Market Discipline

Disclosures on Risk Based Capital (Basel-III)

1. Introduction:

Use of excessive leverage, gradual erosion of level and quality of capital base, insufficient liquidity buffer, pro-cyclicality and excessive interconnectedness among systematically important institutions are identified as reasons of recent bank failures. Bank for International Settlements (BIS) came up, in response, with new set of capital and liquidity standards in the name of Basel III. Incompliance with the 'Revised Guidelines on Risk Based Capital Adequacy (RBCA)' issued by Bangladesh Bank in December 2014, Banks in Bangladesh have formally entered into Basel III regime from 1 January 2015. The new capital and liquidity standards have greater business implications for banks.

Midland Bank Limited (MDB) has also adopted Basel III framework as part of its capital management strategy in line with the revised guideline. These Market discipline disclosures under Basel III are made following 'Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)' for banks issued by Bangladesh Bank in December 2014.The purpose of Market discipline is to complement the minimum capital requirements and the supervisory review process. Establishing a transparent and disciplined financial market through providing accurate and timely information related to liquidity, solvency, performance and risk profile of a bank is another important objective of this disclosure

2. Disclosure Policy

Bank calculates Risk Weighted Assets (RWA) under the following approaches as per Basel III guidelines (BRPD circular no. 18, dated December 21, 2014):

a) Standardized approach for credit risk,
b) Standardized approach for market risk and,
c) Basic Indicator approach for operational risk.

3. Board overview

As strategic advisors to management, Board of Directors continued to prudently balance growth opportunities– with risk discipline and shareholder value creation. Board along with the senior management team work together to build momentum for our Bank's transformation by focusing on three integrated bank-wide priorities: client focus, innovation and simplify action.

Board of Directors recognizes the progress made over the past year across these priorities, including building stronger and deeper relationships with clients, as the team strives toward our goal of being #1 in client experience. Progress has also been made on the innovation and simplification front, as we delivered new technologies that improved the banking experience for clients and simplified processes making it easier to do business with us.

At MDB, BoD is committed to delivering sustainable earnings growth to shareholders. They have embarked on initiatives to free up resources that will allow the Bank to reinvest in business to accelerate revenue growth and reduce structural cost base. They will do so with a keen focus on industry-leading fundamentals in capital, expenses and risk management.

4. 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 as of December 31, 2020. **A brief description of the Bank and its subsidiaries are given below:** **Midland Bank Limited (MDB):** Midland Bank Limited ("the Bank") was incorporated on March 20, 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, and Dhaka-1212. The Company was also issued Certificate of Commencement of Business on the same day. It started commercial banking operation on June 20, 2013 through opening first branch at Dilkusha Commercial Area in the name 'Dilkusha Corporate Branch.' Presently, the number of branches stood at 34 (thirty four) including 19 rural branches along with 60 agent banking booth covering commercially important locations of the country. The principal activities of the Midland Bank Limited (MDB) are to provide all types of commercial banking services to customers through its branches, Corporate units and SME Center 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

5. 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 CET-1, Additional Tier -1 or Tier -2.	As per Basel III guidelines, regulatory capital consists of Tier-1 (Common Equity Tier 1 and Additional Tier 1) and Tier 2 capital. Tier 1 Capital is known as going concern capital and Tier 2 Capital also known as gone concern capital. **Common Equity Tier-1 (CET 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.

In BDT Million

Quantitative disclosure	**b)**	**The amount of Tier-1 capital with separate disclosure of:**	**Solo**
		Common Equity Tier-1 (CET-1) Capital:	
		I. Fully Paid up capital	5,696.70
		II. Non repayable share premium account	-
		III. Statutory reserve	1,183.37
		IV. General reserve	-
		V. Retained earnings	458.25
		VI. Minority interest in subsidiaries	-
		VII. Dividend equalization account	-
		Total Common Equity Tier-1 (CET-1) Capital	**7,338.32**
		Additional Tier 1 Capital	**-**
		Total Tier 1 Capital (A)	**7,338.32**
		Total Tier 2 capital (B)	**674.54**
	c)	**Regulatory adjustments/Deduction from capital (C)**	**(25.15)**
	d)	**Total eligible capital (A+B-C)**	**7,987.70**

