EDITORIAL

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Tapash Chandra Paul, PhD
Chief Financial Officer
2021, much like the last year, was associated with the COVID-19 pandemic. The year was defined by new working conditions, habits, and a completely different way of life. 2021 has transformed nearly every aspect of today’s businesses. Mercantile Bank Limited (MBL) embraced hybrid working environments to ensure the health and safety of our employees and clients. However, during this unprecedented time, we achieved significant milestones and also assisted our clients to grow. As the sun sets on 2021 and rises on 2022, the bank is looking to embrace new opportunities and challenges in the upcoming year.

Although the New Year was expected to be all bright and sunny, the new Omicron COVID-19 variant has made the situation a bit gloomy. Countries have reemployed mobility restrictions. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated in the developing economies. After expanding by 5.5 per cent in 2021, the global output is projected to grow by only 4.0 per cent in 2022 and 3.5 per cent in 2023, according to the United Nations World Economic Situation and Prospects (WESP) 2022. But, amidst all these, thankfully, the current outbreak is being said to be the last one.

The United Nations has projected a continued momentum in Bangladesh’s economic growth despite a downward projection for the global economy. Bangladesh’s economy is projected to see a 5.8% growth in 2022, up from 5.5% in 2021, and is expected to reach 6.4% in 2023, according to the UN’s yearly report. It has been one of main goals of MBL to grow with the country. As a Bank, we hope to be a part of this process of development. This edition of ‘MBL spectrum’ will have a theme similar to this. As we begin 2022, as always the bulletin will project the progress of the Bank in terms of various indicators and data.
MBL PERFORMANCE JANUARY 2022

Deposits

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<th>YTD Dec 2021</th>
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<tbody>
<tr>
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Inward Remittance

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Cost of Deposit

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Yield on Advances

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Spread

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<th>Mar-21</th>
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<th>Dec-21</th>
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<td>%</td>
<td>2.17%</td>
<td>2.18%</td>
<td>2.44%</td>
<td>2.55%</td>
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<td>2.69%</td>
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China steps up monetary stimulus effort to underpin economy

China stepped up its monetary easing efforts to prop up a slowing economy this week by lowering a set of key policy rates and lending benchmarks, and markets believe Beijing could ease further before growth bottoms out.

The one-year loan prime rate (LPR) was lowered by 10 basis points to 3.70 per cent from 3.80 per cent. And the five-year LPR was reduced by 5 basis points to 4.60 per cent from 4.65 per cent, the first reduction since April 2020. The LPR cuts were expected after official comments called for more monetary easing to prop up the broad economy.

(Ref: https://www.thefinancialexpress.com.bd)
Inflation breaks records, $100 oil also looming

Already less transitory than forecast, central bankers’ inflation headache may be about to become more acute as they face the prospect of $100-plus oil that lifts consumers’ price expectations and intensifies simmering wage hike pressures.

Brent crude futures, which soared 50 per cent in 2021, are up a further 14 per cent already in 2022 at seven-year highs of $89 a barrel. With production capacity tight, inventories low and geopolitics racking several producing regions, oil is hurtling towards $100, a level Goldman Sachs predicts will be breached by mid-year.

China’s economy expands 8.1pc in 2021

- China’s economy posted stable growth in 2021 despite challenges including sporadic epidemic resurgences and a complicated external environment.
- China’s economy has continued stable recovery in 2021, leading the world in both economic development and epidemic control. The country’s gross domestic product (GDP) expanded 8.1 per cent year on year to 114.37 trillion yuan (about 18 trillion US dollars) last year.

World Bank cuts 2022 growth forecast to 4.1pc

The World Bank cut its forecasts for economic growth in the United States, the Euro area and China and warned that high debt levels, rising income inequality and new coronavirus variants threatened the recovery in developing economies.

It said global growth is expected to decelerate “markedly” to 4.1 per cent in 2022 from 5.5 per cent last year, and drop further to 3.2 per cent in 2023 as pent-up demand dissipates and governments unwind massive fiscal and monetary support provided early in the pandemic. The forecasts for 2021 and 2022 - the first by a major international institution - were 0.2 percentage points lower than in the bank’s June Global Economic Prospects report, and could be knocked even lower if the Omicron variant persists.
Gloomy outlook for global recovery, World Economic Forum survey finds

Only one in 10 World Economic Forum members surveyed expects the global recovery to accelerate over the next three years, a poll of nearly 1,000 business, government and academic leaders found, with only one in six optimistic about the world outlook.

(Ref: https://thefinancialexpress.com.bd)

10 richest men doubled wealth as global inequality soared during pandemic: Oxfam

- The world’s 10 wealthiest men doubled their fortunes during the first two years of the coronavirus pandemic as poverty and inequality soared.
- Oxfam said the men’s wealth jumped from $700 billion to $1.5 trillion, at an average rate of $1.3 billion per day, in a briefing published before a virtual mini-summit of world leaders being held under the auspices of the World Economic Forum.

(Ref: https://www.thedailystar.net)

Eurozone jobless rate shrinks again

- The unemployment rate in the eurozone dropped again in November 2021 as hiring withstood new coronavirus outbreaks in several member countries.
- The EU’s Eurostat agency said the seasonally-adjusted jobless rate -- which measures the number of people out of work as a proportion of the active population as a whole -- dipped to 7.2 per cent in November from 7.3 per cent in October and 7.4 per cent in July.

