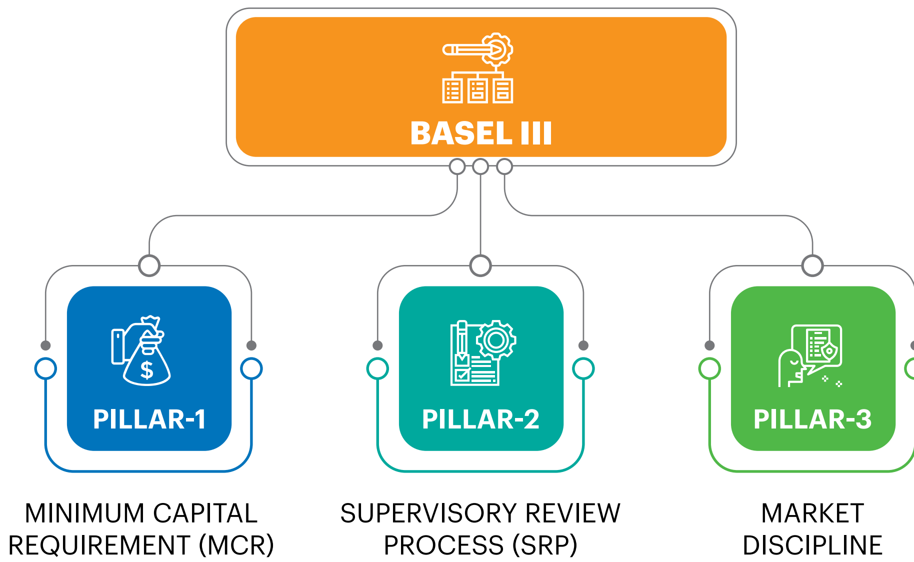
REPORT ON
RISK BASED CAPITAL (BASEL III)

Basel III is a global, voluntary regulatory framework on Bank Capital adequacy, Stress testing and market liquidity risk. It is intended to strengthen bank capital requirements by increasing bank liquidity and decreasing bank leverage. Basel III addresses an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09. The measures aim to strengthen the regulation, supervision and risk management within the banking industry. Mainly, it seeks to improve the banking sector's ability to deal with financial stress, improve risk management, and strengthen the banks' transparency. The Basel III principle stands on the following three pillars-



In line with International standard, Bangladesh Bank vides its BRPD Circular no. 18 dated December 21, 2014 issued 'Guidelines on Risk Based Capital Adequacy' for Banking sector in Bangladesh. Basel III is not merely a reporting system rather it is a risk management technique for the Bank. Consequence the above Mercantile Bank has also put special attention to implement Basel III inside the Bank. In view of the above MBL has formed "Basel Implementation Unit" as per Bangladesh Bank guidelines which is under a supervisory committee includes top management of the Bank. Bank has also formed a Supervisory Review Process (SRP) team to participate the dialogue with the Supervisory Review Evaluation Process (SREP) team of Bangladesh Bank for measuring the adequate capital requirement.

As a part of Basel III compliance, Pillar III: Market Discipline is formulated with a view to establish more transparent and more disciplined financial market so that stakeholders can assess the overall position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. Bangladesh Bank has specified the standard of disclosure framework through guidelines.

Disclosure Framework

In accordance with the Bangladesh Bank directions, Mercantile Bank developed a set of formal disclosure framework approved by the Board of Directors of the Bank which includes the 'Qualitative and Quantitative Disclosures'. The 'Qualitative Disclosures' will provide a general summary of Bank's risk management objectives and policies, reporting system and definitions. And the 'Quantitative Disclosures' are made on the basis of both Solo and Consolidated audited financial statements of Mercantile Bank and its subsidiaries as at and for the year ended 31 December 2020.

Timely and consistent implementation of Basel III is fundamental to a sound and accurately functioning banking system that is able to support economic recovery and growth on a sustainable basis. In line with the Bangladesh Bank guidelines, following detailed qualitative and quantitative disclosures are provided covering Scope of Application, Capital Structure, Capital Adequacy, Credit Risk, Equity Position, Interest Rate Risk, Market Risk, Operational risk, Liquidity Ratio, Leverage Ratio, Remuneration of the Bank etc.

Consistency and validation

Mercantile Bank believes that the information of this disclosure does not conflict with requirements under accounting standards as set by Bangladesh Bank from time to time. Information presented in the 'Quantitative Disclosures' section can easily be verified and validated with corresponding information presented in the consolidated and solo audited financial statements of MBL available on the website of the Bank. The financial statements of the Bank have been prepared in accordance with the Banking Companies Act 1991 (amended in 2018) and International Financial Reporting Standards (IFRS) adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and related circulars/instructions issued by Bangladesh Bank from time to time. Besides, Bank complied with the requirements of rules and regulations from various regulatory authorities including Government bodies, BSEC, DSE and CSE.

Under Minimum Capital Requirement, Bank use following specified approaches/ methodologies for measuring the various risks such as Credit Risk, Market Risk, Operational Risk as per Basel III guidelines (Ref: BRPD circular no.18, dated December 21, 2014)-

Credit Risk
Standardized Approach

Market Risk
Standardized Approach

Operational Risk
Basic Indicator Approach

The disclosure is prepared once a year. It is also made available for the stakeholders as a link titled 'Disclosures on Risk Based Capital (Basel III)' on the home page of the Bank's website (www.mblbd.com).

a) Scope of application

Qualitative Disclosures		
(a)	The name of the corporate entity in the group to which the guidelines applies.	Mercantile Bank Limited (MBL)
(b)	An outline of difference in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).	MBL stated its journey on May 20, 1999 and commenced its business on June 02, 1999 as a public limited company in Bangladesh. It was listed in DSE and CSE on February 16, 2004 and February 26, 2004 respectively. MBL has 150 branches as on December 31, 2020. The Bank has Off-shore Banking, Islamic Banking Windrows operation, Agent Banking, Mobile Banking. The cardinal activities of the Bank are to serve commercial banking services to its customers. The Bank has 3 (Three) subsidiaries namely 'Mercantile Bank Securities Limited', 'Mercantile Exchange House (UK) Limited' and 'MBL Asset Management Limited'. **Mercantile Bank Securities Limited** Mercantile Bank Securities Limited (MBSL) formed on 27 June 2010 and started its commercial operation from 14 September 2011 through obtaining stock dealer and broker license from Bangladesh Securities and Exchange Commission (BSEC). The main operation of the subsidiary is to buy and sell off securities listed with Dhaka and Chittagong stock exchange or approved by BSEC for open market operation for its customer. Margin loan facility is also extended to its customers against their equity.