6. 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 **17.44%** against the minimum regulatory requirement of **12.50% including conservation buffer 2.50%.** Tier-I capital adequacy ratio for "Solo" is **15.97%** as against the minimum regulatory requirement of **8.50% including conservation buffer 2.50%.** MDB has been generating most of its incremental capital from retained profit (stock dividend and statutory reserve transfer etc.). Besides meeting regulatory capital requirement, the Bank maintains adequate capital to absorb material risks foreseen. The surplus capital maintained by MDB will act as buffer to absorb all material risks and to support the future activities. To ensure the adequacy of capital to support the future activities, the bank assesses capital requirements periodically considering future business growth. 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

Quantitative disclosure			**Particulars**	**Solo**
		b)	Capital requirement for credit risk	3,875.19
		c)	Capital requirement for market risk	333.69
		d)	Capital requirement for operational risk	371.15
			Minimum capital requirement (10% of RWA or BDT 400 crore, whichever is higher)	4,580.04
			Total regulatory capital	7,987.70
			Total Risk Weighted Assets (RWA)	45,800.36
		e)	**Total capital, CET 1 capital, Total Tier 1 capital and Tier 2 capital to risk weighted asset ratio:**	
			• For the consolidated group	-
			• For standalone:	
			Total Capital to Risk Weighted Asset Ratio (CRAR)	17.44%
			Common Equity Tier-1 (CET-1) Capital Ratio	15.97%
			Total Tier 1 Capital Ratio	15.97%
			Tier-2 Capital Ratio	1.47%
		f)	Capital Conservation Buffer (2.50% of RWA)	7.44%
		g)	Available Capital under Pillar II requirement	3,407.66

7. Credit Risk:

<table>
<tr><td rowspan="2">Qualitative disclosure</td><td rowspan="2">a)</td><td colspan="2">The general qualitative disclosure requirement with respect to credit risk, including:</td></tr>
<tr><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 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:
A Continuous Loan, Demand Loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan which will remain past due/overdue for a period of 03 (three) months or beyond but less than 09 (nine) months, the entire loan will be put into the "Sub-standard (SS)".

A Continuous Loan, Demand Loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan which will remain past due/overdue for a period of 09 (nine) months or beyond but less than 12 (twelve) months, the entire loan will be put into the "Doubtful (DF)".

A Continuous loan, Demand loan, Fixed Term Loan or any installment(s)/part of installment(s) of a Fixed Term Loan which will remain past due/overdue for a period of 12 (twelve) months or beyond, the entire loan will be put into the "Bad/Loss (B/L)"

Loans have to be treated as defaulted loan as per section 5(GaGa) of the Banking Companies Act, 1991 and to be reported accordingly as per formats given in BRPD Circular No.08 dated August 02, 2015. In this regard, a portion of the "Sub-standard (SS)" loans will be reported as defaulted loan.

In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue after six months of the expiry date.

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</td></tr>
</table>

			(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)".**
		ii) Description of approaches followed for specific and general allowances and statistical methods.	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:

Particulars	Rate
On unclassified small enterprise financing (SME)	0.25%
On unclassified general loans and advances including housing finance	1%
On interest receivable on loans	1%
On off-balance sheet exposures	1%
On unclassified loans for professionals to set-up business and loans to share business	2%
On unclassified consumer financing other than housing finance, loan for professionals and loans for BGs/MBs/SDs	5%
On unclassified Short Term Agricultural and Micro Credits	2.50%
On Special Mention Account (SMA) except Short Term Agricultural and Micro Credits	0.25% to 5%
Specific provision:	
On substandard loans and advances (SS) other than Short Term Agricultural and Micro Credits	20%
On doubtful loans and advances (DF) other than Short Term Agricultural and Micro Credits	50%
On bad / loss loans and advances (BL)	100%
On substandard loans and advances (SS) other than Short Term Agricultural and Micro Credits	20%
On doubtful loans and advances (DF) other than Short Term Agricultural and Micro Credits	50%
On doubtful short term Agricultural and Micro Credits	5%

