

“Implementation of Basel III Accords in Mutual Trust Bank: Risk Based Capital Adequacy Ratios Requirement of Bangladesh Bank”

Prepared for

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Submitted on

MAY 30, 2021

An internship report submitted to the BRAC Business School in partial fulfillment of the requirements for the degree of Bachelor of Business Administration

Declaration

It is officially declared that the internship report presented is my own original concept completed at BRAC University while pursuing a degree. The document does not include any previously released or written content by a third - party provider, unless it is properly credited with complete and correct referencing. The report does not include any information that has been approved or submitted for any other university or other institution's degree or diploma. I've acknowledged all of the major sources of assistance.

Student's Full Name & Signature

Tahrira Mustary

TAHRIMA MUSTARY

ID: 17104242

Supervisor's Full Name & Signature

Sung H. Lee

Professor and Dean

BRAC Business School, BRAC University

Letter of Transmittal

Sung H. Lee
Professor and Dean
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of the internship report on “Implementation of Basel III Accords in Mutual Trust Bank: Risk Based Capital Adequacy Ratios Requirement of Bangladesh Bank”

Dear Sir,

For your consideration, I am submitting my internship report titled “Implementation of Basel III Accords in Mutual Trust Bank: Risk Based Capital Adequacy Ratios Requirement of Bangladesh Bank.” The report has been written in accordance with BRAC University's requirements for the spring semester of 2021.

As part of my BBA program, I conducted an internship at Mutual Trust Bank Limited, where I saw and studied several practical elements of the banking sector. I was introduced to corporate culture and given the opportunity to learn new skills at Mutual Trust Bank.

It was a brilliant experience completing the internship under your supervision and implementing your instructions. I invested a great deal of effort to prepare the report and performed some research and review in the process, which was a great learning opportunity for me. I presented the findings in this report for the submission.

Sincerely yours,
Tahrima Mustary

Tahrima Mustary
ID: 17104242
BRAC Business School,
BRAC University
Date: May 30, 2021

Non-Disclosure Agreement

[This page is for Non-Disclosure Agreement between the Company and The Student]

This agreement is made and entered into by and between [Name of Company] and the undersigned student at BRAC University ...TAHRIMA MUSTARY.....

Acknowledgement

My appreciation to Almighty Allah is the beginning of my appreciation. I would want to express my appreciation to Sang H. Lee, Professor and Dean of BRAC University's BRAC Business School, for his continued support and supervision. He gave me advice for writing this Final Internship Report, as well as a framework for writing and preparing the entire report, which gave me a lot of confidence in the end result of my internship project.

This report titled ***“Implementation of Basel III Accords in Mutual Trust Bank: Risk Based Capital Adequacy Ratios Requirement of Bangladesh Bank”*** BBA Degree has been prepared to meet the requirements I've been extremely lucky in receiving sincere directions, supervision, and collaboration from many persons while creating my report.

This report is the result of the efforts of many people. I'd like to express my gratitude to Muhammad Nurul Afsar, In-Charge Group Finance, for reviewing my report. He gave me several helpful advice and instructions for writing a unique concept-based report. This research would not be complete without his assistance.

I am most grateful to all the team member of group finance of Mutual Trust Bank limited specially Md. Anwar Hossain (AVP, Group finance), Sumaiya Mehjabin (FAVP, Group Finance), Iffat Binte Rabbani (JAVP, Group Finance) Mohammad Motiur Rahman (JAVP, Group Finance), Rahat Ali Khan (JAVP, Group Finance), Md. Moinul Hossain Sheragi (SO, Group Finance), Mohammad Ashiqur Rahman (Officer, Group Finance) and Assif Hassan Chowdhury (AO, Group Finance). Without them, I wouldn't be able to do this developmental outcomes. They provided me with all of the essential instructions, assistance, and advice to execute this difficult work.

Last but not least, working with such experienced individuals who are eager to help and make this short amount of time truly productive was a brilliant experience.

Executive Summary

This internship report is based on my successful completion of a twelve-week program at Mutual Trust Bank Limited (MTB) in Group Finance from January 13th to April 13th, 2021. It is a prerequisite for BRAC University's BBA program. I mostly worked in the Finance division's Regulatory Reporting and Accounts Payable departments. This internship report is based on my successful completion of a twelve-week program at Mutual Trust Bank Limited (MTB) in Group Finance from January 13th to April 13th, 2021. It is a prerequisite for BRAC University's BBA program. I mostly worked in the Finance division's Regulatory Reporting and Accounts Payable departments. The Bangladesh Bank (BB) is the governing body for all of Bangladesh's commercial banks. BB has adopted the Risk Based Capital Adequacy guideline pertaining to Basel III to comply with the worldwide standard for banking sector regulation (Basel Accord). This rule must be followed by all banks. Starting January 1, 2015, they will report to BB. The Basel Committee on Banking Supervision (BCBS) implemented Basel III reforms to strengthen the banking sector's ability to absorb shocks. These shocks emerge from financial and economic stress, regardless of the cause, minimizing the chance of a finance-to-real-economy spillover.

The guidelines are divided into three sections or pillars:

1. minimum capital to protect against credit risk, market risk, and operation risk;
2. evaluating financial stability in relation to the bank's risk level and capital growth strategy;
3. Disclosures of the company's risk, equity, and managerial positions.

Credit risk, market risk, and operational risk are the three primary risks that a commercial bank confronts. Credit risk, on the other hand, is the risk associated with the possibility that a bank's borrowers would default on their obligations when interest rates, foreign currency rates, or equity prices shift in an unfavorable way, the bank is exposed to market risk. The internal factors creates operational risk, which occurs when thought controls, personnel, or systems fail.

Keywords: Basel, Mutual Trust Bank, Risk, Capital, Bangladesh Bank, Disclosure

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List of Acronyms

ADT1	Additional Tier 1
ALCO	Asset Liability Management Committee
BCBS	Basel Committee on Banking Supervision
BRMC	Board Risk Management Committee
CAR	Capital adequacy ratio
CET1	Common equity tier 1
CMSME	Cottage, Micro, Small and Medium-Sized Enterprises
CRAR	Capital to Risk Weighted Assets Ratio
DA	Daily Allowance
EPS	Earnings per ratio
GHR	Group Human Resources
MCD	MTB Card Division
MCR	Minimum Capital Requirement
MFS	Mobile financial services
NIAT	Net Profit After tax
RBD	Retail banking division
RMD	Risk management division
RWA	Risk Weighted Assets
SMA	Special Mention Account
WBD	Wholesale banking division

Chapter 1: Overview of Internship

1.1 Student Information:

Name: Tahrima Mustary

ID: 17104242

Program: Bachelor of Business Administration

1st Major/Specialization: Finance

2nd Major/Specialization: Accounting

1.2 Internship Information:

1.2.1 Period, Company Name, Department/Division, Address

Every student at BRAC University's Bachelor of Business Administration must complete a three-month internship program. In the Group Finance department of “Mutual Trust Bank Limited (MTB)”, I finished my internship successfully to submit a report to my academic supervisor. The duration of this internship is twelve weeks. My term ran from January 13th, 2021, to April 13th, 2021. MTB Centre is situated at 26 Gulshan Avenue.

1.2.2 Internship Company Supervisor’s Information

My field supervisor during my internship was Muhammad Nurul Afsar, Incharge of Group Finance at Mutual Trust Bank.

1.2.3 Job Scope – Job Description/Duties/Responsibilities

- Receiving of invoices: Each department has its own budget. Those bills are sent to the finance department for approval.
- Keep track of everyday expenses: All invoices should be kept in a notebook as well as an Excel spreadsheet.
- Keep track of TA/DA: On a regular basis, each department's TA/DA invoices are sent to the finance department for approval. All TA/DA invoices must be documented in a notepad as well as an Excel spreadsheet.
- Checking TA/DA Bills: Every division does have its own collection of TA/DA Expenses. On a regular basis, such bills arrive in the finance department for approval. Those TA/DA bills should be double-checked before signing.

1.3 Internship Outcomes:

1.3.1 Benefits to the student

Getting to work on time is very important for our life. Internship helps me to be on time at a workplace. It demonstrates that I am invested in a job. It also helps us to understand that capable of handling all tasks need to done at every stage of our life. I learned a lot about banking which includes accounting finance, business finance, regulatory reporting, accounts payable, payroll, GL Control. After my internship now I can understand what an office atmosphere is like, how it is used has surely prepared me for the future corporate life. This has been a life-changing event for me. I'm optimistic that I'll be able to mature as a person and that I'll be able to assist both of them in their career and personal endeavors.

1.3.2 Problems/Difficulties (if any faced during the internship period)

Large-scale trials were not possible due to time constraints and covid-19

- It was difficult to get crucial facts and papers due to the organization's secrecy.
- I had no prior experience with my Basel accords survey program. My report could not produce the same results that the authorities expected.
- It was my first time writing a report on a banking system in a real-world business setting. As a result, my lack of expertise was the study's primary stumbling block.

1.3.3 Recommendations (for and suggestions to the company on future internships)

Seminar: Attending a seminar has numerous benefits. It is very important to improve communication skills, gain expert knowledge, network with others and renewing motivation and confidence. Seminar will help the students for comprehensive overview of the Basel Accords Banking System.

Time Duration: Internship is only three months to complete the report. I think it is almost impossible to cover the performance of any bank fully. A regular employee gets awarded after 1 or 2 year of his or her probationary period. Time duration should be at least 6months.

Surveys: Surveys allow individuals to swiftly and easily acquire a huge quantity of data in a relatively short of time. Surveys may be used to gather data on a wide range of topics.

**Chapter 2: Organization Part: Overview, Operations
and a Strategic Audit**

2.1 Introduction

Mutual Trust Bank Limited is the subject of this report (MTB). In compliance with Mutual Trust Bank Limited, the execution of the Basel Accords Regulatory and Supervisory of the Bangladesh Bank was considered. This report provides an overview of the institution as well as a synopsis of MTB's Basel Accords System.

2.1.1 Objective of the Report

Broad Objective:

- To get an overall idea about the financial issues of Mutual Trust Bank Limited.
- To relate the theoretical knowledge to the original banking process of Mutual Trust Bank Limited.

Specific Objective:

- To know the marketing strategy of letter of credit service of Mutual Trust Bank Limited.
- To know the procedure of letter of credit
- To know the documents which are needed to open a letter of credit.
- To know advantage of letter of credit
- To know the risk in documentary credit method
- To know the basic working system of export like issuing of EXP, balancing source tax.
- To know the uses of different type of registers used for export and import.
- To present my observation and suggestion to the bank.

2.1.2 Methodology

Primary Source: This report contains both primary and secondary data. The sources that have been used to gather and collect for primary data is given below-

- Practical discussion experience gained via touring extraordinary desks throughout internship period
- General discussion with reporting unit team of Mutual Trust Bank

Secondary Sources: This paper has adopted secondary data. All types of data has been collected from different sources, like-

- Five years data(2015-2019) has been collected from Annual Report of Mutual Trust Bank Limited
- Web site of Mutual Trust Bank
- Bangladesh bank's guideline on Basel Standards
- Web site of Bangladesh Bank
- Relevant studies conducted earlier in the Basel Accords

2.1.3 Scope of the Report

Banks have played a significant part in the growth of the economy. It is making a significant contribution to the development of the country. Because of globalization, our country's banking industry is rapidly increasing. Customer satisfaction is the most critical weapon for surviving as a major player in this highly competitive and complicated business climate. The implementation of the Basel Accords 3 is discussed in this study with the utmost caution and concern. The complexities of controls, regulation, and supervision is widely recognized because to the Basel Accords. Anyone interested in learning more about the MTB Basel Accords system should read this study.

2.1.4 Limitations of the Report

Working as an Intern at Mutual Trust Bank Limited was a wonderful opportunity for me, although there were undoubtedly some constraints when preparing this report. Those are—

- In this work, I solely rely on my own practical and research experience. I didn't attend any of the lectures held by the Basel banking system. As a result, I was unable to provide an in-depth analysis of the Basel Accords Banking System.
- Gathering knowledge, interpreting it based on my comprehension, and then putting it into practice proved to be tough at times.
- Because this was my first time doing this sort of report and the subject matter is so complicated, it was challenging to structure the report in a simple way.
- In addition to all of this, there is a "time constraint" issue that has caused several parts of Mutual Trust Bank Limited to be abandoned.