(Ref: https://www.thedailystar.net)

UK inflation rises to highest in nearly 30 years

- British consumer price inflation rose more than expected to 5.4% in December, its highest in almost 30 years, official data showed.
- The increase in CPI to its highest since March 1992 reflected a wide range of goods and services with the biggest impact coming from food and drink, followed by restaurants and hotels.

(Ref: https://www.tbsnews.net)

China's January service sector activity growth slows

Activity in China’s services sector grew at a slower pace in January, as China battles a resurgence of COVID-19 outbreaks that are hitting consumer confidence.

The official non-manufacturing Purchasing Managers’ Index (PMI) was at 51.1 in January versus December’s 52.7, data from the National Bureau of Statistics (NBS) showed. The 50-point mark separates growth from contraction on a monthly basis. China’s official composite PMI, which includes both manufacturing and services activity, stood at 50.1, compared with 52.2 in December.

(Ref: https://thefinancialexpress.com.bd)
High inflation to haunt global economy this year: Reuters poll

Persistently high inflation will haunt the world economy this year, according to a Reuters poll of economists who trimmed their global growth outlook on worries of slowing demand and the risk interest rates would rise faster than assumed so far.

In the latest quarterly Reuters surveys of over 500 economists taken throughout January, economists raised their 2022 inflation forecasts for most of the 46 economies covered.

While price pressures are still expected to ease in 2023, the inflation outlook is much stickier than three months ago.

At the same time, economists downgraded their global growth forecasts. After expanding 5.8 percent last year, the world economy is expected to slow to 4.3 percent growth in 2022, down from 4.5 percent predicted in October, in part because of higher interest rates and costs of living. Growth is seen slowing further to 3.6 percent and 3.2 percent in 2023 and 2024, respectively.

(Ref: https://thefinancialexpress.com.bd)

American banks look forward to ‘bread-and-butter’ growth

US banks will enjoy stronger growth this year from their “bread-and-butter” business of taking deposits and lending money as the US economy expands and the Federal Reserve prepares to raise interest rates for the first time in three years. The Fed’s move could bring an end to the low interest-rate environment which banks have faced for most of the past decade and, particularly, through the COVID-19 pandemic.

Net interest income, the difference between what banks earn from lending and pay out on deposits and other funds, declined during the pandemic due to interest rate cuts and a drop in borrowing. But this is about to change in 2022.

(Ref: https://thefinancialexpress.com.bd)
Textiles, apparel exports to US increase by 30.68pc in 2021

The import volume of textiles and apparel from Bangladesh by the United States of America (USA) keeps growing with 30.68 per cent rise last year, according to the Office of Textiles and Apparel (OTEXA), USA.

The OTEXA recently published the monthly trade data of the United State of America for the period of January-November, 2021. The US import from Bangladesh during the mentioned period has increased by 30.68 percent compared to the same period of 2020, whereas their global import saw 25.43 per cent growth.

China being the top import market for USA and having a 24 per cent share of the USA's total apparel import, posted 27.29 per cent growth during this period.

(Ref: https://thefinancialexpress.com.bd/)
Returns on foreign loans may squeeze as Bangladesh’s debt servicing liabilities surge

Bangladesh’s net foreign loans fell as repayments under debt-servicing liabilities surged year on year in the last fiscal, officials say as economists caution about its blowback impact.

As government’s repayment of the principal amounts against the outstanding loans is rising, the net foreign-assistance inflow and the economic returns on the loans are likely to get under pressure in the days ahead, analysts forecast. Economists say if the repayments rise at higher rate compared to the rate of the net aid inflow, the economic returns on the external assistance would be squeezing in the long term.

(Ref: https://thefinancialexpress.com.bd/)

Bangladesh’s economic indicators puzzle economists

Two key indicators in Bangladesh’s external trade, export and import, as ratio of GDP remain squeezed somewhere around 10 while that of competing Vietnam’s ride over 100 per cent, economists observe.

Finance officials find a new base year in calculation as a factor for the subdued figures of export and import as percentage of gross domestic product or GDP. Both were growing steadily under the old baseline.

However, some eminent economists gainsay such observations, and say there might be something wrong in measuring the trade performances in relation to the country’s GDP.

(Ref: https://thefinancialexpress.com.bd/)
World Bank projects Bangladesh’s GDP growth at 6.4pc for FY 2021-22

The Bangladesh economy is expected to grow by 6.4 percent in the current 2021-22 fiscal year (FY), while 6.9 percent in 2022-23 fiscal, the World Bank projected. The World Bank made the projection in its ‘Global Economic Prospects’ report. As per the World Bank estimate, the GDP growth was 5.0 percent in the last 2020-21 fiscal.

The World Bank report said South Asia’s economy rebounded in the second half of the year following a massive second wave of Covid-19 in mid-2021. Bangladesh’s GDP is expected to reach 6.4 per cent in FY2021/22 ending June 2022, and 6.9 per cent in FY2022/23, due to growing services activity and firming exports of readymade garments.

(Ref: https://thefinancialexpress.com.bd/)

Bangladesh to approach ADB for $940m in fresh aid

The government is trying to get another big chunk of US$940 million in aid package from the Asian Development Bank (ADB) for purchasing Covid-19 shots to be used as booster doses. Besides, it requires the money to set up a vaccine plant in Gopalganj with sophisticated facilities for producing the jab inside the country.

