Market Discipline
Disclosures on Risk Based Capital (Basel-III)

1. Scope of Application

Qualitative disclosure	a)	The name of the top corporate entity in the group to which this guidelines applies.	Midland Bank Limited
	b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (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).	Midland Bank Limited has no subsidiary. **A brief description of the Bank and its subsidiaries are given below:** **Midland Bank Limited (MDB):** Midland Bank Limited ("the Bank") was incorporated (Registration # C-108070/13, Dated 20/03/2013) as a Public Limited Company in Bangladesh under Companies Act, 1994 with the registered office at N.B. Tower (Level 6 to 9), 40/7 North Avenue, Gulshan 2, Dhaka 1212. The company was incorporated on March 20, 2013 under Banking Companies Act 1991. It commenced its banking business on the same day under the license # BRPD (P-3)745(67)/2013-1665 issued by Bangladesh Bank on April 9, 2013. The Company started its banking operation on June 20, 2013 at the Dilkusha Corporate Branch. Presently the Bank has 20 (10 Urban and 10 Rural) branches all over the country. The principal activities of the Bank are to provide all types of commercial banking services to customers through its branches and SME centre / branches in Bangladesh. The Bank also entitled to provides money market operations, investment in merchant banking activities, financial intermediary services and any related financial services.
	c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not Applicable
Quantitative disclosure	d)	The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	Not Applicable

2. Capital Structure

Qualitative disclosure	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.	As per guidelines of Bangladesh Bank, Tier-1 Capital of MDB consists of (i) Fully Paid-up Capital, (ii) Statutory Reserve and (iii) Retained Earnings. Tier-2 Capital of MDB consists of (i) General Provision against unclassified Loans and Off-balance sheet exposures and (ii) Revaluation Reserve on Investment in Securities.

In BDT Million

Quantitative disclosure	b)	The amount of Tier-1 capital with separate disclosure of:	Solo
		Fully Paid up capital	4,000.00
		Non repayable share premium account	-
		Statutory reserve	150.06
		General reserve	-
		Retained earnings	334.23
		Minority interest in subsidiaries	-
		Non-cumulative irredeemable preference shares	-
		Dividend equalization account	-
		Sub-Total (A)	**4,484.29**
	c)	The total amount of Tier 2 and Tier 3 capital (B)	165.30
	d)	Other deductions from capital	-
	e)	**Total eligible capital (A+B)**	**4,649.59**

3. Capital Adequacy:

Qualitative disclosure	a)	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank. The Bank has maintained capital adequacy ratio on the basis of "Solo" is 26.29% against the minimum regulatory requirement of 10%. Tier-I capital adequacy ratio for "Solo" is 25.35% as against the minimum regulatory requirement of 5%. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors. The whole objectives of the capital management process in the Bank are to ensure that the Bank remains adequately capitalized at all times.

In BDT Million

		Particulars	Solo
Quantitative disclosure	b)	Capital requirement for credit risk	1,498.88
	c)	Capital requirement for market risk	156.36
	d)	Capital requirement for operational risk	113.66
	e)	Total and Tier-1 capital ratio:	-
		• For the consolidated group; and	-
		• For stand alone	96.22%
		Minimum capital requirement (10% of RWA or BDT 400 crore, which is higher)	4,000.00
		Total Risk Weighted Assets (RWA)	17,689.09
		Total and Tier-1 Capital Ratio:	
		Total CRAR	26.29%
		Tier-1 CRAR	25.35%
		Tier-2 CRAR	0.94%

4. Credit Risk:

<table>
<tr><td></td><td>a)</td><td colspan="2">The general qualitative disclosure requirement with respect to credit risk, including:</td></tr>
<tr><td>Qualitative disclosure</td><td></td><td>i) Definitions of past due and impaired (for accounting purposes);</td><td>With a view to strengthening credit discipline and bring classification and provisioning regulation in line with international standard, a phasewise program for classification and provisioning was undertaken by the Bank as per Bangladesh Bank circulars issued from time to time. In this regard, all the loans and advances are grouped into four categories for the purpose of classification, namely (i) Continuous Loan, (ii) Demand Loan, (iii) Fixed Term Loan and (iv) Short-term Agricultural and Micro Credit. They are classified as follow:

Continuous & Demand Loan are 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.

In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting upto Tk 1 million is not repaid within the due date, the amount of unpaid installment(s) are treated as "past due or overdue installment". Such types of Fixed Term Loans are classified as under:

• 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 loans are 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 loans are 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 loans are classified as "Bad/Loss".</td></tr>
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<table>
<tr>
<td>Qualitative disclosure</td>
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<td>
In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than Tk 1 million is not repaid within the due date, the amount of unpaid installment(s) are treated as "past due or overdue installment". Such types of Fixed Term Loans are classified as under:

Sub 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 loans are 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 loans are 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 loans are classified as "Bad/Loss".

