Trust Bank Limited

Disclosure according to Basel II Pillar III

Introduction
The purpose of this report issued by Trust Bank Limited (hereinafter "TBL" or "the Bank") is to comply with the regulatory disclosure requirements in accordance with the Bangladesh Bank BRPD Circular # 35 of 29 December 2010 as to Guidelines on 'Risk Based Capital Adequacy for Banks' in line with Basel II according to market discipline defined in Basel II Pillar III. The disclosure provided in this report should be read in conjunction with the Annual Report of 2010.

1. Objectives and policies with regard to credit, operational and market risks
The different risk categories of the Bank are monitored through various tools, committees and reports. Asset Liability Management Committee meeting, chaired by the Chief Executive Officer and comprising the high level executives of the bank takes place on a monthly basis and assesses the actual risk situation. A Basel II Implementation Committee, chaired by the Deputy Managing Director, takes place on a quarterly basis to assess the Basel II implementation situation of the bank.

On a monthly basis a Risk Management Report summarizes all major risks, identifies the risk owners and defines the deadline for solving potential issues. This report is submitted to the Risk Management Unit for discussion and approval. Checks, limits and controls are evaluated on a monthly basis by the Unit.

A complete set of policies as per Guidelines of Core Risk Management of Bangladesh Bank regulates the businesses conducted by the Bank.

a. Scope of application

Qualitative Disclosures:

a) **The name of the top bank in the group to which the framework applies.**
Trust Bank Limited is a scheduled commercial bank established under the Bank Companies Act, 1991 and incorporated as a Public Limited Company under the Companies Act, 1994 in Bangladesh on 17 September 1999. The Bank is the controlling entity of its single wholly owned subsidiary.

b) **An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group**
(a) that are fully consolidated;
(b) that are given a deduction treatment; and
(c) that are neither consolidated nor deducted.
The consolidated financial statements of the Bank comprise the financial statements of Trust Bank Limited and its subsidiary, Trust Bank Investment Limited (TBIL) together constitutes the ‘Group’. The financial statements of

the Bank are prepared on a going concern basis under historical cost convention and in accordance with First Schedule (Sec- 38) of Bank Companies Act, 1991 as amended by Bangladesh Bank (Central Bank) BRPD Circular No. 14 dated June 25, 2003, other Bangladesh Bank circulars, International Financial Reporting Standards adopted as Bangladesh Accounting Standard (BAS), the Companies Act, 1994, the Listing Rules of the Stock Exchange, the Securities and Exchange Rule 1987 and other laws and regulations applicable in Bangladesh.

c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

- Not applicable.

Quantitative Disclosures:

d) The aggregate amount of capital deficiencies

- Nil.

<u>b) Capital structure:</u>

Qualitative Disclosures:

a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Tier 2.

Type of Capital	Features
Equity (Tier I)	The Equity Capital of the Bank as on 31.12.2010 stood at Tk. 4926.74 million in the forms of Paid-up Capital of Tk. 2217.61 million, Statutory Reserve of Tk. 1566.40 million, Retained Earnings of Tk. 1142.73 million and Minority Interest in Subsidiaries of Tk. 705 only.
Tier II Capital	Supplementary capital of the Bank represents general provision, exchange equalization fund, and revaluation reserve of held-to-maturity securities (50% of such reserve). At the close of business on 31 December 2010, our supplementary capital consisted of General Provision of Tk. 819.06 million and Revaluation Reserve for Securities of Tk. 59.10 million.

Quantitative Disclosures:

(Amount in Million)

b)	**The amount of Tier I Capital:**	**4926.74**
	Paid-up Capital	2217.61
	Non-repayable share premium account	-
	Statutory reserve	1566.40
	General reserve	-
	Retained earnings	1142.73
	Minority interest in subsidiaries	0.00
	Non-cumulative irredeemable preference shares	-
	Dividend equalization account	-
(c)	The total amount of Tier 2 capital	878.20
	The total amount of Tier 3 capital	-
(d)	Other deductions from capital	-
(e)	Total eligible capital	5804.94

c) Capital Adequacy:

Qualitative Disclosures:

a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.