Earlier, in June last year, the Manila-based lender confirmed another $940 million worth of loans to the government for procuring coronavirus vaccines and upgrading the country’s health services amid the massive pandemic.

(Ref: https://thefinancialexpress.com.bd/)

Bangladesh’s forex reserve falls to $44.33b

- Swelling import expenses, coupled with routine payment to the Asian Clearing Union (ACU), have put the country’s foreign-exchange (forex) reserves under pressure again.
- The forex reserve has been maintaining a falling trend in the last couple of months following higher import payment obligations along with lower flow of inward remittances.

(Ref: https://thefinancialexpress.com.bd/)
Goods trade with the world crosses $110b in 2021

- The country's bilateral trade in goods with the rest of the world crossed US$110 billion in 2021. Export Promotion Bureau (EPB) showed that the annual exports earnings of Bangladesh stood at $44.23 billion in the last year which was $33.61 billion in 2020.
- Thus exports earnings rebounded significantly by increasing 31.64 per cent in 2021.

(Ref: https://thefinancialexpress.com.bd/)

Rising prices of fertiliser, fuel fuelling farm spending

- Soaring fuel and fertiliser prices are set to fuel government spending in farm subsidy to support agriculture, which acts as economic saviour amid the pandemic. Costs for subsidy might more than double this FY over that of last FY as different fertiliser prices increased by 80-230 per cent in a year.
- Although the government has earmarked Tk 95 billion as agricultural subsidy for the current financial year, FY’22, they say, the volume could overshoot the target amid the global as well as local price rises. But, they will keep domestic prices of fertiliser static for farmers by giving necessary subsidies on the input to keep the production side sound during this pandemic.

Costs for subsidy might more than double this FY over that of last FY as different fertiliser prices increased by 80-230 per cent in a year.

(Ref: https://thefinancialexpress.com.bd/)

Finance minister hopeful of achieving 7.2pc GDP growth

Finance Minister AHM Mustafa Kamal expressed optimism of achieving targeted 7.2 per cent GDP growth in the current fiscal year (FY22). The minister expressed the optimism after a meeting of the Cabinet Committee on Government Purchase (CCGP).

He said that in the current financial year, the size of the economy would be US$455 billion. Per capita income would reach US$2,785 this year. The minister also expressed his hope that the per capita income would reach $3,089 in the next fiscal year.

(Ref: https://thefinancialexpress.com.bd/)
Foreign aid pledged for Bangladesh in first half plunges 83pc

The foreign aid commitment plunged by 83 percent in the first half (H1) of the current fiscal year (FY) 2021-22. Foreign development partners had confirmed US$4.399 billion worth of assistance, $1.99 billion lower than H1 last FY2021. Since there were some big loans signed in H1 last FY2021, the commitment during that period was impressive. In the same period this FY2022, the deal on big loans was limited resulting in lower commitment.

Meanwhile, the government had received an impressive amount of $4.17 billion worth of aid during July-December period of the current FY2022, 39 per cent higher than that in the last FY2021.

(Ref: https://thefinancialexpress.com.bd/)

Bangladeshi companies can invest 25pc of asset offshore

The government issued guidelines permitting Bangladeshi entrepreneurs to make offshore equity investment to the tune of 25 percent of net asset of a company -- to instant welcome from businesses.

Seven core conditions are tied to the investment in foreign countries -- an option big businesses of Bangladesh have long sought. The financial institutions division of the ministry of finance has published a gazette notification on the 'Capital Account Transactions (Overseas Equity Investment) Guidelines 2022' detailing how to spread their wings beyond borders.

Interested overseas investors will have to take prior permission from the government through central bank channel. They will be allowed to make equity investment abroad up to 20 percent of their average annual income from exports during the last five years or 25 percent of net asset mentioned in the last audited financial report.

<table>
<thead>
<tr>
<th>8 cos allowed to invest abroad</th>
<th>5 cos express interest</th>
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<tr>
<td>DBL Group</td>
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<td>Akij Group</td>
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(Ref: https://thefinancialexpress.com.bd/)
BB cuts banks’ reporting time to CIB

- The Bangladesh Bank lowered the reporting time to its Credit Information Bureau on the banks’ customer- and credit card-specific outstanding lending data.
- As per the new rules, the banks will have to report CIB on their customer- and credit card-specific outstanding lending data of a particular month in 15 days of the next month.
- In case of no submission of data within the timeframe, the central bank has the authority to fine minimum Tk 5,000 along with another Tk 1,000 fine for per day delay. However, the amount must not exceed Tk 5 lakh.

(Ref: [https://www.newagebd.net/](https://www.newagebd.net/))

Banks’ single borrower exposure limit cut to 25pc

- The Bangladesh Bank reduced the single borrower exposure limit to 25 per cent of a bank’s capital from 35 per cent as part of its measures to contain the concentration of loans among a small group of people.
- Even though the total limit, including funded and non-funded ones, was reduced to 25 per cent, the funded loan portion was kept unchanged at 15 per cent of a bank’s capital.

(Ref: [https://www.newagebd.net/](https://www.newagebd.net/))
Credit guarantee scheme for marginal groups rolled out

- The Bangladesh Bank introduced on Sunday a new credit-guarantee facility to speed up loan disbursement to landless farmers, low-income professionals, school banking account holders and small traders.

- The SME & Special Programmes Department of the BB issued a circular on the “Financial Services Credit Guarantee Scheme” going by example of the existing Credit Guarantee Unit (CGU).