Short-term Agricultural and Micro Credit will be considered irregular if it is not repaid within the due date as stipulated in the loans agreement are classified as under:

Sub-standard- if the irregular status continues after a period of 12 (twelve) months, the credits are classified as "Sub-standard".
Doubtful- if the irregular status continue after a period of 36 (thirty six) months, the credits are classified as "Doubtful".
Bad/Loss- if the irregular status continue after a period of 60 (sixty) months, the credits are classified as "Bad/Loss".

A Continuous loan, Demand loan or a Term Loan which remained overdue for a period of 02 (two) months or more, are treated as "Special Mention Account (SMA)".
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<td>ii) Description of approaches followed for specific and general allowances and statistical methods.</td>
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<table>
<tr><td>Particulars</td><td>Rate</td></tr>
<tr><td>General provision on unclassified Small and Medium Enterprise (SME) financing</td><td>0.25%</td></tr>
<tr><td>General provision on unclassified general loans and advances</td><td>1%</td></tr>
<tr><td>General provision on interest receivable on loans.</td><td>1%</td></tr>
<tr><td>General provision on off-balance sheet exposures</td><td>1%</td></tr>
<tr><td>General provision on unclassified loans and advances for housing finance, loans for professionals to set-up business under consumer financing scheme</td><td>2%</td></tr>
<tr><td>General provision on the unclassified loans to Brokerage House, Merchant Banks, Stock Dealers, etc.</td><td>2%</td></tr>
<tr><td>General provision on unclassified amount for Consumer Financing</td><td>5%</td></tr>
<tr><td>General provision on Special Mention Account (SMA) except Short Term Agriculture Loans</td><td>0.25%-1%</td></tr>
<tr><td>Specific provision on Sub-Standard loans and advances</td><td>20%</td></tr>
<tr><td>Specific provision on Doubtful loans and advances</td><td>50%</td></tr>
<tr><td>Specific provision on bad / loss loans and advances</td><td>100%</td></tr>
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Quantitative disclosure	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 of the Bank:	
			Particulars	**In BDT Million**
			Term Loan	3,375.43
			Overdraft	3,199.99
			Time Loan	4,531.97
			Cash Credit	679.30
			Loan Against Trust Receipts (LTR)	1,413.37
			Consumer Loan	113.46
			Payment Against Documents (PAD)	12.32
			Agricultural Credit	290.30
			EDF Loan	15.58
			Packing Credit	50.72
			Staff Loan	155.32
			Other Loans & Advances	8.81
			Bill purchased/discounted-Inland	17.69
			Bill purchased/discounted-Foreign	23.60
			Total	**13,887.86**
	c)	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.	Geographical distribution of exposures, broken down in significant areas by major types of credit exposure of the Bank:	
			Particulars	**In BDT Million**
			Urban:	
			Dhaka Zone	10,362.83
			Chittagong Zone	3,319.81
			Khulna Zone	-
			Rajshahi Zone	-
			Barishal Zone	-
			Sylhet Zone	-
			Rangpur Zone	-
			Sub-Total	**13,682.64**
			Rural:	
			Dhaka Zone	205.22
			Chittagong Zone	-
			Khulna Zone	-
			Rajshahi Zone	-
			Sylhet Zone	-
			Sub-Total	**202.22**
			Grand Total (Urban + Rural)	**13,887.86**

