

## 4.1 DATA ANALYSIS

This is a descriptive report mainly aiming to depict operational banking activities of Mercantile Bank Limited. The data gathered from both primary and secondary sources were arranged orderly to get a clear picture of the Mercantile Bank's banking, accounts, and consumer term loan and customer service policy. Information has been presented by the use of tables, graphs and charts will clarify the contents of analysis consider as performance evaluation indicators of Mercantile Bank Limited.

The study includes both qualitative and quantitative analysis of activities and monitoring tools. Based on the observational information writer also tries evaluate and analyze the problems involved in various phases banking activity and monitoring techniques.

## 4.2 FINANCIAL ANALYSIS

### **Significant Accounting Policies and Basis of Preparation of Financial Statement**

#### **Basis of preparation of the financial statement**

These financial statements have been prepared under the historical cost convention on a going concern basis in accordance with International Accounting Standards and International Financial Reporting Standards adopted by the Institute of Chartered Accountants of Bangladesh, Companies Act, 1994, the Securities and Exchange Rules 1987, Dhaka & Chittagong Stock Exchange's listing regulations and other laws and rules applicable in Bangladesh and in the format prescribed by Bangladesh Bank vide BRPD circular # 14 dated 25 June 2003 in accordance with the "First Schedule" (Sec-38) of the Bank Companies Act, 1991.

**Consolidation**

A separate set of records for consolidating the statements of affairs and income & expenditure statements of the branches are maintained at Head Office of the Bank in Dhaka based on which these financial statements have been prepared.

**Use of estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

**Foreign currencies**

Transactions in foreign currencies are translated into taka currency at the rates of exchange prevailing on the date of such transactions and resulting gains or losses are credited or charged to profit & loss account as per BAS-21 "The Effects of Changes in Foreign Exchange Rates".

Assets and liabilities as on 31 December 2009 in foreign currencies under regular accounts are converted into equivalent taka currency at the average rates prevailing at the Balance Sheet date.

**Taxation**

➤ ***Provision for taxation***

In compliance with BAS-12 "Income Taxes", provision for current income tax has been made @ 42.50% on business income and @20% on dividend income, after considering

some of the add backs to income and disallowances of expenditure as per Income Tax Ordinance 1984 and time to time amendment to issue different S.R.O and circular issued by the N.B.R.

➤ ***Deferred taxation***

Deferred tax liabilities are the amount of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amount of income taxes recoverable in future periods in respect of deductible temporary differences. Deferred tax assets and liabilities are recognized for the future tax consequences of timing differences arising between the carrying values of assets, liabilities, income and expenditure and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date. The impact on the account of changes in the deferred tax assets and liabilities has also been recognized in the profit and loss account as per BAS-12 "Income Taxes".

□ **Assets and basis of their valuation**

➤ ***Cash and cash equivalents***

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bangladesh Bank and highly liquid financial assets which are subject to insignificant risk of changes in their fair value, and are used by the Bank management for its short-term commitments.

➤ ***Loans and advances / Investments***

Loans and advances are stated at gross amount. Provision and interest suspense against loans and advances are shown separately as liability. Interest income is accounted for on accrual basis until the loans and advances are defined as Special Mention Account (SMA) or classified accounts as per Bangladesh Bank guidelines.

Interest on Special Mention Account and classified loans (other than bad/loss loans) are credited to interest suspense account instead of income account. Such interest kept in suspense account is reversed to income account only when respective loan accounts become regular and /or realized in cash.

As per Bangladesh Bank directives, interest on loans and advances classified as bad/loss is not accounted for. A separate memorandum record is maintained for such interest on bad/loss loans.