- The marginal people can take a loan of Tk 25000 to Tk 500 thousand (5 lakh) in a single name while Tk 2.0 million (20 lakh) can be borrowed by a 5-member group under the new credit guarantee scheme.

- No security deposit is required in case of lending to marginal / landless farmers, low income professionals, school banking account holders and small traders with accounts of Tk10/50/100, the circular said. On the other hand, the lending bank can take personal guarantee from not more than two persons including the borrower to provide a loan.

(Ref: https://thefinancialexpress.com.bd)

Govt, pvt offices to run at half capacity- BB issues fresh Covid instructions for banks

- The government has issued a fresh three-point directive, including running all government, semi-government, autonomous and private offices with half of their staffs. The Cabinet Division also asked the authorities concerned to take steps so that the remaining haves of their staffs discharge duties virtually.

- Bangladesh Bank (BB) has issued a couple of directives to be followed by all commercial banks in order to contain the spread of coronavirus.

- The central bank asked the banks to ensure that all their officials and employees obtain Covid-19 vaccination certificates.

- The bank officials and employees as well as the service recipients must wear face mask and follow the existing health guidelines accordingly.

(Ref: https://thefinancialexpress.com.bd)
Bangladesh’s forex market comes under central bank scanner

- The central bank mounts its monitoring of the foreign-exchange market to avert any further volatility and to know the real situation on the market.
- Bangladesh Bank has asked all the commercial banks to submit reports on all spot deals alongside corporate ones to the department concerned of the central bank by 4:00 pm each workday.

(Ref: https://thefinancialexpress.com.bd)

BB delineates CSR fund use

- Bangladesh Bank issued guidelines on how banks and non-bank financial institutions should use corporate social responsibility (CSR) funds, with focus on education, health and climate issues.
- The regulations gave priority to disaster management, building sustainable infrastructures in remote areas, sport and culture, and women empowerment.

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<td>At least 20 per cent</td>
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<td>the educational sector</td>
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<td>the health sector</td>
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<td>to mitigate the crisis stemming from the ongoing climate change</td>
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(Ref: https://www.thedailystar.net)

Tk 39,000 salary for entry-level private bankers

- For the first time in history, Bangladesh Bank fixed minimum salaries for entry level bank officials in a bid to encourage talented youths to choose banking as a career and play a role in the nation’s economic advancement.
- The central bank said the entry level salary of assistant officers, trainee assistant officers, trainee assistant cash officers, or equivalent, would be a minimum of Tk 28,000 during the probation period while their total salary, including basic, would be at least Tk 39,000 per month once regularised.

(Ref: https://www.thedailystar.net)

StanChart wins Asset Triple’s best bank award in Bangladesh

- Standard Chartered Bangladesh has been recognised as the ‘Best Bank in Bangladesh’ at the Asset Triple A Sustainable Capital Markets Country Awards 2021.
- The bank has received this prestigious award for the second consecutive time and the 31st major award it has achieved in 2021.
- The Asset’s annual Triple A recognition represents the industry’s most prestigious awards for banking, finance, treasury and the capital markets.

(Ref: https://www.thedailystar.net)
The Strategic Business Conference- 2022 of Mercantile Bank Limited was held virtually on January 22, 2022. Morshed Alam M.P., honorable Chairman of the Board of Directors of the bank was the chief guest in the conference. A. S. M. Feroz Alam & Md. Abdul Hannan, Vice Chairmen; Al-Haj Akram Hossain (Humayun), Chairman, Executive Committee; M. A. Khan Belal, Chairman, Mercantile Bank Securities Ltd.; M. Amanullah, Md. Nasiruddin Choudhury, Alhaj Mosharref Hossain & Mohammad Abdul Awal, Directors of the bank spoke as special guests in the conference. Md. Quamrul Islam Chowdhury, Managing Director & CEO, presided over the conference. MD & CEO of the Bank advised the Executives & Officers to reach the Mercantile Bank’s services to the unbanked and underprivileged population.

There were two sessions-inaugural session & business session. In the inaugural session, Honorable Chairman and other directors of the bank delivered several effective instructions in their speeches. In the business session, there was an interactive discussion among senior management & all head of branches. Tapash Chandra Paul, PhD, Chief Financial Officer of the bank moderated this session.

AMD, DMDs, all head of branches and other executives and officials of the Bank were present in the conference.
Mercantile Bank Limited launched Khilgaon Sub-branch in Dhaka virtually on January 20, 2022. Bank’s chairman Morshed Alam M.P. inaugurated the sub-branch as the chief guest. Md. Quamrul Islam Chowdhury, Managing Director & CEO of the bank delivered his welcome speech. A total of 20 Sub-branches of MBL has been launched including Khilgaon Sub-branch. A. S. M. Feroz Alam, Vice Chairman, M. A. Khan Belal, Chairman, Mercantile Bank Securities Ltd.; M. Amanullah, Director of the bank and Md. Mahbubul Alam, 1 No. Ward Councilor of DSCC, spoke on the occasion.

In-charge of the sub-branch, Invited guests, valued customers and senior executives of the bank were connected virtually on the occasion.
Virtual Training on Prevention of Money Laundering

Mercantile Bank Limited organized a virtual training on ‘Prevention of Money Laundering and Combating Financing against Terrorism’ January 25, 2022. A total number of 40 officials from various branches of Dhaka Region attended the online program. Shamim Ahmed, DMD and CAMLCO of the bank inaugurated the virtual training.