<table>
<tr><td rowspan="20"></td><td rowspan="20">d)</td><td rowspan="20">Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.</td><td colspan="2">Industry or counterparty type distribution of exposures, broken down by major types of credit exposure of the Bank:</td></tr>
<tr><td>Particulars</td><td>In BDT Million</td></tr>
<tr><td>Agriculture</td><td>356.91</td></tr>
<tr><td>RMG</td><td>676.00</td></tr>
<tr><td>Textile Industries</td><td>1,045.37</td></tr>
<tr><td>Ship Breaking</td><td>1,553.07</td></tr>
<tr><td>Other Manufacturing Industries</td><td>3,456.96</td></tr>
<tr><td>Small & Medium Enterprises (SME)</td><td>948.95</td></tr>
<tr><td>Power & Gas</td><td>415.67</td></tr>
<tr><td>Transport, Storage and Communication</td><td>369.01</td></tr>
<tr><td>Trade Services</td><td>1,882.91</td></tr>
<tr><td>Commercial real estate financing</td><td>265.63</td></tr>
<tr><td>Residential real estate financing</td><td>86.62</td></tr>
<tr><td>Loans, Advances & Lease to Managing Director / CEO and other senior executives</td><td>155.32</td></tr>
<tr><td>Loans and Advances to Institutions in which the Directors of the Bank have interest</td><td>1.01</td></tr>
<tr><td>Consumer Credits</td><td>108.05</td></tr>
<tr><td>Capital Market</td><td>465.15</td></tr>
<tr><td>NBFIs</td><td>531.89</td></tr>
<tr><td>Bills purchased and discounted</td><td>1,569.34</td></tr>
<tr><td>Total</td><td>13,887.86</td></tr>
<tr><td rowspan="8"></td><td rowspan="8">e)</td><td rowspan="8">Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.</td><td colspan="2">Residual contractual maturity break down of the whole portfolios, broken down by major types of credit exposure of the Bank:</td></tr>
<tr><td>Particulars</td><td>In BDT Million</td></tr>
<tr><td>Repayable on Demand</td><td>1,771.50</td></tr>
<tr><td>Not more than 3 months</td><td>2,165.40</td></tr>
<tr><td>More than 3 months but less than 1 year</td><td>6,020.50</td></tr>
<tr><td>More than 1 year but less than 5 years</td><td>3,450.10</td></tr>
<tr><td>More than 5 years</td><td>480.36</td></tr>
<tr><td>Total</td><td>13,887.86</td></tr>
<tr><td rowspan="8"></td><td rowspan="8">f)</td><td colspan="3">By major industry or counterparty type:</td></tr>
<tr><td rowspan="7">i) Amount of impaired loans and if available, past due loans, provided separately;</td><td colspan="2">The amount of classified loans and advances of the Bank are given below as per Bangladesh Bank guidelines.</td></tr>
<tr><td>Particulars</td><td>In BDT Million</td></tr>
<tr><td>Continuous Loans & Advances</td><td>37.08</td></tr>
<tr><td>Demand Loans & Advances</td><td>8.30</td></tr>
<tr><td>Term Loans & Advances</td><td>94.31</td></tr>
<tr><td>Short Term Agro Credit and Micro Credit</td><td>-</td></tr>
<tr><td>Total</td><td>139.69</td></tr>
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<tr><td rowspan="6"></td><td rowspan="6"></td><td rowspan="6">ii) Specific and general provisions; and</td><td colspan="2">Specific and general provisions were made on the amount of classified and unclassified loans and advances, off-balance sheet exposures, interest on receivable, diminution in value of investment and other assets-suspense of the Bank according to the Bangladesh Bank guidelines.</td></tr>
<tr><td>Particulars</td><td>In BDT Million</td></tr>
<tr><td>Provision on classified loans and advances</td><td>56.32</td></tr>
<tr><td>Provision on unclassified loans and advances</td><td>141.05</td></tr>
<tr><td>Provision on Off-balance sheet exposures</td><td>22.89</td></tr>
<tr><td>Total</td><td>220.26</td></tr>
<tr><td rowspan="6"></td><td rowspan="6"></td><td rowspan="6">iii) Charges for specific allowances and charge-offs during the period.</td><td colspan="2">During the year the specific and general provisions were made on the amount of classified and unclassified loans and advances, off-balance sheet exposure, interest on receivable, diminution in value of investment and other assets (suspense) of the Bank as per Bangladesh Bank guidelines.</td></tr>
<tr><td>Particulars</td><td>In BDT Million</td></tr>
<tr><td>Provision on classified loans and advances</td><td>56.32</td></tr>
<tr><td>Provision on unclassified loans and advances</td><td>78.50</td></tr>
<tr><td>Provision on Off-balance sheet exposures</td><td>10.25</td></tr>
<tr><td>Total</td><td>145.07</td></tr>
</table>

5. Equities: Disclosures for Banking Book Positions

<table>
<tr><td></td><td>a)</td><td colspan="2">The general qualitative disclosure requirement with respect to equity risk, including:</td></tr>
<tr><td rowspan="2"></td><td rowspan="2"></td><td>• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</td><td>Investment in equity securities are broadly categorized into two parts:
i) Quoted Securities (Common or Preference Shares & Mutual Fund) that are traded in the secondary market (Trading Book Assets).
ii) Unquoted securities are categorized as Banking book equity exposures which are further sub-divided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future i.e. held for maturity (HFM), and securities those are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Unquoted securities are valued at cost.</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 these practices.</td><td>The primary aim is to investment in these equity securities for the purpose of capital gain by selling them in future or held for dividend income. Dividends received from these equity securities are accounted for as and when received. Both Quoted and Un-Quoted equity securities are valued at cost and necessary provisions are maintained, if the prices fall below the cost price.</td></tr>
</table>

			As per Bangladesh Bank guidelines, the HFT equity securities are revalued once in each week using marking to market concept and HTM equity securities are amortized once a year according to Bangladesh Bank Guideline. The HTM equity securities are also revalued if any, are reclassified to HFT category with the approval of Board of Directors.

In BDT Million

			At cost	At market value
	b)	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	-	-
	c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	-	
	d)	• Total unrealized gains (losses)	-	
		• Total latent revaluation gains (losses)	-	
		• Any amounts of the above included in Tier-2 capital.	-	
	e)	Capital requirements broken down by appropriate equity groupings, consistent with the Bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements (10% on market value).		
		• Specific Market Risk	Nil	
		• General Market Risk	156.36 million	

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

Qualitative disclosure	a)	The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as well as the net worth of the Bank (economic value perspective). Re-pricing risk is often the most apparent source of interest rate risk for a Bank and is often gauged by comparing the volume of a Bank's assets that mature or re-price within a given time period with the volume of liabilities that do so. The short term impact of changes in interest rates is on the Bank's Net Interest Income (NII). In a longer term, changes in interest rates impact the cash flows on the assets, liabilities and off-balance sheet items, giving rise to a risk to the net worth of the Bank arising out of all re-pricing mismatches and other interest rate sensitive position.