		Mercantile Exchange House (UK) Limited Mercantile Exchange House (UK) Limited, a fully owned subsidiary company of MBL incorporated as private limited company with companies for England and Wales under registration no. 07456837 dated December 01, 2010. The company commenced its business operation on December 06, 2011. Mercantile Exchange House is committed to provide faster, easier and safer remittance services to the Bangladeshi expatriate living and working in UK. **MBL Asset Management Limited** MBL Asset Management Limited, a subsidiary of Mercantile Bank Limited, started its operation under Bangladesh Securities and Exchange Commission (Mutual Fund) Rules, 2001. The company commenced its business operation on January 30, 2020. The core objectives of the company are to carry on the business of management of mutual fund, asset management, portfolio management, capital market operation, issue manager, financial intermediary services and other related services in Bangladesh and overseas.
(c)	Any restriction, or other major impediments, on transfer of funds or regulatory capital within the group.	Not applicable
Qualitative Disclosures		
(d)	The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.	Not applicable.

b) Capital Structure

Qualitative Disclosures		
(a)	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 and Tier 2.	The regulatory capital under Basel III is composed of; • Tier-1 (going-concern capital) and • Tier-2 (gone-concern capital) Tier-1 capital is composed of; (a) Common Equity Tier-1 (CET-1) and (b) Additional Tier-1 (AT-1) Conditions set by BB for maintaining Regulatory Capital are as below; • Common Equity Tier-1 of at least 4.50% of the total RWA. • Tier-1 capital will be at least 6.00% of the total RWA. • Minimum CRAR of 10% of the total RWA. • Additional Tier-1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET-1, whichever is higher. • Tier-2 Capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET-1, whichever is higher.

		• In addition to minimum CRAR, Capital Conservation Buffer (CCB) is being introduced which maintained in the form of CET-1 from year 2015. • In order to arrive at the eligible regulatory capital for the purpose of calculating CRAR, banks are required to make some regulatory adjustments/ deductions from Tier-1 and Tier-2 Capital.

Quantitative Disclosures BDT in Crore

Particulars		Solo	Consolidated
Tier-1 Capital			
A	**Common Equity Tier-1 Capital (CET-1)**		
	Fully Paid Up Capital	984.02	984.02
	Non-repayable Share Premium account	0.00	0.00
	Statutory Reserve	842.13	842.13
	General Reserve	155.00	155.00
	Retained Earning	148.05	153.01
	Dividend Equalization Account	4.57	4.57
	Minority Interest in Subsidiaries	0.00	9.71
	Others (If any item approved by Bangladesh Bank)	0.00	0.00
	Sub-Total (A)	**2,133.77**	**2,148.44**
	Regulatory Adjustments/Deductions from CET-1	5.32	5.32
	Total Common Equity Tier-1 Capital (CET-1)	**2,128.45**	**2,143.12**
B	**Additional Tier-1 Capital (AT-1)**	**0.00**	**0.00**
Total Tier 1 Capital (A+B)		**2,128.45**	**2,143.12**
Tier-2 Capital			
	General Provision	853.50	853.50
	Subordinated Debt/Instruments	360.00	360.00
	Revaluation Reserves (as on 31 December, 2014)	0.00	0.00
Total Tier-2 capital		1,213.50	1,213.50
Total Eligible Capital (Tier-1+Tier-2)		3,341.95	3,356.62

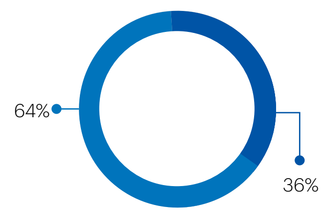
(c) Regulatory Adjustments/Deductions from Capital

Particulars	Solo	Consolidated
Regulatory Adjustments/Deductions from CET-1 Capital		
Shortfall in provisions required against investment in Share (Quoted Share excluding director Equity Shares)	5.32	5.32
Regulatory Adjustments/Deductions from Tier-2 Capital		
50% of Revaluation Reserves for Fixed assets, Securities & Equity (phase-in deductions as per Basel III guideline)	0.00	0.00

(d) Total Eligible Capital

Particulars	Solo	Consolidated
Total Tier-1 Capital (CET-1 Capital + AT-1 Capital)	2,128.45	2,143.12
Total Tier-2 capital	1,213.50	1,213.50
Total Eligible Capital (Tier-1 + Tier-2)	3,341.95	3,356.62

Capital composition (solo basis)



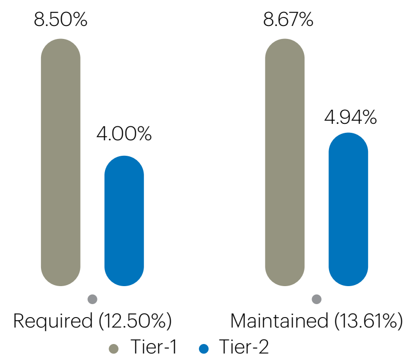
c) Capital Adequacy

Qualitative Disclosures		
(a)	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	MBL has adopted Standardized Approach for computation of Capital Charge for Credit Risk and Market Risk while Basic Indicator Approach for Operational Risk. Total Risk Weighted Assets (RWA) of the Bank is determined by multiplying the capital charge for market risk and operational risk by the reciprocal of the minimum CRAR ratio i.e. 10% as on December 2020 and adding the resulting figures to the sum of risk weighted assets for Credit Risk. Total RWA is then used as denominator while total Eligible Regulatory Capital as on numerator to derive Capital to Risk weighted assets Ratio (CRAR) i.e. $$\textbf{CRAR} = \frac{\textbf{Total Eligible Regulatory Capital x 100}}{\textbf{Credit RWA + Market RWA + Operational RWA}}$$ The Bank's CRAR on the basis of Solo and Consolidated are 13.61% and 13.59% respectively against minimum requirement with CCF of 12.50% as on December 31, 2020. MBL's policy is to manage and maintain its capital at an adequate level to raise its CRAR well above than minimum requirement in line with Basel III. Ultimate goal of the capital management process of MBL is to ensure that the Bank maintains its capital base at a level to absorb all the material risks. The Bank also ensures that the capital levels comply with all regulatory requirements.