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	12,814.09

			Overdraft	7,502.05
			Time Loan	12,018.66
			Cash Credit	1,878.40
			Loan Against Trust Receipts (LTR)	1,206.47
			Consumer Loan	733.54
			Payment Against Documents (PAD)	0.00
			Agricultural Credit	697.07
			EDF Loan	640.01
			Packing Credit	121.12
			Staff Loan	94.16
			Other Loans & Advances	335.38
			Bill purchased/discounted-Inland	60.83
			Bill purchased/discounted-Foreign	984.89
			Total	**39,086.67**
	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	31,792.74
Chittagong Zone	6,138.75
Rajshahi Zone	130.41
Khulna Zone	38.63
Sylhet Zone	10.48
Sub-Total	**38,111.01**
Rural:	
Dhaka Zone	655.68
Chittagong Zone	102.49
Rajshahi Zone	94.01
Khulna	10.85
Rangpur	9.14
Mymensingh	103.49
Sub-Total	**975.66**
Grand Total (Urban + Rural)	**39,086.67**

d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure of the Bank:

Particulars		In BDT Million
A. AGRICULTURE, FISHING, AND FORESTRY		**754.84**
B. TRADE & COMMERCE		**3,658.36**
RETAIL TRADING	613.27	
WHOLESALE TRADING	2,135.78	
EXPORT FINANCING	0	
IMPORT FINANCING	193.38	
LEASE FINANCE	0	
OTHERS	715.94	

C. CONSTRUCTION (COMMERCIAL REAL ESTATE, CONSTRUCTION AND LAND DEVELOPMENT LOANS):		**1,397.90**
RESIDENTIAL REAL ESTATE	208.29	
COMMERCIAL REAL ESTATE	254.03	
INFRASTRUCTURE DEVELOPMENT	904.68	
OTHERS	30.90	
D. TRANSPORT		**48.97**
E. CONSUMER FINANCING		**1,177.22**
LOANS FOR THE PURCHASE OF FLATS OR OTHER SINGLE-FAMILY DWELLINGS	118.31	
LOANS FOR THE PURCHASE OF MOTORIZED PERSONAL TRANSPORT	76.58	
LOANS FOR THE PURCHASE OF DURABLE CONSUMPTION GOODS	143.51	
CREDIT CARD LOANS	161.22	
OTHER PERSONAL LOANS	677.60	
F. LOANS TO FINANCIAL INSTITUTIONS		**6467.44**
LOANS TO NBFIS	3,114.01	
LOANS TO MERCHANT BANKS AND BROKERAGE HOUSES	869.40	
OTHER, INCLUDING LOANS TO MICROFINANCE INSTITUTIONS AND NGOS	2,484.03	
MISCELLANEOUS		
G. INDUSTRY		**23,924.31**
RMG	1,661.00	
TEXTILE	2,112.00	
FOOD AND ALLIED INDUSTRIES	2,287.77	
PHARMACEUTICAL INDUSTRIES	335.80	
CHEMICAL, FERTILIZER, ETC.	0	
CEMENT AND CERAMIC INDUSTRIES	2,120.95	
SHIP BREAKING INDUSTRIES	643.97	
POWER AND GAS	1,403.41	
OTHER MANUFACTURING OR EXTRACTIVE INDUSTRIES	9,928.50	
SERVICE INDUSTRIES (THE TOTAL HERE WOULD BE IDENTICAL TO THE TOTAL FROM LINE B3)	1335.8	
OTHERS	2,095.10	
Miscellaneous		**1,657.63**
Grand total		**39,086.67**

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	**In BDT Million**
Repayable on Demand	4,575.10
Up to 1 month	5,869.50
Not more than 3 months	2,242.50
More than 3 months but less than 1 year	15,186.10

		More than 1 year but less than 5 years	11,209.67
		More than 5 years	3.80
		Total	**39,086.67**
f)	**By major industry or counterparty type:**		
	i) Amount of impaired loans and if available, past due loans, provided separately;	The amount of classified loans and advances of the Bank are given below as per Bangladesh Bank guidelines**.**	
		Particulars	
		Continuous Loans & Advances	209.55
		Demand Loans & Advances	68.79
		Term Loans & Advances	174.45
		Short Term Agro Credit and Micro Credit	00
		Total	**452.79**
	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 exposures, interest on receivable, diminution in value of investment and other assets-suspense of the Bank according to the Bangladesh Bank guidelines**.**	
		Particulars	**In BDT Million**
		Provision on classified loans and advances	194.56
		Provision on unclassified loans and advances	589.64
		Provision on Off-balance sheet exposures	84.90
		Provision for diminution in Investments	68.11
		Provision against Other Asset	3.70
		Total	**940.91**
	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	**In BDT Million**
		Provision on classified loans and advances	(91.94)
		Provision on unclassified loans and advances	135.13
		Provision on Off-balance sheet exposures	30.42
		Provision for diminution in Investments	23.38
		Provision against Other Asset	0.80
		Total	**97.79**