➤ ***Provision for loans And advances***

Provision rate are given below:

General provision on	Provision Rate
a. Consumer Financing (House Financing)	2%
b. Consumer Financing (Loans to Professional)	2%
c. Consumer Financing ( Other than a & b)	5%
d. Small and Medium Enterprise Financing	1%
e. Short Term Agriculture & Micro Credit	5%
f. All other Credit	1%
g. Special Mention Account	5%
<b>Specific provision on</b>	
a. Substandard Loans and Advances	20%
b. Doubtful Loans and Advances	50%
c. Bad/Loss Loans and Advances	100%

➤ ***Provision for off balance sheet exposures***

General provision for off balance sheet exposures has been made @ 1% on year end balance of total off balance sheet exposures as per BRPD circular No. 8 and 10 dated August 07, 2007 and September 18, 2007 respectively issued by Bangladesh Bank.

➤ ***Initiatives against recovery of classified loans and advances***

We have taken up different measures for recovery of classified loans and advances. We have initiated 32(thirty two) legal cases against defaulters for realization of classified

loans. In most of the cases we got decree in our favor and filed execution cases for recovery of loans.

We are very much optimistic that total loans to be adjusted from the settlement claim of compensation against the mortgaged properties to be acquired by Chittagong Cantonment of top 2(two) loan defaulters of our Bank, M/s Nabi Steel Industries and M/s Zardhi Steel, who have overdue loan liabilities of Tk 30.14 crore.

In 2009, we have recovered Tk 6.96 crore in cash against classified loans and rescheduled Tk 10.58 crore for regularization of classified loans. We have realized Tk 5.90 crore classified loans in February 2010.

Besides, we prioritize for compromise settlement with the defaulted borrowers through constant negotiation and close follow up for recovery of classified loans. We are very much hopeful that sizable amount of classified loans to be recovered in the year 2010.

#### **Investments**

All investment securities are initially recognized at cost, being fair value of the consideration given, including acquisition charges associated with the investment. Premiums are amortized and discounts accredited, using the effective yield method and are taken to discount income. In accordance with BRPD Circular No. 15 dated 31 October 2005 issued by Bangladesh Bank, Government Securities purchased for maintaining Statutory Liquidity Reserve (SLR) i.e., Government Security - held to maturity (HTM) are revalued at their maturity yield at least once in a year and Government Securities - held for trading (HFT) are revalued at the market price at least once a week. Further to BRPD circular letter 15, 2005 the investments in government securities are strictly revalued as per instructions & guidelines given in DOS Circular letter no. 05 dated January 28, 2009 whereby Treasury Bills held for trading are also amortized at least once in every week and the gain in amortization received due to proceed to the date of maturity is taken in income.

As the Treasury bonds held for trading receives coupon interest semiannually, income is taken into account in each month as accrual basis.

➤ ***Held to maturity***

Investments which have ‘fixed or determinable payments’, and are intended to be ‘held to maturity’ other than those which are floating and/or free to trade in the market at prevailing prices are classified as held to maturity. The securities in HTM are to be held up till maturity. These securities in HTM must be amortized at the end of the year before maturity and the increase/decrease is to be accounted in the ‘statement of changes in equity’ (as Revaluation Reserve-HTM). According to Bangladesh Bank DOS Circular Letter No. 05 dated May 26, 2008, a bank can only hold 50% of its total value of securities in HTM as on January 01, 2010. These investment securities can be transferred to and/or reclassified as HFT any time after getting approval from the Board of Directors of the Bank.

➤ ***Held for trading***

Investments classified in this category are held indeed selling or purchasing –in short-trading as decided by the management of the bank or treasury. After initial recognition, investments of such categories are measured at their fair value once in a week and any change in the fair value is recognized in the statement of capital (as Revaluation Reserve-HFT) for the period before next appreciation. According to Bangladesh Bank DOS Circular Letter No. 05 dated May 26, 2008, no dividend will be allowed to pay to its shareholders on the amount of increase and/or decrease in income generated out of revaluation of securities held for trading. Transaction cost, if any, are not added to the fair value measurement at initial recognition of investments as per IAS-39 “Financial Instruments: Recognition and Measurement”. According to Bangladesh Bank DOS Circular Letter No. 05 dated May 26, 2008, a bank must hold at least 50% of its total value of securities in HFT as on January 01, 2010. These investment securities can be transferred to and/or reclassified as HTM any time after getting approval from the Board of Directors of the Bank

Items	Applicable accounting value
Government treasury bills	At Present Value
T & T bonds and Bangladesh treasury bonds	At Present Value
Prize bond	At cost
Investments in shares	At cost or market value whichever is lower at the balance sheet date

➤ ***Fixed assets and depreciation***

Fixed assets are stated at cost less accumulated depreciation as per BAS-16 "Property, Plant and Equipment".