			Maturity grouping of rate sensitive assets and liabilities of the Bank shows significant positive gap in the first quarter and moderate gap during the rest three quarters. The impact is very insignificant compared to total revenue of the Bank and also within the acceptable limit as stipulated by Bangladesh Bank.

Interest Rate Risk Analysis (for 1% change in the market rate of interest)

			Particulars	1-90 days	Over 3 months to upto 6 months	Over 6 months to upto 9 months	Over 9 months to upto 1 year
Quantitative disclosure	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).					In BDT Million
			Loans & Advances	3,936.90	1,500.00	2,200.00	2,320.50
			Balance with other Banks & Financial Institutes	2,055.30	50.00	495.60	50.00
			Government Securities	-	20.00	-	660.60
			Investment in other Securities	-	110.00	200.00	200.00
			A. Rate Sensitive Assets	**5,992.20**	**1,680.00**	**2,895.60**	**3,231.10**
			Demand Deposits	28.70	2.00	10.00	3.60
			Term Deposits	11,043.00	950.00	650.00	1,740.50
			Saving Deposits	196.50	100.00	100.00	106.00
			Borrowing from other Banks	266.30	-	-	-
			B. Rate Sensitive Liabilities	**11,534.50**	**1,052.00**	**760.00**	**1,850.10**
			GAP (A-B)	**(5,542.30)**	**628.00**	**2,135.60**	**1,381.00**
			Cumulative GAP	(5,542.30)	(4,914.30)	(2,778.70)	(1,397.70)
			Adjusted Interest Rate Changes (IRC)	1.00%	1.00%	1.00%	1.00%
			Quarterly earnings impact (GAP*IRC)	(13.86)	1.57	5.34	3.45
			Cumulative earnings impact to date	(13.86)	(12.29)	(6.95)	(3.50)
			Earning impact / Average quarterly net profit	(6.61%)	(5.86%)	(3.32%)	(1.67%)

7. Market Risk:

Qualitative disclosure	a)	i) Views of Board of Directors (BOD) on trading or investment activities.	Market risk is the possibility of losses of assets in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e., interest rate, exchange rate and price. Allocation of capital is required in respect of the exposure to risks deriving from changes in interest rates and equity prices in the Bank's trading book, in respect of exposure to risks deriving from changes in foreign exchange rates and commodity price in the overall banking activities. The total capital requirement for Bank against its market risk shall be the sum of capital charges against: i. Interest rate risk ii. Equity position risk iii. Foreign exchange (including gold) position risk throughout the Bank's balance sheet and iv. Commodity risk.
		ii) Methods used to measure Market risk.	**Measurement Methodology:** As Banks in Bangladesh are now in a stage of developing risk management models, Bangladesh Bank suggested the Banks for using Standardized Approach (SA) for credit risk capital requirement for Banking book and Standardized (rule based) Approach for market risk capital charge in their trading book. Maturity method has been prescribed by Bangladesh Bank in determining capital against market risk. In the maturity method, long or short positions in debt securities and other sources of interest rate exposures, including derivative instruments, are slotted into a maturity ladder comprising 13 time-bands (or 15 time-bands in case of low coupon instruments). Fixed-rate instruments are allocated according to the residual term to maturity and floating-rate instruments according to the residual term to the next repricing date. In Standardized (rule based) Approach the capital requirement for various market risks (interest rate risk, price, and foreign exchange risk) are determined separately. The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. e.g.: a. Capital Charge for Interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk. b. Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk. c. Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk. d. Capital Charge for Commodity Position Risk = Capital charge for general market risk.

		iii) Market Risk Management system.	**Treasury Division manages the market risk and ALCO monitors the activities of Treasury Division in managing such risk.**
		iv) Policies and processes for mitigating market risk.	To mitigate the several market risks, the Bank formed Asset Liability Management Committee (ALCO) who monitors the Treasury Division's activities to minimize the market risk. ALCO is primarily responsible for establishing the market risk management and asset liability management of the Bank, procedures thereof, implementing core risk management framework issued by the regulator, best risk management practices followed by globally and ensuring that internal parameters, procedures, practices / polices and risk management prudential limits are adhere to. The Treasury Division are taking following measures to minimize the several market risks: Foreign exchange risk management: it is the risk that the Bank may suffer losses as a result of adverse exchange rate movement during a period in which it has an open position in an individual foreign currency. This risk measured and monitored by the Treasury Division. To evaluate the extent of foreign exchange risk, a liquidity Gap report prepare for each currency. **Equity Position Risk:** Equity risk is defined as losses due to changes in market price of the equity held. To measure and identify the risk, mark to market valuation to the share investment portfolios are done. Mark to market valuation is done against a predetermined limit. At the time of investment, following factors are taken into consideration: a. Security of Investment b. Fundamentals of securities c. Liquidity of securities d. Reliability of securities e. Capital appreciation f. Risk factors and g. Implication of taxes etc.
			In BDT Million