<table>
<tr><td rowspan="11"></td><td rowspan="11">g)</td><td colspan="3">Gross Non Performing Assets (NPAs).</td></tr>
<tr><td colspan="3">Non Performing Assets (NPAs) to Outstanding loans and advances.</td></tr>
<tr><td rowspan="4">Movement of Non Performing Assets (NPAs).</td><td>Particulars</td><td>In BDT Million</td></tr>
<tr><td>Opening balance</td><td>838.35</td></tr>
<tr><td>Addition/adjustment during the year</td><td>(385.56)</td></tr>
<tr><td>Closing balance</td><td>452.79</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td rowspan="7">Movement of specific provisions for NPAs.</td><td>Particulars</td><td>In BDT Million</td></tr>
<tr><td>Opening balance</td><td>286.50</td></tr>
<tr><td>Provisions made/ during the period</td><td>(91.94)</td></tr>
<tr><td>Transferred from unclassified loan & advances</td><td>-</td></tr>
<tr><td></td><td></td><td>Write-off</td><td>-</td></tr>
<tr><td></td><td></td><td>Write-back of excess provisions</td><td>-</td></tr>
<tr><td></td><td></td><td>Closing Balance</td><td>194.56</td></tr>
</table>

8. Equities: Disclosures for Banking Book Positions

<table>
<tr><td rowspan="3"></td><td rowspan="3">a)</td><td colspan="2">The general qualitative disclosure requirement with respect to equity risk, including:</td></tr>
<tr><td>• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; 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</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.

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</td></tr>
</table>

		affecting valuation as well as significant changes in these practices.	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 BD 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.	225.16	230.59
	c)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	11.06	
	d)	• Total unrealized gains (losses)	5.43	
		• Total latent revaluation gains (losses) of T-bills/bonds	275.66	
		• Any amounts of the above included in Tier-2 capital.	0	
	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	23.06	
		• General Market Risk	23.06	

9. 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). To evaluate the impact of interest rate risk on the net interest margin, Prime Bank monitors the size of the gap between rate sensitive assets and rate sensitive liabilities in terms of the remaining period to re pricing. Re pricing refers to the point in time when adjustments of interest rates on assets and liabilities occur owing to new contracts, renewal of expiring contracts or that a contract specifies a floating rate that adjusts at fixed time intervals. A maturity mismatch approach is used to measure Midland Bank's exposure to interest rate risk. A positive mismatch means that more assets than liabilities are re priced in a given period. With a positive mismatch, a rise in market interest rates will have a positive effect on the bank's earnings. On the other hand, a negative mismatch, where more liabilities are re-priced than assets in a given period, means a drop in earnings if interest rates

			had increased. The table presented below showing the Interest Rate Risk Analysis of Midland Bank Limited. The analysis shows that Bank may have a negative earnings impact of Taka 31.91 million in the first quarter which has also negative accumulated amounting Tk. 91.71 million in the second quarter. In the third and fourth quarter, the total year-to-date accumulated earnings impact has also been negative Tk. 176.38 and 284.03 million respectively. The rule of thumb suggests that quarterly gaps, causing an earnings impact of 10% of the Bank's average quarterly operating profit for each 1% change in interest rates, should be carefully handled by the Bank's Management. The last row of the following table reveals that earnings impact on Midland Bank's average quarterly operating profit.

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**
			A. Rate Sensitive Assets	**16,218.30**	**8,269.20**	**3,164.50**	**3,164.50**
			B. Rate Sensitive Liabilities	**29,158.10**	**7,456.20**	**2,483.60**	**2,483.60**
			GAP (A-B)	**(12,939.80)**	**(813.00)**	**(680.90)**	**(680.90)**
			Cumulative GAP	(12,939.80)	(12,126.80)	(11,445.90)	(10,765.00)
			Adjusted Interest Rate Changes (IRC)	1%	1%	1%	1%
			Quarterly earnings impact (Cum. GAP*IRC)	(31.91)	(59.80)	(84.67)	(107.65)
			Cumulative earnings impact to date	(31.91)	(91.71)	(176.38)	(284.03)
			Earning impact / Average quarterly Operating profit	-2.62%	-7.53%	-14.48%	-23.32%