Depreciation is charged at the following rates per annum using reducing balance method on all fixed assets other than motor vehicles and office equipment, which is depreciated on straight-line method and no depreciation on land, is charged.

Category of fixed assets	Rate
Land	Nil
Building	5% p.a.
Furniture & Fixtures	10% p.a.
Office Equipment	20% p.a.
Motor Vehicles	20% p.a.
Office Decoration	12% p.a.

Depreciation at the applicable rates is charged proportionately on additions made during the year from the date of their acquisition and in case of sale up to the date of sale.

Repairs and maintenance costs of fixed assets are charged to profit & loss account, when incurred.

□ **Liabilities and Provisions**

➤ *Retirement benefits to the employees*

❖ **Provident fund**

Provident fund benefits are given to the confirmed staffs of the Bank in accordance with the locally registered Provident Fund Rules. The Commissioner of Income Tax, Taxes Zone - 6, Dhaka has approved the Provident Fund as a recognized provident fund within the meaning of sub-section 1 of section 2 read with the provisions of part - B of the First Schedule of Income Tax Ordinance 1984 w.e.f. 27 February 2003. The Fund is operated by a Board of Trustees consisting seven members from the employees of the Bank. All confirmed employees of the Bank are contributing 10% of their basic salary as subscription to the Fund. The Bank also contributes equal amount. Interest earned from the investments is credited to the members' account on yearly basis.

❖ **Gratuity fund**

The Bank has started making provision for liabilities of its employees' gratuity as per gratuity scheme of the Bank from the year 2004. Subsequently National Board of Revenue has approved the fund as recognized within the meaning of sections 2 and 3 read with the provision of part - C of the First Schedule of Income Tax Ordinance 1984 w.e.f. 20 November 2006. The Bank contributes to the Fund as per Gratuity Fund Rules as well as Service Rule of the bank.

❖ **Super annuation fund**

The Bank has also introduced a “Superannuation Fund” instead of group life insurance policy for the employees. Those employees, who will be able to fulfill the specific criteria mentioned in the policy of the fund, will be entitled to get the benefit of “Superannuation Fund”. National Board of Revenue has approved the fund as recognized within the meaning of section 3 read with the provision of part - A of the First Schedule of Income Tax Ordinance 1984 w.e.f. 22 December 2004. The Bank pays Tk. 1,600,000 annually as bank's contribution to the Fund.



□ **Revenue recognition**

➤ ***Interest income/Profit on TIB Investment***

In terms of the provisions of the BAS-18 "Revenue", the interest income is recognized on accrual basis. Interest on loans and advances ceases to be taken into income when such advances are classified. It is then kept in interest suspense in a memorandum account. Interest on classified advances is accounted for on a cash receipt basis.

➤ ***Investment income/TIB Investment Income***

Income on investments is recognized on accrual basis except from Government Securities which are recognized on the basis of BRPD Circular 15 Dated 31 October 2005 issued by Bangladesh Bank.

➤ ***Fees and commission income***

Fees and commission income arises on services provided by the Bank are recognized on a cash receipt basis. Commission charged to customers on letters of credit and letters of guarantee are credited to income at the time of effecting the transactions.

➤ ***Dividend income on shares***

Dividend income from shares is recognized during the year in which they are received as per section 19(7) of Income Tax Ordinance, 1984 and Finance Ordinance 2007.

➤ ***Interest paid and other expenses***

In terms of the provisions of the BAS - 1 "Presentation of Financial Statements" interest and other expenses are recognized on accrual basis.

