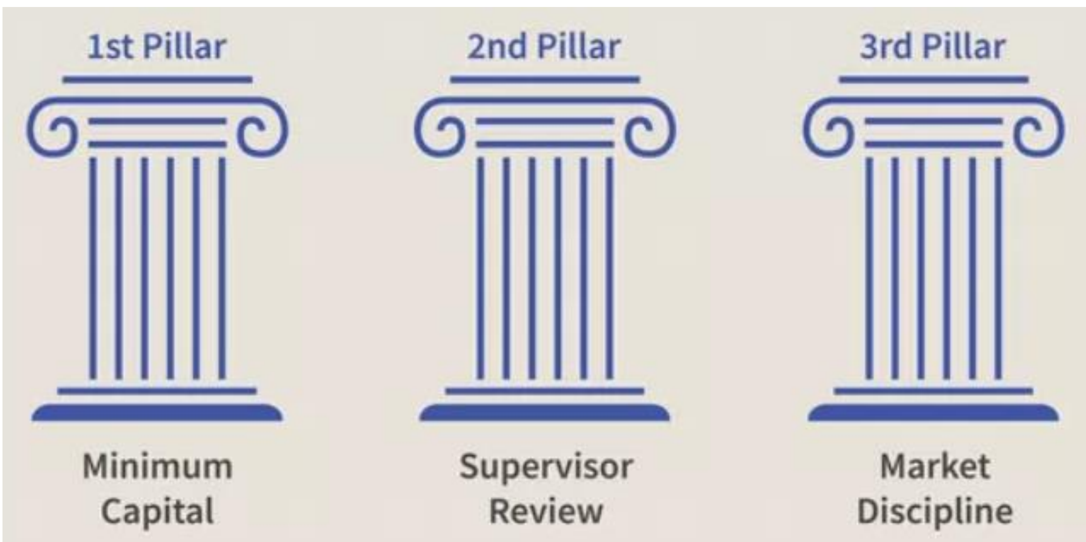
Disclosure on Risk Based Capital Adequacy

Under Pillar 3 of Basel III

<u>For the Year Ended on 31st December, 2022</u>



মিউচুয়াল ট্রাস্ট ব্যাংক লিমিটেড ™

Mutual Trust Bank Ltd.

you can bank on us

Purpose and Basis of the Market Disclosure

The Pillar 3 Disclosures comprise detailed information on the underlying drivers of risk-weighted assets (RWA), capital, leverage, liquidity ratios, and other key business parameters as on 31 December, 2022 in accordance with the Risk Based Capital Adequacy Guidelines under Basel III. The global financial turmoil in 2007-2008 manifested the effect of insufficient risk governance in the financial institutions. Financial systems across the world had to wrestle with the trickle-down impact of that financial crisis. However, the significant lesson learned from that crisis is without prudential governance standards, the financial sector's resiliency in the event of adverse market dynamism would be marred. Basel III reforms are the Basel Committee on Banking Supervision (BCBS) responses to revitalize the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spillover from the financial sector to the real economy. Basel III regime in Bangladesh entered into force from January 1, 2015, with a "Revised Guidelines on Risk-Based Capital Adequacy (RBCA)" promulgated by Bangladesh Bank vide BRPD Circular No.18 dated December 21, 2014. The key segments of Basel III standards are centered on three pillars:

Pillar 1 (Minimum Capital Requirement): Sets the minimum capital requirements for credit risk, market risk and operational risk.

Pillar 2 (Supervisory Review Process): Considers through the Supervisory Review and Evaluation Process whether further capital is required in addition to Pillar 1 calculations.

Pillar 3 (Market Disclosure): Aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk management. Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of the bank's risk profile.

The purpose of Market Discipline is to complement the minimum capital requirements and the supervisory review process. The aim of introducing it in the revised framework is to establish a more transparent and more disciplined financial market so that stakeholders can assess a bank's position regarding holding of assets and identify the risks relating to the assets and capital adequacy to meet probable loss of assets. With reference to the framework of BCBS on Pillar 3, the key principles of the disclosure are as follows:

- **Clarity:** Disclosures must be presented in a form that will be readily understood by key stakeholders, communicated through an accessible medium and easy to find.
- **Comprehensiveness:** Disclosures should describe a bank's main activities, all significant risks and changes in risk exposures between reporting periods, and management responses, while also providing sufficient qualitative and quantitative information on the bank's processes and procedures for identifying, measuring and managing risks.
- **Meaningfulness/usefulness**: Disclosure must highlight both significant current risks and emerging risks and how these are managed. References and/or linkages to balance sheet or income statement items that allow for reconciliations must also be disclosed.

- **Consistency over time**: This allows stakeholders to identify and understand trends and changes. Disclosures allow users to understand the bank's business, its risk profile and its management practices. Any significant change in disclosures must be highlighted and explained.

- **Comparability**: Comparable disclosures are critical for allowing stakeholders to assess the relative performance of banks and business activities and to compare prudential metrics, risks and risk management across banks and jurisdictions.

The information provided in the Market Disclosure is consistent with the relevant accounting standards set by Bangladesh Bank from time to time. It has been prepared based on the bank's audited financial statements and is available on the bank's website (www.mutualtrustbank.com).

1. Scope of the Application
1a. Qualitative Disclosure

a) The name of the top corporate entity in the group to which this guidelines applies.	**Mutual Trust Bank Limited** commenced its operation on 24 October, 1999. The bank is also listed with Dhaka Stock Exchange Ltd. and Chittagong Stock Exchange Ltd. It has 119 Branches, including 14 SME/Agri Branches across Bangladesh. Moreover, the bank has 198 Agent Banking Centre, 33 Sub-branches and 6 Air Lounges all over the country.
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: **(i) that are fully consolidated,** **(ii) that are given a deduction treatment; and** **(iii) that are neither consolidated nor deducted**	<u>**MTB SUBSIDIARIES**</u> The bank has three subsidiaries situated within and outside of the country. A brief description of MTB's subsidiaries is given below: **MTB Securities Ltd**: MTB Securities Limited was incorporated in Bangladesh as a private limited company on 01 March 2010 and converted into public limited company in the year 2015 under the Companies Act, 1994. The company has started its commercial operation on 23 September 2010 after getting approval from the Bangladesh Securities and Exchange Commission (BSEC) as a separate entity. As a fully owned subsidiary of Mutual Trust Bank Ltd, MTBSL is engaged in buying and selling of securities for its customers. **MTB Capital Ltd:** MTB Capital Limited (MTBCL) is a wholly owned subsidiary of Mutual Trust Bank Limited and a full-fledged merchant bank, licensed by the Bangladesh Securities and Exchange Commission (BSEC) in December 2010. MTBCL was incorporated to explore new markets and meet the demand for merchant banking services. The company strives to extend cooperation and value added services to its respected clients. **MTB Exchange (UK) Ltd:** Bangladesh Bank has accorded approval to the bank for opening a fully owned subsidiary company in the name of MTB Exchange (UK) Limited in August 2010. The Company was incorporated on 14 June 2010 under the Companies Acts 2006 of UK as a private company limited by shares. The registered office is located at 25 White Chapel Road, London. The main activities of the exchange house are to carry on the remittance business and to undertake and participate in transactions, activities and

	operations commonly carried on or undertaken by remittance and exchange houses.
c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group	**Not Applicable**
1b. Quantitative Disclosure	
a) 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**
2. Capital Structure **2a. 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.	MTB's regulatory capital requirement and eligible instruments for capital components are measured pursuant to the Bangladesh Bank's guidelines on Risk-Based Capital Adequacy (Revised Regulatory Capital Framework for Banks in line with Basel III). The Basel III framework emphasized raising the quality and level of capital to ensure banks can absorb losses on both the going concern and the gone concern basis. The framework also entails enhanced risk coverage of the capital framework. MTB's regulatory capital consists of the following two components: ⊡ **Tier 1 Capital**: Tier 1 Capital, also known as going concern capital, is the core capital component, which forms the basis of the bank's financial strength. It is the fundamental part of the capital base that fend off the bank from unforeseen losses arising from acute financial and economic fallout, enabling the bank to perform seamlessly by enhancing loss-absorbing capacity. In accordance with the Basel III guideline, Tier 1 capital consists of common equity tier 1 (CET1) and additional tier 1 (AT1). a) **Common Equity Tier 1:** Common Equity Tier 1 (CET1) capital shall consist of sum of the following items:

- Paid up capital
- Non-repayable share premium account
- Statutory reserve
- General reserve
- Retained earnings
- Dividend equalization reserve
- Minority interest in subsidiaries

b) **Additional Tier 1**

- **Tier 2 Capital:** Tier 2 capital, also called gone concern capital, represents other elements that fall short of some of the core capital characteristics but contribute to the overall strength of a bank. Tier 2 capital is referred to as supplementary capital, which is less reliable than Tier 1 capital. It has less loss absorption capacity, meaning it will absorb losses only in a situation of liquidation of the bank. Following are the components of Tier 2 capital as per Basel III guideline:

- General Provisions
- Subordinated debt / Instruments issued by the banks that meet the qualifying criteria
- Minority Interest i.e. Tier 2 issued by consolidated subsidiaries to third parties

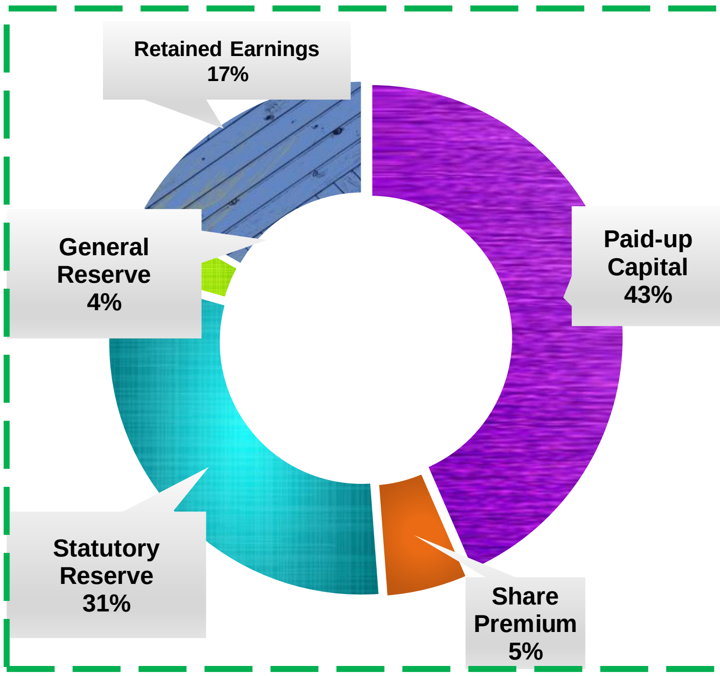
2b. Quantitative Disclosure

Particulars	Solo	Consolidated
Common Equity Tier 1 (CET1) Capital:		
Paid-up Capital	8,937,452,240	8,937,452,240
Share Premium	1,095,304,778	1,095,304,778
Statutory Reserve	6,281,308,408	6,281,308,408
General Reserve	786,777,324	786,777,324
Retained Earnings	3,456,442,965	3,825,461,139
Dividend Equalization Reserve	-	-
Minority Interest in Subsidiaries	-	132,370
Subtotal	**20,557,285,715**	**20,926,436,259**
Regulatory Adjustments/Deductions		
Goodwill and Other Intangible Assets	445,795,666	445,795,666
Investments in own CET-I Instruments/Shares	-	-
Deferred Tax Assets	2,433,749,434	2,433,749,434
Reciprocal Crossholdings in the CET-1 Capital of Banking, Financial and Insurance Entities	-	-
Subtotal	**2,879,545,100**	**2,879,545,100**
Total Common Equity Tier 1 (CET1) Capital	**17,677,740,615**	**18,046,891,158**
Additional Tier 1 (AT1) Capital		
Non-cumulative irredeemable preference shares	-	-
Instruments issued by the banks that meet the qualifying criteria for AT1	4,000,000,000	4,000,000,000
Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties	-	-
Head Office borrowings in foreign currency by foreign banks operating in Bangladesh for inclusion in Additional Tier 1 capital which comply with the regulatory requirements as specified in Annex-4 of Basel III Guidelines	-	-
Any other item specifically allowed by BB from time to time for inclusion in Additional Tier 1 Capital	-	-
Others (if any item approved by Bangladesh Bank)	-	-
Subtotal	**4,000,000,000**	**4,000,000,000**
Regulatory Adjustments/Deductions		
Investment in own AT-1 Instrument/Share	-	-
Reciprocal crossholdings in the AT-1 Capital of Banking, Financial and Insurance Entities	-	-
Others if any	-	-
Subtotal	-	-

Total Admissible Additional Tier 1 (AT1) Capital	**4,000,000,000**	**4,000,000,000**
Total Tier 1 Capital	**21,677,740,615**	**22,046,891,158**
Tier 2 Capital		
General Provision	5,725,300,392	5,725,300,392
Subordinated Debt (permissible amount)	5,014,294,726	5,254,075,689
Regulatory Adjustment/Deduction	-	-
Total Admissible Tier 2 Capital	**10,739,595,118**	**10,979,376,081**
Total Eligible Capital	**32,417,335,733**	**33,026,267,240**

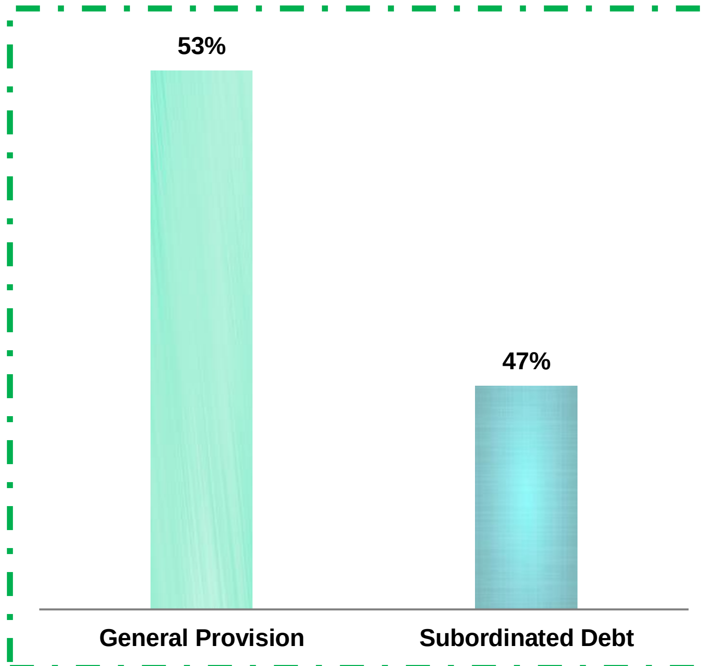
Components of Tier-1 Capital:

Solo Basis

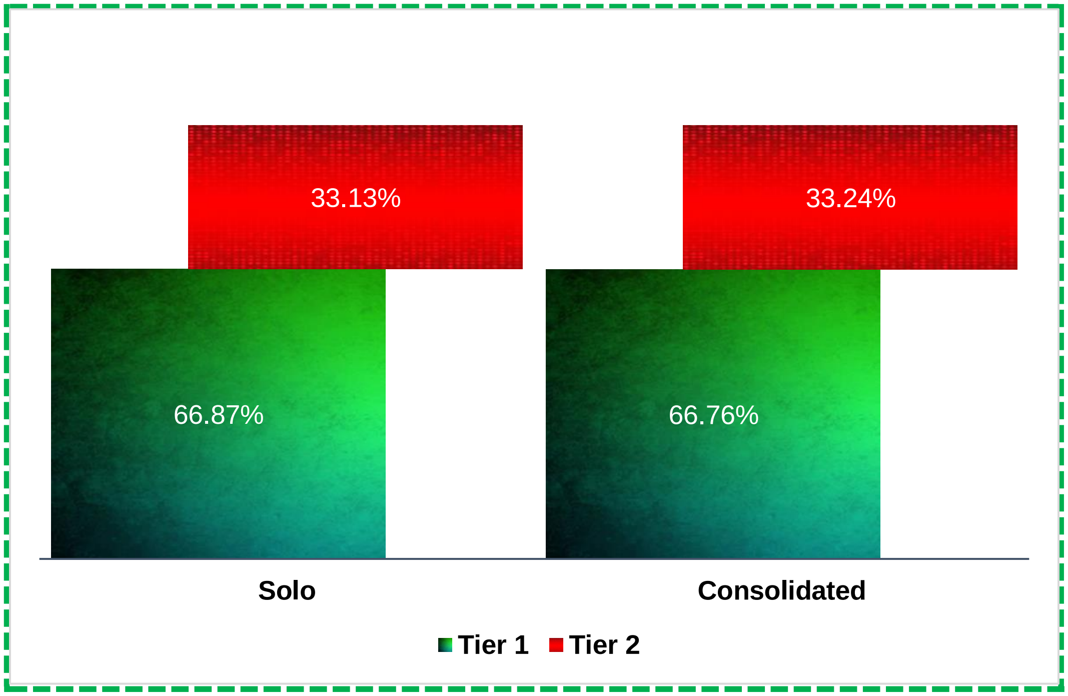


Components of Tier-2 Capital

Solo Basis



Composition of Total Capital



3. Capital Adequacy
3a. Qualitative Disclosure

a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities	**Capital Calculation Approach** MTB adheres to the RBCA guidelines of Bangladesh Bank while gauging its capital adequacy requirement. The bank adopted standardized approach for credit & market risk exposures, and basic indicator approach for operational risk exposure. We emphasize the following principles while assessing our capital base: • A strong Capital to Risk Weighted Asset Ratio (CRAR); • Maintaining capital at a reasonable level to absorb all material risks; **Capital Management** Capital adequacy calculation gives the bank an indicative resolution for the capital requirement; capital management, on the other hand, plays a vital role in maintaining the overall capital at an adequate level. MTB's capital management is underscored by a sound capital assessment process, followed by a risk-based long-term capital planning approach. Some of the mentionable initiatives to ensure adequate capital of the bank are as follows:

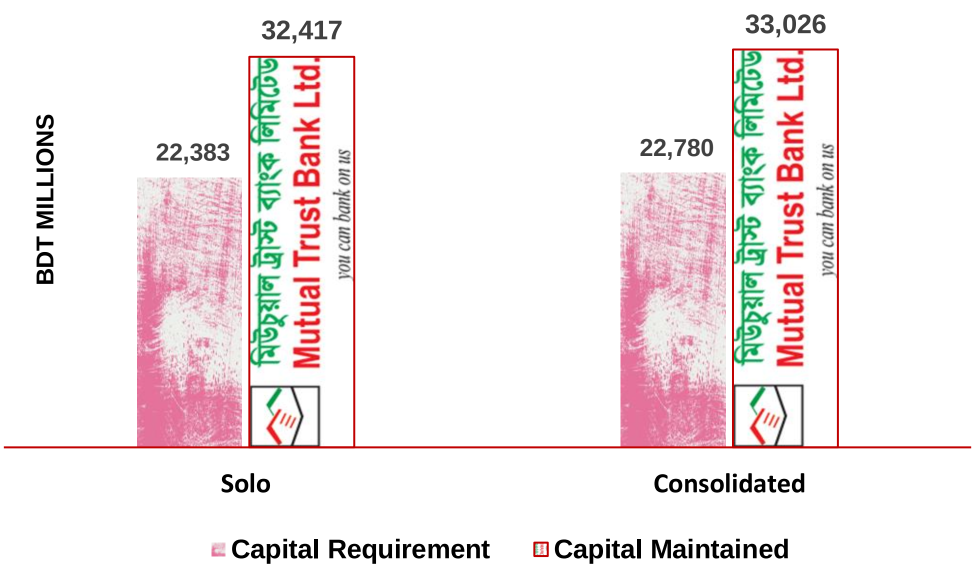
- Encouraging borrowers to complete external credit rating to assess counterparty credit risk status, and minimizing regulatory capital requirements;
- Improving and enhancing collateral coverage through efforts to obtain eligible collateral;
- Stressing internal capital accretion. However, if needed, issuing qualified debt instruments to meet capital requirement;
- Growth projection in line with RWA composition and capital planning trajectory;
- Assessing risk profile of new clients and onboarding clients with satisfactory external credit rating.

MTB's Risk Management Division (RMD) monitors CRAR status regularly and reports to the Senior Management and the Board periodically.

3b. Quantitative Disclosure

Capital Adequacy	Solo	Consolidated
Capital Requirement for Credit Risk	19,103,226,175	19,041,550,607
Capital Requirement for Market Risk	1,304,366,847	1,678,083,134
Capital Requirement for Operational Risk	1,975,291,893	2,060,843,555
Total Minimum Capital Requirement	**22,382,884,915**	**22,780,477,295**
Total Eligible Capital	**32,417,335,733**	**33,026,267,240**
Capital Surplus	**10,034,450,818**	**10,245,789,945**
Capital to Risk Weighted Asset Ratio (CRAR) (%)	**14.48%**	**14.50%**
Common Equity Tier-1 Capital Ratio (%)	7.90%	7.92%
Total Tier 1 Capital Ratio (%)	9.68%	9.68%
Tier 2 Capital Ratio (%)	4.80%	4.82%
Required Capital Conservation Buffer (%)	2.50%	2.50%
Maintained Capital Conservation Buffer (%)	3.68%	3.68%

Status of Capital Adequacy



4. Credit Risk
4a. Qualitative Disclosure

a) The general qualitative disclosure requirement with respect to credit risk:

i. Definitions of past due and impaired (for accounting purposes)

To define past due for loan classification and provisioning purposes, the bank diligently follows guidelines and circulars promulgated by Bangladesh Bank from time to time. Since the onset of the pandemic, Bangladesh Bank brought forth several guidelines on loan classification and provision requirements, considering the COVID-19 impact. MTB abided by the instructions laid down by Bangladesh Bank while determining past due for loan classification purposes. However, considering the BRPD Circular No.14 dated September 23, 2012, and its subsequent amendments, loans and advances are categorized under the following four categories for the purpose of classification:

- Continuous Loan
- Demand Loan
- Fixed Term Loan
- Short-term Agricultural and Micro Credit

Loan classification methodology of the aforesaid categories are as follows:

Continuous Loan & Demand Loan: Criteria of Classification (In Months)						
Category		STD	SMA	SS	DF	BL
SMEF	Cottage, Micro & Small	Overdue < 2	2 ≥ Overdue < 6	6 ≥ Overdue < 18	18 ≥ Overdue < 30	30 ≥ Overdue
	Medium Enterprise	Overdue < 2	2 ≥ Overdue < 3	3 ≥ Overdue < 9	9 ≥ Overdue < 12	12 ≥ Overdue
CF, BHs & Other		Overdue < 2	2 ≥ Overdue < 3	3 ≥ Overdue < 9	9 ≥ Overdue < 12	12 ≥ Overdue
Fixed Term Loan: Criteria of Classification (In Months)						
Category		STD	SMA	SS	DF	BL
SMEF	Cottage, Micro & Small	Overdue < 8	8 ≥ Overdue < 12	12 ≥ Overdue < 24	24 ≥ Overdue < 36	36 ≥ Overdue
	Medium Enterprise	Overdue < 8	8 ≥ Overdue < 9	9 ≥ Overdue < 15	15 ≥ Overdue < 18	18 ≥ Overdue
CF, LP, HF, BHs & Other		Overdue < 8	8 ≥ Overdue < 9	9 ≥ Overdue < 15	15 ≥ Overdue < 18	18 ≥ Overdue
Short Term Agricultural and Micro Credit: Criteria of Classification (In Months)						
Category		STD	SMA	SS	DF	BL
Short Term Agricultural and Micro Credit		Period of up to 12 months	NA	After a period of 12 months or beyond but period of up to 36 months	After a period of 36 months or beyond but period of up to 60 months	After a period of 60 months or beyond

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

Pursuant to Bangladesh Bank guidelines, banks need to set aside funds as general provision and specific provision subsequently for unclassified and classified loans. Those provisions against loans and advances are made to navigate the impending crisis stemming from the bad loans. MTB adheres to Bangladesh Bank guidelines while determining provision requirements for loans and advances. The provision rates prescribed by Bangladesh Bank are as follows:

RATE OF PROVISION										
Particulars		**Short Term Agri. Credit & Microcredit**	**Consumer Financing**				**Small & Medium Enterprise Financing**		**Loans to BHs/ MBs/ SDs**	**All other credit**
			Other than HF & LP	**HF**	**LP**	**Only Card**	**Cottage, Micro and Small Credits under CMSME**	**Medium Enterprise Financing**		
UC	Standard	1%	2%	1%	2%	2%	0.25%	0.25%	2%	1%
	SMA	0%	2%	1%	2%	2%	0.25%	0.25%	2%	1%
Classified	SS	5%	20%	20%	20%	20%	5%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	20%	50%	50%	50%
	B/L	100%	100%	100%	100%	100%	100%	100%	100%	100%

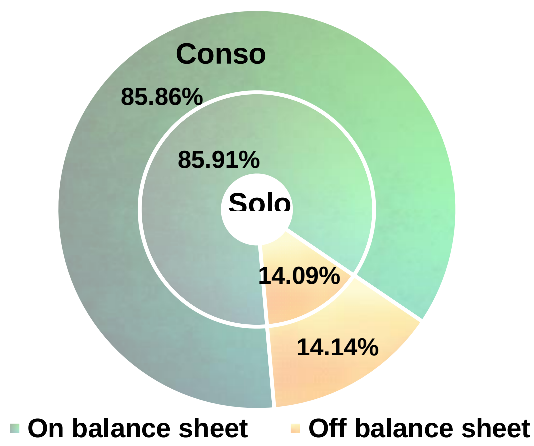
iii. Discussion of the bank's credit risk management policy	MTB's Credit Policy Manual (CPM) is reviewed by its Board of Directors periodically, depending upon the regulatory reforms, internal strategies, and market dynamism. The policy manual outlines the organizational structure, defined roles & responsibilities, and delegation authority for an apt credit appraisal process. It also addresses regulatory issues and establishes control points for holistic credit risk management. MTB's credit approval process entails all plausible aspects for borrowers' risk assessment and mitigation. The bank manages credit risk by continuously measuring and monitoring risks at both obligor (borrower) and portfolio levels. We have also deployed the Internal Credit Risk Rating System (ICRRS) model and other relevant Bangladesh Bank guidelines in our credit appraisal/approval process. Moreover, credit risk appetite plays a vital role in devising the overall credit strategies of the bank. It sets out the perimeter for different credit aspects, which helps in shaping meticulous and wide-ranging credit-control mechanisms. We also provide emphasis on our clients' external credit rating while onboarding and retaining them. We underscore good governance, sound risk assessment, and timely approvals in our lending processes to accelerate quality credit operations. Thus, the bank's credit policy encompasses all operational issues of credit, right from the selection of borrower to the ultimate recovery, including transfer process of delinquent account and treatment of slow, overdue accounts, Special Mention Accounts (SMA), and classified loan accounts.

4b. Quantitative Disclosure

a) Composition of Credit Risk Weighted Assets:

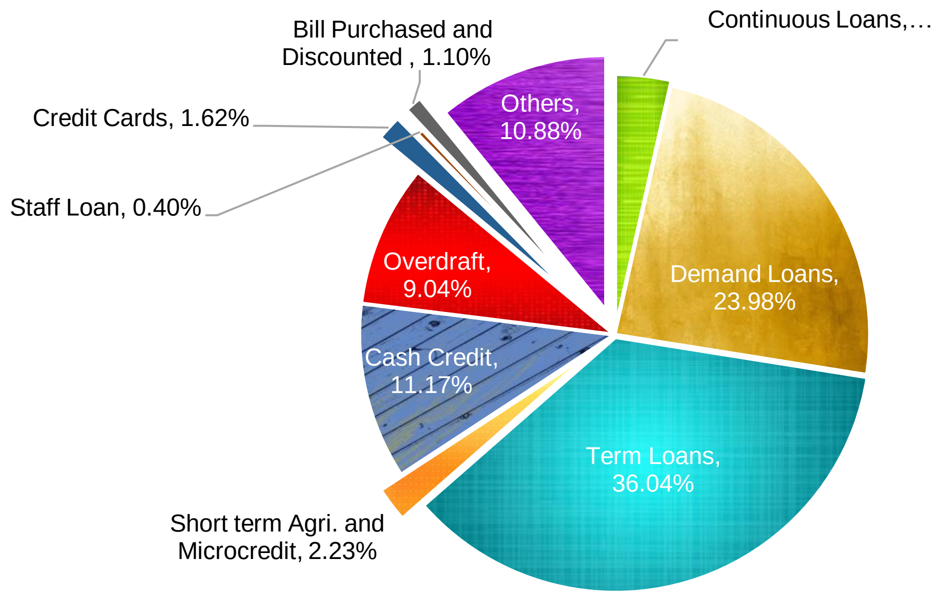
Credit Risk Weighted Assets	Solo	Consolidated
On balance sheet	164,111,825,644	163,495,069,963
Off balance sheet	26,920,436,102	26,920,436,102
Total	**191,032,261,746**	**190,415,506,065**

Composition of Credit RWA



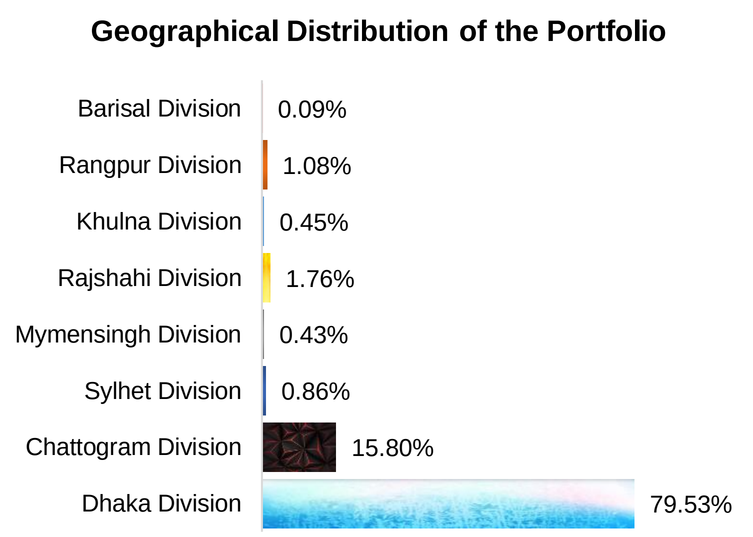
b) Total gross credit risk exposures broken down by major types of credit exposure:

Particulars	Amount (Solo)
Continuous Loans	8,871,534,009
Demand Loans	60,165,352,111
Term Loans	90,435,977,930
Short term Agri. Credit and Microcredit	5,589,834,400
Cash Credit	28,039,332,401
Overdraft	22,694,182,726
Packing Credit	589,172,762
Credit Cards	4,062,081,468
Staff Loan	1,013,709,459
Lease Finance	333,117,293
Offshore Banking Unit	22,130,197,349
Others including Islamic Banking Branches	4,248,528,554
Sub-total	**248,173,020,462**
Bill Purchased and Discounted	**2,772,219,197**
Payable in Bangladesh	1,856,300,035
Payable outside Bangladesh	351,803,405
Offshore Banking Unit	382,532,644
Islamic Banking Branches	181,583,112
Total	**250,945,239,659**



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

Particulars	Amount (Solo)
Dhaka Division	199,585,217,668
Chattogram Division	39,644,651,167
Sylhet Division	2,146,247,778
Mymensingh Division	1,073,692,394
Rajshahi Division	4,422,468,319
Khulna Division	1,126,247,786
Rangpur Division	2,720,646,034
Barisal Division	226,068,513
Total	**250,945,239,659**

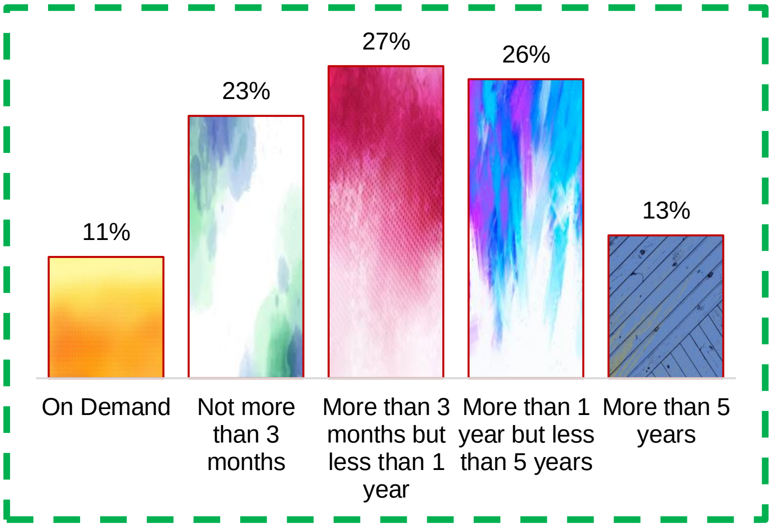


d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

Particulars	Amount (Solo)
Agriculture	4,176,042,840
RMG	38,210,821,382
Textile	10,243,389,051
Ship Building	1,982,118,073
Ship Breaking	3,785,669,260
Other Manufacturing industry	88,723,446,369
SME loans	32,376,279,324
Construction	10,401,416,269
Power, Gas	2,670,674,429
Transport, Storage and Communication	2,085,813,435
Trade Service	15,784,403,073
Commercial real estate financing	6,115,036,200
Residential real estate financing	730,233,679
Consumer credit	18,888,018,055
Capital Market	422,923,095
NBFIs	4,746,788,198
Others	9,602,166,927
Total	**250,945,239,659**

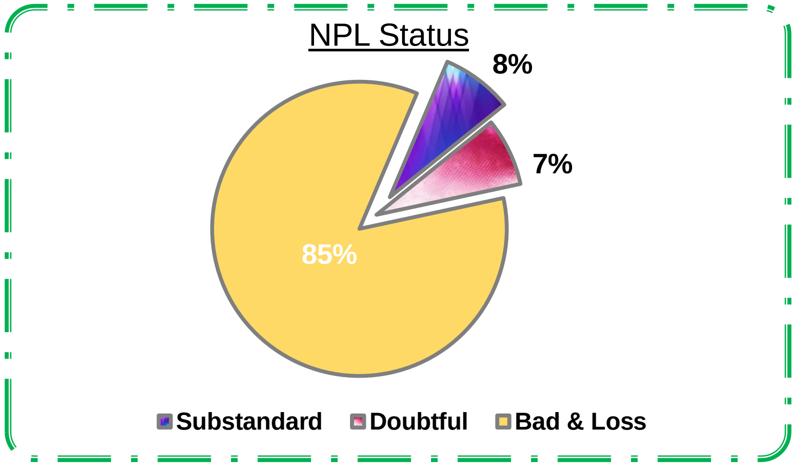
e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

Particulars	Amount (Solo)
On Demand	26,753,301,349
Not more than 3 months	57,871,882,221
More than 3 months but less than 1 year	68,842,260,831
More than 1 year but less than 5 years	65,964,070,610
More than 5 years	31,513,724,648
Total	**250,945,239,659**



f) Amount of impaired loans and if available, past due loans, provided separately;

Particulars	Amount (Solo)
Substandard	1,142,426,821
Doubtful	1,092,241,101
Bad & Loss	12,418,141,454
Total	**14,652,809,376**



g) Specific and General Provisions:

Particulars	Amount (Solo)
Provision for Unclassified Loans & Advances	3,703,271,654
Provision for Classified Loans & Advances	6,831,577,359
Provision for Off Balance Sheet Items	1,293,944,023
Total	**11,828,793,036**
Special General Provision-COVID-19	*728,084,715*

h) Gross Non-Performing Assets (NPAs):

Particulars	Amount (Solo)
Non-Performing Assets (NPAs) to Outstanding Loans & Advances (%)	5.84%
Opening Balance of CL in 2022	13,107,021,413
New Addition in CL during 2022	7,520,249,383
Reductions during the year 2022	5,974,461,419
Closing Balance of CL in 2022	**14,652,809,376**
Movement of specific provisions for NPAs	
Opening Balance	5,956,786,000
Add: Provision made during the year	1,761,216,565
Add: Recoveries of amounts previously written off	67,997,716
Add: Transferred from unclassified provision	136,658,857
Less. Waiver during the year	-
Less: Adjustment for Loan written off during the year	(1,091,081,779)
Closing Balance	**6,831,577,359**

5. Equities: Disclosures for Banking Book Position
5a. Qualitative Disclosure

The general qualitative disclosure requirement with respect to equity risk:

a) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons	MTB Securities Limited, a corporate member of Dhaka Stock Exchange Limited, executes MTB's stock brokerage functions. The bank's equity shareholdings are primarily for capital gain or dividend income purposes. However, MTB has some investments for relationship and strategic reasons. Investment in equity securities is broadly categorized into two parts: ⊡ **Quoted securities** (common or preference shares and mutual funds traded in the secondary market). These securities are bought and held primarily for the purpose of selling them in future or held for dividend income. These are reported at cost. Unrealized gains are not recognized in the profit and loss statement, but provision is made for diminution in value of investment. ⊡ **Unquoted securities**- Investment in unlisted securities is reported at cost under cost method. Adjustment is given for any shortage of book value over cost for determining the carrying amount of investment in unlisted securities. All investment in Government securities is initially recognized at cost price. The valuation methods of investments used are: **Held to Maturity (HTM)** Investments which have 'fixed or determinable payments' and are intended to be 'held to maturity' other than those that meet the definition of 'held at amortized cost', are classified as held to maturity (HTM). These investments are subsequently measured at amortized value as per Bangladesh Bank guideline. **Held for Trading (HFT)** Investments classified in this category are acquired principally for the purpose of trading or if designated as such by the management. After initial recognition, investments are measured at market value and any change in the market value is recognized in the statement of profit and loss for the period in which it arises.
b) Discussion of important policies covering the valuation and accounting of equity holdings in the banking book	Both quoted and unquoted equity securities are valued at cost, and necessary provisions are maintained if the prices fall below the cost price. As per Bangladesh Bank (BB) guidelines, HTM equity securities are amortized annually, and Held-for-Trading (HFT) securities are mark-to-market (revalued) once a week.