Quantitative Disclosures (BDT in Crore)

	Particulars	Solo	Consolidated
(b)	Capital Requirement for Credit Risk	2,130.89	2,142.38
(c)	Capital Requirement for Market Risk	72.18	72.18
(d)	Capital Requirement for Operational Risk	251.79	255.16
(e)	Individual Capital Ratio		
	Capital to Risk Weighted Assets Ratio (CRAR)	13.61%	13.59%
	CET-1 Capital to RWA Ratio	8.67%	8.68%
	Total Tier-1 Capital to RWA Ratio	8.67%	8.68%
	Tier-2 Capital to RWA Ratio	4.94%	4.91%
(f)	Capital Conservation Buffer	2.50%	2.50%
(g)	Available Capital under Pillar 2 Requirement	273.37	269.47

Capital to Risk Weighted Assests Ratio (CRAR)



d) Credit Risk

Qualitative Disclosures		
(a)	**The general qualitative disclosure requirement with respect to credit risk, including:**	
	i) Definition of past due and impaired (for accounting purposes);	As per guideline of Bangladesh Bank, All Loans and Advances are grouped into 4 (four) categories namely- Continuous Loan, Demand Loan, Fixed Term Loan and Short-Term Agricultural Credit & Micro Credit for the purpose of classification. **Continuous Loan (only for CMSE) will be classified as:** **Sub-standard-** if it is past due/overdue for a period of 06 (six) months or beyond but less than 18 (eighteen) months. **Doubtful-** if it is past due/overdue for a period of 18 (eighteen) months or beyond but less than 30 (thirty) months **Bad/Loss-** if it is past due/overdue for a period of 30 (thirty) months or beyond. **Continuous Loan (other than CMSE) will be classified as:** **Sub-standard-** if it is past due/overdue for a period of 03 (three) months or beyond but less than 09 (nine) months. **Doubtful-** if it is past due/overdue for a period of 09 (nine) months or beyond but less than 12 (twelve) months **Bad/Loss-** if it is past due/overdue for a period of 12 (twelve) months or beyond. **Demand Loan (only for CMSE) will be classified as:** **Sub-standard-** if it is past due/overdue for a period of 06 (six) months or beyond but not over 18 (eighteen) months. **Doubtful-** if it is past due/overdue for a period of 18 (eighteen) months or beyond but not over 30 (thirty) months. **Bad/Loss-** if it is past due/overdue for a period of 30 (thirty) months or beyond. **Demand Loan (other than CMSE) will be classified as:** **Sub-standard-** if it is past due/overdue for a period of 03 (three) months or beyond but not over 09 (nine) months. **Doubtful-** if it remains past due/overdue for a period of 09 (nine) months or beyond but not over 12 (twelve) months. **Bad/Loss-** if it remains past due/overdue for a period of 12 (twelve) months or beyond. **Fixed Term Loan (only for CMSE) will be classified as:** **Sub-standard-** If Fixed Term Loan or any installment(s) remain past due / overdue for a period of 6(six) months or beyond but less than 18 (eighteen) months.

		Doubtful- If Fixed Term Loan or any installment(s) remain past due /overdue for a period of 18 (eighteen) months or beyond but less than 30 (thirty) months. **Bad/Loss-** If Fixed Term Loan or any installment(s) remain past due /overdue for a period of 30 (thirty) months or beyond. **Fixed Term Loan (other than CMSE) will be classified as:** **Sub-standard-** If Fixed Term Loan or any installment(s) remain past due / overdue for a period of 3(three) months or beyond but less than 9 (nine) months. **Doubtful-** If Fixed Term Loan or any installment(s) remain past due /overdue for a period of 9 (nine) months or beyond but less than 12 (twelve) months. **Bad/Loss-** If Fixed Term Loan or any installment(s) remain past due /overdue for a period of 12 (twelve) months or beyond. **Short-Term Agricultural Credit & Micro Credit:** **Sub-standard-** If the irregular status continues, after a period of 12 (twelve) months the credit will be classified as Sub-standard. **Doubtful-** If the irregular status continues, after a period of 36 (thirty Six) months the credit will be classified as Doubtful. **Bad/Loss-** If the irregular status continues, after a period of 60 (sixty) months the credit will be classified as Bad/loss. A Continuous Loan, Demand Loan or a Term Loan which will remain past due/ overdue for a period of 02 (two) months or more, will be put into the Special Mention Account (SMA).
	ii) Description of approaches followed for specific and general allowances and statistical methods;	As per Bangladesh Bank's guideline, MBL maintains General and Specific provision in the following way:

Particulars	Rate (%)
General provision on all unclassified loans/SMA of Small and Medium Enterprise (SME)	0.25%
General provision against all unclassified loans/SMA (other than loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock Dealers etc., Special Mention Account as well as SME Financing.)	1%
General provision on the unclassified/SMA amount for Consumer Financing (other than Housing Finance and Loans for professionals to set up business)	2%
General provision on the unclassified/SMA amount for Housing Finance and Loans for professionals to set up business under consumer financing scheme	2%
General provision on the unclassified/SMA amount for Loans to Brokerage House, Merchant Banks, Stock Dealers, etc.	2%
General provision on the Off-Balance sheet exposures	1%
Specific Provision for classified Continuous, Demand and Fixed Term Loans:	
Substandard (for CSME) Substandard (other than CSME)	5% 20%
Doubtful (for CSME) Doubtful (other than CSME)	20% 50%
Bad/Loss (for all kind of loan)	100%
Specific Provision for Short-Term Agricultural and Micro-Credits	
All credits except 'Bad/Loss'	5%
Bad/Loss	100%

	iii) Discussion of the Bank's credit risk management policy	The Bank has adopted numerous strategies to manages its credit risk including: • Creating credit risk awareness culture • Approved credit policy by the Board of Directors • Separate credit risk management division • Formation of law and recovery division • Formation of Recovery Team with Senior Executives • Independent internal audit and direct access to Board/Audi committee • Credit quality and portfolio diversification • Early warning system • Provision and suspension of interest • Scientific lending and credit approval process • Counterparty credit rating • Strong NPL management system
Qualitative Disclosures		
(b)	Total gross credit risk exposures broken down by major types of credit exposure.	**Total Gross Credit Risk exposures broken down by major types of credit exposure as on December, 2020 is as under:**

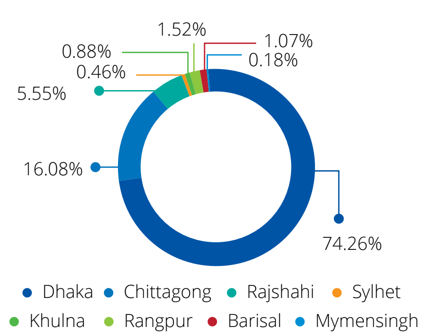
Particulars	BDT in Crore
Term Loan	8,525.42
Time Loan	1,887.96
Packing Credit	227.08
Loan against Trust Receipt (LTR)	678.48
Lease Finance	139.01
EDF Loan	1,715.10
Loan General	17.93
House Building Loan	561.32
Hire Purchase	1,334.60
Payment Against Documents (PAD)	16.45
Cash Credit (Hypo)	1,076.08
Overdraft	2,938.92
Home Loan Scheme Refinance	0.09
Personal Loan	34.06
Consumer Credit Scheme	0.52
Consumer Finance	235.56
Staff Loan	86.46
Credit Card	46.55
Small and Medium Enterprise (SME) Loan	3,233.06
Agricultural Credit	477.25
Working Capital under Stim Package	589.90
Other Credit Scheme	0.28
Quard (Islamic Banking)	0.02
Bill Purchased and Discounted-Inland	265.24
Bill Purchased and Discounted-Foreign	812.12
Total	**24,899.44**

(c) Geographical distribution of exposure, broken down in significant areas by major types of credit exposure

Geographical Distribution of total exposure as on December, 2020 is as under:

Particulars	BDT in Crore
Urban	
Dhaka	18,093.06
Chittagong	3,557.76
Rajshahi	1,267.29
Sylhet	100.19
Khulna	219.45
Rangpur	361.18
Barisal	251.04
Mymensingh	43.58
Sub-Total (A)	**23,893.57**
Rural	
Dhaka	398.11
Chittagong	446.88
Rajshahi	114.21
Sylhet	13.88
Khulna	-
Rangpur	17.29
Barisal	15.50
Mymensingh	-
Sub-Total (B)	**1,005.87**
Grand Total (A+B)	**24,899.44**

Geographical distribution of total exposure



(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure

Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

Particulars	BDT in Crore
Education (School/College, University, Research institute)	33.20
Health	21.19
Agriculture	477.25
Commodities (Sugar/ Edible Oil/ Wheat/ Rice/ Dal/ Peas/ Maize etc), Food & Beverage	1,958.01
Trade Finance	3,530.21
Transport	135.16
Shipping	14.41
Textile (Excluding IDBP)	1,580.72
Textile (IDBP)	83.22

		Readymade Garments (RMG) [excluding IDBP]	4,976.19
		Readymade Garments (RMG) [IDBP]	6.74
		Tele communication	92.39
		IT & Computer/Trade	33.43
		Power & Fuel	725.80
		Real Estate	773.64
		Cement	129.68
		Chemicals	440.59
		Leather & Leather products	470.93
		Plastic & Plastic products	91.94
		Electrical & Electronic goods	372.40
		Paper & Packaging	487.00
		Jute & Jute products	348.46
		Glass & Glass products	0.00
		Ceramics (Table ware, Sanitary ware, Tiles etc.)	118.23
		Iron & Steel	2,193.62
		Engineering & Construction	757.20
		Contractor Finance	483.91
		Capital Market Intermediaries	81.01
		Backward Linkage	418.97
		Consumer & Retail Product	764.37
		NBFI	892.50
		Service (Hotel, Restaurant, Travelling, Tickets, etc.)	165.25
		Others	2,241.82
		Total	**24,899.44**
(e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure	**Residual contractual maturity breakdown of total exposure as on December, 2020 is as under:**	
		Repayable on Demand	**4,492.51**
		Not more than 3 (three) months	3,699.41
		More than 3 (three) Months but not more than 1 (one) year	6,639.92
		More than 1 (one) year but not more than 5 (five) years	5,347.90
		More than 5 (five) years	4,719.71
		Total	**24,899.44**
(f)	**By major industry and counter party type:**		
	i) Amount of impaired loans and if available, past due loans, provided separately	**Impaired Loan under 4 (four) broad categories as on December 31, 2020 is as under:**	
		Particulars	**BDT in Crore**
		Continuous Loan	283.61
		Demand Loan	335.97
		Term Loan	554.95
		Short Term Agro Credit and Micro Credit	0.59
		Total	**1,175.12**
	ii) Specific and general provisions; and	**According to Bangladesh Bank's guideline, Specific and general provisions made as on December 31, 2020 is as under:**	
		Particulars	**BDT in Crore**
		General Provision (including SMA & OBU)	754.64
		Specific Provision (SS, DF, Bad/Loss)	488.26
		Provision for Off-balance Sheet Exposure	98.86