Distribution of winter clothes among 550 destitute students at Baufal

Mercantile Bank Limited distributed winter clothes among 550 cold-hit destitute students of Baufal upazilla in Patuakhali on 20 January 2022. An initiative by Bank’s Vice Chairman A. S. M. Feroz Alam, Kalaiya Branch of MBL arranged the program to distribute winter clothes among poor students. Md. Al Amin, UNO of Baufal distributed the winter clothes among the students of Baufal Adarsha Girls High School. Most. Jahanara Begum, Head Mistress of the school presided over the program. Md. Nur Nabi, Baufal Upazilla Academic Supervisor and Ashiqul Islam, HOB of MBL Kalaiya Branch were present among others.
THE LIBOR TRANSITION AND WHAT IT MEANS FOR MERCANTILE BANK LIMITED

London Interbank Offered Rate i.e. LIBOR was a key benchmark for setting the interest rates charged on adjustable-rate loans, mortgages and corporate debt for more than 40 years. But over the last decade, LIBOR has been burdened by scandals and crises. Even officials from large multilateral banks got involved in LIBOR manipulation to make unethical financial benefits. From December 31, 2021, LIBOR is going to be replaced by Alternative Reference Rate (ARR) which is considered as more accurate and secured pricing benchmark.

Understanding LIBOR

LIBOR provided loan issuers with a benchmark for setting interest rates on different financial products. It was set each day by collecting estimates from up to 18 global banks on the interest rates they would charge for different loan maturities, given their outlook on local economic conditions. LIBOR was calculated in five currencies: UK Pound Sterling, the Swiss Franc, the Euro, Japanese Yen and the U.S. Dollar.

When 6 Months Foreign Currency loan is applied by any Bangladeshi banks either for UPAS LC or Trade Loan for Off Shore Banking Unit (OBU) in USD, a foreign bank or local bank used to take a LIBOR based rate. For example: quotation may be like: 6 Month LIBOR plus Margin. Hence, if the six-month LIBOR rate is 0.20% p.a. and Margin is 2%, pricing for the loan will be 0.20%+2% = 2.20% p.a.

How is LIBOR Calculated?

Each day, 18 international banks submit their ideas of the rates they think they would pay if they had to borrow money from another bank on the interbank lending market in London. To help guard against extreme highs or lows that might skew the calculation, the Intercontinental Exchange (ICE) Benchmark Administration removed the four highest submissions and the four lowest submissions before calculating an average. It’s important to note that LIBOR isn’t set on what banks actually pay to borrow funds from each other. Instead, it’s based on their submissions related to what they think they would pay.

Why Transition from LIBOR?

- The financial crisis in 2007 prompted the first major concerns over LIBOR’s credibility as the rate behaved in unpredictable and volatile ways.
- As the volume of direct borrowing underpinning LIBOR submissions decreased, LIBOR panel banks relies on hypothetical transactions and expert judgment.
Despite improvements made post-financial crisis, the volume of transactions supporting LIBOR continues to shrink and as a result the regulator of LIBOR, the UK’s Financial Conduct Authority called for the market to transition to more robust reference rates around the world.

What will replace LIBOR?

Regulators worldwide have convened currency-based working groups to select alternative reference rates (ARRs), sometimes called “Risk Free Rate,” to serve alternatives or replacements for the different currency Inter Bank Offered Rates (IBORs). The ARRs are set forth in the below table:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Existing rate</th>
<th>Alternative reference rate (ARR)</th>
<th>Industry working group</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>LIBOR</td>
<td>SOFR (Secured Overnight Financing Rate)</td>
<td>Alternative Reference Rates Committee (ARRC)</td>
</tr>
<tr>
<td>EUR</td>
<td>LIBOR, EURIBOR</td>
<td>€STR (Euro Short-Term Rate)</td>
<td>Working Group on Euro Risk-Free Rates</td>
</tr>
<tr>
<td>GBP</td>
<td>LIBOR</td>
<td>SONIA (Sterling Overnight Index Average)</td>
<td>Working Group on Sterling Risk-Free Reference Rates</td>
</tr>
<tr>
<td>JPY</td>
<td>LIBOR, TIBOR</td>
<td>TONA (Tokyo Overnight Average)</td>
<td>Study Group on Risk-Free Reference Rates</td>
</tr>
<tr>
<td>CHF</td>
<td>LIBOR</td>
<td>SARON (Swiss Average Rate Overnight)</td>
<td>National Working Group on Swiss Franc Reference Rates</td>
</tr>
</tbody>
</table>

What is SOFR?

SOFR is a broad measure of the cost of borrowing cash overnight secured by Treasury securities as traded in the O/N repurchase agreement (repo) market. Since, SOFR is a secured borrowing rate, it does not reflect the interbank unsecured credit component inherent in LIBOR. SOFR is published and administered by the NEW York Fed. As the administrator of SOFR, they publish daily rates and volumes on its website. The market underlying SOFR has a daily trading volume in excess of USD 1 trillion and has demonstrated consistent volume for several years.

Usually, SOFR is an overnight rate. However, on March 2, 2020, the New York Fed, in cooperation with the Treasury Department’s Office of Financial Research, began publishing Term SOFR i.e. 30, 90, and 180 days SOFR averages and a SOFR Index to support the transition away from U.S. dollar LIBOR. Now, term SOFR rates are administered and published by CME (world’s leading and most diverse derivative market place).

