Disclosures on Risk Based Capital (Basel II)

Trust Bank is subject to the Basel II framework with effect from January 1, 2010 as stipulated by the Bangladesh Bank (BB). The Basel II framework consists of three-mutually reinforcing pillars:

Pillar 1 - Minimum capital requirements for credit risk, market risk and operational risk
Pillar 2 - Supervisory review process
Pillar 3 - Market discipline

Market discipline (Pillar 3) comprises a set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the following sections

Scope of application

A. Qualitative Disclosure:

a) **The name of the corporate entity in the group to which the guidelines applies:**
Trust Bank Limited (TBL)

b) **An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group**

(i) that are fully consolidated;
(ii) that are given a deduction treatment; and
(ii) that are neither consolidated nor deducted (e.g. where the investment is risk - weighted).

Trust Bank Limited prepared its RBCA report on 'Solo Basis' as well as 'Consolidated Basis' where two (02) subsidiaries belongs to Trust Bank Ltd.

A brief description of the Bank and its subsidiary are given below:

Trust Bank Limited

The bank was established as a Public Limited Company (Banking Company) as on the 17th June 1999 under the Companies Act 1994 for carrying out all kinds of banking activities and commenced its operation on the 17th June, 1999 with the permission of Bangladesh Bank. It was listed with Dhaka Stock Exchange Limited as on 24th September, 2007 and Chittagong Stock Exchange Limited as on 25th September, 2007 respectively.

Presently the Bank is operating its business through head office having 82 branches and 06 SME centers all over Bangladesh.

The Bank has two subsidiaries namely- 1) **Trust Bank Investment Limited**.
2) **Trust Bank Securities Limited.**

Legal Status and nature of the company is given below:

1. Trust Bank Investment Ltd:

Trust Bank Investment Limited was incorporated as on 9th September, 2010 as a Public Limited Company bearing registration No. C-86981/10 under the Companies Act, 1994 in Bangladesh. The company accorded consent from the Securities and Exchange

Commission on 25th October, 2010 as a full fledged Merchant Bank bearing Certificate No. MB-45/10. The Company started its operation on 14th November, 2010.The registered office of the Company is located at 36, Dilkusha Commercial Area, Dhaka - 1000.

Trust Bank Investment Limited offers full-fledged of merchant banking services that include Portfolio Management, Underwriting, Issue Management & Corporate advisory services etc.

2. Trust Bank Securities Limited:

Trust Bank Limited was incorporated as on 7th February, 2013 as a Private Limited Company bearing registration No: C-107267/13 under the companies Act, 1994. The registered office of the company is located at 28, North Kafrul, Dhaka-1206.

Trust Bank Securities Limited offers full range of Business of stockbrokers that includes buy and sell of shares & securities, fixed income Securities, Bonds, Debentures etc.

c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group: Not applicable

B. Quantitative Disclosure:

d) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and name(s) of such subsidiaries.

No Capital deficiency in Consolidated or Solo assessment.

Capital Structure

A. Qualitative Disclosure:

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

As per RBCA guideline by Bangladesh Bank, Regulatory capital will be categorized into three tiers:

1) **Tier 1 Capital:** It is called 'Core Capital' comprises of highest quality of capital elements.

2) **Tier 2 Capital:** It is called 'Supplementary Capital' represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank.

3) **Tier 3 Capital:** It is called 'Additional Supplementary Capital' consists of short-term subordinated debt (original maturity less than or equal to five years but greater than or equal to two years would be solely for the purpose of meeting a proportion of the capital requirements for market Risk.

Compliance status of TBL as per condition for maintaining regulatory capital:

- **The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.**
- ✓ Status of Compliance: Complied.

- **50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital.**
- ✓ Status of Compliance: Complied.

- **10% of revaluation reserves for equity instruments eligible for Tier 2 capital.**
- ✓ There was no unrealized gain from quoted equities as on the reporting date.

- **Subordinated debt shall be limited to a maximum of 30% of the amount of Tier 1 capital.**
- ✓ Status of Compliance: Complied.

- **Limitation of Tier 3: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank's Tier 1 capital that is available after meeting credit risk capital requirement.**
- ✓ Status of Compliance: Complied.

As on year end 2013, there was no Tier III component of capital at TBL.