➤ ***Reconciliation of inter-bank and inter-branch account***

Accounts with regard to inter-bank (in Bangladesh and outside Bangladesh) are reconciled regularly and there are no material differences which may affect the financial statements significantly. Unrecognized entries / balances in case of inter-branch transactions as on the reporting date are not material.

➤ **Risk Management**

Risk management policy or process of Mercantile Bank encompasses risk appreciation basing on the risk appetite for the particular sector/segment of the customers and subsequent risk identification, measurement and controlling of risk components to safeguard the interest of the bank and to keep the business portfolio performing to the maximum extent.

We always prioritize to ensure risk–return tradeoff on all business transactions. The focus group as constituted by Bangladesh Bank has selected 06 core risks namely (a) Credit Risk (b) Asset liability/Balance sheet Risk (c) Foreign Exchange Risk (d) Internal control and compliance Risk (e) Money laundering Risk and (f) IT risk management in order to impart internationally accepted best practices in the Banking and Financial system. Banks as a financial intermediary (IES) are exposed to multidimensional risks but those risks are to be examined and quantified for acceptance in line with the risk appetite and credit policy of our bank.

❖ **Credit risk management**

Credit risk is the counter party risk because of the nonperformance of the borrowers/debtors in repayment of banks loan and dues within the specified time. In other words credit risk may be defined as the possibility that the counter party will not meet its obligations in line with the agreed upon terms and conditions. In the banking parlance loans and advances are the conspicuous sources of credit risk. So, credit risk is the predominant risk in the banking business operation and it deserves to be addressed with all due diligence.

Different branches of the bank are the growth/ profit centers and at the same time risks are originated from the operation of the branches in their normal course of business. We in our bank always prioritize to secure the interest of the bank by way of ensuring performing business portfolio. we also make financial analysis based on the given financial statement of the borrower/ ensure the application of the maximum possible due diligence on all credit matters in the process of appraisal of the credit proposal by taking

into consideration business, industry analysis, borrower's past track record of business performance, present state of condition as well as future business plan and other contingency factors in the total process of appraisal. Bank is the custodian of the depositor's money as well as they utilize the fund given by the sponsors/ share holders as their equity/ capital so it is the predominant obligation on our part to safe guard the interest of all the stake holders.

Active portfolio management requires keeping up the dynamics of the economy and which of imperative need for credit risk controlling and monitoring. We in our bank are alive to the requirement of comprehensive and detailed MIS (Management Information System) and CIS (Credit Information System) as they provide the backbone support for an effective credit risk management.

We also prioritize to ensure diversification of portfolio across industries, borrowers and market segments with a view to minimizing the risk to an acceptable level. Credit risk is associated with the economy and if the economy as a whole doesn't perform well that will have corollary effect on the business portfolio of the bank.

At the same time, credit portfolio having concentration in any particular segment would be affected if the segment does not perform well.

❖ **Asset liability risk management**

Asset liability Management (ALM) has been defined as a planned, structured and systematic process of managing the asset and liability with a view to lead the bank to a balanced and sustainable growth through minimizing various business risk factors – market risk and liquidity risk. Asset Liability Management (ALM) has become an almost universally accepted approach to risk management. Successful banking requires efficient and effective management of its assets and liabilities. Mercantile Bank Limited is managing its assets and liabilities in order to ensure sustained profitability so that the bank can maintain and augment its capital resources.

As per Bangladesh Bank guidelines and considering the most practical aspects of the Bank, an approved policy manual on ALM has been prepared so that it could be followed consistently every sphere of the management. To support the ALM process, the Bank has established a committee called “Asset Liability Committee (ALCO)” headed by the Managing Director and holds meeting at least one in every month. ALM Desk, an executive functional and operational desk for the asset liability management, is embodied herewith the ALCO to function under direct control of Head of Treasury. ALCO reviews the liquidity requirement of the Bank, the maturity of assets and liabilities, deposit and lending, pricing strategy and the liquidity contingency plan at the threshold of stress liquidity situation.