10. Market Risk:

<table>
<tr>
<td rowspan="2">Qualitative disclosure</td>
<td rowspan="2">a)</td>
<td>i) Views of Board of Directors (BOD) on trading or investment activities.</td>
<td>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.</td>
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<tr>
<td>ii) Methods used to measure Market risk.</td>
<td><u>Measurement Methodology:</u>

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.</td>
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</table>

		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.
			In BDT Million

Quantitative disclosure	**b)**	**The capital requirements for:**	**Solo**
		• Interest rate risk	266.80
		• Equity position risk	46.12
		• Foreign exchange risk and	20.78
		• Commodity risk	-
		Total Capital Requirement	**333.69**

11. 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** Human Resources Management is one of the key factors of enhancing the Bank's overall performance. The main functions of HR are to find out the latent talent of the employees and utilize them properly towards achieving organizational goal. The Bank has already established a performance driven working culture to expedite the utmost effort of its employees. Our HR mission is to be the employer of choice in the financial sector where the employee will work with pride and pleasure. MDB believes that Human Resource Development is a continual process and the output of the development helps the organization to meet the objective and long term vision of the organization. The Bank recruits people from all sections of the society based on their competencies. We highly emphasize on attitude driven talent acquisition process because we don't offer merely a job for the employees but we are highly conscious to shape their career and make them confident for the best fit of the next role. The main motto of Human Resources Management Division is to hike the service excellency curve for the internal and external customers of the Bank. 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, and strong bondage of interpersonal relationship with good governance. The new economies with increased global, regional and local competition coupled with socio-economic sensitivity have created enormous challenges in organization like private commercial Banks. To cope with new challenges, our strategic approach is to make the techy so that they can cope technology based environment. Thus we thrive for caring our people so that they can positively contribute in the profitability curve of the organization. **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 2020, workforce diversity is furnished below:

Age Group	Male	Female	Total
Above 50 years	5	0	**5**
30-50 years	445	50	**495**
Below 30 years	125	26	**151**
Total	575	76	**651**

			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 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. • **Implementation of Basel-III** Basel-III is fully effective from 2015 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 are 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/ as or when required 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 Report and Comprehensive Risk Management Report (CRMR) have also been prepared on the basis of monthly and semi-annually respectively which 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. **<u>Stress Testing in MDB:</u>** 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, 2020 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 combined major shocks, some additional capital shall 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	**371.15**

12. 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 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. The Board of Directors of MDB primarily views on the growth of On-balance and Off-balance sheet exposures commensurate with its expected growth so that the excessive leverage is reduced. Within the On-balance components, again, the Board emphasizes on the growth of the prime component i.e. the loans and advances and maintaining good asset quality so as to maximize the revenue as well as the capacity to generate capital internally (in the form of retained earnings) to trade-off the excessive leverage supposed to be caused by asset growth. At the outset of asset growth, the Board also views the growth of its sources of fund i.e. deposit growth taking into consideration of projected business growth so that the credit-deposit ratio is maintained at a sustainable basis as well as to reduce the mismatches of asset-liability gap within the tolerable limit to manage the liquidity risk.

<table>
<tr><td></td><td></td><td>ii) Policies and processes for mitigating market risk.</td><td>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.</td></tr>
<tr><td></td><td></td><td>iii) Approach for calculating leverage ratio</td><td>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.
$$\text{Leverage Ratio} = \frac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$$</td></tr>
</table>