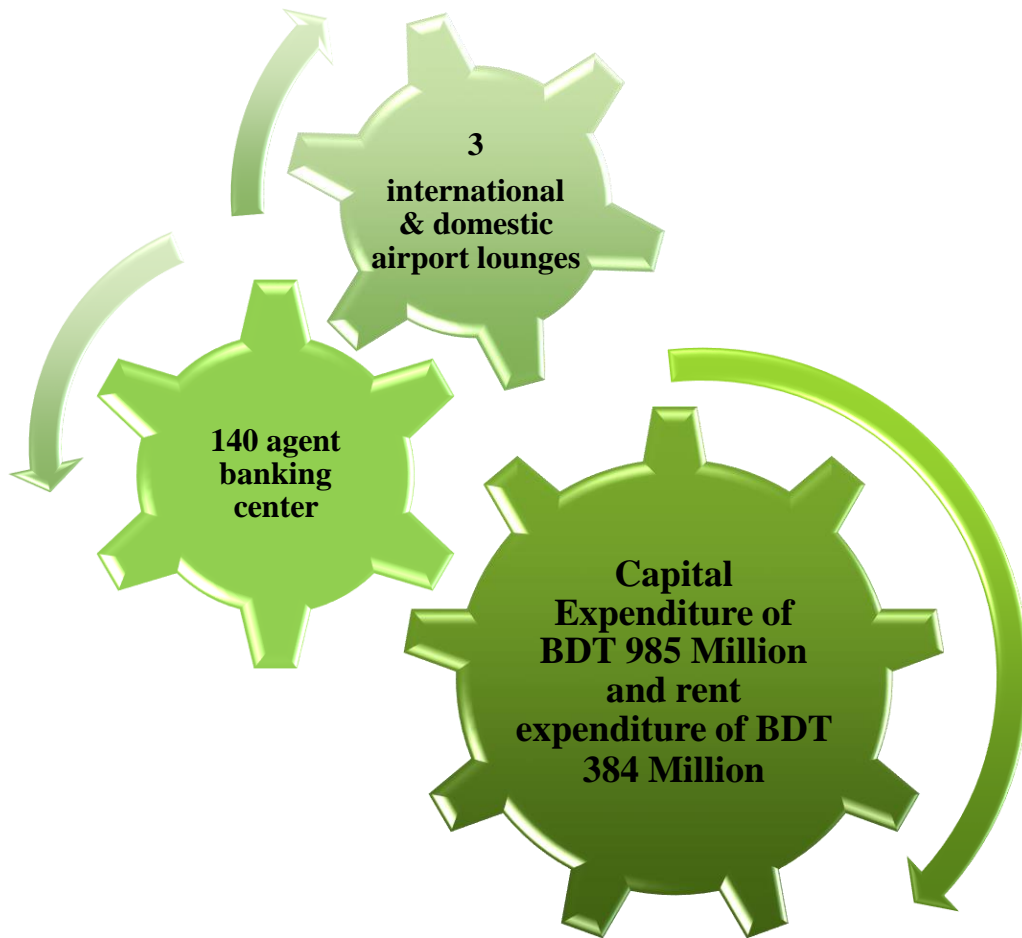
2.2 Overview of Mutual Trust Bank

MTB was established in 1999 as a Limited Company Limited company under The Companies of 1994. MTB's authorized share capital was BDT 1,000,000,000.

MTB has been an icon of innovation in the Bangladeshi banking industry from the very beginning of its existence. It is one of the most well-known commercial banks in the private sector. On October 24, 1999, it began banking operations in Dhaka. The bank has been a corporate focused business, currently expanding into SME and retail business. The bank has created one of the first truly Internet-based banks in the country focused around a modern, easily accessible and convenient online banking platform. It has concentrated on Bangladesh's existing and rising markets. MTBL has been able to reach a good market standard with competent customer service by concentrating hard on the operations within its area of competence. The bank makes a sincere attempt to fulfill its community commitments. The bank wants to grow and boost the value of its shareholders through such tactics. Mutual Trust Bank commits to increase customer satisfaction via services and to establish a trustworthy connection with clients that has lasted 14 years. The

corporate head office is in Gulshan 1 Dhaka. The Bank has 117 branches, Sub Branch 29, 309 ATMs Booth all over Bangladesh. MTB strategy by 2020 puts an emphasis on mobile banking challenges and prospects. Being a digital bank is not only about innovative product distribution tools. The organizational structure, internal processes, approach to risk management, infrastructure, including IT systems and network of retail branches, developed in accordance with a uniform philosophy are equally important. We know that our clients notice and appreciate our organizational efficiency. Hence, efficient operational processes are just as important as innovative products and contact channels.

Highlights



2.2.1 MTB Vision, Mission & Core Value

MTB VISION

- The Bank of Choice
- A Truly World-Class Bank
- One of the Best Performing Banks in Bangladesh

MTB MISSION

- "We aspire to be the most admired financial institution in the country, recognized as a dynamic, innovative and client focused company that offers an array of products and services in the search for excellence and to create an impressive economic value."

MTB CORE VALUES

• SHAREHOLDERS

- Create sustainable economic value for our shareholders by utilizing an honest and efficient business methodology.

• COMMUNITY

- Committed to serve the society through employment creation, support community projects and events and be a responsible corporate citizen.

• CUSTOMERS

- Render state-of-the-art service to our customers by offering diversified products and by aspiring to fulfill their banking needs to the best of our abilities.

• EMPLOYEES

- We rely on the inherent merits of the employee and honor our relation as a part of this renowned financial institution. We work together to celebrate and reward unique backgrounds, viewpoints, skills and talents of everyone at the workplace, no matter what their job is.

• ACCOUNTABILITY

- As a bank, we are judged solely by the successful execution of our commitments; we expect and embrace this form of judgment. We are accountable for providing the highest level of service along with meeting the strict requirements of regulatory standards and ethical business practices.

• AGILITY

- We can see things from different perspectives; we are open to change and not bound by how we have done things in the past. We can respond rapidly and adjust our mode of operation to meet stakeholder needs and achieve our goals.

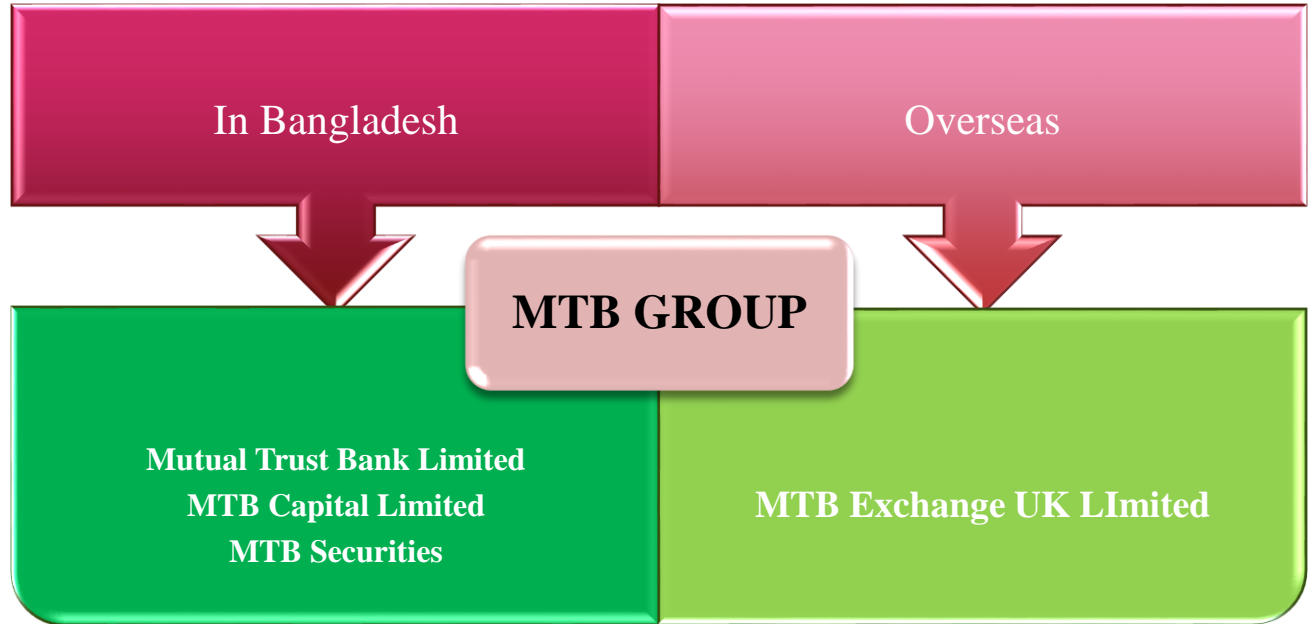
• TRUST

- We value mutual trust, which encompasses transparent and candid communications among all parties.

2.2.2 Organization and Personnel

As of 31 December 2019, the total manpower of the Bank was 2,340. 1,325 work at Bank branches, 944 at the Corporate Head Office, 64 at MTB Securities Ltd. 7 at MTB Capital Ltd. Our manufactured capital is compiled with all the physical objects ranging from branches, sub-branches, ATMs and agent banking points along with IT, equipment, SMS, internet and digital banking platforms that we use to serve our customers with

2.2.3 Corporate Structure and Group Profile



2.2.4 MTB Senior Management Team

Mutual Trust Bank has a strong senior management team. The top management people making plans together and supervise the whole bank to achieve the organization’s goal.

NAME	POSITION
Mr. Syed Mahbubur Rahman	Managing Director & CEO
Mr. Syed Rafiqul Haq	AMD & CBO
Mr. Chowdhury Akhtar Asif	AMD & GCRO
Mr. Goutam Prosad Das	DMD & GHOICC
Mr. Tarek Reaz Khan	COO & CAMLCO

2.2.5 Milestones: 20Years of glorious journey



2.2.6 The Organogram of Mutual trust Bank (Group Finance)



2.3 Management Practices of MTB

Risk Management

Risk is an inherent aspect of the banking industry. Mutual Trust Bank (MTB) strives to provide greater stakeholder value by establishing an optimal risk-reward trade-off. Purposes are examined on a regular basis in order to reap the benefits of a mix of international standards.

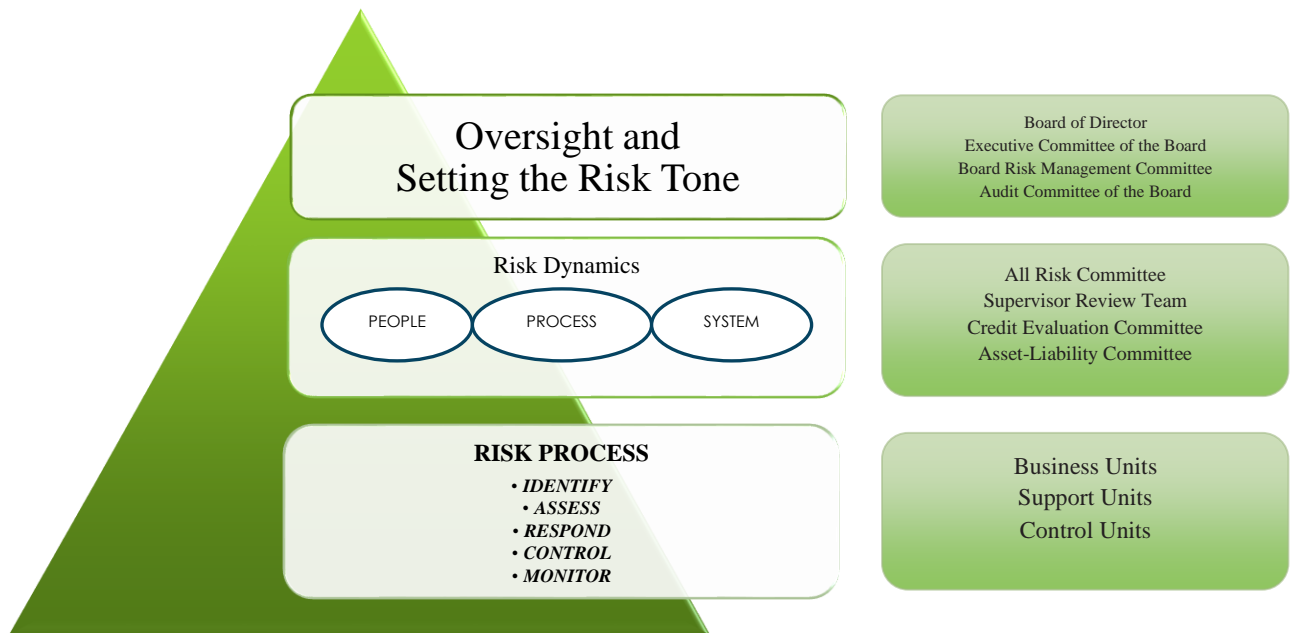
MTB performs its risk management activities in accordance with six fundamental risk criteria, which led to the creation of a dedicated Risk Management Division (RMD) to more quickly and successfully assess, evaluate, control, and mitigate risk.