❖ **Foreign exchange risk management**

Foreign Exchange risk is defined as the potential change in earnings arising due to change in market prices. Foreign exchange rate risk arises when the bank is involved in foreign currency transactions, which may result in deficits or surpluses in the Bank’s foreign currency position. These transactions include for instance foreign currency exchanges, investments, loans, borrowings and contractual commitments etc.

International Division independently conducts the transactions relating to foreign exchange and is responsible for verification of deals and passing of their entries in the books of account. All Foreign Exchange transactions are revalued at mark-to-market rate as determined by Bangladesh Bank at the month end. All Nostro Accounts are reconciled on monthly basis and the management for its settlement reviews outstanding entry beyond 30 days.

❖ **Internal control and compliance risk management**

Internal Control refers to the mechanism in place on a permanent basis to control the activities in an organization. In absence of it risks resulting in unexpected losses caused by faulty internal processes, human errors, frauds & forgery, technology failure and documentary lapses may surface. The primary objectives of internal control system are to help the bank perform better through the use of its resources, identify its weaknesses, take

appropriate measures to overcome the same and ensure compliance with applicable laws and regulations.

The bank has set up Internal Control & Compliance (IC & C) Division at Head Office to ensure that the internal control processes are in place through establishment of Audit Committee as per the instructions of Bangladesh Bank, which reviews the internal and external audit reports without any intervention of the bank management and ensures that the management takes effective measures in case any deficiency/ lapse is found in the internal control system. The bank has introduced ‘Risk Based Internal Audit (RBIA)’ to assess the business risk as well as control risk associated with the branches and determine how much care, monitoring & periodicity of comprehensive internal audit would be required to reposition the branches.

#### ❖ **Money laundering risk management**

In accordance with Money Laundering Prevention Act, 2009 money laundering means transfer, conversion, remitting abroad or remit or bring from abroad to Bangladesh the proceeds or properties acquired through commission of a predicate offence for the purpose of concealing or disguising the illicit origin of the property or illegal transfer of properties acquired or earned through legal or illegal means. The enactment of Anti-Terror Act, 2009 in the same year has given ‘terrorist financing’ a deserved area of specialization for the financial institutions. It is held that effective efforts to combat money laundering and counter the financing for terrorism (CFT) can not be carried out without the co-operation of financial intermediaries.

With this end in view the Central Compliance Unit (CCU) of AML Department at Head Office of the bank has been strengthened by delegating more power and authority to the Chief Anti-Money Laundering Compliance Officer (CAMLCO) to comply with the provisions of the legislation as well as the directives of Bangladesh Bank and other regulatory bodies. The CCU functions under the direct supervision of the CEO of the bank. In branch level there is a designated anti-money laundering compliance officer, called ‘Branch Anti-Money Laundering Compliance Officer (BAMNCO)’. All officers &

executives of the bank are well conversant with the process of ‘Know Your Customer (KYC)’ through the exercise of due diligence. Bank shall continue to deploy considerable resources to establish and maintain employees’ awareness of the risk of money laundering & terrorist financing and to enhance their competence to identify and report suspicious account transactions.

❖ **IT risk management**

The prime focus of IT risk management is to safeguard the financial and organizational information fully complied with the rules and regulations of central bank. With the continued efforts of being fully automated Mercantile Bank established a Disaster Recovery System along with Data Protection facility which includes a Disaster Recovery site for the restoring and retrieval of bank data with utmost security measures. The IT risk management also enables the management to initiate effective management decision to justify the expenditure and also assist the management in authorizing and accrediting the IT system on the basis of the supporting documentation resulting from the performance of risk management.

❖ **Liquidity risk management**

Liquidity risk is more important area to think by the banking company to match with the financing and investment. Liquidity risk is the risk that the Bank may not able to meet cash flow obligations with in a stipulated timeframe. The object of liquidity risk management is to maintain suitable and sufficient funds to meet present and future liquidity obligations whilst utilizing the funds appropriately to take advantage of market opportunity as they arise. The bank has several sources of liquidity and manages its liquidity mainly through domestic money and capital markets including repurchase market. The bank seeks to minimize its liquidity costs in line with the market situation try closely managing the liquidity position on a daily basis and restricting the holding of cash held above an appropriate level at any given time. As a part of liquidity management, the bank adheres to its funding plan, and exercises due care in using medium-term borrowings.