BDT in Million

<table>
<tr><td rowspan="5">Quantitative disclosure</td><td rowspan="5">b)</td><td></td><td>Solo</td></tr>
<tr><td>• Leverage Ratio</td><td>Leverage Ratio (LR) under Basel III of Midland Bank Limited as of 31 December 2020 was as under:
<table>
<tr><td rowspan="2">Particulars</td><td colspan="2">Ratio</td></tr>
<tr><td>BB requirement</td><td>MDB’s position</td></tr>
<tr><td>Leverage Ratio</td><td>≥3%</td><td>10.85%</td></tr>
</table></td></tr>
<tr><td>• On balance sheet exposure</td><td>Total On-balance Sheet exposure for calculating Leverage Ratio under Basel III of Midland Bank Limited as of 31 December 2020 was as under:
<table>
<tr><td>Particulars</td><td>Amount</td></tr>
<tr><td>Total On Balance Sheet Assets [A]</td><td>63,145.97</td></tr>
<tr><td>less: Total Specific Provision [B]</td><td>194.56</td></tr>
<tr><td>Total Adjusted On Balance Sheet exposure [A-B]</td><td>62,951.42</td></tr>
</table></td></tr>
<tr><td>• Off balance sheet exposure</td><td>3,000.91</td></tr>
<tr><td>• Total exposure</td><td>Total Exposures for calculating Leverage Ratio under Basel III of Midland Bank Limited as of 31 December 2020 was as under:
<table>
<tr><td>Particulars</td><td>Amount</td></tr>
<tr><td>Total On Balance Sheet Exposures [A]</td><td>62,951.42</td></tr>
<tr><td>Total Off-Balance Sheet Exposures [B]</td><td>4,458.72</td></tr>
<tr><td>less: Total Deduction/ Regulatory adjustments [C]</td><td>25.15</td></tr>
<tr><td>Total Adjusted exposure [A+B-C]</td><td>67,384.99</td></tr>
</table></td></tr>
</table>

13. Liquidity Risk

In line with the provisions of liquidity risk management under Basel III, Bangladesh Bank on the basis of the relevant guideline of Bank for International Settlements (BIS) has identified the (i) Liquidity Coverage Ratio (LCR); (ii) Net Stable Funding Ratio (NSFR); and (iii) Leverage under the purview of 'Liquidity' ratio vide BRPD Circular No. 18 dated 21 December 2014 and DOS Circular No. 1 dated 1 January 2015.

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 Board of Directors reviews the liquidity risk of the Bank on quarterly rest while reviewing the Quarterly Financial Statements, Stress Testing Report etc. Besides, the RMC of the Board also reviews the liquidity position while reviewing the risk status report on quarterly basis. Upon reviewing the overall liquidity position along with the outlook of MDB funding need, investment opportunity, market/industry trend, the Board takes its strategic decision regarding deposits, funding, investments, loans as well as interest rates polices etc. The Board of MDB always strives to maintain adequate liquidity to meet up Bank's overall funding need for the huge retail depositors, borrowers' requirements as well as maintain regulatory requirements comfortably.
		ii) Methods used to measure Liquidity risk.	**Measurement Methodology:** The maintenance of Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR) are considered as the fundamental methods/tools to measure the liquidity position/risk of MDB 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-balance 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:

$$NSFR = \frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

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%.

In addition to the above, the following measures have been put in place to monitor the liquidity risk management position of the Bank on a continued manner:

a) Asset-Liability Maturity Analysis (Liquidity profile);
b) Whole sale borrowing capacity;
c) Maximum Cumulative Outflow (MCO);

Besides the above, the following tools are also used for measuring liquidity risk:

a) Stress Testing (Liquidity Stress);
b) Net open position limit - to monitor the FX funding liquidity risk;

		iii) Liquidity Risk Management system.	In MDB, at the management level, the liquidity risk is primarily managed by the Treasury Division (Front Office) under oversight of ALCO which is headed by the Managing Director along with other senior management. Treasury Division (Front Office) upon reviewing the overall funding requirements on daily basis sets their strategy to maintain a comfortable/adequate liquidity position taking into consideration of Bank's approved credit deposit ratio, liquid assets to total assets ratio, asset-liability maturity profile, Bank's earning/profitability as well as overall market behavior and sentiment etc. Apart from the above, Financial Administration Division also monitors & measures the liquidity risk in line with the Basel III liquidity measurement tools, namely, LCR, NSFR, Leverage Ratio. RMD addresses the key issues and strategies to maintain the Basel III liquidity ratios to the respective division (s) on regular interval.
		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

Quantitative disclosure	**b)**		**Solo**
		• Liquidity Coverage Ratio	The Liquidity Coverage Ratio (LCR) under Liquidity Ratios of Basel III of Midland Bank Limited as of 31 December 2020 was as under:

Particulars	Ratio	
	BB requirement	MDB's position
Liquidity Coverage Ratio (LCR)	≥100%	147.51%