MTB's risk management method is carried out at three levels: strategic, managerial, and operational.

Strategic Level: MTB's Board of Directors (BOD), in collaboration with the BRMC and top management, establishes a risk system of governance and philosophy. An expert risk management staff keeps an eye on these restrictions on a regular basis.

Managerial Level: BOD formulates policies and plans at the management level. Middle management or risk-review divisions/departments/units are in charge of putting these rules into action.

Operational Level: RMD communicates high-risk items to the BRMC, BOD, and Bangladesh Bank at the operational level. As it is recognized by the management-level risk committee (BB).



0-1 Risk Management Framework

2.4 Marketing Practices

MTB works tirelessly to develop major marketing campaigns in this field. MTB has a special undertaking for this issue, but it is planning to make the appropriate decisions as quickly as possible. Banking institutions are increasing to inform people about MTB's progress, but it must first and foremost focus on marketing.

2.4.1 TV Commercials

Commercial television advertising refers to a segment of television content that is generated that is a very good and efficient means of communicating. It is paid for by a company that sends a message to a market about a good or service. MTB uses this method of marketing to notify consumers about new goods and services offered by the bank.

Banks are now using TV advertisements to draw their potential buyers who can imagine the whole scenario. In a matter of seconds, commercial advertisements may reach a large number of individuals. It's also a cost-effective way of marketing from this standpoint. Every ad in a television commercial has a different purpose.

MTB uses a unique technique to demonstrate the use of their products and services in a way that is as real as possible. They place a greater emphasis on the emotional aspects of human nature, such as love, marriage, and family.

2.4.2 Newspaper ads

The most cost-effective method is to use classified advertising in newspapers. Typically, businesses pay a greater rate than consumers. For classified advertising, newspapers charge a set fee per line. At a basic rate, a basic classified ad can include three or four lines of content, but the charge rises as the number of lines grows.

MTB is making excellent use of the newspaper by relying more on informational advertisements. MTB virtually always discloses all of its new accomplishments or events in order to engage with consumers and keep knocking on their doors. MTB has also been discovered to publicize job circulation, and their newspaper exposure is far more than that of other local banks. In fact, MTB makes excellent use of newsprint.

2.4.3 Leaflet

MTB presents its customers with pamphlets that are sorted at the service booths at practically every branch. So that every customer is aware about MTB's innovative features and the most recent news. The information is formulated in such a way that clients may quickly associate the appearance with a visual picture. It establishes a distinct position in the minds of customers.

MTB, for example, primarily employs informative and marketing flyers. However, leaflets are also used to disseminate information about seminars, conventions, and other gatherings.

2.4.4 SMS Marketing

MTB offers a notification SMS service in combination with SMS banking. It employs SMS marketing in a unique approach. They strive to tell potential and present clients about new services when they are introduced to the market.

2.4.5 Relationship marketing

Relationship Marketing is a section of MTB. They will be able to carry out their relationship marketing initiatives. Furthermore, one of the job tasks of the executives of every branch is to establish such a connection with its valued customers.

2.4.6 Souvenir

Customers can get ordinary products such as pens and writing pads as souvenirs from MTB. They will be able to recall the Bank's name every moment they utilize the keepsake. It also offers yearly calendars, yearly diaries, mugs, and other goods such as moneybags, cardholders, and cheque book holders, among other things. Employers and their families are also provided these so that they might share them to their friends and family members.

2.4.7 Corporate Social Responsibility

MTB's CSR efforts are founded on the core belief in sustainable business for initiatives in education, healthcare, environmental protection, and disaster relief. MTB's CSR incorporates strong governance and social goals in order to increase community empowerment in a long-term way. In 2019, CSR contributions totaled more than BDT 53 million.

- “SWAPNO SARATHI” (THE DREAM CHARIOT): MTB's policy of promoting elementary education in remote and hard-to-reach communities. In 2015, it started a unique campaign called "Swapno Sarathi" with the goal of inspiring students (mostly female) by presenting them with bicycles under the slogan "School-e jete durotto jeno badha na hoy." Almost 1,600 bicycles have been given around the country thus far.
- MTB “Bravery & Courage” Award: The MTB "Bravery & Courage" award, which was established in 2012 to highlight lifesaving bravery deeds, aims to promote unselfish individuals who put the lives of others before their own. Over the years, a few brave and selfless individuals, as well as their families, have been honored.
- MTB Foundation Supports Monomela Foundation: Monomela Foundation just received BDT 300,000 from MTB Foundation. This fund provides their activities, such as giving free out educational programs for impoverished children, giving basic medical treatment through free health camps, and arranging organic agricultural training programs for farmers.

2.5 Financial Performance and Accounting Practices

Economic Value Added (EVA) is the financial presentation or performance that attempts to measure that true economic revenue and turnover of an organization. It provides a dimension and measurement of the bank's economic success or failure over a period of time. It is very useful medium and background for the investors who wish to determine how well the bank has added value for its investors. It can be compared with peers' banks for a quick analysis and investigations. It is another way to show how well the bank is operating in its own industry. Economic value added is calculated by taking the bank's net profit after Tax, adding with its, the amount of provision charged against profit to absorb the losses inherent in the investments. EVA is calculated as under.

Particular	2015	2016	2017	2018	2019
Shareholders' Equity at year end	8,929.20	9,818.26	11,761.96	13,326.94	16,289.87
Add: Cumulative Provision for Loans, Investment, Off B/S Items & etc.	2,834.51	3,686.80	5,090.33	5,891.31	7,675.20
Total	11,763.70	13,505.06	16,852.29	19,218.25	23,965.06
Average Shareholders' Equity	7,849.80	9,373.73	10,790.11	12,544.45	14,808.40
Add: Average Cumulative Provision for Loans, Investment, Off B/S Items & etc.	2,611.06	3,260.65	4,388.57	5,490.82	6,783.25
Average Equity of Shareholders	10,460.86	12,634.38	15,178.68	18,035.27	21,591.66
Average cost of Equity	13.53%	9.77%	6.85%	6.41%	7.05%
Earnings:					
Net Profit after tax	1,366.20	1,463.59	1,980.34	1,734.45	1,337.79
Add: Provision for Loans, Investment, Off B/S Items & etc.	537.13	946.63	1,656.25	2,342.46	2,140.38
Net Profit after Tax (Before Provision)	1,903.33	2,410.23	3,636.59	4,076.91	3,478.17
Cost of average Equity	1,415.39	1,234.06	1,039.04	1,155.67	1,521.68
Economic value added (EVA)	487.94	1,176.17	2,597.55	2,921.23	1,956.49
Growth over last year	46.29%	141.05%	120.85%	12.46%	-33.03%
Total operating income	6,580.26	7,514.88	8,479.29	9,829.12	11,207.18
Net profit after tax	1,366.20	1,463.59	1,980.34	1,734.45	1,337.79
Key Ratios:					
EVA/Total operating income (%)	7.42%	15.65%	30.63%	29.72%	17.46%
EVA/ Average Equity of Shareholders (%)	4.66%	9.31%	17.11%	16.20%	9.06%
Net profit after tax (%)	20.76%	19.48%	23.35%	17.65%	11.94%

Table 1: Financial Performance

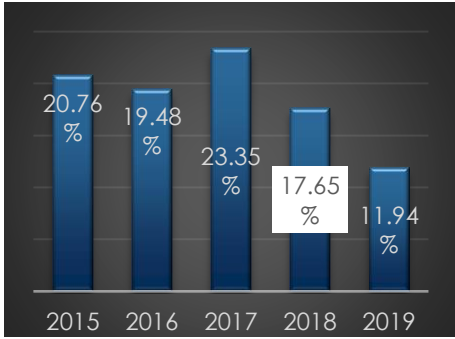


Figure1: Net Profit after Tax

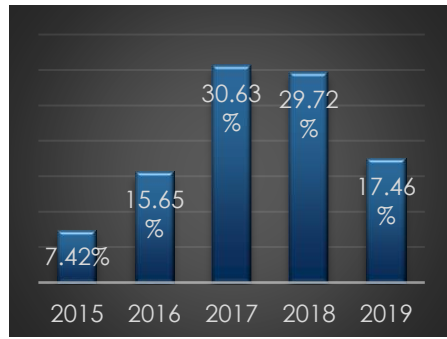


Figure2: Total Operating income (%)

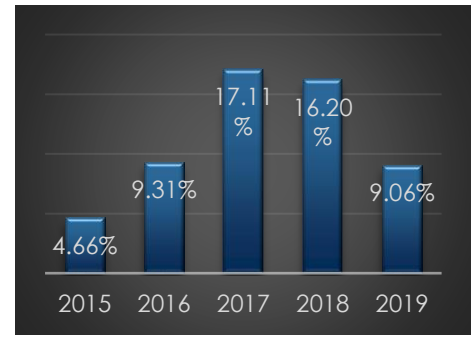


Figure3: Average Equity shareholders (%)

0-2 Important Ratios

Net Profit after Tax: A financial word used and examined statistics on a company's financial statements to indicate a company's profit is net income after taxes. After all taxes have been paid, this profit is computed. The amount documented gives an indicator of a company's profitability. It assesses if the company can repay its owners and investors through dividends and stock buybacks. Due to higher expenses for provision maintenance, net profit after tax dropped in 2019. Net profit after tax registered a negative growth of 11.94% in 2019 compared to 2018. In 2018 I has also decreased to 17.65% from 23.35% in 2017. Due to a decline in net profit, the bank will have to reduce its remuneration in order to maintain regular business operations. A decrease in net income is an indication that an MTB's profitability is declining. Shareholders look favorably on companies that have a steady and growing net income over time.

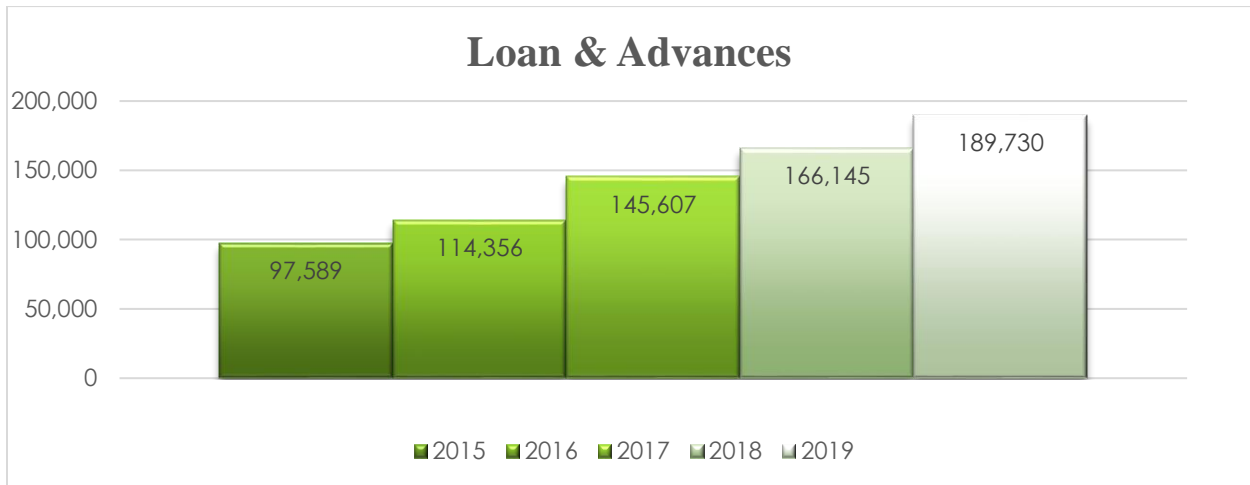
Total Operating Income: Earnings before interest and taxes are referred to as operating profit. MTB may have had greater operational costs as a result of its declining operating profit. Total operating income registered a negative growth of 17.76% in 2019 compared to 2018. In 2018 it has also decreased to 29.72% from 30.63% in 2017. 2017 and 2018 were almost same as percentage. The gross income of a firm is divided by operating income, also known as income from operations. Other investment income, commissions, exchange and brokerage fees, and all applicable operational expenditures are subtracted from total revenues to get at operational profit.

