MARKET DISCIPLINE

MARKET DISCIPLINE
DISCLOSURES ON RISK BASED CAPITAL (BASEL-II)

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 is given below:** **Midland Bank Limited** 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 (6th-9th floor), 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 11 (6 Urban and 5 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 center / branches in Bangladesh. The Bank also entitled to provides money market operations, investment in merchant Banking activities, financial intermediary services and any other financial services.
	C)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not Applicable
Qualitative 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 the guidelines of Bangladesh Bank, Tier-1 Capital of MDB consists of (i) Fully Paid-up Capital, (ii) Non-repayable Share Premium Account, (iii) Statutory Reserve, (iv) Retained Earnings and (v) Minority Interest in Subsidiaries. Tier-2 Capital consists of (i) General Provision against unclassified Loans and Off-balance sheet exposure, 50% of Asset revaluation reserve, 50% of Revaluation gain / loss on investment (HFT), 10% of Revaluation reserve for equity instruments, unsecured nonconvertible subordinated bond as approved by Bangladesh Bank and Exchange equalization fund, etc.

BDT in Million

Qualitative disclosure	b)	The amount of Tier-1 capital with separate disclosure of:	Solo
		I. Fully Paid up capital	4,000.00
		II. Non repayable share premium account	-
		III. Statutory reserve	23.99
		IV. General reserve	-
		V. Retained earnings	21.49
		VI. Minority interest in subsidiaries	-
		VII. Non-cumulative irredeemable preference shares	-
		VIII. Dividend equalization account	-
		Sub-Total (A)	**4,045.48**
	c)	**The total amount of Tier 2 and Tier 3 capital (B)**	**76.90**
	d)	Other deductions from capital	-
	e)	**Total eligible capital (A+B)**	**4,122.38**

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 43.95% against the minimum regulatory requirement of 10%. Tier-I capital adequacy ratio for "Solo" is 43.13% 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.

BDT in Million

		Particulars	**Solo**
Qualitative disclosure	b)	Capital requirement for credit risk	8,395.20
	c)	Capital requirement for market risk	360.40
	d)	Capital requirement for operational risk	624.30
	e)	**Total and Tier-1 capital ratio:**	
		• For the consolidated group; and	-
		• For stand alone	98.13%
		Minimum capital requirement (10% of RWA or paid up capital which is higher)	4,000.00
		Total Risk Weighted Assets (RWA)	9,379.90
		Total and Tier-1 Capital Ratio:	
		Total CAR	43.95%
		Tier-1 CAR	43.13%
		Tier-2 CAR	0.82%

4. Credit Risk

Qualitative disclosure	a)	The general qualitative disclosure requirement with respect to credit risk, including	
		i) Definitions of past due and impaired (for accounting purposes);	With a view to strengthening credit discipline and bring classification and provisioning regulation in line with international standard, a phase wise 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 BDT 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". In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than BDT 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".

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<td>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 other than SME loan which remained overdue for a period of 02 (two) months or more, are treated as “Special Mention Account (SMA)”.</td>
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<td>ii) Description of approaches followed for specific and general allowances and statistical methods;</td>
<td>The Bank is required to maintain the following general and specific provision in respect of classified and unclassified loans and advances on the basis of Bangladesh Bank guidelines issued from time to time:
<table>
<tr><th>Particulars</th><th>Rate</th></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 (Provision has been made on the total exposure and amount of cash margin or value of eligible collateral were not deducted while computing off-balance sheet exposure).</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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<td>Qualitative disclosure</td>
<td>b)</td>
<td>Total gross credit risk exposures broken down by major types of credit exposure.</td>
<td>Total gross credit risk exposures broken down by major types of credit exposure of the Bank:</td>
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			Particulars	**BDT in Million**
			Term Loan	2,025.76
			Overdraft	1,707.87
			Time Loan	1,042.56
			Cash Credit	494.12
			Loan Against Trust Receipts (LTR)	988.69
			Consumer Loan	9.91
			Packing Credit	3.86
			Staff Loan	105.78
			Other Loans & Advances	5.87
			Bill purchased/discounted-Inland	87.27
			Bill purchased/discounted-Foreign	28.29
			Total	**6,499.98**
	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	**BDT in Million**
			Urban:	
			Dhaka Zone	4,011.53
			Chittagong Zone	2,002.19
			Sub-Total	**6,013.72**
			Rural:	
			Dhaka Zone	486.26
			Sub-Total	**486.26**
			Grand Total (Urban + Rural)	**6,499.98**
	d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	Industry or counterparty type distribution of exposure, broken down by major types of credit exposure of the Bank:	
			Particulars	**BDT in Million**
			Agriculture	20.80
			RMG	329.10
			Textile Industries	68.40
			Ship Breaking	186.40
			Other Manufacturing Industries	2,248.80
			Small & Medium Enterprises (SME)	1,212.00
			Power & Gas	102.10
			Transport, Storage and Communication	602.70
			Trade Services	300.50
			Commercial real estate financing	220.70
			Residential real estate financing	79.60
			Loans, Advances & Lease to Managing Director / CEO and other senior executives	105.78
			Consumer Credits	9.10
			Capital Market	508.80
			NBFIs	259.00
			Other Industries including bills purchased and discounted	246.20
			Total	**6,499.98**