In order to strengthen the capital base of banks in Bangladesh, the Bangladesh Bank in April 1992 introduced capital adequacy measures in banks, based on the capital adequacy framework (Basel I) issued by Basel Committee on Banking Supervision (BCBS). Initially, the framework addressed capital for credit risk, which was subsequently amended to include capital for market risk as well. The Bank has been compliant with regard to maintenance of minimum capital for credit and market risks.

Subsequently, the BCBS released the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (popularly known as Basel II document) on June 26, 2004. Bangladesh Bank has issued revised guidelines on December 29, 2010 for implementation of the Guidelines on Risk Based Capital Adequacy – Revised Regulatory Framework in line with Basel II. In accordance with the Bangladesh Bank framework, Trust Bank Limited successfully migrated to the revised framework from 2009. The Bank has continued the Parallel run of Basel II framework continuously tracking the exposures and studied the impact on Bank's Capital Adequacy Ratio (CAR) on a quarterly basis.

In accordance with Bangladesh Bank's requirement, the Bank has continued to adopt the Standardized Approach (SA) for Credit Risk and Basic Indicator Approach (BIA) for Operational Risk to compute capital as on March 31, 2010. Besides this, the Bank continues to apply the Standardized Approach (SA) for computing capital requirement for Market Risk. Bangladesh Bank has prescribed Banks to maintain a minimum CAR of 9% with regard to credit risk, market risk and operational risk upto June 2011 and afterwards CAR of 10% on an ongoing basis.

The CAR as per Basel II guidelines works to 9.06% as on 31.12.2010 (as against prescribed 9%). The Core Capital to Risk Weighted Assets (RWA) stands at 7.69% and Supplementary Capital to RWA at 1.37%.

The Bank has followed the Bangladesh Bank guidelines in force, to arrive at the eligible capital, risk weighted assets and CAR. As regards the adequacy of capital to support the future activities, the Bank has drawn an assessment of capital requirement for coming years with the approval of the Board. The additional eligible capital generated shall act as a buffer to support the future activities.

Quantitative disclosures

(Amount in Million)

b)	Capital requirement for Credit Risk		4946.60
c)	Capital requirement for Market Risk		400.30
d)	Capital requirement for Operation Risk		422.50
e)	Total and Tier 1 capital ratio:		
		Total Capital Ratio	Tier 1 Capital Ratio
	• For the consolidated group; and	9.06%	7.69%
	• For stand alone	9.09%	7.76%

D) CREDIT RISK:

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

• Definitions of past due and impaired (for accounting purposes);

Credit Risk is a possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a Bank's portfolio, Credit Risk arises mostly from lending activities of the bank, when a borrower is unable to meet its financial obligations emanating from potential changes in the credit quality / worthiness of the borrowers or counterparties. Credit Risk Management encompasses a host of management techniques, which help the banks in mitigating the adverse impacts of credit risk. The objective of the Credit Risk Management is to identify measure, monitor and control credit risk by adopting suitable methodology.

The policy of the Bank for classifying bank's loan assets is followed under the Bangladesh Bank BRPD Master Circular No. 5 dated June 05, 2006 as follows:

Past Due/Over Due

Categories	Definition of past due	When started
Continuous Loan	If not repaid/renewed within the fixed expiry date for repayment will be treated as past due.	Following day of expiry date
Demand Loan	If not repaid/rescheduled within the fixed expiry date for repayment will be treated as past due.	As above
Fixed Term Loan (not over five years)	Any installment(s) or part of installment(s) is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due	As above
Fixed Term Loan (over five years)	Any installment(s) or part of installment(s) is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due	After six months of expiry date
Short Term Agricultural Credit & Micro Credit	If not repaid within the fixed expiry date for repayment will be considered as past due.	As above

2. Qualitative Judgment:

In addition to the above, if any uncertainty or doubt arises in respect of recovery of any Continuous Loan, Demand Loan or Fixed Term Loan, the same is classified on the basis of qualitative judgment be it classifiable or not on the basis of objective criteria. If any situational changes occur in the stipulations in terms of which the loan was extended or if the capital of the borrower is impaired due to adverse conditions or if the value of the securities decreases or if the recovery of the loan becomes uncertain due to any other unfavorable situation, the loan is classified on the basis of qualitative judgment.

