12.95%
Revised Capital (After Shock)	1,832.66	1,761.11	1,689.56
Revised RWA	14,396.80	14,396.80	14,396.80
Revised CAR (%)	12.73%	12.23%	11.74%

g) : Market Risk

Quantitative Disclosures		
(a)	Views of BOD on trading/ investment activities	Market Risk is the possibility of losing assets in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e. interest rate, exchange rate and price. Total capital requirement for MBL against its market risk is the sum of the following i) Interest Rate risk ii) Equity position risk iii) Foreign Exchange risk iv) Commodity risk All the Market Risk related policies/guidelines are duly approved by BOD. The BOD sets limit, review and update the compliance on regular basis aiming to mitigate the Market risk.
	Methods used to measure	In order to calculate the market risk for trading book purposes the Bank uses

	Market risk	Standardized (rule based) Approach where capital charge for interest rate risk, price and foreign exchange risk is determined separately. For instance, MBL's total market risk is calculated as below: i) Capital Charge for interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk. ii) Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk. iii) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk. iv) Capital Charge for Commodity Position Risk = Capital Charge for General Market Risk.
	Market Risk Management system	Treasury Division and International Division manage the Market Risk with the help of Asset Liability Committee (ALCO) and Asset Liability Management (ALM) Desk.
	Policies and Processes for mitigating market risk	has been given on Loan Deposit Ratio, Whole Sale Borrowing Guidelines, Medium Term Funding, Maximum Cumulative Outflow, Liquidity Contingency Plan, Local Regulatory Compliance, Recommendation / Action Plan etc. Furthermore, special emphasis has been put on the following issues for mitigating market risk: • **Interest Rate Risk Management** Treasury Division reviews the risks of changes in income of the Bank as a result of movements in market interest rates. In the normal course of business, the Bank tries to minimize the mismatches between the duration of interest rate sensitive assets and liabilities. Effective Interest Rate Risk Management is done as under: • **Market Analysis** Market analysis over interest rate movements are reviewed by the Treasury Division of the Bank. The type and level of mismatch interest rate risk of the Bank is managed and monitored from two perspectives, being an economic value perspective and an earning perspective. • **Gap Analysis** ALCO has established guidelines in line with central Bank's policy for the management of assets and liabilities, monitoring and minimizing interest rate risks at an acceptable level. ALCO in its regular monthly meeting analyzes Interest Rate Sensitivity by computing GAP i.e. the difference between Rate Sensitive Assets and Rate Sensitive Liability and take decision of enhancing or reducing the GAP according to prevailing market situation aiming to mitigate interest rate risk. • **Foreign Exchange Risk Management** Risk arising from potential change in earnings resulted from exchange rate fluctuations, adverse exchange positioning or change in the market prices are considered as Foreign Exchange Risk. Treasury and International Division manage this risk in the following fashion: • **Continuous Supervision** Bank's Treasury Division manages and controls day-to-day trading activities under the supervision of ALCO that ensures continuous monitoring of the level of assumed risks. Treasury Division monitors the foreign exchange price changes and Back Office of the Treasury Division verifies the deals and passes the entries in the books of account. • **Treasury Back Office separated from Treasury Front Office** Treasury Back Office is conducting its operation in separate locations apart from the Treasury Front Office. Treasury Back Office is responsible for currency transactions, deal verification, limit monitoring and settlement of transactions independently. Treasury Back Office gathers the market rates from an independent source other than dealers of the same organization, which helps to avoid any conflict of interest.

		• **Mark-to-Market Method for Approved Securities and Foreign Exchange Revaluation** All foreign exchange reserves and balances along with approved securities are revalued at Mark-to-Market method according to Bangladesh Bank's guidelines. Such valuation are made after specific time interval as prescribed by Bangladesh bank. • **Nostro Accounts** Nostro accounts are maintained by the Bank with various currencies and countries. These Accounts are operated by the International Division of the Bank. All Nostro accounts are reconciled on monthly basis. The management reviews outstanding entry beyond 30 days for settlement purpose. • **Equity Risk Management** Equity Risk is the risk of lo.ss due to adverse change in market price of equities held by the Bank. Equity Risk is managed by the following fashion: • **Investment Portfolio Valuation** Mark-to-Market valuations of the share investment portfolio is followed in measuring and identifying risk. Mark-to-Market valuation is done against a predetermined cut loss limit. • **Diversified Investment to minimize Equity Risk** MBL minimizes the Equity Risks by Portfolio diversification as per investment policy of the Bank. • **Margin Accounts are monitored very closely** Where Margin loan is allowed, security of investment, liquidity of securities, reliability of earnings and risk factors are considered and handled professionally.

Quantitative Disclosures

		Particulars	Solo	Consolidate
			BDT in Crore	
	Capital requirement for:	Interest Rate Risk	23.29	23.29
		Equity Position Risk	27.84	27.84
		Foreign Exchange Risk	15.84	15.84
		Commodity Risk	-	-
		Total Capital Requirement for Market Risk	**66.97**	**66.97**

h) : Operational Risk

Qualitative Disclosures		
(a)	Views of BOD on system to reduce Operational Risk	All the policies/guidelines including Internal Control and Compliances and Board audit are duly approved by BOD. Audit Committee of the Board directly oversees the activities of internal control and compliances aiming to check all types of lapses and irregularities inherent with operational activities of the Bank and thereby may create a notable downfall risk for the Bank. Operational risk includes legal risk, but excludes strategic and reputation risk. Operational Risk includes: • Transaction processing • Operation control • Technology and systems • Risks of physical and logical security • Unique risk arises due to outsourcing

	Performance gap of executives and staffs	The BOD of the Bank is always keen to provide a competitive, attractive and handsome remuneration package for its employees. Besides, the recruitment policy of the Bank always emphasizes on sorting out fresh graduate from the reputed universities and nurture them until transformation to a 'Human Capital' of highest quality. Besides, the Bank's name and fame as top tier Bank of the country acts as moral boosting factor for the employees. An accommodating, welcoming, co-operative and congenial work atmosphere motivates its employees to act as a family towards achievement of goal. As such, there exists no performance gap in the Bank.	
	Potential external events	No potential external events have been detected yet at the time of reporting of the capital accord.	
	Policies and processes for mitigating operational risk	Operational Risks results from inadequate or failed internal process, people and systems or from external events. Within the Bank, Operational Risk may arise from negligence and dishonesty of the employees, lack of management supervision, inadequate operational control, lack of physical security, poor technology, lack of automation, non- compliance of regulatory requirements, internal and external fraud etc. Operational Risk Management Framework has been designed to provide a sound and well-controlled operational environment and thereby mitigate the degree of operational risk.	
	Approach for calculating capital charge for operational risk	Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. The Bank use Basic Indicator Approach for calculating capital charge against operational risk i.e. 15% of average positive annual gross income of the Bank over the last three years.	
Quantitative Disclosure			
(b)	**Particulars**	**Solo**	**Consolidate**
		BDT in Crore	
	Capital requirements for	124.53	124.93