	iii) Charges for specific allowances and charge-offs during the periods	**During the year 2020 following provisions were made on un classified, classified and off-balance sheet exposure as per Bangladesh Bank's guideline:**	
		Particulars	**BDT in Crore**
		Provision against Un Classified Loans	88.85
		Provision against Classified Loans	34.59
		Other Provision (Off Balance Sheet Items)	0.20
(g)	Gross non-performing assets (NPAs):	**Gross non-performing assets as on December 31, 2020 is as under**	
		Particulars	**BDT in Crore**
		Gross non-performing assets (NPAs):	
		Non-performing Assets (NPAs) to Outstanding Loans & Advances	4.72%
		Movement of Non Performing Assets	
		Opening balance	1,150.26
		Increase/(decrease)	24.85
		Closing Balance	1,175.12
		Movement of specific provisions for NPAs	
		Opening balance	451.99
		Recoveries of amount from pre-written off	1.67
		Provisions made during the period	34.59
		Write-off	0.00
		Write-back of excess provisions	0.00
		Closing Balance	488.26

e) Equities: Disclosure for Banking Book Positions

Qualitative Disclosures		
(a)	Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	MBL's total equity share holding comprises of two purposes i.e. capital gain and other strategic reason like equity participation and investment diversification. MBL is the director of IDLC finances Ltd. and sole purpose of such investment is not capital gain, rather maintain relationship as well as diversify its investment portfolio. Investment in equity securities are broadly fall under 2 categories: • **Quoted Securities** • (traded in the secondary market; trading book assets) • **Unquoted Securities** • (not traded in secondary market; banking book assets)
	Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in the practices.	Quoted shares are recorded at cost prices and after every quarter end if the total cost of entire portfolio is higher than the market value, provision is maintained to the extent of differential amount of cost and market value of the portfolio as per terms and condition of regulatory authority. On the other hand, unquoted share is valued at cost price or book value as per latest audited accounts.

Quantitative Disclosures

(BDT in Crore)

	Particulars	Solo	Consolidate
(b)	Value disclosed in the balance sheet of investment, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.		
	• Quoted shares	55.78	55.78
	• Un Quoted shares	106.77	106.77
(c)	The cumulative realized gain (losses) arising from sales and liquidations in the reporting periods.		
	• Realized gain (losses) from equity investments	0.12	0.12
(d)	Total unrealized gains (losses)	102.85	102.85
	Total latent revaluation gains (losses)	0.00	0.00
	Any amount of the above included in tier 2 Capital	0.00	0.00
(e)	Market value of investment in equities as on December 31, 2020	158.62	158.62
	Specific Risk- Capital Requirement is 10% of the said value	15.86	15.86
	Market value of investment in equities as on December 31, 2020	158.62	158.62
	General Risk- Capital Requirement is 10% of the said value	15.86	15.86

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

Qualitative Disclosures

(a)	The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	Interest rate risk in the banking book arises from mismatches between the future yield of an assets and their funding cost. Assets Liability Committee (ALCO) monitors the interest rate movement on a regular basis. MBL measure the Interest Rate Risk by calculating Duration Gap i.e. positive Duration Gap affects bank's profitability adversely with the increment of interest rate and negative Duration Gap increase the bank's profitability with the reduction of interest rate.

Qualitative Disclosures

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

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

Particulars	Minor Shock	Moderate Shock	Major Shock
Magnitude of Shock	1%	2%	3%
Duration Gap (Years)	0.96	0.96	0.96
Total Regulatory Capital (BDT in Cr.)	3,341.95	3,341.95	3,341.95
Risk Weighted Assets (BDT in Cr.)	24,548.64	24,548.64	24,548.64
CRAR	13.61%	13.61%	13.61%
Revised Capital (After Shock)	3,039.09	2,736.24	2,433.38
Revised RWA	23,723.04	23,723.04	23,723.04
Revised CRAR (%)	12.81%	11.53%	10.26%

g) Market Risk

Qualitative Disclosures		
(a)	**Views of BOD on trading/ investment activities**	Market Risk is the possibility of losing assets in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e. interest rate, exchange rate and price. Total capital requirement for MBL against its market risk is the sum of the following i) Interest Rate risk ii) Equity position risk iii) Foreign Exchange risk iv) Commodity risk All the Market Risk related policies/guidelines are duly approved by BOD. The BOD sets limit, review and update the compliance on regular basis aiming to mitigate the Market risk.
	Methods used to measure Market risk	In order to calculate the market risk for trading book purposes the Bank uses Standardized (rule based) Approach where capital charge for interest rate risk, price and foreign exchange risk is determined separately. For instance, MBL's total market risk is calculated as below: i) Capital Charge for interest Rate Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk. ii) Capital Charge for Equity Position Risk = Capital Charge for Specific Risk + Capital Charge for General Market Risk. iii) Capital Charge for Foreign Exchange Risk = Capital Charge for General Market Risk. iv) Capital Charge for Commodity Position Risk = Capital Charge for General Market Risk.
	Market Risk Management system	Treasury Division and International Division manage the Market Risk with the help of Asset Liability Committee (ALCO) and Asset Liability Management (ALM) Desk.
	Policies and Processes for mitigating market risk	Policy for managing Market Risk has been set out by the Board of Directors of the Bank where clear instructions has been given on Loan Deposit Ratio, Whole Sale Borrowing Guidelines, Medium Term Funding, Maximum Cumulative Outflow, Liquidity Contingency Plan, Local Regulatory Compliance, Recommendation / Action Plan etc. Furthermore, special emphasis has been put on the following issues for mitigating market risk: **Interest Rate Risk Management** Treasury Division reviews the risks of changes in income of the Bank as a result of movements in market interest rates. In the normal course of business, the Bank tries to minimize the mismatches between the duration of interest rate sensitive assets and liabilities. Effective Interest Rate Risk Management is done as under: **Market Analysis** Market analysis over interest rate movements are reviewed by the Treasury Division of the Bank. The type and level of mismatch interest rate risk of the Bank is managed and monitored from two perspectives, being an economic value perspective and an earning perspective.