Average Equity Shareholders: The amount of money invested by a company's owners is referred to as stockholders' equity. It also demonstrates how much a company's owners keep in profits over time. The equity of shareholders is divided into three groups on the balance sheet. In 2019 the average equity shareholder was 9.06% which decreased from 2018. In 2018 the percentage was 16.20% higher than 2019. In 2017 the average equity shareholders was the highest 17.11%. Because MTB has costs and losses, its owner's equity has dropped. Liabilities can occasionally exceed a bank's assets. When this happens, the owner's equity will be negative.

5 YEARS AT A GLANCE					
Particulars	2015	2016	2017	2018	2019
A. BALANCE SHEET MATRIX					
Authorized Capital	10,000	10,000	10,000	10,000	10,000
Paid-up Capital	3,693	4,432	5,097	5,734	7,035
Total Reserve Fund & Surplus	5,236	5,386	6,665	7,593	9,255
Total Deposits	118,405	131,272	151,776	166,160	190,948
Total Loans and Advances	97,589	114,356	145,607	166,145	189,730
Total Borrowing	5,082	8,706	16,418	19,641	21,701
Total Investments	26,247	21,942	25,106	27,408	34,200
Total Fixed Assets	3,182	3,141	3,211	3,128	4,301
Total Assets	146,059	165,371	201,754	222,464	256,913
B. INCOME STATEMENT MATRIX					
Net Interest Income (NIM)	2,813	3,878	4,308	5,251	5,430
Total Operating Income	6,580	7,515	8,479	9,829	11,207
Profit Before Provision and Tax	2,811	3,408	3,916	4,884	5,240
Net Profit After Tax	1,366	1,464	1,980	1,734	1,338
Earnings Average Per Share (EPS) (original)	3.7	3.3	3.89	3.03	2.03
C. SHARES INFORMATION MATRIX					
Number of Shares Outstanding	369	443	510	573	703
Operating Profit per Share	7.61	7.69	7.68	7.43	7.97
Dividend Payout Ratio	54.06%	45.42%	32.17%	36.36%	52.58%
Price Earning Ratio (PE) (Times)	5.27	6.99	9.01	11.6	13.03
Price Equity Ratio	0.81	1.04	1.52	1.51	1.14
D. OPERATING PERFORMANCE					
Net Profit Margin	20.76%	19.48%	23.35%	17.65%	11.94%
Cost to income/Efficiency Ratio	57.28%	54.65%	53.82%	50.31%	53.25%
Operating Profit Ratio	19.30%	22.69%	23.98%	24.10%	21.68%
Return on Average Equity (ROE)	17.40%	15.61%	18.35%	13.83%	9.03%

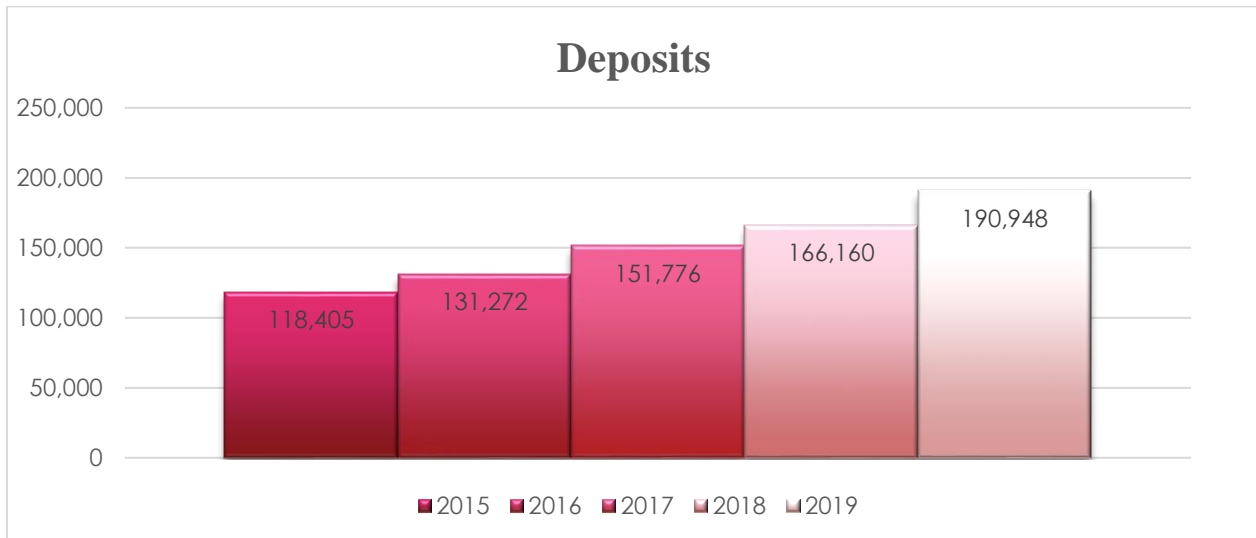
Table 2: 5 Years performance at a glance

Graphical analysis



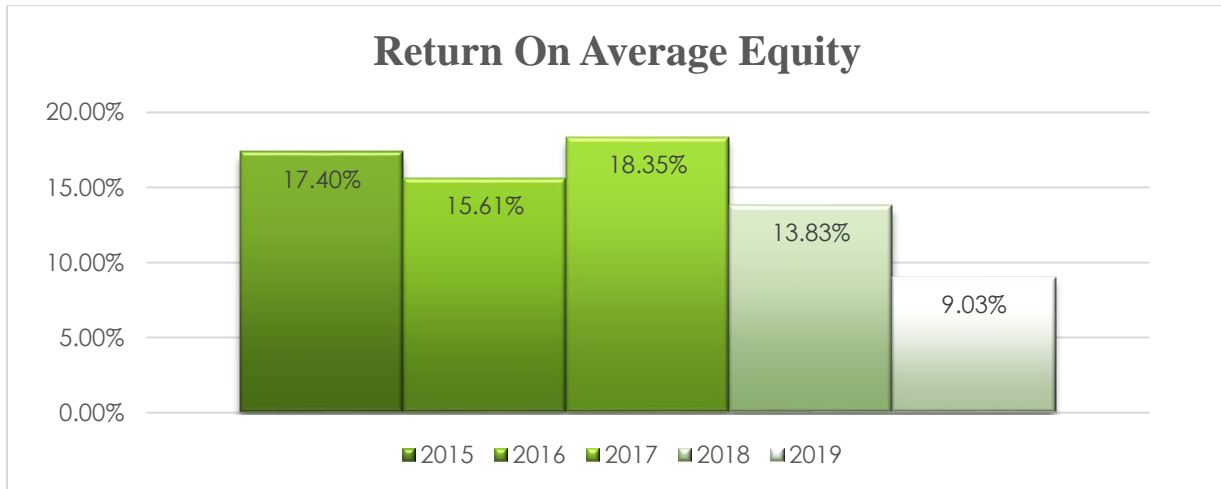
0-3: Loans and Advances

Balance sheet expansion is shown by steady rise in loans and advances. Loan and advances are increasing year to year in MTB. MTB was able to overcome obstacles and reduce the negative effects to a bare minimum. MTB has been able to record an increase in its own loan and advances from the previous year.



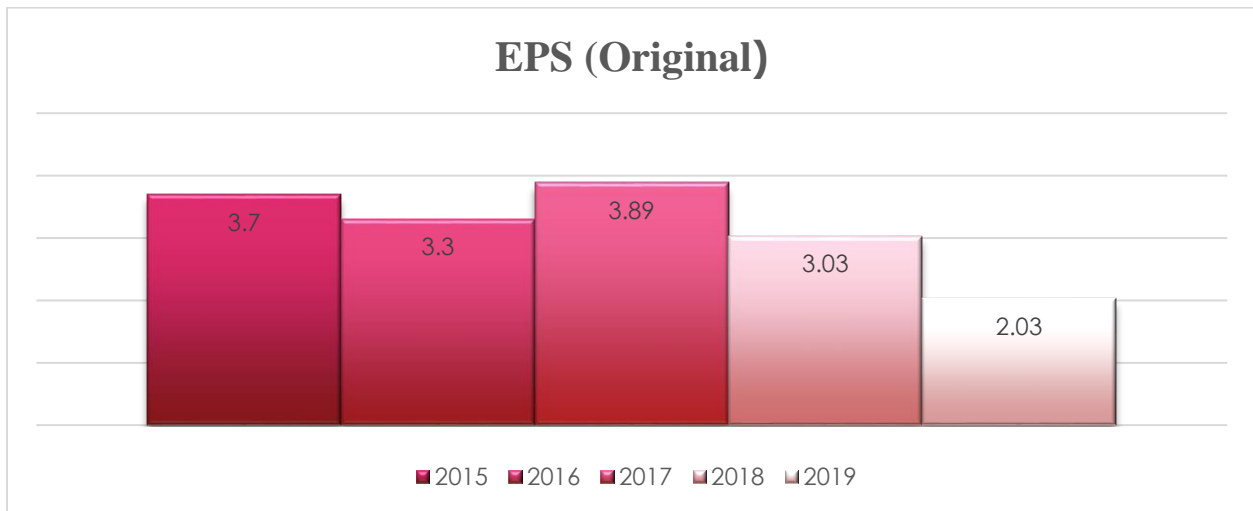
0-4 Deposits

The amount of money in the account is growing every day. MTB's balance sheet expansion is boosted by deposit growth. It demonstrates depositors' trust in the bank. On MTB, additional money and customers are being on boarded.



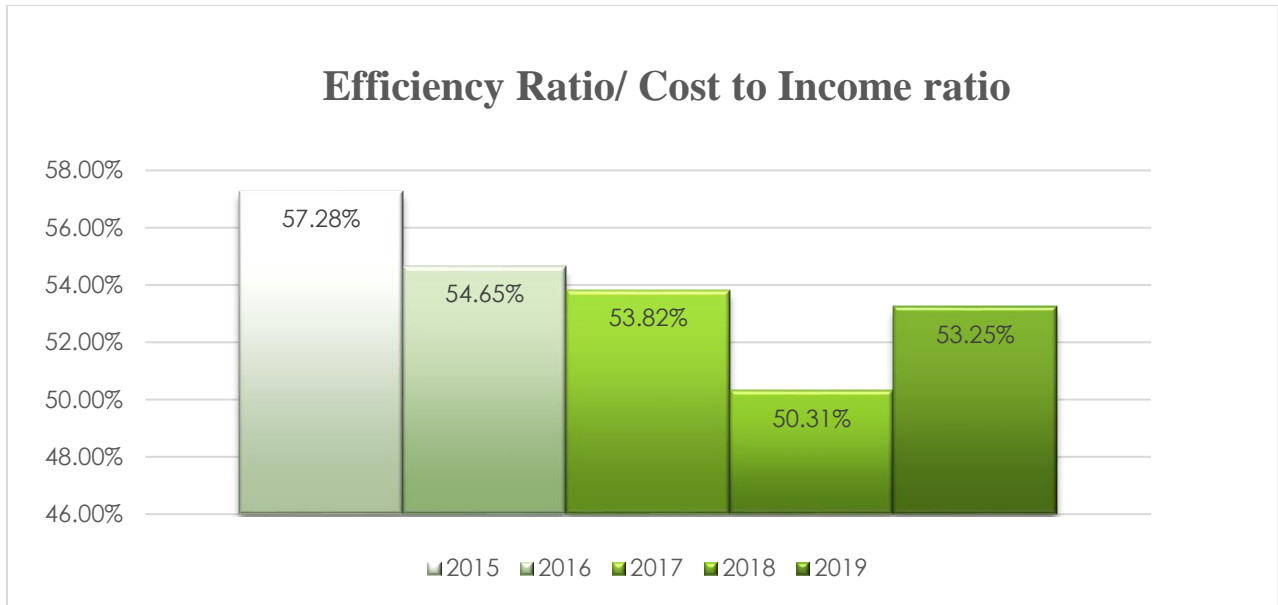
0-5 Return on Average Equity

The amount of net income returned as a proportion of the shareholders equity is used to calculate return on equity, which is a crucial indicator of MTB's profitability. MTB is becoming less effective in making money. Though it enhances the value of the company's shares, ROE is dropping, and clients have repeatedly gotten refunds from the bank. The Return on Equity for MTB was 9.03% in 2019.