B. Quantitative Disclosure:

Capital Adequacy of Trust Bank Limited under Basel-II during 2013 as below:

Particulars	**Taka in million**
Tier-1 (Core Capital):	
▪ Fully Paid-up Capital/Capital Deposited with BB	3805.41
▪ Statutory Reserve	2169.22
▪ Non-repayable Share premium account	532.23
▪ Retained Earnings	656.32
Total Eligible Tier-1 Capital	**7163.18**
Tier-2 (Supplementary Capital):	
❖ General Provision (Unclassified loans + SMA+ off Balance Sheet exposure)	2016.42
❖ Revaluation Reserves for Securities up to 50%	18.51
❖ Subordinated debt	1600.00
Total Eligible Tier-2 Capital	**3634.94**
Total eligible capital:	**10798.11**

Capital Adequacy

A. Qualitative Disclosure:

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

The Bank actively manages its capital to meet regulatory norms and current and future business needs considering the risks in its businesses, expectation of rating agencies, shareholders and investors, and the available options of raising capital.

TBL has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The process provides an assurance that the Bank has adequate capital to support all risks in its business. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through sound governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

The Bank has a structured management framework in the Internal Capital Adequacy Assessment Process (ICAAP) for the identification and evaluation of the significance of all risks that the Bank faces, which may have an adverse material impact on its financial position. The Bank considers the following as material risks it is exposed to in the normal course of its business and therefore, factors these while assessing / planning capital:

Following Risk under Minimum Capital Requirement Under Pillar-1		Following Risk under Additional Capital Requirement Under Pillar-2	
1	Credit Risk	1	Residual Risk
2	Market Risk	2	Concentration Risk
3	Operational Risk	3	Liquidity Risk
		4	Reputation Risk
		5	Strategic Risk
		6	Settlement Risk
		7	Evaluation of Core Risk
		8	Environmental & Climate Change Risk
		9	Other Material Risk

The Bank has implemented Bangladesh Bank approved stress testing framework which forms an integral part of the Bank's ICAAP. Stress testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible stressed business conditions. The changes in the level of credit risk, market risk, liquidity risk and Interest Rate Risk in the Banking Book (IRRBB), in the on and off balance sheet positions of the Bank, is assessed under assumed "stress" scenarios. Typically, this relates, among other things, to the impact on the Bank's profitability and capital adequacy. Stress Tests are conducted on a quarterly basis and the stress test results are put up to the Board quarterly, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

In line with the guidelines of the Bangladesh Bank, the Bank has adopted Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardized Approach for Market Risk for computing Capital Adequacy Ratio (CAR).

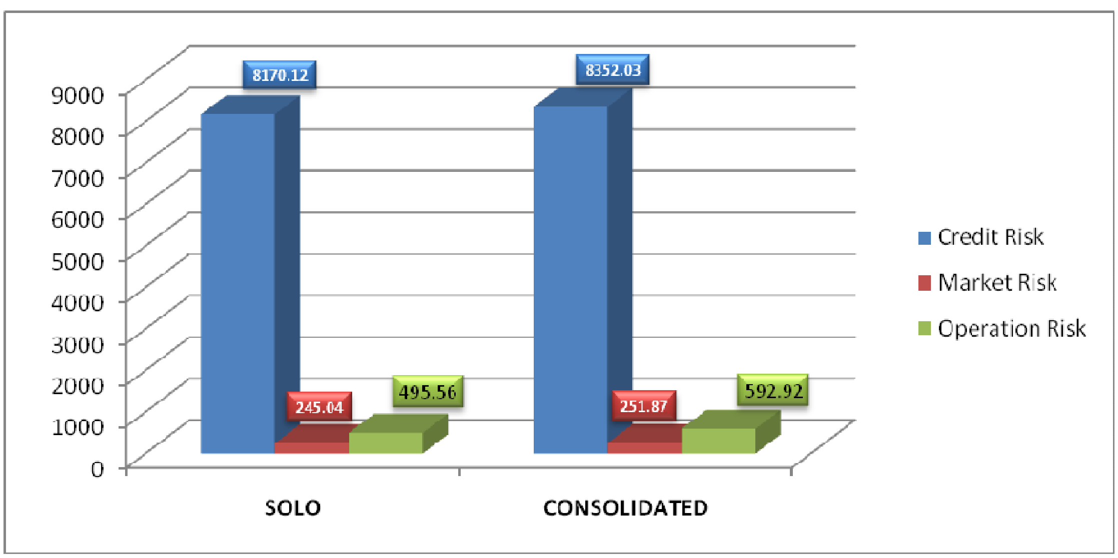
TBL has maintained capital adequacy ratio at **10.91%** & **11.74%** on the basis of "Solo" and "Consolidated" respectively as against the minimum regulatory requirement of 10%. Tier-I capital adequacy ratio under "Solo" basis is **7.66**% which "Consolidated" basis is **7.79**% as against the minimum regulatory requirement of 5%. The Bank's policy is to manage and maintain strong Capital Adequacy Ratio (CAR) with high rating grade of investment clients. The Bank maintains adequate capital that is sufficient to absorb all material risks associated with the Bank. The Bank also ensures that the levels of capital comply with regulatory requirements and satisfy the external rating agencies and other all stakeholders including depositors.