	e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	Residual contractual maturity break down of the whole portfolios, broken down by major types of credit exposure of the Bank:

Particulars	BDT in Million
Repayable on demand	302.78
Not more than 3 months	707.40
More than 3 months but less than 1 year	3,412.90
More than 1 year but less than 5 years	1,441.70
More than 5 years	635.20
Total	**6,499.98**

	f)	**By major industry or counterparty type**	
		i) Amount of impaired loans and if available, past due loans, provided separately;	There is no classified loans and advances of the Bank as per Bangladesh Bank's Guidelines.

Particulars	
Continuous Loans & Advances	-
Demand Loans & Advances	-
Term Loans & Advances	-
Short Term Agro Credit and Micro Credit	-
Total	**Nil**

		ii) Specific and general provisions; and	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 according to the Bangladesh Bank guidelines.

Particulars	BDT in Million
Provision on classified loans and advances	-
Provision on unclassified loans and advances	62.54
Provision on Off-balance sheet exposure	12.63
Provision for interest receivable on loans & advances	-
Provision for other assets	-
Provision for diminution in value of invests.	-
Total	**75.17**

		iii) Charges for specific allowances and charge-offs during the period.	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.

			Particulars	BDT in Million
			Provision on classified loans and advances	-
			Provision on unclassified loans and advances	46.49
			Provision on Off-balance sheet exposure	11.05
			Provision for interest receivable on loans & advances	-
			Provision for other assets	-
			Provision for diminution in value of investment	-
			Total	**57.54**
	g)	**Gross Non Performing Assets (NPAs).**		
		Non Performing Assets (NPAs) to Outstanding loans and advances.		
		Movement of Non Performing Assets (NPAs).	**Particulars**	**BDT in Million**
			Opening balance	-
			Addition/adjustment during the year	-
			Closing balance	-
		Movement of specific provisions for NPAs.	**Particulars**	**BDT in Million**
			Opening balance	-
			Provisions made during the period	-
			Transferred from unclassified loan & advances	-
			Write-off	-
			Write-back of excess provisions	-
			Closing Balance	-

5. Equities: Disclosures for Banking Book Positions

	a)	**The general qualitative disclosure requirement with respect to equity risk, including:**	
		• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	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.

		• 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.	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. 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.

BDT in 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		**-**
		• General Market Risk		**27.70 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)

Qualitative disclosure	b)	The general qualitative disclosure requirement with respect to credit risk, including:
		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).

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**
				BDT in Million
Loans & Advances	1,010.20	1,975.40	788.20	582.40
Balance with other Banks & Financial Institutes	2,582.40	1,900.00	50.00	-
Government Securities	282.70	347.10	-	158.20
Investment in other Securities	-	-	200.00	-
A. Total Risk Sensitive Assets	**3,875.30**	**4,222.50**	**1,038.20**	**740.60**
Demand Deposits	972.60	180.00	400.00	405.00
Term Deposits	4,085.80	438.00	400.00	461.80
Saving Deposits	84.30	28.10	14.10	14.00
Borrowing from other Banks	2,402.00	-	-	-
B. Total Risk Sensitive Liabilities	**7,544.70**	**646.10**	**814.10**	**880.80**
GAP (A-B)	(3,669.40)	3,576.40	224.10	(140.20)
Cumulative GAP	(3,669.40)	(93.00)	131.10	(9.10)
Adjusted Interest Rate Changes (IRC) 1.00%	1.00%	1.00%	1.00%	
Quarterly earnings impact (Cum. GAP*IRC)	(9.17)	8.94	0.56	(0.35)
Cumulative earnings impact to date	(9.17)	(0.23)	0.33	(0.02)
Earning impact / Average quarterly net profit	(70.57%)	(1.79%)	2.52%	(0.18%)

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 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: **i) 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. **ii) 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.