• Description of approaches followed for specific and general allowances and statistical methods;

As per Bangladesh Bank guidelines, provision against Standard loans are maintained at 1%-5% and 5% provision is maintained against Special Mentioned Accounts (SMAs) after deducting interest suspense. 20% provision is maintained against Sub-Standard loans, 50% provision is maintained against Doubtful loans and 100% provision is maintained against Bad & Loss loans after deducting interest suspense and value of eligible securities as specified by Bangladesh Bank.

Interest treatment of classified account:

Sl	Status	Interest will be credited to	If recovered
1	SS	Interest Suspense A/c	First the interest charged or not charged is to be recovered and the principal to be adjusted afterwards
2	DF	Interest Suspense A/c	
3	BL	Interest Memo A/c i.e. no charging in loan a/c)	

• Discussion of the bank's credit risk management policy;

The Bank has formulated Loan Policy which stipulates various prudential norms, bench marks, guidelines for sanctioning of credits and recovery of the same. The Bank has also formulated separate Credit Risk Management Policy, Consumer Financing Policy, SME Financing Policy and Islami Banking Policy.

Credit Risk measurement is done through Credit Risk Grading system introduced by Bangladesh Bank. Credit Risk Grading is the process wherein the merits and demerits of a borrower are captured and assigned with scorings, which enables the Bank to take a view on the acceptability or otherwise of any credit proposal.

The Bank's strategies to manage the credit risks are as under:

a) Defined segment exposures delineated into retail, small and medium enterprises and to corporate clients;

b) Industry-wise segment caps on aggregate lending across Branches

c) Individual borrower wise caps on lending as well as borrower group wise lending caps linked as a percentage to the Bank's capital funds at the end of the previous year as per "Single Borrower" exposure limit set by Bangladesh Bank in its BRPD Master Circular No. 5 dated 09.04.2005.

d) Credit rating of borrowers and allowing credit exposures only to defined thresholds of risk levels; the approach also includes diversification of credit rating wise borrowers but within acceptable risk parameters.

e) The Bank's current entire business is within Bangladesh and hence there is no geographic cap on lending in Bangladesh. However, in respect of cross border trade which would involve exposures to banks and financial institutions located outside Bangladesh, there is a geographic cap on exposures apart from cap on individual bank/institution

f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit accounts

g) A clear and well defined delegation of authority within the Bank in regard to decision making linking risk and exposure amount to level of approval.

h) Regular review of all credit structures and caps, continuously strengthening credit processes, and monitoring oversight which are regularly reviewed and duly approved by the Board of the Bank.

Quantitative disclosures:

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

(Amount in Million)

Outstanding as on 31 December 2010	Domestic	Overseas	Total
a) Loans & advances	39,799.92	-	39,799.92
b) Commitments	-	-	-
c) Other non-derivative off-balance sheet exposures	-	-	-
d) Debt securities	-	-	-
e) OTC derivatives	-	-	-
Total	**39,799.92**	-	**39,799.92**

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

(Amount in Million)

Division	**Continuous Loan**	**Demand Loan**	**Term Loan**	**Agricultural Loan**	**Total**
Dhaka	6,766.51	5,201.53	14,040.15	2.28	**26,010.47**
Chittagong	1,994.13	6,657.23	2,683.56	3.81	**11,338.73**
Sylhet	431.59	7.39	635.2	-	**1,074.18**
Rajshahi	222.44	6.26	130.58	-	**359.28**
Barishal	-	-	-	-	**0.00**
Khulna	113.16	122	467.27	-	**702.43**
Rangpur	49.8	1.2	263.83	-	**314.83**
Total	**9,577.63**	**11,995.61**	**18,220.59**	**6.09**	**39,799.92**

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

(Amount in Million)

	Public Sector		**Private Sector**	
Industry Type	Term Loan	Working Capital	Term Loan	Working Capital
Small & Cottage Industry	-	-	111.80	307.70
Medium Scale Industry	-	421.30	340.50	237.80
Large Scale Industry	-	-	5,822.20	6,873.10
Total	**-**	**421.30**	**6,274.50**	**7,418.60**

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

(Amount in Million)