B. ***Quantitative Disclosure:***

Capital requirement under following Risk:

(Amount in Million)

	Particulars	Solo	Consolidated
A.	**Capital requirement for Credit Risk**		
	On- Balance sheet	7,084.81	7,266.72
	Off-Balance sheet	1,085.31	1,085.31
B.	**Capital requirement for Market Risk**	245.04	251.87
C.	**Capital requirement for Operational Risk**	495.56	592.92
	Total Capital Requirement (A+B+C)	**8910.72**	**9,196.82**

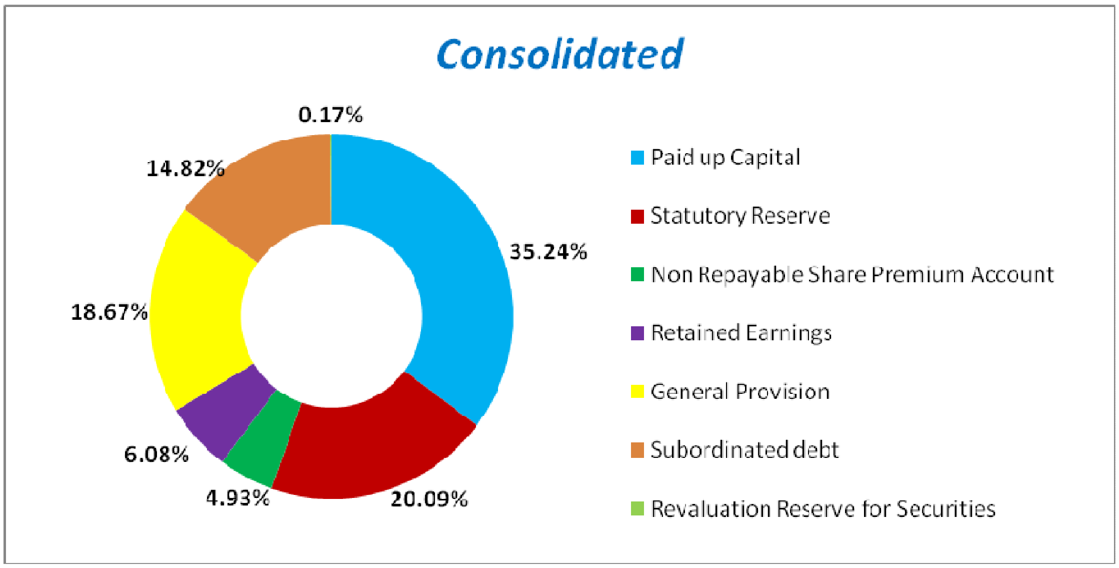


Capital Requirement: Credit Risk, Market Risk & Operation Risk

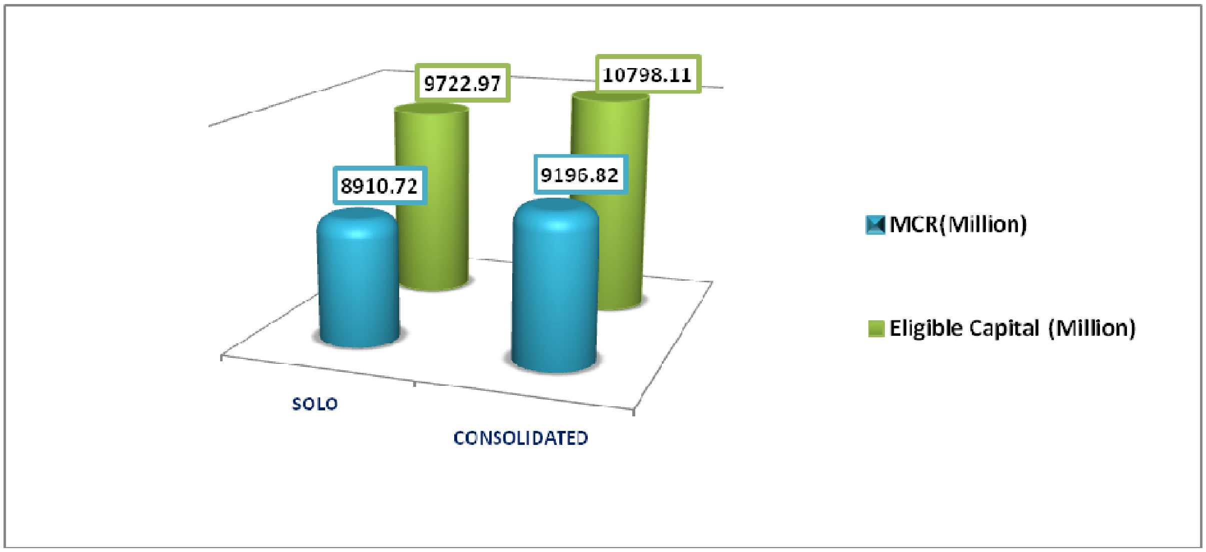
Minimum Capital Requirement (MCR) & Capital Adequacy Ratio (CAR) of TBL:

(Amount in Million)

Particulars	**Consolidated**
A. Eligible Capital :	
1. Tier-1 (Core Capital)	7163.18
2 .Tier-2 (Supplementary Capital)	3634.94
3. Tier-3 (eligible for market risk only)	
4. Total Eligible Capital	10798.11
B. Capital Adequacy Ratio (CAR)	**11.74%**
C. Core Capital to RWA	7.79%
D. Supplementary Capital to RWA	3.95%
E. Minimum Capital Requirement (MCR)	9196.82
F. Excess Capital	1601.31



Capital Composition: Tier 1 & Tier 2



Eligible Capital & Minimum Capital Requirement

Credit Risk

A. Qualitative Disclosure:

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

Definition of Credit Risk:

Credit risk covers the inability of a borrower or counter-party to honor commitments under an agreement and any such failures, which have an adverse impact on the financial performance of the Bank. The Bank is exposed to credit risk through lending and capital market activities.

Credit risk management processes:

Credit risk management is an integral part of the management and governance process within the Bank. The Bank focuses on ensuring that credit risk taking is in line within approved policies, while meeting risk-reward objectives. The Bank expects to achieve its earnings objectives and to satisfy its customers' needs while maintaining a sound portfolio. Credit exposures are managed through targeting market identification, appropriate credit approval processes, post-disbursement monitoring and remedial management procedures. Proactive managing of risks on