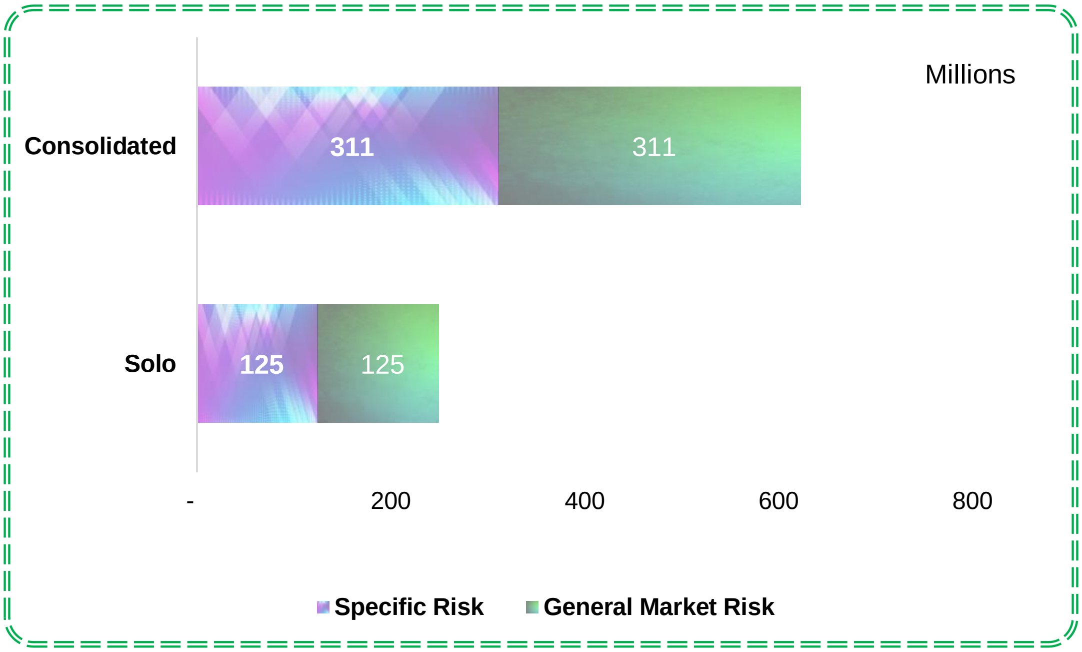
5b. Quantitative Disclosure

a) Total Unrealized gains/ losses:

Particulars	Amount (Solo)
Holding cost of quoted shares	1,367,535,142
Market value	1,235,044,987
Unrealized gain/loss	**(132,490,155)**

b) Capital Charge on Equities:

Capital Charge on equities	Solo	Consolidated
Specific Risk	124,746,707	311,498,137
General Market Risk	124,746,707	311,498,137



6. Interest Rate Risk In The Banking Book (IRRBB)

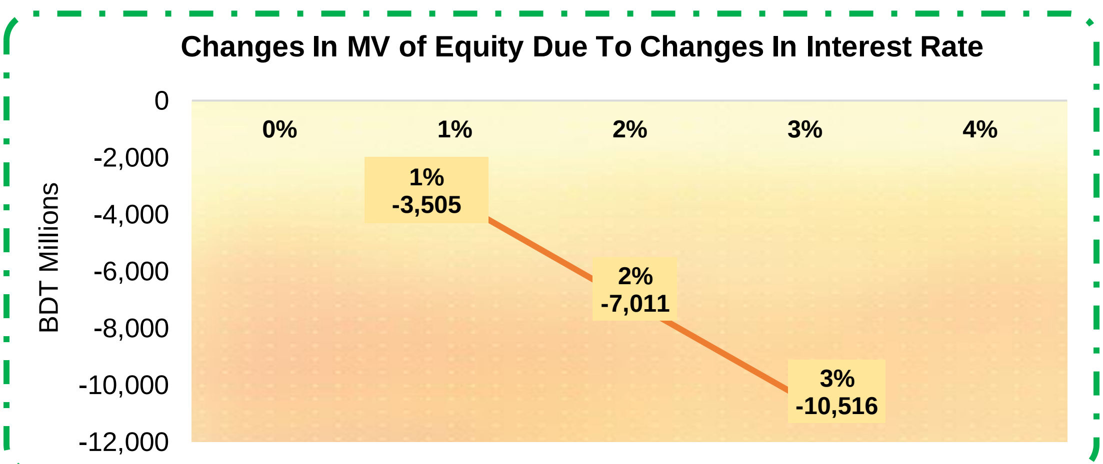
6a. Qualitative Disclosure

a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement	Interest rate risk is the potential impact on a bank's earnings and net asset values due to changes in market interest rates. It affects the underlying value of the bank's assets, liabilities and off-balance sheet instruments because the present value of future cash flows (and in some cases, the cash flows themselves) changes when interest rates changes. Interest Rate Risk is the risk which affects the Bank's financial condition due to change of market interest rates. Changes in interest rates affect both the current earnings (earnings perspective) and also the net worth of the Bank (economic value perspective). Bank assesses the interest rate risk both in earning and economic value perspective. The short-term impact of changes in interest rates is on the bank's Net Interest Income (NII). The longer-term changes in interest rates affect asset cash flows, liabilities, and off-balance sheet items. It poses a risk to the bank's net worth, arising from all re-pricing mismatches and other rate-sensitive positions. MTB assesses the impact of interest rate changes on the bank's earnings and economic value through a stress testing module and gap analysis method.

6b. Quantitative Disclosure

a) 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):

Interest Rate Risk in the Banking Book	
Particulars	**Amount in BDT**
Market Value of Assets	350,375,900,000
Market Value of Liabilities (without shareholder equity)	336,113,500,000
Weighted Average of Duration of Assets (DA)	2.14
Weighted Average of Duration of Liabilities (DL)	1.11
Duration GAP (DA-DL)	1.08
Yield to Maturity (YTM -Assets)	7.64%
Yield to Maturity (YTM -Liability)	4.76%