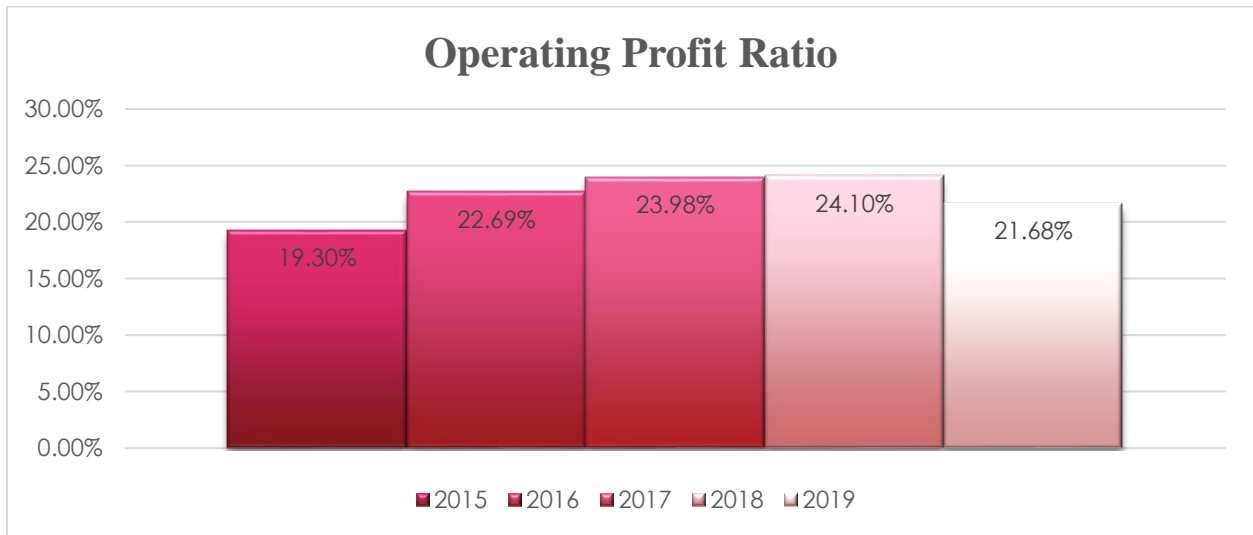
0-6 EPS (original)

The amount of a company's net income that is available for payout to common stockholders is measured by earnings per share. The downward trend of MTB is a warning indication to investors that the firm is in peril. The stock price will drop as a result of this. Even during times of tremendous industrial turbulence, the Bank has continued to pay a stable dividend to its stockholders. This is a reflection of the company's long-term goals. In 2019, EPS dropped to BDT2.03 from BDT 3.03 in 2018. The Incremental provisioning resulted in a modest decrease in 2019 EPS. In 2017, EPS climbed to BDT 3.89 from BDT 3.3 in 2016.



0-7 Cost to Income Ratio

Efficiency ratios assess a company's capacity to properly utilize its assets and manage its obligations. The efficiency with which a corporation manages its assets is measured by these ratios. MTB efficiency ratio is rising which indicates that a bank's expenditures are rising. It also demonstrates a drop in revenue. In 2019, the cost-to-income ratio increased. It assists with actions related to corporate expansion.



0-8 Operating Profit Ratio

As a reputable bank, MTB has a solid position. However, when compared to third-generation peer banks, its operational profit is poor. MTB operational inefficiencies are indicated by a lower operating profit margin. To avoid revenue leakage, MTB must implement effective business processes.

2.6 Operations Management and Information System Practices

It is extremely difficult to manage the structure efficiently if certain department are not assigned together. There would be a haphazard scenario where the department was not suited for the specific works. The output in a certain department will not be evaluated. MTB has done an excellent job with this Operations Management. MTB's various departments are as continues to follow:

➤ Wholesale Banking Division

MTB's Wholesale Banking Division (WBD) is regarded as being one of the bank's fundamental competencies. MTB continues to be primarily a corporate banking firm.

Maintaining up with changing customs has been the most difficult issue for a financial organization. 2019 was certainly another spectacular year for MTB. This year, MTB investigated new banking aspects. Service excellence was accomplished by supplying relevant product solutions, which redesigned the organization's operation structure.

MTB's WBD excelled in developing good relationships with private and individual customers. This deep bond is formed through serving consumers while maintaining rates competitive in the market. MTB acquired the trust and brand recognition of its clients by providing high-quality services. It has met consumers' expectations by providing necessary items, and the outcome has been reflected in the expansion of the WBD Assortment.

➤ SME BANKING DIVISION

Cottage, Micro, Small, and Medium-Sized Enterprises (CMSMEs) have always been important in MTB. These CMSMEs provide a substantial contribution to the country's national workforce. There is a favorable atmosphere for CMSME in Bangladesh. Bangladesh Bank takes many steps to ensure economic stability and the widespread usage of mobile financial services (MFS).

MTB SME Banking division continues its deliberate path for expansion in CMSME with specialized members of the team who serve as SME Loan proposal sources. On the one hand, they advise CMSME on how to run their businesses on the other side head office and senior management level gives policy support.

➤ RETAIL BANKING DIVISION

MTB Retail Banking provides a variety of comprehensive banking programs and services, allowing clients to select their banking channels. MTB's retail offerings (deposit products, loan products, student banking, locker services, and many others) are designed to address their valued consumers' latent need.

MTB RBD has devised a strategy for attracting and converting goal segments. MTB constantly seeks to consider their customers' needs and design payment methods that are suitable for them. MTB's RBD has recognized their main consumers. MTB is expanding rapidly its footprint by established and setting up new branches, sub-branches, and agent banking centers where

consumers seek information. They want to meet their clients in the right moment, in the right location, with the right information.

➤ **MTB Cards**

MTB Card Division began operations in 2007 with the mission of "Working for a Cashless Society." MTB has already established itself as a leading competitor in Bangladesh's card industry. MCD has introduced latest tech over the years to make MTB card payments quicker, easier, and more convenient, with all of the luxury amenities and benefits.

All luxury services and amenities, such as Lounge Access, Airport Pick & Drop, Rewards Program, and so many other, are available to consumers through their preferred payment system. The MTB Customer Support is open 24 hours a day, seven days a week to serve clients.

2019 has become an unforgettable year for MCD, which began with the introduction of VISA Contactless Credit Cards. Another notable case of the year was the launch of Union Pay Credit Cards, as well as the issuance of co-branded cards with the University of Dhaka, Sylhet Station Club, Sylhet Club, and Apex. The year came to a close with the massive announcement of the very first national fully integrated BanglaQR with MasterCard.

➤ **DIGITAL BANKING DIVISION**

MTB formed the MTB Digital Banking Division to improve the customer engagement. MTB Digital Banking Division focuses on SMS Banking, Online Banking, Android Apps, QR Code Generated Transactions, E-commerce, Money Transfer, and a variety of other services.

MTB Internet Banking is an electronic payment platform that provides a variety of services designed to facilitate monetary operations. MTB Smart Banking Mobile App, in addition to the online site, has been upgraded to become more optimized. The MTB App provides access to online mobile banking via mobile phones running both iPhone and android. MTB Internet Banking services are also available via the App.

By introducing 62,026 internet banking users in ecosystem 302 ATM booths and 118 branches, MTB has invested in new Centralized Banking Software to improve the quality of banking services. All of these are online-based.

➤ **MTB GROUP HUMAN RESOURCES**

Human resources was seen as a major advantage by MTB. It is essential to the progress of companies. MTB has a well-defined mission, vision, and objectives that can be accomplished with the right people, the right mindset, and the right skills. MTB GHR takes further steps to ensure that workers are constantly motivated to work against the institution's similar objectives.

MTB understands that its intellectual capital is a trading priority in the company's growth, thus the management created a structure that reflects this belief. To prepare MTBians for future self-sufficiency MTB recruits the greatest industry experts in order to maintain the company's basic goal. This talented employees makes every attempt to grow the workforce to its full potential.

GHR ensures that personnel are informed on the policies and procedures that must be followed. Each MTBian receives a copy of the 'Code of Conduct,' 'MTB 3V,' and 'MTB Winning' booklets. MTB believes that today's devoted workers will be tomorrow's representatives. GHR pays particular consideration to female candidates, much as it does to male candidates, so MTB GHR's goal is to keep the gender balance at a fair amount. MTB has taken steps to place women in positions of leadership in order to increase female representation in its activities at all levels. In MTB Female staff occupy a variety of positions, ranging from officers to administrators.

➤ **Payroll Banking Unit**

MTB Payroll Banking has consistently demonstrated integrity, coordination, and development. Nearly every single part of the portfolio has seen strong and sustainable improvement from the squad. The year 2019 was no exception. MNCs, major civic corporates, community charities, health and healthcare educational institutions, and other organizations are among the 90 new corporations that have joined the list.

➤ **NRB BANKING DIVISION**

In Bangladesh, remittances are among the most significant economic factors. It contributes to the growth of foreign currency reserves, which boosts national investments and maintains stability. Bangladesh placed third across Southeast Asian nations in 2018, as per the World Bank. For nearly 20 years, remittances have contributed about 35 percent of foreign exchange earnings, reducing reliance on foreign assistance. MTB is also regarded as being one of the best banks for providing remittance services to NRBs. MTB serves immigrant Bangladeshis by providing a range of products and services in order to contribute to economic development.

➤ **Treasury Department**

Treasury has evolved into a strategically important business entity around MTB, driven primarily by rapid technical advances and government regulations. Treasury operations include practices such as maximizing liquidity, managing capital instruments, and making investments.

Treasury is in charge of making prudent capital transactions with sufficient liquidity. The Treasury Department explicitly protects against market risk, currency risk, and financial leverage. To carry out its duties. Treasury conducts a variety of activities, including liquidity control and the administrative requirement of maintaining CRR, SLR, and NOP.

MTB's Treasury Department handles market risk, which includes liquidity, rate of interest, and currency risk. The ALCO is chaired by the bank's Managing Director and CEO, and meetings take place at least once per month.

2.7 Industry and Competitive Analysis

2.7.1 Competitive Landscape

MTB is establishing a plan to be sustainable and efficient all over the world from a futuristic perspective. An operational system should be implemented with the goal of long-term growth.

Michael Porter developed the five forces model. It's a business analysis tool that looks at the relative power of five major variables that influence competitiveness in almost every sector. The level of rivalry among the major corporations in a sector is considered in this research.

COMPETITIVE RIVALRY

Impact: High

- There are 59 commercial banks in our country's financial services market. However, the degree of competition in a given market determines its competitiveness. MTB is one of the front runners in terms of service efficiency, but as many FIs compete over the same customer market, the intensity of competition increases. When three new banks begin operations, the intensity is expected to rise.

BARGAINING POWER OF SUPPLIERS

Impact: Moderate to High

- The majority of financial institutes' major suppliers are fund providers from various client categories. Bargaining power varies from low to high, depending on the rate of interest and the central bank's authority to restrain rates. The upcoming run of single-digit interest rates would have a huge impact on suppliers' bargaining power.

BARGAINING POWER OF BUYERS

Impact: Moderate

- A new development in the market has been the increase in buying force. Because of the low switching costs, more people are obtaining licenses from regulatory bodies. Increased fixed costs often encourage banks to seek out and recruit new clients. Corporate clients are price-conscious. MTB would need to concentrate on improving customer service management for its current corporate client. MTB should concentrate its efforts on obtaining low-cost or no-cost customers, as well as expanding its commission sales pie.

THREAT OF NEW ENTRY

Impact: High

- Since 2009, the government has granted licenses to ten banks, with three more receiving approval in 2019. Despite the fact that the recently introduced institutions' output is unsatisfactory, a large number of applications for bank and NBFIs licenses are in the works, increasing the risk of new entrants. The SME and retail segments are becoming more competitive. There are already strong pioneers in the SME and retail sectors who have built their presence.

THREAT OF SUBSTITUTION

Impact: High

- There is a major chance of MTB being substituted due to the low cost of switching. NBFIs now offer specialized financial options in more favorable terms. Without the presence of financial institutions, consumer products suppliers offer installment-based billing. The fast growth of Fin-tech platforms poses a challenge to card companies as well.

2.7.2 Organizational Position

MTB has developed a SWOT analysis system for assessing competitive position in order to achieve long-term market growth. It is adopting a paradigm that is logical, fact-based, and data-driven. After examining the market environment and operational system, a SWOT analysis was carried out. SWOTs must be identified so that MTB can advise subsequent preparation steps.