Time band	Continuous Loan	Demand Loan	Term Loan	Agricultural Credit	Total
Up to 1 month	1,993.85	6,528.55	183.05	-	**8,705.45**
1 to 3 months	1,033.97	2,736.83	78.29	-	**3,849.09**
3 to 6 months	1,917.32	1,450.46	2.51	-	**3,370.29**
6 to 12 months	4,630.05	1,279.77	0.19	2.45	**5,912.46**
1 to 2 years	2.44	-	1,936.49	-	**1,938.93**
2 to 3 years	-	-	3,992.30	3.64	**3,995.94**
3 to 4 years	-	-	4,098.63	-	**4,098.63**
4 to 5 years	-	-	1,110.53	-	**1,110.53**
5 to 7 years	-	-	5,337.29	-	**5,337.29**
7 to 10 years	-	-	1,481.31	-	**1,481.31**
Over 10 years	-	-	-	-	-
Total	**9,577.63**	**11,995.61**	**18,220.59**	**6.09**	**39,799.92**

f) By major industry or counterparty type:

• Amount of impaired loans and if available, past due loans, provided separately:

(Amount in Million)

Industry	Impaired	Past due
Agriculture	0	11.10
Industry (Other than Working capital)	58.10	147.50
Working Capital	396.60	974.00
Export Financing	0.00	0.00
Import Financing	19.80	850.40
Transport & communication	0.10	0.00
Internal trade financing	72.20	443.60
Housing	296.40	311.70
Special Programme	0.00	0.00
Others	116.60	376.30
Inland & Foreign Bills	0.10	0.00
Total	**959.90**	**3,114.60**

• Specific and general provisions; and

(Amount in Million)

	General Provision	Specific Provision
Consumer Financing	112.87	15.40
Small & Medium Enterprise Financing	19.01	9.19
Housing Finance	76.79	20.49
Loans to BHs/MBs/SDs against Shares etc.	23.78	-
Loans for Professionals to setup business	1.88	-
Other Corporate Credit	543.23	259.67
Agricultural Credit	0.60	-
Total	**778.16**	**304.75**

• Charges for specific allowances and charge-offs during the period.

(Amount in Million)

Against Classified Loans & Advances	
Provision held on 1 January	439.00
Fully provided debts written off	-
Recoveries from previously written off debts	-
Provisions made during the year	(134.25)
Net Charge to the Profit Loss Account	(134.25)
Provision held at end of year	**304.75**

Against Unclassified Loans & Advances	
Provision held on 1 January	398.90
Provisions made during the year	176.42
Provision held at end of year	**575.32**
Against Special Mention Accounts	
Provision held on 1 January	17.50
Provisions made during the year	11.33
Provision held at end of year	**28.83**

General Provision for Off Balance Sheet Exposures	
Provision held on 1 January	103.00
Provisions made during the year	71.00
Provision held at end of year	**174.00**

g) Gross Non Performing Assets (NPAs) (including SMA):

(Amount in Million)

Gross Non Performing Assets (NPAs)	1606.55
Non Performing Assets (NPAs) to outstanding loans & advances	4.04%
Movement of Non Performing Assets (NPAs)	
Opening balance	1211.64
Additions	1421.51
Reductions	(1026.60)
Closing Balance	1606.55
Movements of specific provisions for NPAs	
Opening balance	439.00
Provision made during the period	0.00
Write-off	0.00
Write back of excess provisions	(134.25)
Closing Balance	304.75

e) Equities: Disclosures for Banking Book Positions:

Qualitative Disclosure:

The general qualitative disclosure requirement with respect to equity risk, including:

• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and

- Not applicable.

• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.

- Quoted shares are valued at average cost or market price, whichever is lower. Unquoted shares are valued at average cost price or book value as per latest audited accounts.

Quantitative Disclosure:
***Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.**

Value of Investments in Balance Sheet	
Shares in Listed Companies (valuation at average cost price)	Tk. 792.68 million
Fair Market Value of shares in Listed Securities	Tk. 1099.46 million

***The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.**
Tk. 244.86 million

• Total unrealized gains (losses)
-Nil.

• Total latent revaluation gains (losses)
-Nil.

• Any amounts of the above included in Tier 2 capital.
-Nil.

***Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.**
-Not applicable.

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

Qualitative Disclosures:

a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.