Basis for SOFR Calculation

SOFR is calculated as a volume-weighted median of transaction-level tri-party repo data collected from following three sources:

- Bank of New York Mellon
- General Collateral Finance (GCF) repo transaction data and
- Bilateral treasury repo transaction cleared through Fixed Income Clearing Corporation (FICC)
### Time Line for LIBOR Transition

<table>
<thead>
<tr>
<th></th>
<th>Throughout 2021</th>
<th>After Dec 2021</th>
<th>After June 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USD LIBOR</strong></td>
<td>New/amended contracts will increasingly eliminate LIBOR as the reference rate and include an alternative reference rate in its place</td>
<td>1-week and 2-month USD LIBOR cease to be published and rest will continue publishing</td>
<td>1, 3, 6 and 12 month USD LIBORs cease to be published</td>
</tr>
<tr>
<td><strong>Non-USD LIBOR</strong></td>
<td><strong>GBP LIBOR:</strong> UK regulatory guidance is to cease booking new contracts after Q1 2021</td>
<td>**Non-USD LIBORs cease to be published or become non-representative as only certain tenors may continue to be published on a non-representative basis</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>EUR, CHF or JPY LIBOR:</strong> ARRC best practice is to cease booking new contracts after Q2 2021</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### LIBOR Vs SOFR

<table>
<thead>
<tr>
<th>LIBOR</th>
<th>SOFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward-looking term structure.</td>
<td>Overnight SOFR is backward-looking which reflects past one day’s fund cost in the interbank market.</td>
</tr>
<tr>
<td></td>
<td>Term SOFR reflects Risk Free Rate derivative market’s expectation on what will happen to interest rates</td>
</tr>
<tr>
<td>Bank-to-bank lending rate (including credit risk)</td>
<td>Risk-free rates (does not include credit risk)</td>
</tr>
<tr>
<td>Unsecured</td>
<td>Secured with US Treasuries</td>
</tr>
<tr>
<td>Based on bank submissions incorporating a limited number of actual transactions and expert judgment</td>
<td>Transaction based</td>
</tr>
<tr>
<td>$ 500 million USD of daily trading of actual transactions in the 3-months wholesale funding market</td>
<td>Over $1 trillion of daily trading actual transactions in the overnight Repo market</td>
</tr>
<tr>
<td>LIBOR has credit and term risk premia embedded within</td>
<td>SOFR does not have credit and term risk premia embedded within.</td>
</tr>
<tr>
<td>Currency option include USD, GBP, EUR, JPY and CHF</td>
<td>Currency option is only USD</td>
</tr>
</tbody>
</table>

Since LIBOR includes credit risk and SOFR is risk free rate, LIBOR is higher than term SOFR at any tenor. Following table depicts the LIBOR and SOFR rate comparison as on January 14, 2022:
Comparison of LIBOR and Term SOFR rate as on January 14, 2022

<table>
<thead>
<tr>
<th>Tenor</th>
<th>LIBOR</th>
<th>Term SOFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Month</td>
<td>0.1032</td>
<td>0.0584</td>
</tr>
<tr>
<td>3 Months</td>
<td>0.2412</td>
<td>0.1315</td>
</tr>
<tr>
<td>6 Months</td>
<td>0.3950</td>
<td>0.2644</td>
</tr>
<tr>
<td>12 Months</td>
<td>0.7257</td>
<td>0.4946</td>
</tr>
</tbody>
</table>

As mentioned above, quotation for any deal in USD or foreign currency includes two variables i.e. LIBOR or SOFR plus Margin. Since, LIBOR is higher than SOFR, to retain economic equivalence between the two pricing methods; margin associated with quotation of SOFR is higher than the margin associated with LIBOR. It is noteworthy that, margin linked with SOFR is higher as compared to that of LIBOR, because credit and liquidity risk premia are embedded into the margin of SOFR based quotation. Hence, at the end of the day total pricing of two methods remains same. Typical pricing for a 6 Months UPAS deal in LIBOR and SOFR as on January 14, 2022 may be depicted below:

What will the LIBOR Transition mean for Mercantile Bank and its Customer?

Outcome of LIBOR transition has been visible in the Banking industry and therefore in Mercantile Bank Limited from later part of the year 2021. All the USA based banks like JP Morgan, Wells Fargo etc. and some of non USA banks have started quoting in Alternative Reference Rate i.e. in SOFR instead of LIBOR for booking their deal in USD under UPAS LCs. In some cases, some of the non USA banks have requested MBL to revise the quotation in SOFR for UPAS bills which they did earlier in LIBOR. Furthermore, 1 week and 2 Months LIBOR publication has already been ceased and other non USD LIBOR has mostly been ceased publication.

It is critically important to note that relatively lower rate of SOFR than LIBOR does not mean that cost of USD borrowing for Trade Loan/buyers credit/sellers credit will be lower in SOFR based borrowing than LIBOR based borrowing. Because being a risk free rate, margin associated with SOFR will be higher than margin tagged with LIBOR. Hence, in terms of total borrowing cost, it will be almost same for both LIBOR or SOFR based borrowing.