### ❖ **Interest rate risk management**

Basically Interest rate risk is the risk that may arise from movements in market prices i.e. favorable and unfavorable. In the year 2009, we observed a frequent change in the Interest rate in banking industry following global economic meltdown. We also adjusted interest in line with Bangladesh banks directive and market scenario. So considering various internal and external factors interest rates were revised as such to maintain long term profitability. Moreover, market competition; cost of fund, market volatility and regulatory compliance are key issues that have been considered to word off any adverse movement of interest rate.

- Strong internal control and monitoring mechanism as well as cross checking system to find any internal and external fraudulent and untoward events.
- Modification and up gradation of IT system and software solution have been undertaken to avoid business disruption and system failure.
- Stringent set of rules and procedures are in place to ensure smooth execution, process and delivery system.

### ❖ **Operation risk management**

Operations risks, relatively difficult to predict, may arise due to failure of internal systems, processes or employment practice. Operation risks also include damage to physical assets, internal and external fraud, malfunctioning of reporting system/ monitoring rules etc.

1. MICR encoded cheque books have already been introduced for the clients of Dhaka city area by phasing out non standard cheques.
2. All required hardware for processing of MICR cheques has already been procured.
3. One reputed vendor has been selected to supply software and Scanner machine s has already been procured.

4. We have also selected two vendors for establishing connectivity where they have already established connectivity between Bangladesh bank and Mercantile Bank. Connectivity security has also been installed as per Bangladesh Bank guidelines.
5. PBM software is already installed and SIT (System Integration Testing) is going on.

❖ **Earning per share (EPS)**

The Company Calculates Earning per Share (EPS) in accordance with BAS-33: Earning per Share, which has been shown on the face of Profit & loss Account and the computation of EPS is stated in Note 35.

❖ **Cash flow statement**

Cash Flow Statement is prepared in accordance with BAS – 7: ‘Statements of Cash Flow’ and Bangladesh Bank BRPD Circular No. 14 dated 25 June 2003 issued by Bangladesh Bank.

❖ **Statement of liquidity**

The liquidity statement of assets and liabilities as on the reporting date has been prepared on residual maturity term as per the following bases:

- Balance with other banks and financial institutions, money at call and short notice etc. are on the basis of their maturity term.
- Investments are on the basis of their maturity.
- Loans and advances and lease receivables are on the basis of their repayment / maturity schedule.
- Fixed assets are on the basis of their useful life.
- Other assets are on the basis of their realization/adjustment.
- Borrowing from other banks, financial institutions and agents as per their maturity /repayment term.
- Deposits and other accounts are on the basis of their maturity term and past trend of withdrawal by the depositors.



- Other long term liabilities on the basis of their maturity term.
- Provisions and other liabilities are on the basis of their payment /adjustment schedule.

❖ **Compliance of Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS)**

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) in context of Bangladesh from the standards adopted by International Federation of Accountants Committee (IFAC) as International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, Mercantile Bank Limited applied most of the BAS and BFRS, details of which are given below:

<b>Name of BAS</b>	<b>BAS No.</b>	<b>Status</b>
Presentation of Financial Statements	1	<b>Applied</b>
Inventories	2	<b>Applied</b>
Statements of Cash Flow	7	<b>Applied</b>
Accounting Policies, Changes in Accounting Estimates and Errors	8	<b>Applied</b>
Events after the Reporting Date	10	<b>Applied</b>
Construction Contracts	11	<b>N/A</b>
Income Taxes	12	<b>Applied</b>
Segment Reporting	14	<b>Applied</b>
Property, Plant and Equipment	16	<b>Applied</b>
Lease	17	<b>N/A</b>
Revenue	18	<b>Applied</b>
Employee Benefits	19	<b>Applied</b>
Accounting for Government Grants and Disclosure of Government Assistance	20	<b>N/A</b>
The effects of Changes in Foreign Exchange Rate	21	<b>Applied</b>