Gap Analysis

ALCO has established guidelines in line with central Bank's policy for the management of assets and liabilities, monitoring and minimizing interest rate risks at an acceptable level. ALCO in its regular monthly meeting analyzes Interest Rate Sensitivity by computing GAP i.e. the difference between Rate Sensitive Assets and Rate Sensitive Liability and take decision of enhancing or reducing the GAP according to prevailing market situation aiming to mitigate interest rate risk.

Foreign Exchange Risk Management

Risk arising from potential change in earnings resulted from exchange rate fluctuations, adverse exchange positioning or change in the market prices are considered as Foreign Exchange Risk. Treasury and International Division manage this risk in the following fashion:

Continuous Supervision

Bank's Treasury Division manages and controls day-to-day trading activities under the supervision of ALCO that ensures continuous monitoring of the level of assumed risks. Treasury Division monitors the foreign exchange price changes and Back Office of the Treasury Division verifies the deals and passes the entries in the books of account.

Treasury Back Office separated from Treasury Front Office

Treasury Back Office is conducting its operation in separate locations apart from the Treasury Front Office. Treasury Back Office is responsible for currency transactions, deal verification, limit monitoring and settlement of transactions independently. Treasury Back Office gathers the market rates from an independent source other than dealers of the same organization, which helps to avoid any conflict of interest.

Mark-to-Market Method for Approved Securities and Foreign Exchange Revaluation

All foreign exchange reserves and balances along with approved securities are revalued at Mark-to-Market method according to Bangladesh Bank's guidelines. Such valuations are made after specific time interval as prescribed by Bangladesh bank.

Nostro Accounts

Nostro accounts are maintained by the Bank with various currencies and countries. These Accounts are operated by the International Division of the Bank. All Nostro accounts are reconciled on monthly basis. The management reviews outstanding entry beyond 30 days for settlement purpose.

Equity Risk Management

Equity Risk is the risk of loss due to adverse change in market price of equities held by the Bank. Equity Risk is managed by the following fashion:

Investment Portfolio Valuation

Mark-to-Market valuations of the share investment portfolio is followed in measuring and identifying risk. Mark-to-Market valuation is done against a predetermined cut loss limit.

Diversified Investment to minimize Equity Risk

MBL minimizes the Equity Risks by Portfolio diversification as per investment policy of the Bank.

Margin Accounts are monitored very closely

Where Margin loan is allowed, security of investment, liquidity of securities, reliability of earnings and risk factors are considered and handled professionally.

Quantitative Disclosures

(BDT in Crore)

		Particulars	Solo	Consolidate
	Capital requirement for:	Interest Rate Risk	3.17	3.17
		Equity Position Risk	31.72	31.72
		Foreign Exchange Risk	37.29	37.29
		Commodity Risk	0.00	0.00
		Total Capital Requirement for Market Risk	**72.19**	**72.19**

h) Operational Risk

Qualitative Disclosures		
(a)	Views of BOD on system to reduce Operational Risk	All the policies/guidelines including Internal Control and Compliances and Board audit are duly approved by BOD. Audit Committee of the Board directly oversees the activities of internal control and compliances aiming to check all types of lapses and irregularities inherent with operational activities of the Bank and thereby may create a notable downfall risk for the Bank. Operational risk includes legal risk, but excludes strategic and reputation risk. Operational Risk includes: Transaction processing Operation control Technology and systems Risks of physical and logical security Unique risk arises due to outsourcing
	Performance gap of executives and staffs	The BOD of the Bank is always keen to provide a competitive, attractive and handsome remuneration package for its employees. Besides, the recruitment policy of the Bank always emphasizes on sorting out fresh graduate from the reputed universities and nurtures them until transformation to a 'Human Capital' of highest quality. Besides, the Bank's name and fame as top tier Bank of the country acts as moral boosting factor for the employees. An accommodating, welcoming, co-operative and congenial work atmosphere motivates its employees to act as a family towards achievement of goal. As such, there exists no performance gap in the Bank.
	Potential external events	No potential external events have been detected yet at the time of reporting of the capital accord
	Policies and processes for mitigating operational risk	Operational Risks results from inadequate or failed internal process, people and systems or from external events. Within the Bank, Operational Risk may arise from negligence and dishonesty of the employees, lack of management supervision, inadequate operational control, lack of physical security, poor technology, lack of automation, non- compliance of regulatory requirements, internal and external fraud etc. Operational Risk Management Framework has been designed to provide a sound and well-controlled operational environment and thereby mitigate the degree of operational risk.
	Approach for calculating capital charge for operational risk	Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. The Bank use Basic Indicator Approach for calculating capital charge against operational risk i.e. 15% of average positive annual gross income of the Bank over the last three years.

Quantitative Disclosures

(BDT in Crore)

	Particulars	Solo	Consolidate
(b)	**Capital requirements for Operational Risk**	**251.79**	**255.16**

i) Liquidity Ratio

Qualitative Disclosures		
	Views of BOD on system to reduce Liquidity Risk	Board of Directors of the Bank always has been giving utmost importance to minimize the liquidity risk of the bank. In order to reduce liquidity risk strict maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) are also being emphasized on a regular basis. Apart from these as a part of Basel-III requirement Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are also maintained under the guidance and sharp insight of our honorable Board of Directors.
	Methods used to measure Liquidity Risk	In order to measure liquidity risk various methods are being used which are as follows: • GAP analysis is being done regularly that deals with the mismatch of assets and liabilities in different time buckets like 0-30 days, 31-90 days, 91-180 days, 181-270 days, 271-365 days and beyond 1 year. In our monthly ALCO paper we show this GAP analysis based on which different strategic decisions are taken in order to reduce liquidity risk that may arise due to the mismatch between assets and liabilities. • Cash flow forecasting is another technique to measure liquidity risk that may arise due to future cash flow mismatch. In our monthly ALCO paper we show this cash flow forecasting.
	Liquidity Risk Management System	As a part of liquidity risk management system we have board approved liquidity contingency plan. In this liquidity contingency plan we have incorporated all the strategic decision to tackle any sort of liquidity crisis. As per the Bangladesh Bank ALM guideline this liquidity contingency plan is reviewed annually which is approved by the Board of Directors.
	Policies and processes for mitigating Liquidity Risk	We have board approved policies for mitigating liquidity risk. This policy is reviewed annually and placed before the Board of Directors for their kind approval.