MBL needs to carefully monitor the LIBOR transition over the next couple of years and embrace the same with utmost care. MBL should also intimate its customers regarding the transition and extend maximum support throughout the transition so that customers are well informed with the appropriate information and become equipped to make educated decisions under the purview of LIBOR transition.
BANGLADESH BANK CIRCULARS
DURING JANUARY 2022

BRPD (Banking Regulation and Policy Department) Circular
- BRPD Circular Letter No. 04, Date: 25.01.2022, Subject: Regarding salary of entry level officials and employees of bank-company.
- BRPD Circular Letter No. 03, Date: 20.01.2022, Subject: Increasing Moratorium period of Loans/Advances given to Ship Building Industry due to Novel Coronavirus.
- BRPD Circular No. 01, Date: 16.01.2022, Subject: Single Borrower and Large Loan Exposure Limit.
- BRPD Circular Letter No. 02, Date: 11.01.2022, Subject: Banker’s books evidence act, 2021
- BRPD Circular Letter No. 01, Date: 09.01.2022, Subject: Payment of ‘Haor/Deep/Char Allowance’ to Permanent employees of State Owned Commercial Banks working in 16 Upazilas announced as Haor/Deep/Char.

CIB (Credit Information Bureau) Circular
- CIB Circular Letter No. 01, Date: 16.01.2022, Subject: Regarding cut off time of Monthly Batch Contribution to the CIB database.

DMD (Debt Management Department) Circular
- DMD Circular Letter No. 01, Date: 17.01.2022, Subject: Regarding Investment in Sanchaya Bonds

DOS (Department of Offsite Supervision) Circular
- DOS Circular Letter No. 05, Date: 30.01.2022, Subject: Instruction to take necessary measures to facilitate casting of vote by the voter employees of the related areas on 31st January 2022 for election of Pouroshova and Union Parishads.
- DOS Circular Letter No. 04, Date: 24.01.2022, Subject: Instructions for Conducting Banking Service to prevent the expansion of Corona Virus Disease (Covid-19) up to 06 February 2022.
- DOS Circular Letter No. 03, Date: 23.01.2022, Subject: Instructions to follow Hygiene for preventing the expansion of Corona Virus Disease (Covid-19).
- DOS Circular Letter No. 02, Date: 13.01.2022, Subject: Instruction to take necessary measures to facilitate casting of vote by the voter employees of the related areas on 16th January 2022.
- DOS Circular Letter No. 01, Date: 03.01.2022, Subject: Instruction to take necessary measures to facilitate casting of vote by the voter employees of the related areas on 5th January 2022 for election of Union Parishads.

FID (Financial Inclusion Department) Circular
- FID Circular Letter No. 01, Date: 05.01.2022, Subject: Determining the Lower Limit of Credit Guarantee Scheme Facility under Tk. 500 Crore Refinance Scheme for 10/50/100 Tk. Account Holders.

FEID (Foreign Exchange Investment Department) Circular
- FEID Circular Letter No. 01, Date: 26.01.2022, Subject: Gazette Notification on “Capital Account Transaction (Overseas Equity Investment) Rules, 2022.”

FEPD (Foreign Exchange Policy Department) Circular
- FEPD Circular Letter No. 06, Date: 30.01.2022, Subject: Regarding submission of foreign exchange market related statements through “Online Foreign Exchange Market Monitoring System.”
- FEPD Circular Letter No. 05, Date: 20.01.2022, Subject: Statutory business target for licenced Money Changers (MCs).
- FEPD Circular Letter No. 04, Date: 20.01.2022, Subject: Cash incentive against wage earners’ remittance through legal channel.
- FEPD Circular Letter No. 03, Date: 18.01.2022, Subject: LC opening without renewed IRC
- FEPD Circular No. 02, Date: 16.01.2022, Subject: Export incentive against export of Software, ITES and Hardware.
- FEPD Circular Letter No. 02, Date: 06.01.2022, Subject: Sales of foreign digital items through local e-Commerce market places/platforms.
- FEPD Circular No. 01, Date: 06.01.2022, Subject: Extended facilities for trade transactions.
- FEPD Circular Letter No. 01, Date: 02.01.2022, Subject: To increase the rate of cash incentive against wage earners’ remittance through legal channel.

**PSD (Payment Systems Department) Circular**

- PSD Circular No. 02, Date: 25.01.2022, Subject: Continuation of Uninterrupted Payment Services in Response to COVID-19.
- PSD Circular No. 01, Date: 18.01.2022, Subject: Guidelines for Local Factoring/Receivable Financing through Digital Platform - Pilot Phase.

**SMESPD (SME & Special Programmes Department) Circular**

- SMESPD Circular No. 01, Date: 23.01.2022, Subject: Regarding Credit Guarantee Facility for Marginal/Landless Farmers, Low Income Professionals, School Banking Account Holders and Small Traders who have accounts of TK.10/50/100.

**SD (Statistics Department) Circular**

- SD Circular Letter No. 01, Date: 12.01.2022, Subject: Regarding Submission of NBFI 2, NBFI 3 and Other Returns.