Borrowing Cost	23	<b>Applied</b>
Related Party Disclosures	24	<b>Applied</b>
Accounting for Investments	25	<b>Applied</b>
Accounting and Reporting by Retirement Benefit Plans	26	<b>Applied</b>
Consolidated and Separate Financial Statements	27	<b>Applied</b>
Investment in Associates	28	<b>N/A</b>
Disclosures in the Financial Statements of Banks and similar Financial Institutions	30	<b>Applied</b>
Interest in Joint Ventures	31	<b>N/A</b>
Earnings per Share	33	<b>Applied</b>
Interim Financial Reporting	34	<b>Applied</b>
Impairment of Assets	36	<b>Applied</b>
Provisions, Contingent Liabilities and Contingent Assets	37	<b>Applied</b>
Intangible Assets	38	<b>Applied</b>
Financial Instruments: Recognition and Measurement	39	<b>Applied</b>
Investment Property	40	<b>Applied</b>
Agriculture	41	<b>N/A</b>
<b>Name of BFRS</b>	<b>BFRS No.</b>	<b>Status</b>
Share-based Payment	2	<b>N/A</b>
Business Combinations	3	<b>N/A</b>
Insurance Contracts	4	<b>N/A</b>
Non-current assets Held for Sale and Discontinued Operations	5	<b>N/A</b>
Exploration for and Evaluation of Mineral Resources	6	<b>N/A</b>
Financial Instruments: Disclosures	7	<b>N/A</b>
Operating Segments	8	<b>N/A</b>

**Cash**

➤ **Cash Reserve Ratio (CRR) and Statutory Liquidity Requirement (SLR)**

Cash Reserve Ratio (CRR) and Statutory Liquidity Requirement (SLR) have been calculated and maintained in accordance with the Section 33 of the Bank Companies Act 1991 and BRPD Circular Nos. 11 and 12 dated 25 August 2005 issued by Bangladesh Bank.

The cash Reserve Ratio (CRR) has been calculated @ 5% on the Bank's time & demand liabilities of the month earlier of the previous month and maintained with Bangladesh Bank in current account and 18% Statutory Liquidity Requirement (SLR) on the same liabilities has also been maintained in the form of Treasury Bills, Bonds and Debentures including FC balance with Bangladesh bank and the components of CRR. Both reserves have been maintained during the year by the Bank are in excess of the statutory requirements.

### 4.3 INDUSTRY ANALYSIS

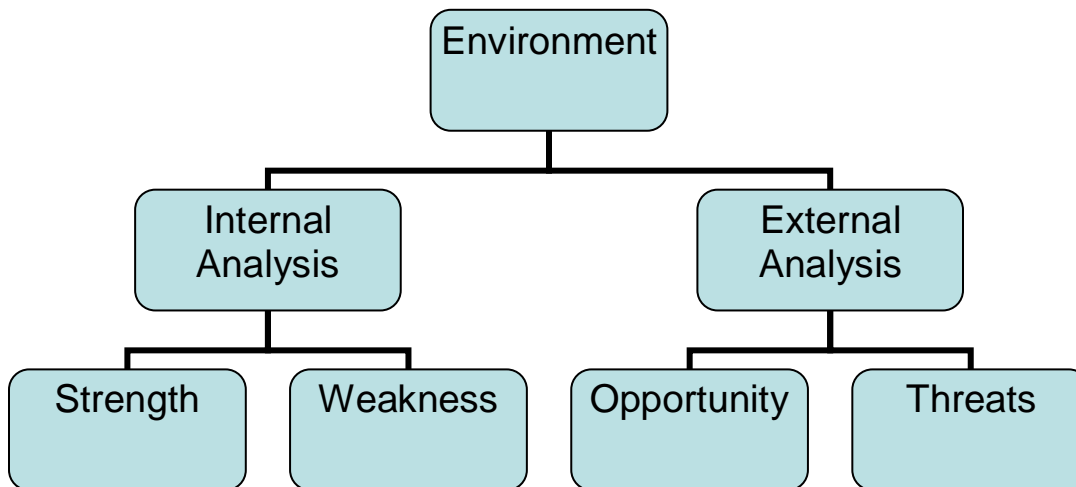
- The Mercantile Bank is engaged in conventional commercial banking. It is also started banking functions on Islamic Banking Principles.
- It is the pioneer in introducing and launching different customer friendly deposit schemes to tap the savings of the people for channeling the same to the productive sectors of the economy.
- For uplifting the standard of living of the limited income group of the population, the Mercantile Bank has introduced Consumer term loan by providing financial assistance in the form of loan to the consumers for procuring household durables, which have had encouraging responses.
- The Mercantile Bank is committed to continuous research and development so as to keep pace with modern banking.
- The operations of Mercantile Bank are computer oriented to ensure prompt and efficient services to the customers.