Quantitative Disclosures

(BDT in Crore)

	Liquidity Coverage Ratio (LCR)	141.93%
	Net Stable Funding Ratio (NSFR)	106.66%
	Stock of High quality liquid assets	5,917.01
	Total net cash outflows over the next 30 calendar days	4,168.96
	Available amount of stable funding	26,000.08
	Required amount of stable funding	24,377.45

j) Leverage Ratio

Qualitative Disclosures		
(a)	Views of BOD on system to reduce excessive leverage	Leverage is an inherent and essential part of modern banking business. In other words, banks are highly leveraged organizations which facilitate leverage for others. Leverage, in simple terms, it is the extent to which a bank funds its assets with borrowings rather than capital. More debt relative to capital means a higher level of leverage. Banks have a range of financial incentives to operate with high leverage. But it creates risk when it crosses a certain point. Therefore, the board views that sound prudential controls are needed to ensure that the organization maintains a balance between its debt and equity. The board also believes that the bank should maintain its leverage ratio on and above the regulatory requirements which will eventually increase the public confidence on the organization.

Policies and processes for mitigating excessive on and off balance sheet leverage	The leverage ratio is a non risk based approach to the measurement of leverage. The ratio acts as a 'backstop' against the risk-based capital requirements and is also designed to constrain excess leverage. The leverage ratio is intended to achieve the following objectives: a) Constrain the build-up of leverage in the bank b) Reinforce the risk based requirements with an easy to understand and a non-risk based measure. Under Basel III, the Bank has to maintain a minimum Tier 1 Leverage ratio of 3% is being prescribed both at solo and consolidated level. To manage excessive leverage, the bank follows all regulatory requirements for capital, liquidity, commitment, Advance Deposit Ratio (ADR), Maximum Cumulative Outflow (MCO), large exposures as well as risk management which are eventually reinforcing standards set by Bangladesh Bank. The aim is to ensure that the high leverage inherent in banking business models is carefully and prudently managed.
Approach for Calculating exposure	Leverage ratio refers to the ratio between Bank's Tier 1 capital (as numerator) and total exposure (as denominator). Total exposure includes both balance sheet exposures and off-balance sheet exposures after related deductions. **Leverage Ratio =** $\dfrac{\textbf{Tier-1 Capital (after related deductions)}}{\textbf{Total Exposure (after related deductions)}}$ The capital measure for the leverage ratio is based on the Tier 1 capital after related deductions. The exposure measure for the leverage ratio follows the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the followings are applied by the bank: • On balance sheet, non-derivative exposures will be net of specific provisions and valuation adjustments. • Physical or financial collateral, guarantee or credit risk mitigation purchased is not considered to reduce on-balance sheet exposure. • Netting of loans and deposits is not considered. • Off-balance sheet (OBS) items are calculated by applying a uniform 100% credit conversion factor (CCF). For any commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is applied.

Quantitative Disclosures

(BDT in Crore)

Particulars	Solo	Consolidated
Leverage Ratio	5.62%	5.64%
On balance sheet exposure	32,590.30	32,782.66
Off balance sheet exposure	5,254.48	5,254.48
Total exposure (After deduction from On and Off balance sheet exposure)	37,839.46	38,031.81

k) Remuneration

Qualitative Disclosures		
(a)	Information relating to the bodies that oversee remuneration.	Human Resources Division (HRD), Head Office of the Bank oversees the remuneration and the Division is directly supervising by the Managing Director of the Bank. The Board of Director/Executive Committee of the Bank approves remuneration policy from time to time. The Human Resources Division comprises of 9 officials (3-executives and 6 officers) including Divisional Head. The Bank does not take any external consultants in preparing remuneration policy. The remuneration policy applied to all employees of the Bank and ensures equal pay scale in a same grade of the employees. Remuneration Committee of the Bank also oversees its three subsidiaries i.e. Mercantile Bank Securities Limited (MBSL), MBL Exchange House (UK) Limited and MBL Asset Management Limited. Following senior management or employees of the Bank are considered as material risk takers, such as;

Designation No of Employee	No. of Employee
Managing Director & CEO	1
Additional Managing Director	1
Deputy Managing Director	5
Senior Executive Vice President	6
Executive Vice President	9
Senior Vice President	22

Besides all head of business units (Branches/Divisions) are also considered as material risk takers.

(b)	Information relating to the design and structure of remuneration processes.	Mercantile Bank has a flexible compensation & benefits system that helps ensure pay equity, is linked with performance of the employees. All employees of our Bank are paid competitive remuneration package. The structure and level of remuneration are reviewed time to time based on performance of the Bank and inflationing effects of the living standard. The pay scale for employees is approved by the Board of directors of the Bank. Following features have in pay scale: • Basic Pay • House Rent • Medical Allowance • Conveyance Allowance • House Maintenance • Utility • Leave Fare Assistance • Contribution to PF • Overtime for Drivers Besides the pay scale, employees of the Bank are entitled to get various financial benefits while on job as well as at the time of their retirement. During the past year, the Bank review its remuneration policy and following changes were made- • Salary and other benefits have been enhanced. • Car Allowances for Executives of the Bank have been enhanced. • Charge allowances for HoB have been enhanced. • Charge allowances for MOP of the Branches have been introduced newly.