Quantitative disclosure	b)	**The capital requirements for:**	**Solo**
		• Interest rate risk	90.80
		• Equity position risk	16.60
		• Foreign exchange risk and	48.96
		• Commodity risk	-
		Total Capital Requirement	**156.36**

8. Operational Risk:

Qualitative disclosure	a)	i) Views of BOD on system to reduce Operational Risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. It is inherent in every business organization and covers a wide spectrum of issues. The Board of Director (BOD) of the Bank and its Management firmly believe that this risk through a control based environment in which processes see documented, authorization as independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the group stays in line which industry best practice and takes account or lessons learned from publicized operational failures within the financial services industry. The BOD has also modified its operational risk management process by issuing a high level standard like SOP, supplemented by more detailed formal guidance. This explains how the Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that any branch of the Bank is affected by a business disruption event, to incorporate lessons learned in the operational recovery from those circumstances. Plans have been prepared for the continued operation of the Bank's business, with reduced staffing levels.
		ii) Performance gap of executives and staffs.	**Human Resources** Midland Bank Limited (MDB) being a fourth generation private commercial Bank of the country took the privilege and set an aim for the year 2016 to convert human resources into human capital. To reach the aim, Bank will address proper knowledge & expertise; customs and etiquettes with professional behavior and personality traits. Bank also committed to ensure corporate values such as togetherness, mutual respect, integrity etc. to ensure smooth conversion. HRM Division focuses on building capabilities using employee management and set strategies that align with organizational goals for aiming to create MDB as a "preferred employer of the choice ". Believing Human Resource Development as the key to maintain continued growth of the bank continues this year also. MDB believes that competent human resources are vital to growth & success of the bank. In support of that believe, the bank has a liberty to appoint skilled people from diversified sections of the society.

HRM Division encourages employees to move forward to establish corporate values in terms of Customer Centricity, Quality, Responsible Citizenship, Building the Future. HRMD helps to establish the MDB culture and climate in which employees have adequate competencies and commitment to serve our customers better. MDB always provide equal opportunities for employees to fulfill their latent talent.

Employment:

Transparent recruitment process, recognizing and allocating sufficient time for recruitment established confidence in interviewer and interviewee as both the parties have the opportunity to express and understand views, ideas, expectations and objective of each other. MDB generaly conducts two types of recruitment. One is fresh hiring and another is lateral hiring. For the fresh hiring, MDB generally engage highly illustrious consultancy firms to conduct the assessment professionally. To recruit proven leaders as lateral entrants, MDB sets customized committee who is responsible to identify the best among the bests. In 2015, total 137 new members joined MDB family and total employee number is 335.

Performance Management:

MDB believes performance management as a continuous process. Performance management frameworks are designed with the objective of improving both individual and organizational performance by identifying performance requirements, providing regular feedback and assisting the employees in their career development. In MDB, Performance management aims at building a high performance culture for both the individuals and the teams so that they jointly take the responsibility of improving the business processes on a continuous basis and at the same time raise the competence bar by upgrading their own skills within a leadership framework. The major objectives of performance management are:

- Facilitate employees to achieve superior standards of work performance.
- Aid employees to identify knowledge and skills required for performing job efficiently.
- Lift up performance of employees by encouraging employee empowerment, motivation and implementation of an effective reward mechanism.
- Promote two way systems of communication between the supervisors and the employees for clarifying expectations about the roles and accountabilities, communicating the functional and organizational goals, providing a regular and a transparent feedback for improving employee performance and continuous coaching.

			• Identify obstacles to effective performance and resolving those barriers through continuous monitoring, coaching and development interventions. • Encourage personal growth and advancement in the career of the employees by helping them in acquiring the desired knowledge and skills. **Training and development:** MDB considers training as continuous process. Bank is at the final stage of establishing an own training institute with the vision to build up professionals with technical and conceptual skills. The institute will stress on ensuring a formal platform where employees can exchange their ideas, update knowledge base, and open up their eyes to complexities of the banking world. MDB has a plan to prepare training program with some objectives such as i) To impart to new entrants basic knowledge and skills. ii) To assist the employees to function more effectively in their present positions by exposing them to the latest concepts, information and techniques and developing them the skills required in their fields. iii) To build up a second line of competent officers and prepare them as a part of their career progression to occupy more responsible positions. iv) To broaden the minds of the senior managers by providing them opportunities for interchange of experiences within and outside with a view to correct the narrow outlook that may arise from over specialization. (v) To impart customer education. To attain the objective of the training program, the bank training institute will have the latest training equipments, materials and adequate functional spaces for class rooms, administrative corner, research unit, dining room, wash rooms, library space, computer lab, etc. During the last year, MDB earned some training courses, seminars and workshops conducted by internal and external resources. **Workplace Safety:** MDB has given an important concern on workplace safety. Many initiatives have been taken to make the working place a harmonious and safer place for all level of employees. In 2016, MDB has a plan to deploy first aid kit box in its all work stations. **Employee Hygiene:** MDB believes that poor employee hygiene can affect the productivity of the entire workforce. In addition to productivity concerns, an unhygienic environment has a germ-risk, which is more likely to spread infectious diseases, such as the flu or cold, which could knock out a large percentage of the workforce for at least a few days. To combat with the above threat MDB ensured purified water supply, cleanliness of working place, sufficient space allocation for employees etc.