<table>
<tr><td></td><td></td><td>• Net Stable Funding Ratio (NSFR)</td><td>The Net Stable Funding Ratio (NSFR) under Liquidity Ratios of Basel III of Midland Bank Limited as of 31 December 2020 was as under:
<table><tr><td rowspan="2">Particulars</td><td colspan="2">Ratio</td></tr><tr><td>BB requirement</td><td>MDB's position</td></tr><tr><td>Net Stable Funding Ratio (NSFR)</td><td>≥100%</td><td>114.81%</td></tr></table></td></tr>
<tr><td></td><td></td><td>• Stock of High quality liquid assets</td><td>As stipulated by BB vide DOS Circular Letter No. 1 dated 1st January 2015, the Stock of High Quality Liquid Assets (SHQLA) of Midland Bank Limited as of 31 December 2020 was as under:
16,064.87</td></tr>
<tr><td></td><td></td><td>• Total net cash outflows over the next 30 calendar days</td><td>10,890.70</td></tr>
<tr><td></td><td></td><td>• Available amount of stable funding (ASF)</td><td>45,821.04</td></tr>
<tr><td></td><td></td><td>• Required amount of stable funding (RSF)</td><td>39,910.06</td></tr>
</table>

14. Remuneration

<table>
<tr><td rowspan="2">Qualitative disclosure</td><td rowspan="2">a)</td><td rowspan="2">a) Information relating to the bodies that oversee remuneration.</td><td>i) Name of the bodies that oversee remuneration</td><td>At the management level, primarily the Human Resources Division oversees the 'remuneration' in line with its HR management strategy/policy under direct supervision and guidance of Management Committee (MANCOM) of the Bank The Bank has approved pay scale approved by the Board of Directors. Employee type in MDB is Regular & Contractual.</td></tr>
<tr><td>ii) Composition of the main body overseeing remuneration</td><td>The MANCOM is headed and chaired by the Managing Director & CEO of the Bank along with other members of top executive management (Additional Managing Directors) and the Heads of different functional divisions of Head Office. Head of Human Resources Division acts as the Member Secretary of the MANCOM of MDB. There is a pay scale approved by the competent authority</td></tr>
</table>

				where the salaries and increments are fixed designation wise and the same is followed accordingly.
			iii) Mandate of the main body overseeing remuneration	The mandate of the Management Committee (MANCOM) as the main body for overseeing the Bank's remuneration is to review the position of remuneration and associated matters and recommend to the Board of Directors for approval of its restructuring, rearrangement and modification commensurate with the industry best practices as per requirement.
			iv) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.	The Bank has no External Consultant permanently regarding 'remuneration' and its process. However, experts' opinion may have been sought in case to case basis regarding income tax matter, lawyers' opinion for settlement of employees' dues in case of death, penalty etc. if required, by the management.
			v) A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.	The Bank does not differentiate the 'Pay Structure' and 'Employee benefits' by regions. However, variation in remuneration is in practice based on nature of Job/business line/activity primarily bifurcated for the employees who are directly recruited by the Bank and the headcounts/employees explored through outsourcing service providers as per rule.
			vi) A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.	We consider the members of the senior management, branch managers and the employees engaged in different functional divisions at Head Office (except the employees involved in internal control, risk management and compliance) as the material risk takers of MDB

		b) Information relating to the design and structure of remuneration processes.	i) An overview of the key features and objectives of remuneration policy.	Remuneration and other associated matters are guided by the Bank's Service Rule as well as instruction, guidance from the Board from time to time in line with the industry practice with the objectives of retention/hiring of experienced, talented workforce focusing on sustainable growth of the Bank.
			ii) Whether the remuneration committee reviewed the bank's remuneration policy during the past year, and if so, an overview of any changes that was made.	Human Resources Division under guidance of MANCOM, the Board and senior management reviews the issues of remuneration and its associated matters from time to time.
			iii) A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee	The risk and compliance employees are carrying out the activities independently as per specific terms of references, job allocated to them. Regarding remuneration of the risk and compliance employees, Human Resources Division does not make any difference with other mainstream/ regular employees and sets the remuneration as per the prevailing rule of the Bank primarily governed by the employees' service rule of the Bank.
		c) Description of the ways in which current and future risks are taken into account in the remuneration processes.	i) An overview of the key risks that the bank takes into account when implementing remuneration measures.	The business risk including credit/default risk, compliance & reputational risk are mostly considered when implementing the remuneration measures for each employee/group of employee. Financial and liquidity risk are also considered.