- The Mercantile Bank has introduced camera surveillance system (CCTV) to strengthen the security services inside the Bank premises.
- The Mercantile Bank has introduced customer relations management (CRM) system to assess the needs of various customers and resolve any problem on the spot.

**Income statement, Balance sheet & Cash flow statement are given in Appendix K, Appendix L & Appendix M**

#### 4.4 SWOT ANALYSIS

Both manufacturing and service oriented business organizations start to possess some weakness as time elapse. The weaknesses of an organization can be turned into opportunities if recognized on time. Moreover, overlooking any threat may result in loosing valuable business opportunities. For this reason, an assessment of every business organization is required to judge the performance from the aspects of its Strength, Weaknesses, Opportunities and Threat (SWOT).



**Figure 4-1: SWOT Matrix**

In this section the SWOT analyses of MBL have been conducted based on the gathered from the primary data as well as from the financial statements. **SWOT Analysis of**

**Mercantile Bank Ltd. is as under:**

**Strength:**

- Experienced bankers and corporate personnel have formed the management.
- Innovative products and services.
- The bank provides quality service to the clients compared to its other contemporary competitors.
- Some services of the bank are automated which attract large number of clients. For instance, the bank provides Automated Teller machine (ATM) services in several locations.
- Efficient and skilled workforces.
- In-house training and development programs.
- Strong financial backings and strategic supports.
- The bank recently introduce on line banking which enable it to automate all of its operations. At present, several banking functions are performed by computers. The bank is also a member of SWIFT (Society for Worldwide Interbank Financial Telecommunication) alliance Access which enables the bank to exchange critical financial messages swiftly and cost effective.

**Weakness:**

- Delegation of authority is centralized which makes the employee to realize less responsibility. Thus, the employee morale is deteriorated.
- The credit proposal evaluation process is lengthy. Therefore, sometimes valuable clients are lost and the bank becomes unable to meet targets.
- No substantive use of Annual Confidential Report (performance evaluation form of the employee) to reward or to punish the employee. Hence the employee becomes ineffective.
- The bank lacks aggressive advertising and promotional activities to get a broad geographical coverage.

- The bank has only a few ATM booths and not in proper places. So, the scope of using ATM card is limited.
- Computer facility for all the officers is not available. Moreover, all the officers have no computer knowledge.

### **Opportunity:**

- The bank can introduce more innovative and modern products and services for then customers.
- The bank can offer micro credit business for individuals and small businesses.
- It can diversity its portfolio by taking new sector.
- Many branches can be opened to reach the bank's services to the remote areas.
- It can recruit more efficient and experienced persons to give fast and efficient service to the customers.
- The Bank may advertise them self by introducing social welfare activities.
- Increasing new customer base.

### **Threats:**

- The common attitude of Bangladeshi clients is default.
- Multinational as well as the fast growing local banks with modern products and services are capturing huge market within short period a resulting to switch over the existing customers of the bank.
- Bangladesh Bank Sometimes requires Private Commercial Banks to be abided by such rules and regulations which are not suitable for every commercial Bank.