Strength

- MTB is among the most prominent banking and finance companies in the country, with 118 branches, 5 sub branches, and 140 agents serving 37 divisions and 106 rural areas. MTB has developed a good reputation, which aids in the development of confidence.
- MTB NPL ratio was 5.39 % in December 2019, when the industry NPL ratio was 9.32 percent, which is significantly lower than the overall banking industry.
- 3 “MTB Air Lounges” in Dhaka, Chittagong, and Sylhet domestic, where MTB provides banking services to local and international travelers from different nations in a relaxing environment.
- MTB focuses on corporate clients for lending business and has a solid track record. The wholesale segment accounts for more than 80% of loan volume. Corporate clients have the advantage of being able to use services for a longer length of time while also cutting customer processing costs. It also represents the bank's positive image.

Weakness

- MTB cost-to-income ratio is about 52%, MTB's operating margin is weaker compared to third-generation peer banks, indicating operational inefficiencies.
- MTB Noncompliance problems arise when the regulatory capital threshold Tier 1 was not met.
- MTB's business strategy is not totally centralized, which has a significant influence on productivity, responsibility, and management.

Opportunity

- With current operating ability, MTB has the potential to increase non-funded market, which has a higher risk of broadening income ratio.
- Since there are 10,600 branches and 7,914 agent banking centers with a population of 163.7 million people, there is an opportunity for low-cost deposits.
- MTB becomes a well-known corporate platform that can be used to attract and expand new service offerings.

Threats

- 60 banks compete for each other's portfolios. The merger and takeover debate also raises a financial threat for MTB.
- Although NPL at MTB is within reasonable limits, the business sector NPL ratio has a negative impact on customer confidence, causing financial performance to deteriorate and posing a business cycle challenge.
- The financial sector is heavily controlled and thoroughly investigated. Complying with current rules and legislation on time is sometimes a challenge.

2.8 Summary and Conclusions

Because of its consumer satisfaction, customer engagement, quality service, innovative products, efficiency, and long-term effectiveness, MTB has gained the distinction of becoming one of the most competitive banking institutions.

With the support of the most sophisticated, competent, skilled and knowledgeable Board of Directors, which includes a diverse mix of famous business people, MTB is devoted to create an organization culture that emphasizes professional ethics, values, and authenticity. In December 2019, MTB took a forward-thinking approach to create its strategy, constantly maintaining a substantially lower NPL (5.39 %) ratio than the industry.

MTB is dedicated to long-term development and will maintain this dedication. MTB is investing in automated technology to provide clients with a smooth customer service. MTB's sustainable finance section has been doing a great job of focusing on green financing. MTB offers one of the best remuneration packages in the business, as well as a possibly the best career path. MTBians have a high level of job satisfaction, which is why the company was awarded the “Best Employer Award” in 2018.

2.9 Recommendations

MTB must concentrate on diversifying its deposit contributors in order to lessen its reliance on suppliers, who have moderate to high bargaining power. MTB must remain vigilant about governmental incentives and spend extensively in the technology front in order to acquire an early mover advantage due to the significant risk of replacement. MTB has a lower operating profit margin, indicating that the bank's operations are inefficient. MTB must have effective business processes in order to prevent revenue leakage. Because the bank's cost-to-income ratio is about 52%, it has to focus on digital solutions to improve. MTB is in the process of obtaining cash to meet the BASEL III standard for tier 1 MTB. The BASEL III criterion for tier 1 is met by issuing subordinated debt instruments and perpetual bonds. MTB must have a strategic competitive advantage and cultivate a strong brand image and consumer trust in order to prevent unhealthy competition.

**Chapter 3: Project Part: Implementation of Basel III Accords
in Mutual Trust Bank**

3.1 Introduction

The banking sector in Bangladesh is essential part to the country. It helps our economic growth. Nowadays, banks act as both a caretaker of open money and an essential specialist for the maintenance of a country's entire money-related infrastructure (Akter et al. 2019). In order to maintain prudential regulation, it is now more important than ever to hold a close watch on every bank's capital adequacy functions. The guidelines of the Basel Accords are one single universally recognized solution for this and it has far-reaching ramifications for Bangladesh's banking industry.

3.1.1 Problem Statement

All Bangladeshi banks are using a framework or structure for the capital and risk. This structure is called Risk Based Capital Adequacy framework. It is built in relation with 'solo' and 'consolidated.' The 'Solo' structure covers the bank's entire position, including local and foreign branches/offices. Although the system on a 'Consolidated' foundation consist of subsidiary bodies. Mutual Trust Bank Limited (MTB) maintains “solo” and as well as “consolidated” frameworks. MTB Securities Limited, MTB Finance Limited, and MTB Exchange (UK) Limited are its three subsidiaries.

The entire purpose of this material should be on the progress report of the Basel III Agreements at Mutual Trust Bank. The initial objectives must be addressed for the major emphasis:

Problem Statement 1. Has MTB been able to uphold the Basel III requirements on CRAR?

Problem Statement 2. Has MTB been able to maintain Basel III standards on (Tier 1) and (Tier 2) Capital?

Problem Statement 3. Does MTB have a better financial record when it comes to adopting the Basel III Accords?

3.1.2 Objectives

In a broader context, the study's objective is to measure the effect of the Basel III accords on MTB's ability to meet capital requirements. Besides that, the aim of this research is to identify the appropriate challenges and opportunities associated with implementing the Basel III framework at Mutual Trust Bank Limited.

- To learn and acquire knowledge about the latest Basel III rules and guidelines and the implementations in Bangladesh's banking industry.
- To assess the compliance status of the Basel III standards in Mutual Trust Bank Limited.
- To find out the process of how Mutual Trust bank limited will strengthen their capital framework.

3.1.3 Preliminary Literature Review

Akter et al. (2019) focuses on Capital conservation buffer. Different Bangladeshi banks use it as a distinguishing feature. But some of the bank sometimes avoided this major element. The capital conservation buffer, which is used in Basel III, should be used by all banks, according to this article. According to this research conclusion, the international community now understands the value of actual banking sector regulation because if this industry is fell to operate on its own, it has the ability to bring down the global economy.

Hossain and Islam (2017) Basel reforms were examined. This reforms are focused on Al-Arafah Islamic Bank Limited, one of Bangladesh's most renowned Islamic banks. The implementation process, effects or impacts and outcomes are the main focus point is based on another Islamic bank. This Islamic bank named as Al-Arafah Islami Bank Limited. They said that Islamic commercial banks has some distinguishing features. It is an issue that must be addressed. First and foremost, Leverage cannot be generated in significant amounts in this method. Second, since Islamic financial instruments are asset-based, they are more likely to bear market risk. Finally, the Islamic financial system faces certain special risks, such as displaced commercial risk. According to the findings of this report, Al-Arafah Islami Bank Limited's capital adequacy ratio is better than the industry norm. This study also discovered that, there is a strong connection between capital structure and AIBL profitability, according to regression analysis.

Hussain et al. (2012) The Basel Accord II's failure and the reasons for adopting the Basel Accord III were discussed. Traditional and Islamic financial institutions are used in this study. Finally, this analysis showed that there are many explanations for the failure of Basel II, including procyclical consequences and bank liquidity criteria, which are major causes of financial crises. Another reason for failure is the dependency on credit ratings by banks. External financial institutions offer this service. Basel Accord III, according to these financial institutions, corrects the shortcomings of Basel Accord II. The "Countercyclical Buffer" is introduced in Basel III, which also tackles the problem of liquidity problems. The Basel III Accord provides more capital to Islamic banks to secure their high-risk investments.

Sultana & Sharmin (2015) this paper aims to dissect differences between the Basel II and Basel III frameworks, with an emphasis on the problems that Bangladesh would face in adopting the Basel III Accord. Finally, this research makes a few recommendations for overcoming the difficulties of adopting Basel III. These recommendations are particularly relevant to regions, such as capital asset growth and production versus monetary reliance. It also predicts that growing competition would face hurdles, such as loan costs and compliance for solvency principles.

Zheng et al. (2017) the effects of financial constraints on Bangladeshi banks' expenditure of financial intermediary and profitability was explored. Higher bank capital levels are found to lower the expense of financial intermediation, according to the researchers. Bank performance is boosted by higher capital ratios. From 2000 to 2015, they used a panel dataset of 32 commercial banks.

Several experiments were conducted in this study to validate the major findings. This discovery has far-reaching implications. With the aid of business and macroeconomic metrics, they used VECM (Vector Error Correction Model) for measurement. Then they used fixed-effect model for approximations. Additional control variables were included for these metrics. They found no signs of negative effects of higher capital ratios in Bangladeshi banks, however they observed a favorable association between bank profitability and higher capital ratios. On the other hand, higher capital ratios show a significant negative association to bank financial performance.

3.2. Methodology

This study looks at a few documents. According on the Basel III framework, these publications are released by the Basel Committee on Banking Supervision (BCBS). In addition to these, this research looks at the Bangladesh Bank's Regulations on Risk-Based Basel Capital Accord. This guideline covers both quantitative and qualitative research.

3.2.1 Primary Source: Primary and secondary data are included in this report. The following are the sources that were used to gather and collect primary data:

- Practical discussion experience gained via touring extraordinary desks throughout internship period
- General discussion with reporting unit team of Mutual Trust Bank

3.2.2 Secondary Sources: Additional information was acquired in this study. Data of various types has been gathered from various sources, including:

- Data for the last five years (2015-2019) was gathered from Mutual Trust Bank Limited's Annual Report
- Mutual Trust Bank's website
- Bangladesh bank's guideline on Basel Standards
- Web site of Bangladesh Bank
- Studies completed before to the Basel Accords that were relevant to the Basel Accords

3.3 Findings & Analysis

3.3.1 Background History of Basel Accords

Basel I: In 1988, the Basel Agreement 1 was founded. The "Basel Committee on Banking Supervision" (BCBS) formed it to help financial institutions in dealing with risk linked with banks. The Basel Accord also removes all limitations on the use of leverage ratios to assess the financial system's solvency. (Hussain et al. 2012)

$$\text{Risk-Based Capital Ratio} = \frac{\text{Capital}}{\text{Risk-Adjusted Assets}}$$

Basel II: The initial Basel was updated to make it more likelihood by the "Basel Committee on Banking Supervision" (BCBS). Basel Accord II was enacted following taking into account all of the inadequacies of Basel Accord I. (Hussain et al. 2012) The Basel II accord establishes a more risk-aware system for all financial institutions, including banks. The following equation is used to calculate risk according to the Basel Accord II:

$$\text{Risk-Based Capital} = \frac{\text{Capital}}{\text{Credit Risk} + \text{Market Risk} + \text{Operational Risk}}$$

Basel III: BCBS has concentrated on expanding the global banking market since the financial crisis of 2007. Correspondingly, the worldwide banking sector approved Basel III, which succeeded Basel II. Basel III's aim is to reduce the risk of loans while also strengthening the capital system. (Akter et al. 2019). Some New features are implemented in Basel III.

3.3.2 Implementation of the Basel in Bangladesh Bank

YEAR	EVENT
1996	Basel I is the first international convention to be established
2009	Basel I and II were held to the same standards.
2010	In the financial industry, Basel II has been introduced.
2014	Bangladesh Bank has formulated the roadmap and issues guidelines to implement Basel III from January 2015
2015	Basel III starts its journey in Bangladesh from January 2015 with some new governance of capital adequacy and liquidity in prescribed RBCA guideline

TABLE 3 IMPLEMENTATION OF BASEL IN BANGLADESH BANK

Source: Risk-based capital adequacy rules from the Bangladesh Bank

Adoption of Basel I in Bangladesh: Bangladesh Bank accepted the Basel I proposals in 1996. The aim of this initiative was to develop capital adequacy regulations that were based on risk-weighted assets. The circular's main points were to describe capital as follows:

- **Minimum Capital Requirements:** A financial institution like bank's minimum amount of capital ratio does not fall below 8%. It needs to keep core resources at least at 4%.
- **Determination of Risk-weighted Assets:** Only Counterparty Risk was included in the Risk Weighted Assets (RWAs) calculation approach. It also takes into consideration assets on the financial statement and investments outside the balance sheet. These assets and investment were evaluated based on their respective risk levels. The risk weight categories were divided into five categories.

- Time limit for Execution: In June of 1996, this regulation was set to go into effect.
- Reporting timeframe: Every six months, organizations would require to examine overall financial sufficiency. This 6months will be counted on June 30th and December 31st.