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Minority and Gender Issue:
MDB prohibits harassment and coercion of employees in the workplace. Bank inspires an atmosphere where employees are valued. Bank upholds equality of gender, race and religion and bars sexual or any other kind of discrimination, provocation or intimidation against a superior, coworker, customer, vendor or visitor.
Workforce Diversity:
MDB believes that organization's success and competitiveness depends upon its ability to embrace workforce diversity and realize the benefits. With that believe, MDB tries to handle workforce diversity in an efficient way so that MDB can increase adaptability, broader service range, recognize variety of viewpoints, manage more effective execution. As on 31 December 2015, workforce diversity is furnished below:
<table>
<tr><th>Age Group</th><th>Male</th><th>Female</th><th>Total</th></tr>
<tr><td>Above 50 years</td><td>5</td><td>-</td><td>5</td></tr>
<tr><td>30-50 years</td><td>239</td><td>24</td><td>263</td></tr>
<tr><td>Below 30 years</td><td>55</td><td>12</td><td>67</td></tr>
<tr><td>Total</td><td>299</td><td>36</td><td>335</td></tr>
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<td></td>
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<td>iii) Potential external events</td>
<td>
Risk factors/Potential external events:
It is needless to say that there are certain risk factors which are external in nature and can affect the business of the Bank. The factors discussed below can significantly affect the business:
General business and political condition
MDB's performance greatly depends on the general economic conditions of the country. The effect of recession is still unfolding which may result to slow down in business environment. Political stability is must for growth in business activities.
Changes in credit quality of borrowers
Risk of deterioration of credit quality of borrowers is inherent in Banking business. This could result due to global economic crisis and supply side distortion. The changes in the import prices affected the commodity sectors and ship breaking industry. Deterioration in credit quality requires provisioning.
Changes in policies and practices of regulatory bodies to revise practices, pricing and responsibilities of the financial institutions
MDB is subject to regulations and compliance of regulation is must. Changes in policies with regard to interest rates, pricing have significant effect on the performance of the Bank. Bangladesh Bank is expected to continue its persuasion to reduce the spread and charges further which is likely to affect the performance. Changes in provisioning requirement will also affect the performance of the Bank.
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			• **Implementation of Basel-II** Basel-II is fully effective from 2010 and MDB needs to be complied with respect to credit risk management, its supervision and establishment of effective internal control. The grading of the borrowers and its link with capital requirement may slow down the credit expansion. The establishment of effective control requires more investment in technology and operating expenses are likely to increase. • **Changes in market conditions** Changes in market conditions particularly interest rates on deposits and volatility in Foreign Exchange market is likely to affect the performance of the Bank. Depositors are becoming increasingly price sensitive and any unilateral upward change by a Bank will exert pressure on interest rate structure of the Banking sector. It is feared that wage earners remittances may decline due to fall in job opportunity in international market. Unless offset by export performances, there may be pressure in the Foreign Exchange market. • **The risk of litigation** In the ordinary course of business, legal actions, claims by and against the Bank may arise. The outcome of such litigation may affect the financial performance of the Bank. • **Success of strategies** MDB is proceeding with its strategic plan and its successful implementation is very important for its financial performance. Major deviation due to external and internal factors will affect the performance of the Bank.
		iv) Policies and processes for mitigating operational risk.	Midland Bank limited (MDB) has formed a separate 'Risk Management Division' under Chief Risk Officer to ensure following things: • Designing of organizational structure by clearly defining roles and responsibilities of individuals involved in risk taking as well as managing it; • Formulation of overall risk assessment and management policies, methodologies, guidelines and procedures for risk identification, risk measurement, risk monitoring, defining an acceptable level of risk, mitigation of all the core risks in line with their respective guidelines provided by Bangladesh Bank; • Reviewing and updating all risks on systematic basis as necessary at least annually, preferably twice a year, ensuring that adequate controls exist and that the related returns reflect these risks and the capital allocated to support them. The main risk areas will be (i) Balance sheet Risk Management, (ii) Credit Risk, (iii) Foreign Exchange Risk, (iv) Internal Control and Compliance Risk, (v) Money Laundering Risk and (vi) IT Risk. The following risks have also to be reviewed:

			• Operational Risk • Market Risk • Liquidity Risk • Reputation risk • Insurance Risk • Sustainability Risk • Setting the portfolio objectives and tolerance limits/parameters for each of the risks; • Formulation of strategies and different models in consistency with risk management policy based on IT Policy and in house IT support which can measure, monitor and maintain acceptable risk levels of the Bank; • Development of information systems/MIS inflow and data management capabilities to support the risk management functions of the Bank. • Ensure compliance with the core risks management guidelines at the department level, and at the desk level; • The unit will work under Bank's organizational structure and suggest to the CEO to take appropriate measures to overcome any existing and potential financial crisis; • Analysis of self resilience capability of the Bank; • Initiation to measure different market conditions, vulnerability in investing in different sectors; • The unit will also work for substantiality of capital to absorb the associated risk in banking operation. **Activities undertaken by "Risk Management Division" since inception and recent approaches** • Risk Management Division of MDB is currently arranging monthly meeting on various issues to determine strategies in consistency with risk management policy, which can measure, monitor, and maintain acceptable risk level of the Bank. Minutes of each meeting is submitted to Bangladesh Bank on monthly basis; • Besides, Risk Management Paper has also been prepared on the basis of 03 months' monthly minutes addressing different areas of risk and their mitigating tools & techniques guided by the members of Risk Management Division; • In order to perform the risk management function smoothly, RMD had invited all the Operational Divisions vide letter to the Head of respective Divisions to form an internal committee along with defined duties of concerned officials. It is to be noted here that due to continuous and successful persuasion, all the Operational Divisions have formulated and established internal risk management committees.

			Stress Testing in MDB: Risk Management Division (RMD) of MDB has prepared a stress testing model in line with the Bangladesh Bank's guideline which initially focused on "Simple Sensitivity and Scenario Analysis" on the following five risk factors: • Interest rate; • Forced sale value of collateral; • Non-performing loans (NPLs); • Share prices; and • Foreign exchange rate. The stress testing based on the financial performance of the Bank as on December 31, 2015 has also been completed which shows that the Bank has adequate capital to absorb minor, moderate and major level of shocks. However, in case of cumulative shocks, some additional capital may be required.
		v) Approach for calculating capital charge for operational risk.	The Banks operating in Bangladesh shall compute the capital requirements for operational risk under the Basic Indicator Approach (BIA). Under BIA, the capital charge for operational risk is a fixed percentage, denoted by · (alpha) of average positive annual gross income of the Bank over the past three years. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator when calculating the average. The capital charge may be expressed as follows: $K = [(GI\ 1 + GI2 + GI3)\ \alpha]/n$ Where- K = the capital charge under the Basic Indicator Approach GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded) α = 15 percent n = number of the previous three years for which gross income is positive. Gross income: Gross Income (GI) is defined as "Net Interest Income" plus "Net non-Interest Income". It is intended that this measure should: i). be gross of any provisions; ii). be gross of operating expenses, including fees paid to outsourcing service providers; iii). exclude realized profits/losses from the sale of securities held to maturity in the Banking book; iv). exclude extraordinary or irregular items; v). exclude income derived from insurance.

In BDT Million

Quantitative disclosure		**Particulars**	**Solo Basis**
	b)	The capital requirement for operational risk	113.66

09. Liquidity Risk

Qualitative disclosure	a)	i) Views of BOD on system to reduce Liquidity Risk	Liquidity risk arises when the Bank cannot maintain or generate sufficient funds to meet its payment obligations as they fall due or can only do so at a material loss. This can arise when counterparties who provide funding to the Bank withdraw or do not roll over a line of funding or as a result of a general disruption in financial markets which lead to normal liquid assets becoming illiquid. The main sources of the Bank's funding are capital, core deposits from retail and commercial clients, wholesale deposits and access to borrowed funds from the interbank money market. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position. MDB manages liquidity risk in accordance with regulatory guidelines internal benchmarks. A Board approved Liquidity Policy to manage liquidity on a day-to-day basis and a Contingency Funding Plan to deal with crisis situations are in place.
		ii) Methods used to measure Liquidity risk.	**Measurement Methodology:** LCR or Liquidity Coverage Ratio is a new liquidity standard introduced by the Basel Committee. This standard is built on the methodologies of traditional liquidity coverage ratio used by Banks to assess exposure to contingent liquidity events. LCR aims to ensure that a Bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days. LCR goes beyond measuring the need for liquid assets over the next 30 days in a normal environment. It measures the need for liquid assets in a stressed environment, in which deposits and other sources of funds (both unsecured and secured) run off, to various extents, and unused credit facilities are also drawn down in various magnitudes. These runoffs are in addition to contractual outflows. **The equation:** $LCR=\frac{\text{Stock of high quality liquid assets}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$

			Definitions for the LCR: The calculation of the LCR requires three important quantities to be defined: A. Total value of stock of high quality liquid assets B. Total cash outflows, next 30 days (stressed scenario) C. Total cash inflows, next 30 days (stressed scenario) Net Stable Funding Ratio: NSFR or Net Stable Funding Ratio is another new standard introduced by the Basel Committee. The NSFR aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on and off-balance sheet items. The minimum acceptable value of this ratio is 100 percent, indicating that available stable funding (ASF) should be at least equal to required stable funding (RSF). ASF consists of various kinds of liabilities and capital with percentage weights attached given their perceived stability. RSF consists of assets and off-balance sheet items, also with percentage weights attached given the degree to which they are illiquid or "long-term" and therefore requires stable funding. The time horizon of the NSFR is one year. Like the LCR, the NSFR calculations assume a stressed environment. The equation: $\text{NSFR} = \frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$ The calculation of the NSFR requires two quantities to be defined: A. Available Stable Funding (ASF) and B. Required Stable Funding (RSF). NSFR is met if ASF exceeds RSF, that is if ASF/RSF > 1 or 100%.
		iii) Liquidity Risk Management system.	Treasury Division manages the liquidity risk and ALCO monitors the activities of Treasury Division in managing such risk.