			ii) An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure.	Different set of measures are in practice based on the nature & type of business lines/segments etc. These measures are primarily focused on the business target/goals set for each area of operation, branch vis-à-vis the actual results achieved as of the reporting date. The most vital tools & indicators used for measuring the risks are the asset quality (NPL ratio), Net Interest Margin (NIM), provision coverage ratio, credit-deposit ratio, cost-income ratio, growth of net profit, as well the non-financial indicators, namely, the compliance status with the regulatory norms, instructions has been brought to all concerned of the Bank from time to time.
			iii) A discussion of the ways in which these measures affect remuneration.	While evaluating the performance of each employee annually, all the financial and non-financial indicators as per pre-determined set criteria are considered; and accordingly the result of the performance varies from one to another and thus affect the remuneration as well.
			iv) A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.	No material change has been made during the year 2020 that could the affect the remuneration.

		d) Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.	i) An overview of main performance metrics for bank, top-level business lines and individuals.	The Board sets the Key Performance Indicators (KPIs) while approving the business target/budget for each year for the Bank and business lines/segments. The management sets the appropriate tools, techniques and strategic planning (with due concurrence/approval of the Board) towards achieving those targets. The most common KPIs are the achievement of loan, deposit and profit target with the threshold of NPL ratio, cost-income ratio, cost of fund, yield on loans, provision coverage ratio, capital to risk weighted asset ratio (CRAR), ROE, ROA, liquidity position (maintenance of CRR and SLR) etc.
			ii) A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.	The remuneration of each employee is paid based on her/his individual performance evaluated as per set criteria. And, accordingly, the aggregate amount of remuneration of the Bank as a whole is linked/ impacted to the same extent.
			iii) A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining "weak" performance metrics.	The Bank follows remuneration process as per set criteria with no in general adjustment in the event of weak performance metrics/scorecard

		e) Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.	i) A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.	The Bank pays variable remuneration i.e. Annual Increment based on the yearly performance rating on cash basis with the monthly pay. While the value of longer term variable part of remuneration i.e. the amount of provident fund, gratuity fund are made provision on aggregate/individual employee basis; actual payment is made upon retirement, resignation etc. as the case may be, as per rule.
			ii) A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.	Not Applicable
		f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.	i) An overview of the forms of variable remuneration offered (i.e. Cash, shares and share-linked instruments and other forms. A description of the elements corresponding to other forms of variable remuneration (if any) should be provided.	The Bank pays variable remuneration on cash basis (i.e. Direct credit to the employee Bank account and/or Payment Order/Cheque), as the case may be, as per rule/practice.

			ii) A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.	The following variable remuneration has been offered by MDB to its employees: **Annual Increment and Incentive Bonus** Bank provides annual increments and incentive bonus based on performance to the employees with the view of medium to long term strategy and adherence to Midland Bank values.

BDT in Million

			Solo
Quantitative disclosure	b)	Number of meetings held by the main body overseeing remuneration and remuneration paid to its member.	No such meeting as there is no designated remuneration committee. HR Division is assigned to initiate any change proposal on remuneration as per the Human Resource Management Policy of the bank and get necessary approval from BoD.
		Number of employees having received a variable remuneration award.	20
		Number of guaranteed bonuses awarded.	2 festival bonuses
		Total amount of guaranteed bonuses awarded.	36.04
		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.	

<table>
<tr><td></td><td></td><td>Breakdown of amount of remuneration awards for the financial year to show:</td><td><table><tr><td></td><td>BDT in Million</td></tr><tr><td>Fixed</td><td>566.67</td></tr><tr><td>Variable</td><td>1.74</td></tr><tr><td>Deferred</td><td>Nil</td></tr><tr><td>Non-deferred</td><td>Nil</td></tr><tr><td>Different forms used (cash, shares and share linked instruments, other forms).</td><td>Cash</td></tr></table></td></tr>
<tr><td></td><td></td><td>Total amount of outstanding deferred remuneration</td><td>Nil</td></tr>
<tr><td></td><td></td><td>Total amount of retained remuneration exposed to ex post explicit and/or implicit adjustments.</td><td>Nil</td></tr>
<tr><td></td><td></td><td>Total amount of reductions during the financial year due to ex post explicit adjustments.</td><td>Nil</td></tr>
<tr><td></td><td></td><td>Total amount of reductions during the financial year due to ex post implicit adjustments</td><td>Nil</td></tr>
</table>