Adoption of Basel II in Bangladesh: Bangladesh Bank followed the roadmap and conducted current Basel-I and Basel-II Accords at the same time. The study took place from January to December in 2009. Following this parallel sprint, the final enforcement of this Guidelines for financial institutions began. The enforcement time was January 2010. The Bangladesh Bank announced an improved edition of the Parameters in December 2010. All of the essential Basel-II requirements are included in this upgraded edition. The following three elements have been incorporated into these guidelines:

- **Minimum Capital Requirement (MCR):** The amount of regulatory capital for operations a bank must hold defined this time. This MRC must be maintained against RWA on a solo and consolidated basis.
- **Supervisory Review Process (SRP):** The Internal Capital Adequacy Assessment Process would be used to determine overall capital adequacy. This would be in line with a bank's overall risk control strategy.
- **Market Discipline:** Government regulation has provided a framework for public disclosure for any banks. This disclosure will be based on risk profiles, capital adequacy, and risk management mechanism at a given time period.

Adoption of Basel III in Bangladesh: From January 2015, the Bangladesh Bank has established a roadmap and issued guidance to enforce Basel III. Basel III is developed with the aim to further strengthen the governance of capital base, liquidity, and risk management. With the lessons learnt from the global financial crisis, BCBS developed several new capital management features. They adopted new global liquidity requirements for banks, allowing them to remain solvent in the face of a severe financial crisis. The main features of Basel III, as adopted by Bangladesh Bank, are as follows:

- **New Definition of Capital:** The capital of a bank is split into two parts under Basel III. Tier 1 and Tier 2 are the two members of Basel II, which were formerly divided into three parts. Quality of the capital has been strengthened.
- **Introduction of New Leverage Ratio** Basel III adopted the non-risk-based leverage ratio. This was implemented to prevent the financial industry from accumulating undue on- and off-balance-sheet debt. It's a straightforward system that's easy to understand. The leverage ratio is designed to accomplish with three aims:
 - A. to prevent the banking industry from becoming too leveraged
 - B. to protect the financial system and the economy as a whole
 - C. to make the risk-based standards more stringent
- **Capital Conservation Buffer:** Financial institutions must maintain a 2.5% capital conservation buffer. It will be higher than the statutory capital requirement of 10%. This buffer is made out of Common Equity Tier 1.

3.3.3 Components Of capital

Common Equity Tier 1 Capital	<ul style="list-style-type: none"> a) Paid up capital b) Non-repayable share premium account c) Statutory reserve d) General reserve e) Retained earnings f) Dividend equalization reserve g) Minority interest in subsidiaries
Additional Tier 1 Capital	<ul style="list-style-type: none"> a) Instruments issued by the banks that meet the qualifying criteria b) Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties
Tier 2 Capital	<ul style="list-style-type: none"> a) General Provisions b) Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital as specified c) Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties as specified

TABLE 4 COMPONENTS OF CAPITAL

SOURCE: RISK-BASED CAPITAL ADEQUACY RULES FROM THE BANGLADESH BANK

Minimum Capital Requirements	In Percentage				
	2015	2016	2017	2018	2019
Minimum Common Equity Tier-1 Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	0	0.63%	1.25%	1.88%	2.50%
Minimum CET-1 plus Capital Conservation Buffer	4.5%	5.13%	5.75%	6.38%	7.00%
Minimum T-1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%
Total Tier-1 Capital Ratio with buffer	5.50%	6.13%	7.25%	7.88%	8.50%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00%	10.63%	11.25%	11.88%	12.50%

TABLE 5 MINIMUM CAPITAL REQUIREMENT

SOURCE: RISK-BASED CAPITAL ADEQUACY RULES FROM THE BANGLADESH BANK

3.3.4 Capital structure of Mutual Trust Bank Ltd.

All the qualitative data and quantitative figures are taken from the annual report of Mutual Trust Bank Limited and Basel guidelines. All capital instruments' major characteristics' terms and conditions have been separated. In terms of qualifying standards, this segmentation has resulted.

MTB Tier-I (Going-Concern Capital): Tier 1 assets is utilized to fund the operations of a firm. This tier 1 includes equity capital and reported reserves in its risk-weighted instruments total. It's a key metric for determining a bank's financial health. It was introduced on the basis of the Basel III bank regulatory accord. Tier 1 capital, often known as going concern capital, enables the company to continue functioning while being solvent. This capital is made up of many components. The most obvious components are the Common Equity Tier-I as well as Supplementary Tier-I Equity components. Paid-in or contributed Capital, actuarial reserve, General Reserve, Undistributed profits, and Non-controlling Interest in Subsidiaries are other components.

MTB Common Equity Tier 1: The majority of CET1 is made up of common shares. This is owned by a financial institution or another major bank. It's a capital measure that was put in place in 2014 as a precautionary step. This measures have been taken to protect the industry from a financial disaster. Common equity is measured by subtracting preferred equity from overall shareholder equity as determined by the company's financial statements. For investors seeking to invest in a company, common equity is an essential component of the investment road map.

BDT Million

Particulars	2015	2016	2017	2018	2019
Common Equity Tier-I Capital:					
Paid-up Capital	3,693.16	4431.79	5096.56	5,733.63	7,034.59
Statutory Reserve	2,721.14	3187.77	3622.22	4,096.00	4,691.95
Share Premium	0	0	0	0	1,095.30
General Reserve	446.78	616.78	616.78	786.78	786.78
Retained Earnings	752.89	841.24	1722.34	2,175.94	2,253.89
Minority Interest in Subsidiaries	0.13	0.12	0.12	0.13	0.13
Regulatory Adjustments/Deductions					
Goodwill and Other Intangible Assets	47.32	65.81	101.34	80.04	220.27
Deferred Tax Assets			889.11	1,134.08	1,104.13
Reciprocal Crossholdings in the CET-1 Capital of Banking, Financial and Insurance Entities	0	2.46	0.09	0	0.22
Total Common Equity Tier-I Capital	7,565.24	9009.43	10067.5	11,578.36	14,538.04

TABLE 6 AMOUNT OF COMMON EQUITY TIER 1 (CET1) [A]

MTB Additional Tier 1 Capital: Instruments are kind of Tier 1 capital that can be used to supplement existing capital. The fact this was not common equity. But it falls under this category.

BDT Million					
Particulars	2015	2016	2017	2018	2019
Additional Tier 1 Capital:					
Non-cumulative irredeemable preference shares	-	-	-	-	-
Instruments issued by the banks that meet the qualifying criteria for AT1	-	-	-	-	-
Others (if any item approved by Bangladesh Bank)	-	-	-	-	-
Additional Tier 1 Capital:	-	-	-	-	-

TABLE 7 ADDITIONAL TIER 1 CAPITAL [B]

*MTB has no additional Tier-I Capital.

BDT Million					
Particulars	2015	2016	2017	2018	2019
Total Common Equity Tier-I Capital	7,565.24	9009.43	10067.48	11,578.36	14,538.04
Additional Tier 1 Capital:	-	-	-	-	-
Total Tier 1 capital [A+B]	7,565.24	9009.43	10067.48	11,578.36	14,538.04

TABLE 8 TOTAL TIER 1 CAPITAL [C]

MTB Tier-II (Gone-Concern Capital): The second layer of capital is referred to as Tier II capital. A bank is obligated to preserve some of its needed reserves. It's also known as "gone-concern capital," because it reflects additional aspects that lack some of the core capital's attributes. It contributes to a bank's overall strength. It has a number of crucial components. These elements include statutory principles on unsecured and Special Mention Account (SMA) loans, as well as off-balance sheet exposure. Reassessment Provisions for Stocks, Non-liquid Assets, and Securities, which are determined using Basel III deductions, are among the other components.

BDT Million					
Particulars	2015	2016	2017	2018	2019
Tier-II Capital:					
General Provision	1,139.24	1559.62	2605.72	2,611.66	4,450.29
Revaluation Reserves	260.13	260.13	260.13	260.14	260.14
Subordinated Debt	3,500.00	3000	6239.2	6,800.00	5,200.00
Regulatory Adjustment/Deduction	52.02	104.05	156.08	208.11	260.14
Total Tier-II Capital	4,847.35	4,716	8948.97	9,463.69	9,650.29

TABLE 9 TIER 2 CAPITAL [D]

BDT Million

Particulars	2015	2016	2017	2018	2019
Total Tier 1 capital [C]	7,565.24	9009.43	10067.48	11,578.36	14,538.04
Total Tier-II Capital [D]	4,847.35	4,716	8948.97	9,463.69	9,650.29
Total Eligible Capital	12,412.59	13725.13	19016.45	21,042.05	24,188.33

TABLE 10 TOTAL REGULATORY CAPITAL



0-9 TOTAL REGULATORY CAPITAL

Interpretation: "Eligible capital" refers to the entire financial services in Tier 1 and Tier 2." MTB's total Eligible capital graph shows an improving trend from 2015 to 2019.

MTB's total regulatory capital increased by BDT 3146.28 in 2019 and now stands at BDT 24188.33 million. In 2018, MTB's total capital increased by BDT 2025.6 million, reaching BDT 21042.05 million. MTB's total capital enlisted an expansion of BDT 5,291.33 million and remained at BDT 19,016.45 million of every 2017. In 2016, MTB's total capital increased by BDT 1312.54 million, reaching BDT 13725.13 million. In 2015, MTB's total capital was BDT 12,412.59 million

RWA of MTB: MTB is required to compute its Risk Weighted Assets (RWA) in the CRAR ratio using techniques mentioned below.

- Credit risk management using a standardized method
- For market risk, a standardized strategy is used.
- For operational risk, a basic indicator technique is used.

By multiplying the market risk and operating risk, the total RWA will be computed. The reciprocal of the minimal CRAR will be applied to these capital risks. To calculate default risk, multiply the quantity of risk-weighted assets by the computed statistics. MTB uses Basel III criteria to compute Risk Weighted Assets (RWA).

BDT Million

Particular	2015	2016	2017	2018	2019
Credit Risk [i]	91,139.48	108,224.74	123312.67	146,509.42	167,308.11
Market Risk [ii]	5,055.18	4,399.84	4,495.13	5,131.04	6,104.70
Operational Risk [iii]	7,072.17	8,930.95	10,416.69	12,003.98	13,944.69
Total Risk Weighted Assets (RWA) [I + II + III]	103,266.83	121,555.53	138,224.49	163,644.44	187,357.50
Required Capital on Risk Weighted Assets	10326.68	12155.55	13822.45	16,364.44	18,735.75

Table 11 Total Risk Weight Assets (RWA)

According to BASEL, MTB's total assets should have been at minimum 10% of RWA.

CRAR formula of MTB: The capital adequacy (CAR), also defined as the Equity to Requires Considerable Assets Ratio. It measures of a company's financial strength of MTB. The above CRAR proportion safeguards investors. This even adds to the international financial platform's sustainability and functionality. This ratio compares two forms of capital: Tier I capital, which allows a bank to absorb losses without having to halt its own trading. Tier II capital, which may suffer losses if the company is wound up. As a result, depositors receive a reduced level of protection.

Total regulatory capital is used as the component in CRAR calculations in numerator. In the denominator, risk-weighted assets will be found. To get the final proportion, divide total regulatory capital by total risk-weighted assets and multiply by 100.

$$CRAR = \frac{(Total\ Regulatory\ capital)}{(Total\ Risk\ Weighted\ Assets)} * 100$$

Tier I formula of MTB: MTB's core equity capital is referred to as "Tier 1" in the numerator of the scale. In the denominator, risk-weighted assets will be found. All MTB assets that have been credit risk-weighted are listed here. Divide core capital by risk-weighted assets and multiply by 100 to arrive at the final percentage.

$$Tier\ I = \frac{(Total\ Tier\ I\ Capital)}{(Total\ Risk\ Weighted\ Assets)} * 100$$

Tier II formula of MTB: The total Tier 2 is used as the numerator of the ratio refers to the second layer of capital of MTB. The denominator will contain risk-weighted investments. This section is a list of all MTB assets that have been credit risk-weighted. To calculate the final figure, divide Tier 2 capital by risk-weighted assets multiplied by 100.