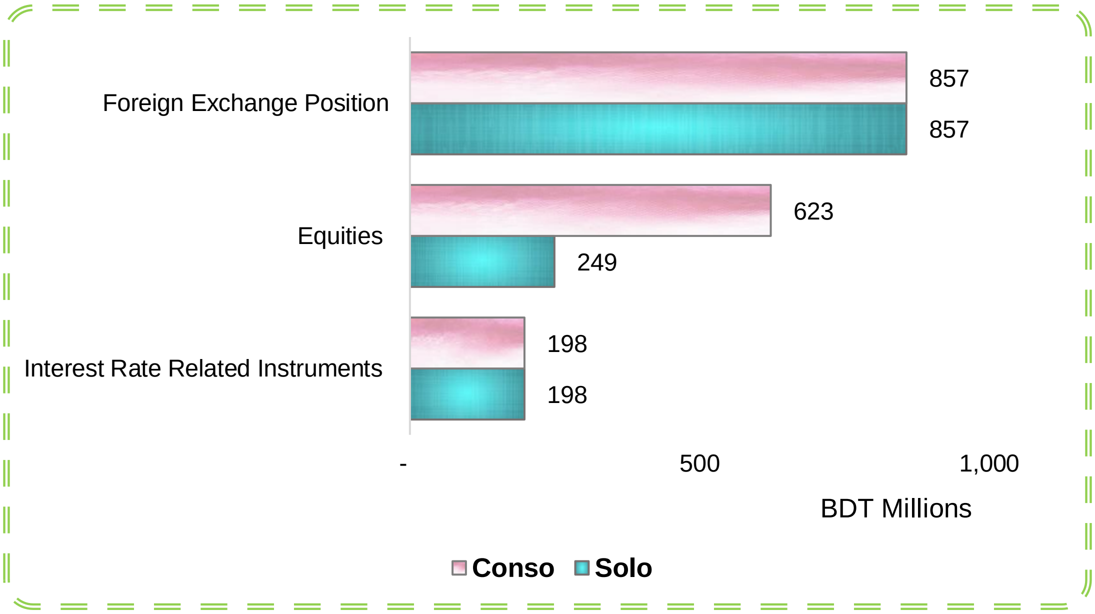
7. Market Risk
7a. Qualitative Disclosure

a) Views of BOD on trading/investment activities	Market risk is the risk of potential losses in the on-balance sheet and off-balance sheet positions of a bank stem from adverse movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads or commodity prices. The BOD of the bank ensures that the bank has an adequate market risk management process that takes into account risk appetite, risk profile, market and macroeconomic conditions. The BOD also approves prudent policies and processes to identify, measure, evaluate, monitor, report market risks on a timely basis.
b) Methods used to measure Market risk	Fundamentally, MTB applies thy Standardized Approach for gauging market risk while calculating the minimum capital requirement. It is done under two separate approaches, i.e., capital charges for "specific risk," which is designed to protect against an adverse movement in the price of an individual security and capital charge "general market risk," which is aimed at capturing the risk of loss arising from changes in market interest rates. Moreover, the bank also uses gap analysis, stress testing techniques to assume the impact of interest rate changes in earnings and capital base.
c) Market Risk Management system	To ensure holistic market risk management systems, the bank diligently adheres to the risk management guidelines for banks, FX guidelines, and other Bangladesh Bank directives. The Treasury Department of MTB manages market risk covering liquidity, interest rate, and foreign exchange risks, with oversight from Asset Liability Management Committee (ALCO), which comprises the bank's senior management. Moreover, there are treasury mid-office, market, and liquidity desks under the risk management division to monitor market risk's key parameters.
d) Policies and processes for mitigating market risk	MTB sets limit for various market risk related indicators while preparing business strategies through RAS. The limits are monitored regularly and if needed, revised based on the market dynamism and macroeconomic outlook. The bank has the following Board approved policies to manage and mitigate market risk: ⊡ **ALM Policy**: ALM policy of the bank sets out the key principles of effective balance sheet management. It incorporates the apt structure, organizational framework, adequate process, and control mechanism to manage liquidity and interest rate risk. The policy is approved by the BOD and is reviewed periodically to ensure the effectiveness of ALM functions. ⊡ **FX Risk Management Policy**: The FX policy manual outlines the general organizational framework, international and domestic customs & practices, monitoring, reporting, and recording day-to-day interbank and corporate foreign exchange transactions.

7b. Quantitative Disclosure

Capital requirement for Market Risk:

Particulars	Solo	Consolidated
Interest Rate Related Instruments	197,771,771	197,771,771
Equities	249,493,414	622,996,274
Foreign Exchange Position	857,101,662	857,315,089
Total	**1,304,366,847**	**1,678,083,134**



8. Operational Risk
8a. Qualitative Disclosure

a) Views of BOD on system to reduce Operational Risk	Operational risk arises from inadequate or failed internal processes, people and systems; or from external causes, whether deliberate or accidental. It is inherent in any business. The policy for operational risks, including internal control and compliance risk, is approved by the Board, taking into account the relevant guidelines of Bangladesh Bank. The Audit Committee of the Board directly oversees the activities of the Internal Control and Compliance Department (ICCD) with the objective of mitigating all operational risks. Moreover, the bank has a board-approved risk management policy that sets out the organizational framework and sound risk governance culture across the organization.
b) Performance gap of executives and staff	The bank's recruitment policy outlines an unprejudiced process that underscores competency-based onboarding. Further to that, MTB's human capital development strategy plays a pivotal role in balancing the cognizance across different levels. The bank comprehends that continuous learning and development are fundamental to shore up the value creation from its human capital. Moreover, the bank has an equitable performance management system (PMS) to evaluate its employees' performance. The PMS helps identify the areas of improvement and reduce the performance gaps among a particular group of employees by mapping out development plans. The bank's policies and perks justify its unwavering commitment to the well-being of its employees.
c) Potential external events	The impact of external adverse events is a part of systemic risk. There would be unavoidable situations such as macroeconomic turmoil, disease outbreak that could affect the performance of the business in general. The bank's risk management strategies are designed to stave off unforeseen losses erupting from its day to day operation.
d) Policies and processes for mitigating operational risk	MTB has a risk management division for managing and mitigating operational risk in conjunction with other business lines and support functions. Moreover, the Internal Control & Compliance Department (ICCD) conducts risk-based internal audits on the branches periodically. MTB's risk governance structure, which includes the risk management committee at the board level; executive risk management committee at the senior management level, ensures inclusive risk management culture. The bank has board-approved risk management and internal control & compliance policies to ensure effective processes and adequate systems are in place for operational risk management. MTB has a unique risk forum at the operational level, namely ERAF, which serves as the common platform for the employees to escalate risk issues to the authorities concerned. ERAF plays a significant role in accelerating awareness among the employees on operational risk management.

e) Approach for calculating capital charge for operational risk	MTB applies basic indicator approach as per Basel III guideline to calculate capital charge for operational risk. The capital charge under the Basic Indicator Approach as follows: **K = [(GI 1 + GI2 + GI3) x α]/n** Where, **K** = 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% **n** = number of the previous three years for which gross income is positive.

8b. Quantitative Disclosure

Solo Basis:

Year	Gross Income(GI)	Average GI	Alpha	Capital Requirement for Operational Risk
2021	17,100,281,438.29	13,168,612,619.76	15%	1,975,291,892.96
2020	10,883,771,296.41			
2019	11,521,785,124.58			

Consolidated Basis:

Year	Gross Income(GI)	Average GI	Alpha	Capital Requirement for Operational Risk
2021	18,054,638,425.38	13,738,957,031.62	15%	2,060,843,554.74
2020	11,254,204,057.06			
2019	11,908,028,612.41			

9. Liquidity Risk

9a. Qualitative Disclosure

a) Views of BOD on system to reduce liquidity Risk	Measurement and managing liquidity needs are vital activities of the bank. By assuring the bank's ability to meet its liabilities as they become due, liquidity management can reduce the probability of developing an adverse situation. The importance of liquidity transcends individual banks, as liquidity shortfall in one bank can have repercussions on the entire banking system. MTB has a board-approved ALM policy to monitor and manages the liquidity stance of the bank.
b) Methods used to measure Liquidity risk	MTB applies several regulatory liquidity indicators (RLIs) such as CRR, SLR, LCR, NSFR, MCO, and AD ratio, etc., to measure liquidity risk. The bank also conducts GAP analysis through structural liquidity profile under different time horizons to measure and manage liquidity risk. Besides, the stress testing module is applied to gauge the propensity of liquidity crunch. The bank also needs to set aside additional capital if any regulatory liquidity indicators (RLI), stated above, breach regulatory limits.