(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes.	The following key risks have been taken into account when implementing remuneration measures- • Economic condition of the Country • Performance of the Bank • Market Survey with peer Banks • Employee turnover • Employee Retention
(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.	Now Banking industries become very competitive. In the Banking sector performance plays a vital role on determining someone's remuneration. Performance appraisal is closely linked to other HR processes like helps to identify the training and development needs, promotions, incentives, etc. The focus of the performance assessment is measuring and improving the actual performance of the employee and also the future potential of the employee. Its aim is to measure what an employee does. The Bank has one set of Performance Appraisal Form (PAF) to evaluate the all categories officials of the Bank. The PAF has 3 (three) parts; **Part-A:** Basic information & Business development performance **Part-B:** Measurable Performance Rating **Part-C:** Comments of the Reporting Officer, Comments of the Supervisor of the Reporting Officer and Score sheet Shortly, Bank is going to introduce Key Performance Indicator (KPI) for measurement the performance of all employees, Branches and Divisions. On the basis of grade of an individual of the Performance Appraisal Report, the Bank takes decision in allowing yearly benefits. At present the Bank does not consider such type of adjustment.
(e)	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.	Mercantile Bank Limited has a flexible compensation and benefits system that ensures equally pay. All employees of our Bank are paid competitive remuneration package. The structure and level of remuneration are reviewed time to time based on the economic condition of the country and performance of the Bank. Financial benefits as per Board approved Human Resource Policy are as under, which ensure long term profitability of employees over short terms profitability. Following measures have been taken since the inception of the Bank for long term performance of the employees of the Bank. **1. Provident Fund.** A Provident Fund namely "Mercantile Bank Employees Provident Fund" has created to provide long term benefit to the employees of the Bank. Mercantile Bank Limited contributes to the provident fund monthly a sum equal to the subscription of each member. The amount standing to the credit of a member shall payable to him/her in full including Bank contribution and interest accumulated thereon, as per specification laid down in the "MBL Employees Provident Fund". **2. Gratuity Fund.** As a part of motivating the employees of the Bank, we have the rules for Gratuity namely "Mercantile Bank Limited Employees Gratuity Fund". As per rules; Gratuity is admissible to all full time employees of the Bank as per specification for the basis for benefit. **3. Welfare Fund.** There is an welfare fund in our Bank namely "Mercantile Bank Limited Employees Welfare Fund". All the members of the fund is entitled to get benefit according to rules laid down in the welfare fund.

		Besides that, the benefit from the scheme will also provide to the spouses of the employees. The fund subscribed by monthly contribution of the member employees and Bank also contribute to the fund from time to time. Employee welfare fund has formulated to substitute group insurance coverage of the employees. So the Bank contributes to the fund from time to time to substitute group insurance coverage of the employees. Our employees get the following benefits from welfare fund: 1. Death benefit, 2. Retirement benefit, 3. Disability benefit, 4. Medical bill reimbursement facilities and 5. Stipend to the children of our employees who have meritorious result in their academic attainment. 6. Maternity bill reimbursement for our female employees. Beside that our female employees also get maternity leave for 06 (Six) months and all the employees can also avail study leave for maximum 03 years for higher studies.
(f)	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.	MBL's compensation and benefits strategy has been devised to foster high performance culture keeping market competitiveness in mind. Our management strategy is a multi-pronged one; that includes compelling employee value proposition with a competitive reward package. Our total rewards strategy has evolved with our business transformation and basic pay is benchmarked against the market to ensure competitiveness. The Bank offers satisfactory financial and nonfinancial benefits for the employees of the Bank to ensure a better life style. Such as- • Attractive compensation package • Annual Increment • Fair Promotion • Festival and Incentive Bonus • TA, DA Policy • Rewards • Gratuity Benefit • Provident Fund Benefit • Disability Benefit • Leave Fare Assistance • Car Loan & Car Allowance for executives • Employee House Building Loan Scheme • Telephone policy for employees • Welfare fund for employees • Retirement Benefits • Career growth opportunities • Training and workshop (home and abroad) • Favorable work environment • Health care facilities • Loan facilities at a privileged rate etc.

<table>
<tr><th colspan="3">Quantitative Disclosures</th></tr>
<tr><td>(g)</td><td>Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.</td><td>Meeting regarding overseeing the remuneration was held on need basis.</td></tr>
<tr><td>(h)</td><td>Number of employees having received a variable remuneration award during the financial year.</td><td>117 employees having received variable remuneration award during the financial year.</td></tr>
<tr><td></td><td>Number and total amount of guaranteed bonuses awarded during the financial year.</td><td>There are 3 incentive bonuses and 2 festival bonuses are awarded during the financial year.</td></tr>
<tr><td></td><td>Number and total amount of sign-on awards made during the financial year.</td><td>Nil</td></tr>
<tr><td></td><td>Number and total amount of severance payments made during the financial year.</td><td>Nil</td></tr>
<tr><td>(i)</td><td>Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.</td><td>Nil</td></tr>
<tr><td></td><td>Total amount of deferred remuneration paid out in the financial year.</td><td>Nil</td></tr>
<tr><td>(j)</td><td>Breakdown of amount of remuneration awards for the financial year to show:
fixed and variable.
deferred and non-deferred.
different forms used (cash, shares and share linked instruments, other forms).</td><td>Breakdown of amount of remuneration awards for the financial year 2020;
(BDT in Crore)<table><tr><td>Basic salary</td><td>146.21</td></tr><tr><td>Allowances</td><td>74.63</td></tr><tr><td>Bonus</td><td>69.55</td></tr><tr><td>Provision for Gratuity</td><td>24.00</td></tr><tr><td>Provident fund contribution</td><td>14.00</td></tr><tr><td>Total</td><td>328.39</td></tr></table>Nil
Bank Account Transfer</td></tr>
<tr><td>(k)</td><td colspan="2">Quantitative information about employees’ exposure to implicit (eg fluctuations in the value of shares or performance units) and explicit adjustments (eg claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:</td></tr>
<tr><td></td><td>Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.</td><td>Nil</td></tr>
<tr><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>Total amount of reductions during the financial year due to ex post implicit adjustments.</td><td>Nil</td></tr>
</table>