Interest rate risk is the risk where changes in the market interest rates might affect a bank's financial condition. Changes in interest rates affect both the current earnings

(earnings perspective) as also the net-worth of the Bank (economic value perspective). The risk from earnings perspective can be measured as impact in the Net Interest Income (NII) or Net Interest Margin (NIM). Similarly, the risk from economic value perspective can be measured as drop in the Economic Value of Equity (EVE).

The impact on income (earning perspective) is measured through use of Gap Analysis by applying notional rate shock up to 200 bps as prescribed.

For the calculation of impact on earnings, the Traditional Gap is taken from the Rate Sensitivity statement and based on the remaining period from the mid point of a particular bucket; the impact for change in interest rates up to 200 bps is arrived at. The Bank has adopted Duration Gap Analysis for assessing the impact (as a percentage) on the Economic Value of Equity (Economic Value Perspective) by applying a notional interest rate shock of 200 bps.

Quantitative Disclosures:

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

1) The impact of change in Interest Rate i.e. Earnings at Risk for 200 bps interest rate shock as on 31.12.2010 is Tk. 1179.25 million.

2) The impact of change in market value of Equity for an interest rate shock of 200 bps as on 31.12.2010 is 6.16%.

g) Market Risk:

Qualitative Disclosures:

Views of BOD on trading/investment activities

The Board of Directors approves all policies related to the market risk components, reviews transaction reports and set limits on regular basis to check key performance indicators of trading and investment activities of the bank.

Methods used to measure Market risk

Trust Bank Limited follows measurement of Market Risk through the Standardized Approach as prescribed in the RBCA guidelines. The interest rate risk is measured through calculation of "specific risk" and "general market risk". Specific risk is applicable for each interest sensitive instruments/security whether it is a short or a long position, and general market risk is applicable for the interest rate risk in the portfolio where long and short positions in different securities or instruments are offset.

Equity Risk is measured through applying the minimum capital adequacy ratio to the current market value in bank's trading book for both specific risk and the general market risk. This is applied to all instruments that exhibit market behavior similar to equities except non-convertible preference shares.

Foreign Exchange Risk is measured through applying the rate of the required minimum capital adequacy ratio of bank's overall foreign exchange exposure including gold. The calculation of foreign exchange exposure is done on consolidated basis including subsidiaries.

As the Commodities Market is non-existent in Bangladesh and with no exposure of

TBL, Commodity Risk is not applicable.

Policies and processes for mitigating market risk

The portfolios of Trust Bank Limited are being revalued at an interval at current market price of marking to market basis. Besides, the portfolios have been synchronized in line with Bangladesh Bank guidelines of Risk Based Capital Adequacy (BASEL-II) for interest rat risk and foreign exchange risk.

Market Risk Management system

Under Market Risk Management, Liquidity Risk, Interest Rate Risk, and Foreign Exchange Risk are monitored.

Liquidity Risk

Risk management paper for Liquidity Risk is prepared and reviewed by Risk Management Unit on following aspects:

- Segment-wise deposit and its trend.
- Cost of deposits
- Ratio of low cost deposits
- Concentration of deposit
- Inter bank deposits and borrowings, capacity, etc.
- Credit/deposit ratio
- Bucket wise estimation of net cash flow
- SLR, CRR positions
- Liquidity contingency plan
- Un-drawn commitment
- Proposals for fresh credit facilities
- Short & Medium term funding ratio
- Ratio of liquid assets and total assets
- Counterparty wise limit utilization status.

Interest Rate Risk

Risk management paper for Interest Rate Risk is prepared and reviewed by Risk Management Unit on following aspects:

- Positions of Interest Earning Assets and Liabilities
- Positions of interest rate sensitive assets and liabilities (within one year)
- Net Interest Income
- Net Interest Margin
- Total non-funded income
- Marketwise value of shares and securities along with their average cost prices

Foreign Exchange Risk

The risk is monitored by fixing prudential limit for net open (long and short) position on continual basis. Besides, the following statements are reviewed:

- Currency wise holding

- Instances of limit breaches
- Sensitivity analysis
- Value at Risk Analysis
- Un-reconciled Nostro accounts over 90 days

Policies and processes for mitigating market risk

TBL has approved limits for credit deposit ratio, highly liquid asset to total asset ratio, maturity mismatch positions, money market and foreign exchange market positions. These limit and checked and monitored on regular basis to monitor market risks. In addition, undrawn commitments position of both off and on balance sheet items are monitored constantly. Moreover, the Asset Liability Committee meets every month to review market condition, exchange rate, forex and equity positions to mitigate market risks.