its portfolio has helped the Bank foresee and restrict the impact of the global turmoil on its credit operations. Periodic portfolio review, clear identification of early warning signals and prompt action on the legal and recovery front ensure a healthy credit portfolio. Timely and in-depth research on industries and sectors ensure that funds are directed to positive outlook sectors. Adverse developments in sectors are tracked to facilitate timely decisions to exit Companies in negative outlook sectors. The Bank also constantly reviews its concentration across borrowers, groups, portfolio segments, geography, maturity, sectors and ratings. This helps the Bank maintain a well diversified portfolio. The Bank has also put in place a rating based approval matrix for sanctioning wholesale bank loans.

Credit Risk Management Principles:

The Bank measures and manages its credit risk based on the following principles:

- ☞ The extension and renewal of any credit facility to a particular borrower requires credit approval at the appropriate authority level. The approval authorities' policy indicates the sanctioning authorities and the rating tool helps the authorities in such decisions.
- ☞ The approval procedure of all limits to counterparties should be in line with the credit policy and credit risk mitigation policy of the bank. Such approval should generally be within the Bank's portfolio guidelines and credit strategies.
- ☞ The credit worthiness of borrowers is regularly reviewed and monitored. Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimize the potential loss to the bank

PAST DUE/OVER DUE:

Categories	Definition of past due	When started
Continuous Loan	If not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue.	From the following day of the expiry date.
Demand Loan	If not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue	As above
Fixed Term Loan	In case of any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue.	As above
Short-term Agricultural and Micro-Credit	If not repaid within the fixed expiry date for repayment will be considered past due/overdue.	After six months of the expiry date.