c) Liquidity risk management system	MTB has a wide-ranging organizational structure to ensure an optimized liquidity risk management system. While the governing functions of liquidity risk management lie with the Asset-Liability Committee (ALCO) of the bank, there is a treasury department responsible for operational functions for liquidity risk management. MTB's ALCO formulates and reviews strategies and also provides guidance to manage liquidity risk pursuant to the framework laid down in the ALM Policy. The Treasury department coordinates the implementation of the strategies set forth by the ALCO and other guidelines laid down in the bank's ALM policy manual. Moreover, to manage liquidity risk from another line of defense, there is also a separate liquidity desk under the risk management division to monitor the liquidity measures and limit regularly.
d) Policies and processes for mitigating liquidity risk	MTB has a board-approved ALM policy manual to measure and manage liquidity stance considering market dynamism and economic outlook as a whole. The bank also set the liquidity risk appetite for the key liquidity indicators in line with its strategic objectives. MTB also framed a Liquidity Contingency Plan (LCP), which serves as a framework for early identification and calibrated action in the liquidity crisis event. The LCP includes various indicators, which are monitored regularly, and lays down the mechanism for escalation, remedial action, and crisis management. Methods used to measure liquidity risk The tools and procedures deployed by MTB to manage liquidity risk are comprehensive. The measurement tools used to assess liquidity risks are: • Statutory Liquidity Requirement (SLR) • Cash Reserve Ratio (CRR) • Asset to Deposit Ratio (ADR) • Structural Liquidity Profile (SLP) • Maximum Cumulative Outflow (MCO) • Liquidity Coverage Ratio (LCR) • Net Stable Funding Ratio (NSFR)

9b. Quantitative Disclosure

Particulars	Amount
Total stock of high quality liquid assets	58,418,849,350
Total net cash outflows over the next 30 calendar days	47,649,958,687
Liquidity Coverage Ratio (LCR)	***122.60%***
Available amount of stable funding	292,938,298,000
Required amount of stable funding	254,981,355,000
Net Stable Funding Ratio (NSFR)	***114.89%***

10. Leverage Ratio

10a. Qualitative Disclosure

a) Views of BOD on system to reduce excessive leverage	Leverage ratio is the ratio of Tier 1 capital to total on and off-balance sheet exposures. Leverage ratio was introduced in Basel III with an aim to avoid building-up excessive on- and off-balance sheet leverage in the banking system. The leverage ratio is intended to achieve the following objectives: ⊡ constrain the build-up of leverage in the banking sector, which can damage the broader financial system and the economy ⊡ reinforce the risk based requirements with an easy to understand and a non-risk based measure MTB adopted leverage ratio in line with Basel III guidelines as a credible supplementary measure to the risk based capital requirements.
b) Policies and processes for managing excessive on and off-balance sheet leverage	The bank adheres to the revised risk based capital adequacy guidelines of Bangladesh Bank while managing excessive on and off-balance sheet leverage.
c) Approach for calculating exposure	MTB computes leverage ratio on a quarterly basis pursuant to the revised RBCA guidelines of Bangladesh Bank, dated December, 2014, wherein a minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level. The calculation methodology of leverage ratio is defined as: Leverage Ratio = Tier 1 Capital (after related deductions)/Total Exposure (after related deductions) The exposure measure for the leverage ratio generally follows the accounting measure of exposure. However, with an aim to fortify the banks' risk resilience capacities, Bangladesh Bank vide- BRPD circular no. 18, dated- 18th August, 2021, instructed scheduled banks to increase their leverage ratio to 4% by 2026. The directives will come into effect from 2023, and the banks will have to gradually increase their leverage ratio by 0.25% annually from 2023 to 2026.

10b. Quantitative Disclosure

Particulars	Solo	Conso
On balance sheet exposure	348,611,733,707	351,300,170,240
Off balance sheet exposure	82,751,252,286	82,751,252,286
Total exposure (after related deductions)	428,483,440,892	431,171,877,426
Leverage Ratio	***5.06%***	***5.11%***

11. Remuneration

11a. Qualitative Disclosure

a) The bodies that oversee remuneration	MTB aims to attract, retain, and motivate the best people who are committed to maintaining a career with the bank, and who will perform their roles in the long-term interests of the bank. A vigorous and effective governance framework ensures that the bank operates within clear parameters of its compensation strategy. MTB has a comprehensive pay-scale in different to all its subsidiaries, regions and business lines. All compensation matters are overseen by MTB Group HR in consultation with the Managing Director & CEO, Additional Managing Director and Deputy Managing Directors. The remuneration and compensation is a process driven system aligned with a structured pay-scale and with proportionate growth by evaluating and anchoring the market conditions and through the adjustment of cost of living. The remuneration and its process are finally approved by the Board of Directors.
b) Design and Structure of Remuneration	The Remuneration Policy provides the framework for the employees' remuneration of MTB and its subsidiaries, and it is governed by the Board approved MTB Employee Service Rules. As part of the remuneration awarded within the confines of the Remuneration Policy, fixed salary, short and long-term variable remuneration, gratuity and other benefits are being fixed. There is no right to deviate or derogate from this Policy except the discretion of the Board upon the recommendation from MTB GHR. The committee is responsible for any compensation and remuneration related decisions comprising with the following executives: **Designation** — **As** Managing Director & CEO — Chairman Additional Managing Director — Member All Deputy Managing Directors — Members MTB Group Head of HR — Member Secretary
c) Performance and Pay-nature and type of measures	The bank uses objective based performance management system. The employees of the bank set objectives on the basis of the job description /assignment at the beginning of the year. Mid-year review is conducted to ascertain the progress report. Finally, performances of the employees are evaluated at the end of the year. Despite all the employees get a fixed monthly remuneration and equal proportion of annual growth, the performance bonus for employees is linked to the overall performance of the individual and the bank.

d) Variable remuneration	Variable remuneration is related to performance and consists primarily of the annual performance bonus. As part of rewarding annual bonus, employees' individual performances in achieving the bank's operational and financial objectives are considered. The Heads of the respective division/department recommend for Incentive Bonus to the employees working under their supervision. All recommendations are examined and evaluated by a committee known as MTB Bonus Committee. The structure of the committee is as under: Designation — As Senior most Additional Managing Director — Chairman All Deputy Managing Directors — Members MTB Group Head of HR — Member Secretary MTB Group Head of Internal Control & Compliance — Member MTB Group Chief Financial Officer — Member The remuneration is a combination of fixed pay and variable pay. The variable pay is higher at senior levels than that of junior levels.

Designation	As
Senior most Additional Managing Director	Chairman
All Deputy Managing Directors	Members
MTB Group Head of HR	Member Secretary
MTB Group Head of Internal Control & Compliance	Member
MTB Group Chief Financial Officer	Member

11b. Quantitative Disclosure

a) Number of employees received variable remuneration award	Total amount of BDT 861,395.00 (Eight Lac Sixty One Thousand Three Hundred Ninety Five) only was disbursed to 34 (Thirty Four) employees as variable remuneration award for the year 2022.
b) Total amount of severance payment	Total amount of BDT 352,424,203.00 (Thirty Five Crore Twenty Four Lac Twenty Four Thousand Two Hundred Three) only was disbursed to 258 (Two Hundred Fifty Eight) outgoing employees as severance payment for the year 2022 at the time of releasing them from the service of the bank.