Quantitative Disclosures:

The capital requirements for specified risks are as follows:

(Amount in Million)

Details	Capital Charge for Specific Risk	Capital Charge for General Market Risk	Total Capital Charge
A. Interest Rate Risk	-	194.79	194.79
B. Equity Position Risk	98.95	98.95	197.90
C. Foreign Exchange Risk	-	7.60	7.60
D. Commodity Risk	-	-	-
Total (A+B+C+D):	**98.95**	**301.35**	**400.30**

h) Operational risk:

<u>Qualitative Disclosures</u>

Views of BOD on system to reduce Operational Risk

The Board of Directors has established the strategic risk philosophy & developed the risk policies, procedures and methodologies for measuring and monitoring operational risks.

The Board of Directors, through establishment of Audit committee, is fulfilling its responsibilities including implementation of the policies and procedures to identify, measure, monitor and control these risks.

The Board of Directors has put in place a comprehensive internal audit framework for Operational Risk Management. Each year Internal Audit Department of IC&C Division of Head Office sets out an audit plan which is approved by the Managing Director and submitted to the Audit Committee of the Board.

A separate meeting of the Board of Directors is arranged every year for review and assessing the compliance level of the Bank on the comprehensive inspection report of Bangladesh Bank, where the representatives of Bangladesh Bank also remain present.

Besides, on behalf of the Board the Audit Committee-

- Reviews the efficiency & effectiveness of Internal Control and internal audit function of the bank.
- Reviews the findings & recommendations made by internal Audits for removing the irregularities detected in course of conducting audit in the branch & division/department of Head office.
- Reviews the corrective measures taken by the management as regards fraud, forgery & deficiency detected by internal & external auditors.

Performance gap of executives and staffs

IC&C Division, through its compliance department, incorporates regulatory requirements in the work process to ensure full compliance. Compliance department of IC&C division ensures that all guidelines received from the regulatory authorities are properly disseminated among the relevant departments of the Head Office and the branches. This unit receives regulatory guidelines, maintains proper records and distributes the same among all relevant units.

Potential external events

TBL has identified some potential external events as enumerated below:

- Losses due to acts intended to defraud, misappropriate property or circumvent the law, by a third party.
- Work Place Safety
- Clients, Products and Business Practices
- Losses arising from loss or damage to physical assets from unexpected events (e.g. natural disasters)
- Business Disruption and System failures.
- Deteriorated social or political context.
- Execution, Delivery and Process Management.

Policies and processes for mitigating operational risk

Operational risk is managed or mitigated through the establishment of effective infrastructure and controls. Key elements of infrastructure include establishment of controls through documented policies and guidelines.

Internal Control & Compliance Division has been established to look into operational issues of the bank. The Division has the responsibility of implementing the processes to regularly monitor operational risk profiles and material exposures to losses and regular reporting of pertinent information to senior management and the Board of Directors, who view proactive management of operational risk with utmost importance.

IC&C Division ensures the following objectives:

- Performance Objectives: To accelerate competence and effectiveness of involvement.
- Information Objectives: To ensure dependability, efficiency and time worthiness of financial and management information.
- Compliance objectives: To adhere to regulatory framework including applicable laws and regulations.

The bank has also formed Risk Management Unit (RMU) ,which prepares Risk Management Papers .The unit holds monthly meeting to review the risks in operational matters and take appropriate measures to mitigate the risks. The Minutes of RMU meeting along with risk management papers are submitted to Bangladesh Bank quarterly.

Approach for calculating capital charge for operational risk

Capital charge for Operational Risk is computed as per the Basic Indicator Approach. The average of the gross income, as defined in the Guidelines on Risk Based Capital Adequacy- Revised Regulatory Framework in line with Basel II, for the previous three years i.e. 2008, 2009 and 2010 is considered for computing the capital charge.

Quantitative Disclosures

b) The capital requirements for operational risk =Tk. 422.50 Million.