IMPAIRED LOAN:

All classified loan are treated as impaired loans, impaired can be defined as above:

Type of loan	Sub standard	Doubtful	Bad / Loss
Continuous Loan	3≤O<6	6≤O<9	O≥9
Demand Loan	3≤O<6	6≤O<9	O≥9
Fixed Term Loan (More than 10.00 Lac)	3≤O<6	6≤O<9	O≥9
SAC/MC	12<O≤36	36<O≤60	O>60
Fixed Term Loan (Upto 10.00 Lac)	6≤O<9	9≤O<12	O≥12

- **Note : O = Overdue, SAC= Short term Agricultural Credit, MC= Micro Credit**

QUALITATIVE JUDGMENT FOR LOAN CLASSIFICATION:

If any uncertainty or doubt arises in respect of recovery of any Continuous Loan, Demand Loan or Fixed Term Loan, the same will have to be 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 collateral decreases or if the recovery of the loan becomes uncertain due to any other unfavorable situation, the loan will have to be classified on the basis of qualitative judgment.

Condition for Qualitative Judgment:

Sub-standard:	**i)**	Assets must be classified no higher than Sub-standard if any of the following deficiencies of the obligor is present: recurrent overdrawn, low account turnover, competitive difficulties, location in a volatile industry with an acute drop in demand; very low profitability that is also declining; inadequate liquidity; cash flow less than repayment of principal and interest; weak management; doubts about integrity of management; conflict in corporate governance; unjustifiable lack of external audit; pending litigation of a significant nature.
	ii)	Assets must be classified no higher than Sub-standard if the primary sources of repayment are insufficient to service the debt and the bank must look to secondary sources of repayment, including collateral.
	iii)	Assets must be classified no higher than Sub-standard if the banking organization has acquired the asset without the types of adequate documentation of the obligor's net worth, profitability, liquidity, and cash flow that are required in the banking organization's lending policy, or there are doubts about the validity of that documentation.
Doubtful:		Assets must be classified no higher than Doubtful if any of the following deficiencies of the obligor is present: permanent overdrawn; location in an industry with poor aggregate earnings or loss of markets; serious competitive problems; failure of key products; operational losses; illiquidity, including the necessity to sell assets to meet operating expenses; cash flow less than required interest payments; very poor management; non-cooperative or hostile management; serious doubts of the integrity of management; doubts about true ownership; complete absence of faith in financial statements.
Bad/Loss:		Assets must be classified no higher than Bad/Loss if any of the following deficiencies of the obligor are present: the obligor seeks new loans to finance operational losses; location in an industry that is disappearing; location in the bottom quartile of its industry in terms of profitability; technological obsolescence; very high losses; asset sales at a loss to meet operational expenses; cash flow less than production costs; no repayment source except liquidation; presence of money laundering, fraud, embezzlement, or other criminal activity; no further support by owners.

Improvement in Classification

If any loan is classified by the on-site Inspection Team of Bangladesh Bank, the same can be declassified after recovery of required amount of overdue or through Rescheduling as per fulfillment of respective terms and condition. But this declassified will be effective after having consent of Bangladesh Bank.

A bank may request the concerned Department of Banking Inspection of Bangladesh Bank to review the classification of any loan for which there is a disagreement on classification that is not resolved during the on-site inspection. Bangladesh Bank will respond to the bank within 15 days of receiving such request. However, in any case where there is a lingering disagreement between the classification determined by bank management and the classification determined by Bangladesh Bank, the judgment of Bangladesh Bank will prevail.

Description of approaches followed for specific and general allowances:

General Provision: Bank maintains general provision in the following way-

Loan Status	*Type of Loan*	*Rate of Provision*
Unclassified Loan	Small & Medium Enterprise Financing (SMEF)	0.25%
	Consumer Financing (Other than HF & LP)	5%
	Consumer Financing (House Financing, HF)	2%
	Consumer Financing (Loans for Professional to setup business, LP)	2%
	Loans to BHs/ MBs/ Sds against Shares etc.	2%
	All Other Credit	1%
	Short Term Agri Credit & Micro Credit	5%
Special Mention Account	Small & Medium Enterprise Financing (SMEF)	0.25%
	Consumer Financing (Other than HF & LP)	5%
	Consumer Financing (House Financing, HF)	2%
	Consumer Financing (Loans for Professional to setup business, LP)	2%
	Loans to BHs/ MBs/ Sds against Shares etc.	2%
	All Other Credit	1%
	Short Term Agri Credit & Micro Credit	-

Specific Provision: Bank maintain specific provision in respect of Continuous, Demand and Fixed Term Loans-

Loan Status	*Type of Loan*	*Rate of Provision*
Substandard	Short Term Agri Credit & Micro Credit	5%
	Other than Short Term Agri Credit & Micro Credit	20%
Doubtful	Short Term Agri Credit & Micro Credit	5%
	Other than Short Term Agri Credit & Micro Credit	50%
Bad/Loss		100%

Eligible Collateral:

As per Bangladesh Bank the following collateral will be included as eligible collateral in determining base for provision:

- 100% of deposit under lien against the loan.
- 100% of the value of government bond/savings certificate under lien.