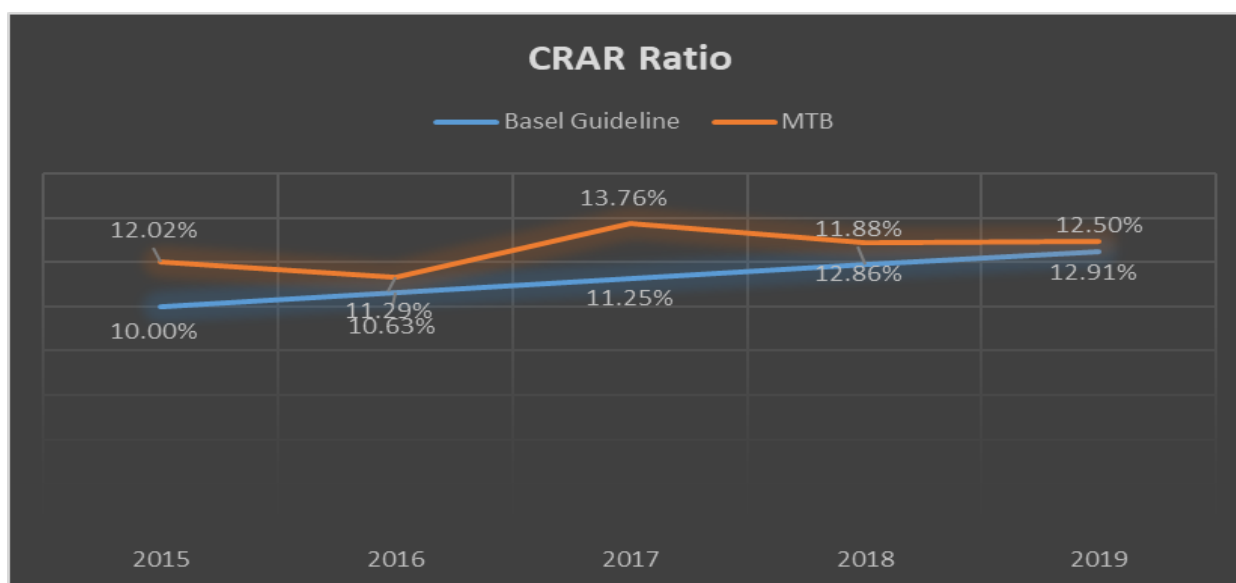
$$Tier\ II = \frac{(Total\ Tier\ II\ Capital)}{(Total\ Risk\ Weighted\ Assets)} * 100$$

In Percentage

Particular	2015		2016		2017		2018		2019	
	Required	Held	Required	Held	Required	Held	Required	Held	Required	Held
MTB Capital to risk wighted assets ratio(CRAR)	10.00%	12.02%	10.63%	11.29%	11.25%	13.76%	11.88%	12.86%	12.50%	12.91%
Total Tier-I Capital Ratio (%) with buffer	4.50%	7.33%	6.13%	7.41%	7.25%	7.28%	7.88%	7.08%	8.50%	7.76%
Tier-II Capital Ratio (%)	-	4.69%	-	3.88%	-	6.47%	-	5.78%	-	5.15%

Table 12 CRAR, Tier I & Tier II of MTB

The Guidelines on Risk Based Capital Adequacy were used to calculate CRAR under Basel III. Bangladesh Bank published its BRPD circular # 18 on December 21, 2014, which is the Basel III-compliant Modified Statutory Capital Framework for Financial institutions.



0-10 CRAR RATIO OF MTB

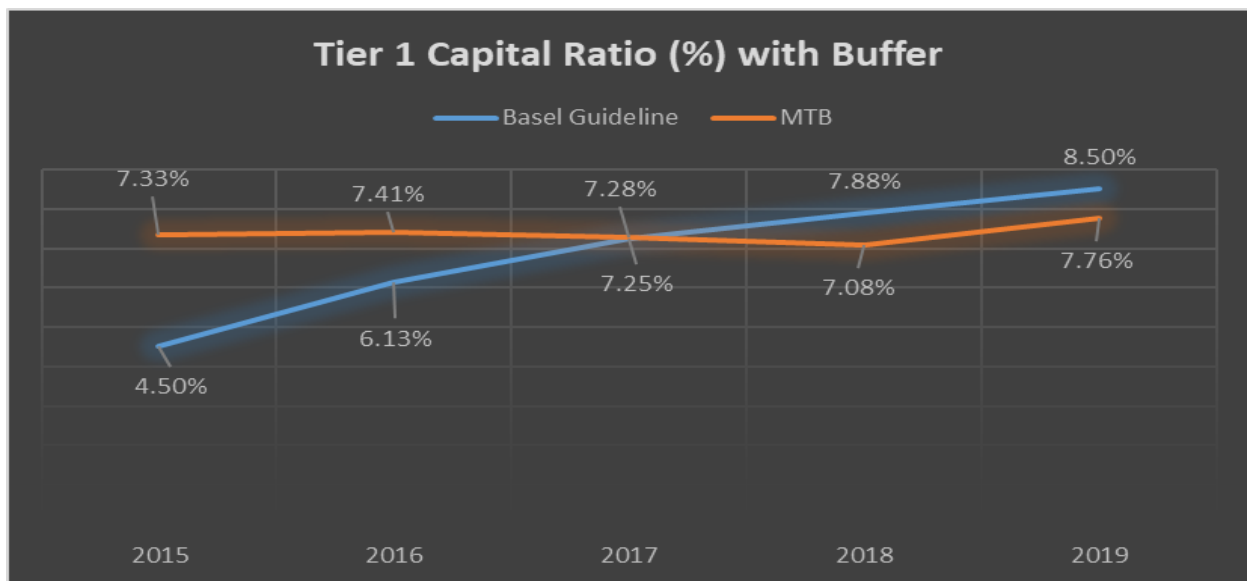
CRAR Interpretation: The Bangladesh Bank's recommendations are followed by MTB. Beginning January 2019, a bank must retain capital of minimum 12.50 % assets. it Includes Capital Conservation Buffer 2.50%. MTB's CRAR is 12.91 % as of December 31, 2019. MTB had total regulatory capital of BDT 24,188.33 million. This is more than the basic minimum required. To achieve a CRAR of 12.91 % of risk weighted assets, MTB increased their regulatory capital standards and financial strength.

According to Bangladesh Bank regulations, every bank must have at least 11.875 % capital. By the end of 2018, the Capital Conservation Buffer accounted for 1.875 % of its risk-weighted assets. MTB's net capital is 12.86 % of risk-weighted assets, which is more than the regulatory minimum.

Every bank must have at least 11.25 % capital under the Basel-III system. It is included The Capital Conservation Buffer for 1.25%. In December 2017, MTB's CRAR was stated as Total capital equal to 13.76 %. It exceeds the minimum regulatory criteria.

According to Bangladesh Bank's guidelines, any bank must retain CRAR of at least 10.625 % (Buffer for Capital Conservation 0.625) under the Basel III criteria, of its risk-weighted instruments. MTB's consolidated CRAR of 11.29 % in 2016, which is higher than the regulatory minimum, indicates its capacity to control all types of risks.

In 2015, the Bangladesh Bank issued instructions. All Bangladeshi banks were required to have at least 10% capital in 2015. Their risk-weighted assets would be 10% of their total assets. In 2015, MTB had a consolidated CAR is 12.02%. This was higher than the regulation requirement.



0-11 TIER 1 CAPITAL RATIO (%) WITH BUFFER

Tier I capital ratio with Buffer Interpretation:

In 2019, According to the Bangladesh Bank's guidelines, MTB is required to maintain Tier I with buffer at least 8.50% MTB's Tier I capital was recorded 7.76 %, which is lower than the required regulatory requirements. Though this year MTB raised their capital compare to 2018 in the form of share capital by selling 63,707,004 of Norfund will receive 9.53% of the equity shares Which is a private equity firm based in Norway. Though this action created a positive sign to their Tier I but was less than the minimum standard.

MTB is expected to retain Tier I capital with a buffer of at least 7.88 percent, according to Bangladesh Bank guidelines, but its Tier I capital was recorded at 7.08 % in 2018, which is lower than the required regulatory criteria. Tier-1 capital ratio declined marginally to 7.08 percent in December 2018 from 7.28 % 2017.

According to the Bangladesh Bank, each bank must keep Tier 1 assets equivalent to at least 7.25%. Buffer is included in Tier 1 item. MTB's Tier-1 capital was 7.28 % in December 2017. The ratio, however, is still larger than the required minimum. In this case, this fell somewhat from the prior year.

In 2016, all Bangladeshi banks were obliged to uphold Tier 1 minimum 6.13%. MTB's consolidated Tier 1 was 7.41% 2016, which was greater than the legal requirement.

According to the Bangladesh Bank, every financial institution must maintain Tier 1 assets of at least 5.5 %. In December 2015, MTB's Tier-1 capital was 7.33 %. However, the ratio is still higher than the needed minimum.

3.3.5 Basel II in MTB

MTB released a more complete and enlarged risk profile disclosure requirements. In compliance with Pillar III of the Bangladesh Bank's conceptual Platform for BASEL II.

Paid-up capital make up MTB's Core Capital (Tier-I). Statutory reserve is another component of Tier-1. General reserve, and retained earnings are also contained by MTB's Core Capital (Tier-I) in Basel II on 2014. Supplementary Capital (Tier-II) is made up of general provisions and revaluation reserves for securities. It would be worth up to 50% of the total capital in 2014. Partially redeemable subordinated debt will be counted as Tier 2. Tier-III capital is not held by MTB (tertiary capital).

Basel II and Basel III have a significant differences. The Basel III framework, in compared to the Basel II framework, specifies a higher level of common equity. Capital buffer was introduced in Basel III. Basel 3 launched Leverage Ratio.

Particular	2014	
	Required	Held
MTB Capital to risk wighted assets ratio(CRAR)	10.00%	10.77%
Total Tier-I	5.00%	7.72%

0-12 CRAR OF MTB YEAR 2014

In 2014, Basel II came into effect. Any financial institutions like Banks must keep a CRAR of at least 10% as per Bangladesh Bank standards. MTB's consolidated CRAR 10.77% in 2014, which is higher than the regulatory minimum. It indicates that MTB has the capacity to control different types of risks. MTB is expected to retain Tier I capital 5.00%, according to Bangladesh Bank guidelines. In 2014, Tier I capital was recorded at 7.72% which is higher than the required regulatory criteria.

Particular	In Percentage					
	2014	2015	2016	2017	2018	2019
	BASEL II	Basel III	Basel III	Basel III	Basel III	Basel III
MTB Capital to risk wighted assets ratio(CRAR)	10.77%	12.02%	11.29%	13.76%	12.86%	12.91%
Total Tier-I Capital Ratio (%) with buffer	7.72%	7.33%	7.41%	7.28%	7.08%	7.76%
Tier-II Capital Ratio (%)	-	4.69%	3.88%	6.47%	5.78%	5.15%

0-13 CRAR, TIER I & TIER II OF MTB

MTB's CRAR was 10.77 percent in 2014, although it has changed significantly with the implementation of Basel III. The CRAR ratio is steadily rising after the implementation of Basel III. MTB is completely committed to the Basel III aim. In comparison to BASEL II, MTB acts more cautiously by developing their capabilities and preserving a considerably greater capital base.

3.3.6 Strengthening MTB's capital

In 2019, Basel III will be completely implemented. Although the ramifications of increasing capital requirements are yet unknown, Basel III highlights increased capital requirements for banks.

Increases in regulatory capital, which is the numerator of the capital ratio, can help banks boost banks capital ratios. Reduced risk-weighted instruments can help banks enhance their statutory capital ratios. The denominator of the total capital is this.

Regulators often consider capital raising to be “good deleveraging.” If multiple banks decrease lending at the same time, shrinking assets might have negative consequences. Some banks boosted their capital ratios by lowering risk-weighted assets rather than increasing equity.

3.4 Summary and Conclusions

CRAR of MTB constantly upholds within the acceptable range. MTB consistently exceeds the required CRAR ratio year after year. MTB has a satisfactory CRAR during 2015 to 2019, as specified by Central Bank of Bangladesh. MTB has always placed a premium on a strong capital base. As it is a means of enhancing future growth.

To be the finest bank in Bangladesh, MTB has always placed a strong financial basis first. This capital foundation, which is CET-1. Tier 1 was appropriately maintained from 2015 to 2017, as required by MTB. For the second year in a row, MTB has failed to achieve the statutory capital requirement for Tier-I. (2018 & 2019).

MTB have a better financial records when it comes to adopting the Basel III Accords. MTB will benefit from Basel III. So long as the ground rules are explicit. Under Basel III, MTB maintained

stronger capital levels. Even though Tier 1 capital has changed, the CRAR ratio has increased since Basel III was implemented.

3.5 Recommendations

MTB must concentrate on the bank's core financing source. MTB must obtain capital through the issuance of subordinated debt instruments to meet the BASEL III criteria for Tier-I Capital Ratio. MTB will also need to raise funds through a perpetual bond. MTB must encourage creditors to execute external creditworthiness in order to examine counterparty default risk. Evaluating new clients' risk profiles and credit ratings. Increasing and improving collateral coverage by pursuing eligible collateral.

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