		iv) Policies and processes for mitigating liquidity risk.	To mitigate the several liquidity risks, the Bank formed Asset Liability Management Committee (ALCO) who monitors the Treasury Division's activities to minimize the liquidity risk. ALCO is primarily responsible for establishing the liquidity risk management and asset liability management of the Bank, procedures thereof, implementing core risk management framework issued by the regulator, best risk management practices followed by globally and ensuring that internal parameters, procedures, practices / polices and risk management prudential limits are adhere to. The Treasury Division are taking following measures to minimize the several market risks: A Board approved Liquidity Policy to manage liquidity on a day-to-day basis and a Contingency Funding Plan to deal with crisis situations are in place. Contractual maturity of assets and liabilities, liquidity ratios to include adherence to regulatory requirements and monthly liquidity forecasts are reviewed at ALCO meetings. Furthermore, liquidity stress tests are carried out quarterly to assess the impact of extreme events.

BDT in Million

			Solo
Quantitative disclosure	b)	• Liquidity Coverage Ratio	132.09%
		• Net Stable Funding Ratio (NSFR)	100.54%
		• Stock of High quality liquid assets	4,739.32
		• Total net cash outflows over the next 30 calendar days	3,587.95
		• Available amount of stable funding	16,089.78
		• Required amount of stable funding	16,004.00

10. Leverage Ratio

Qualitative disclosure	a)	i) Views of BOD on system to reduce excessive leverage	In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives: a) constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and b) reinforce the risk based requirements with an easy to understand and a non-risk based measure.

		ii) Policies and processes for mitigating market risk.	To mitigate excessive on and off-balance sheet leverage, the Bank formed Basel Unit who monitors the implementing status of Basel III within the Bank as per the guidelines on risk based capital adequacy issued by Bangladesh Bank.
		iii) Approach for calculating leverage ratio	A minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level. The Banks will maintain leverage ratio on quarterly basis. The calculation at the end of each calendar quarter will be submitted to BB showing the average of the month end leverage ratios based on the following definition of capital and total exposure. $\text{Leverage Ratio} = \dfrac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$

BDT in Million

			Solo
Quantitative disclosure	b)	• Leverage Ratio	17.62%
		• On balance sheet exposure	23,835.87
		• Off balance sheet exposure	1,345.80
		• Total exposure	25,181.68

11. Remuneration

Qualitative disclosure	a)	Information relating to the bodies that oversee remuneration	The Executive committee of the Bank oversees the remuneration on as and when required basis. No external consultant's advice has been sought. The Bank has approved pay scale approved by the Board of Directors. Employee type in MDB is Regular & Contractual.
		Information relating to the design and structure of remuneration processes	There is a pay scale approved by the competent authority where the salaries and increments are fixed designation wise and the same is followed accordingly.
		Description of the ways in which current and future risks are taken into account in the remuneration processes.	The approved pay scale was initialized considering the packages provided by peer Banks so that the employee retention risk is lower. For the future risks the pay scale is every now and then considered for revision.
		Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.	Half-Yearly and Annual appraisal is sought from the competent authority to link performance during a performance measurement period with levels of remuneration.

		Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.	To take account of longer-term performance the Bank seeks to adjust remuneration through Promotion.
		Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms	There are no other forms but cash form of variable remuneration is utilized by the Bank.

BDT in Million

			Solo
Quantitative disclosure	b)	Number of meetings held by the main body overseeing remuneration and remuneration paid to its member.	Nil
		Number of employees having received a variable remuneration award (incentive bonus).	311 (actual)
		Number of guaranteed bonuses awarded (festival bonus).	2
		Total amount of guaranteed bonuses awarded.	19.50
		Number of sign-on awards made.	Nil
		Total amount of sign-on awards made.	Nil
		Number of severance payments made.	Nil
		Total amount of severance payments made.	Nil
		Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Nil
		Total amount of deferred remuneration paid out (incentive bonus).	20.30
		Breakdown of amount of remuneration awards for the financial year to show:	

	BDT in Million
Fixed (salary & allowances)	333.00
Variable	20.30
Deferred	20.30
Non-deferred.	Nil
Different forms used (cash, shares and share linked instruments, other forms).	Cash

		Total amount of outstanding deferred remuneration	2.96
		Total amount of retained remuneration exposed to ex post explicit and/or implicit adjustments.	Nil
		Total amount of reductions during the financial year due to ex post explicit adjustments.	Nil
		Total amount of reductions during the financial year due to ex post implicit adjustments	Nil