**SFD (Sustainable Finance Department)**

- SFD Circular No.01, Date: 09.01.2022, Subject: Policy Guidelines on Corporate Social Responsibility for Banks and Financial Institutions

**ACD (Agricultural Credit Department) Circular**

- ACD Circular No. 01, Date: 03.01.2022, Subject: Refinance scheme of Taka 500 crore to create employment and to eliminate poverty for the people who have returned home due to Covid 19 pandemic and other reasons
MBL CIRCULARS DURING JANUARY 2022

Instruction Circular

1. Circular No. 2748, Date: 31.01.2022, Subject: Renewal of Enlistment of 07 (Seven) Insurance Companies as Approved Insurers of our Bank for the year’2022.
2. Circular No.2745, Date:30.01.2022, Subject: Single Borrower and Large Loan Exposure Limit.
3. Circular No. , Date: , Subject: 
4. Circular No. 2743, Date:27.01.2022, Subject: Regarding collection of IPO of AB Bank Perpetual Bond from the Eligible Investors (EI) and General Public (GP) through Electronic Subscription System (ESS) of Dhaka Stock Exchange Limited.
5. Circular No.2742 , Date: 25.01.2022, Subject: Renewal of Enlistment of 08 (Eight) Insurance Companies as Approved Insurance of our Bank for the Year’ 2022.
6. Circular No. 2741 , Date: 24.01.2022, Subject: 
7. Circular No.2740 , Date:23.01.2022, Subject: CIB Online System.
8. Circular No. 2739, Date:23.01.2022, Subject: 
9. Circular No.2738 , Date:19.01.2022, Subject: Regarding collection of IPO of Mamun Agro Products Limited from the Qualified Investors (QI) through Electronic Subscription System (ESS) of Dhaka Stock Exchange Limited.
10. Circular No. 2737 , Date:17.01.2022, Subject: Introducing modern banking services for MBL Taqwa Islamic Banking Customers.
11. Circular No. 2736 , Date:17.01.2022, Subject: Using of separate product code to open MTDR for “Other than Individual & Recognized Fund” in the T24 R-19 Islamic Banking CBS System.
12. Circular No. 2735 , Date:13.01.2022, Subject: 
13. Circular No.2733 , Date:10.01.2022, Subject: 
14. Circular No.2732 , Date: 05.01.2022, Subject: 
15. Circular No.2731 , Date:04.01.2022, Subject: 
16. Circular No.2730 , Date:04.01.2022, Subject: 

Information Circular

1. Circular No.1771, Date:30.01.2022, Subject: Introduction of a new feature: Requisition of Cheque Book at any branch of our Bank for our valued customers
2. Circular No.1770, Date: 24.01.2022, Subject: Information Regarding Changes of BTCL Telephone Number of MBL Donia Branch.
3. Circular No.1769, Date: 24.01.2022, Subject: Information Regarding Changes of BTCL Telephone Number of MBL Jashore Branch.
4. Circular No.1768, Date:23.01.2022, Subject: অর্থ ক্ষত্র আলাদক্ষত্র ক্ষত্র আলাদ ক্ষত্র যাত্রায় যাত্রায় মামলা সমূহ ক্ষত্র বিচার ও নিষ্পত্তি 
   এবং সূত্রবিদ্ধ পরিচয়নর নিম্নিত্ত অর্থ ক্ষত্র আলাদক্ষত্র সমূহের অধিকভাবে পূর্ণসন্তান করে দিবারে।
5. Circular No. 1767, Date: 19.01.2022, Subject: SimplePay Facility for MBL Credit Cardholders at 
   HATIL Furniture for purchasing furniture & home appliances
6. Circular No.1766 Date:17.01.2022, Subject: Discount Facility at Universal Medical College Hospital 
   Limited for the Employees of the Bank alongwith their Parents, Spouse and Children.
7. Circular No. 1764, Date: 12.01.2022, Subject: Lawyer’s Notice dated 22.12.2021 for not to entertain 
   any application by any person for acceptance of properties against any credit facilities.

ID Circular
1. Circular No.10, Date: 23.01.2022, Subject: Statutory business target for licensed Money Changers 
   (MCs).
2. Circular No.09, Date: 23.01.2022, Subject: বৈধ উপায়ে রেমিটেন্স এরেলের বিপরীতে নগদ সহায়তা প্রদান করা হয়।
3. Circular No.08, Date: 23.01.2022, Subject: বৈধভাবে ন্যায়কৃত (হালনাগারী কৃত্রিম) আইটীএস ব্যবহারের ক্ষেত্রে বিপরীতে ক্ষত্র ধারণ করে।
4. Circular No. 07, Date: 20.01.2022, Subject: Discussion and decision from Bankers’ Meeting 
   regarding late payment of accepted bills.
5. Circular No. 06, Date: 20.01.2022, Subject: Guidelines For Foreign Exchange Transaction, 2018 
   এর বিনিয়োগ নিন্দিত পরিপালন পূর্বক বিবেচনা দায়িত্ব পালন করা হয়। 
6. Circular No. 05, Date: 19.01.2022, Subject: কাজগুলোর স্থায়ী স্থায়ী পুনর্নির্ধারণ করা হয়।
7. Circular No. 04, Date: 19.01.2022, Subject: বাংলাদেশ হতে সফরত্যাগ, আইটিএস (Information Technology 
   Enabled Services) ও হার্ডওয়্যার রক্ষণাবেক্ষণ বিষয়ের প্রযুক্তি প্রয়োগ প্রদান সহায়তা প্রদান করা।
8. Circular No. 03, Date: 17.01.2022, Subject: Sales of foreign digital items through local-e-
   commerce market places/plat forms.
9. Circular No. 02, Date: 17.01.2022, Subject: Extended facilities for trade transactions.
10. Circular No.01, Date: 17.01.2022, Subject: লোক ২০২১-২২ অর্থবছরে বৈধ উপায়ে রেমিটেন্স এরেলের বিপরীতে প্রযোজনা/নগদ 
    সহায়তা প্রদানের হয় রুপি প্রদান করা।

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