BDT in Million

Qualitative disclosure	b)	**The capital requirements for:**	**Solo**
		• Interest rate risk	27.70
		• Equity position risk	-
		• Foreign exchange risk and	8.35
		• Commodity risk	-
		Total Capital Requirement	**36.05**

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** MDB family has a concerted commitment dedication to serve in assigned areas. The Bank has already established a work environment where excellence and performance help them to explore their prospect. The Bank's policy on Human Resource Management is proactive. The Bank recruits people from all sections of the society, as it believes that competent human resources are vital to growth & success of the Bank. The Bank is offering congenial working environment & competitive compensation package. The management team of the Bank with their talent & skill has now been working for business excellence of the Bank with new pledge based on professionalism, team work, strong bondage of interpersonal relationship with good governance. In line with our objective, MDB organizational focus is to introduce developing the talent pool in leading the competitive business synergy, consolidate KPI based performance management, re-design reward & recognition system linked to performance, install enterprise culture based on values, enhance capability of employees in technology Banking through bringing structural changes i.e. centrlized Banking. Midland Bank Limited is very conscious and careful in recruiting human resource and their proper posting/placement. Placement of right number and right kind of people at the right place at right time yields positive results. In 2014, total of 48 new members joined MDB family. MDB is in a process of implementing KPI system to make the performance management more effective. MDB endeavors to be honest and practices fair practice for all employees to establish good corporate environment. MDB believes in paying competitive compensation package. In line with that MDB introduced a good number of employee benefits like provident fund, gratuity fund, Employees Social Security-Superannuation Fund, incentive bonus, Annual Increment, Special Increment, Promotion, Reward, transport facility to the eligible employees which considered to be contributory for employee satisfaction.

			In 2015 MDB plans to train and conduct various fundamental and refresher training. In implementation of MDB Development strategy, the Bank will establish a training institute in 2015 at Zahid Plaza in Gulshan 2, Dhaka, with the vision to build up professionals with technical and conceptual skills. **HR and Organization Development Strategies for 2015** • Introduction of Learning and Development Center to intensify and modernize employees' knowledge and skills in line with the modern technology. • Introduction of KPI system in performance management. • Transformation of Organization Structure with clarity roles to introduce Centralized Banking Model. • Review and update HR polices to attract and reduce attrition of talents. • Establish MDB as one of the preferred employers of the industry.
		iii) Potential external events	**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 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. • **Implementation of Basel-III** Alongside Basel-II, Basel III has taken effect from 2015 in Bangladesh requiring Banks to maintain more capital and follow more stringent rules. Besides, the Bank while maintaining relationship with international correspondent Bank will have to follow more strict compliance. Effective control also calls for higher investment in technology and increased operating expenses.

			New directive has emphasized on increasing quality capital (particularly, Tier-1 capital). However, it might not adversely effectof MDB, as Tier-1 capital contributes the lion's share of eligible capital such as, Tier-1 capital of MDB is BDT 4,045 million out of BDT 4,122 million of total eligible capital. Minimum total capital plus capital conservation buffer will have to be reached at 12.50% of RWA by 2019. MDB's CAR is 43.95% as on December 31, 2014 which denotes very advantageous situation. New directive does not give any restriction on raising subordinated debt although Tier-2 Capital can be admitted maximum up to 4% of total RWA or 89% of CET1 whichever is higher. MDB is well equipped in terms of capital adequacy in accordance with Basel-II & III accord. Besides, MDB has the opportunity to extend capital base through issuing subordinate debt as per latest directive of Bangladesh Bank. Despite many challenges, it is quite evident that the Basel-III framework will definitely make MDB more risk-resilient and shock-absorbent than ever before. • **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 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, 2014 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) α]/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

BDT in Million

Qualitative disclosure	b)	**Particulars**	**Solo Basis**
		b) The capital requirement for operational risk	624.30