- 100% of the value of guarantee given by Government or Bangladesh Bank.
- 100% of the market value of gold or gold ornaments pledged with the bank.
- 50% of the market value of easily marketable commodities kept under control of the bank.
- Maximum 50% of the market value of land and building mortgaged with the bank.
- 50% of the average market value for last 06 months or 50% of the face value, whichever is less, of the shares traded in stock exchange.

Base for Provision:

Provision will be maintained on the outstanding balance of the classified loans less the amount of Interest Suspense and the value of eligible collateral:

- ❖ Deposit with the same bank under lien against the loan,
- ❖ Government bond/savings certificate under lien,
- ❖ Guarantee given by Government or Bangladesh Bank.

For all other eligible collaterals, the provision will be maintained at the stated rates on the balance calculated as the greater of the following two amounts:

- ❖ Outstanding balance of the classified loan less the amount of Interest Suspense and the value of eligible collateral; and
- ❖ 15% of the outstanding balance of the loan.

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 credit risk management policy of the bank aims at ensuring sustained growth of healthy loan portfolio while evolving a well- defined system to identify measure, monitor and control various risks attached to credit portfolio of the Bank. This entails reducing exposures in high risk areas, concentrating more on the promising industries / sectors / segments, striking balance between risk and return on assets and ensuring thereby optimization of value of stakeholders and striving towards maintaining and increasing its
market share. The policy also seeks to achieve prudent credit growth – both qualitative and quantitative- while adhering to the prudential norms with balanced sectoral deployment of credit to control credit concentration across Industries, sectors and segments. The policy also aims at ensuring consistency in and standardization of credit practices and has a well-defined credit appraisal & credit approval authority, reporting cum monitoring / follow-up system and loan review mechanism/ credit audit system.

B. *Quantitative disclosures:*

(b) **TOTAL GROSS CREDIT RISK EXPOSURES BROKEN DOWN BY MAJOR TYPES OF CREDIT EXPOSURE:**

(Amount in Million)

Outstanding (as on 31 December 2013)	Domestic	Overseas	Total
Loans & advances	**83,798.42**		**83,798.42**
Commitments			
Other non-derivative off-balance sheet exposures			
Debt securities			
OTC derivatives			
Total	**83,798.42**		**83,798.42**

(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	Short Term Agri. Credit	Total
Dhaka	15,920.32	14,184.74	28,786.51	16.25	58,907.82
Chittagong	2,771.86	11,683.83	4,288.49	0.94	18,745.13
Sylhet	491.13	407.02	1,607.97	0.43	2,506.55
Rajshahi	468.49	12.55	543.78	3.42	1,028.23
Barishal	40.95	0	32.92	-	73.87
Khulna	202.19	788.45	1,128.48	-	2,119.12
Rangpur	63.65	4.97	349.07	-	417.69
Total	**19,958.60**	**27,081.56**	**36,737.22**	**21.04**	**83,798.42**

(d) **INDUSTRY OR COUNTERPARTY TYPE DISTRIBUTION OF EXPOSURES, BROKEN DOWN BY MAJOR TYPES OF CREDIT EXPOSURE:**

(Amount in Million)

Industry Type	Public Sector		Private Sector	
	Term Loan	Working Capital	Term Loan	Working Capital
Small & Cottage Industry			15096.30	22042.10
Medium Scale Industry		76.00	1963.70	1655.50
Large Scale Industry			361.20	577.50
Total		**76.00**	**17421.20**	**24275.10**

(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	7200.97	10661.39	1277.38	0.51	19140.25
1 to 3 months	2858.07	9179.13	88.4	0	12125.60
3 to 6 months	3981.27	4881.38	804.73	0.99	9668.37
6 to 12 months	5918.3	2359.66	1383.88	3.25	9665.09
1 to 2 years	0	0.00	5337.93	47.59	5385.52

2 to 3 years	0	0.00	3070.54	250.34	3320.88
3 to 4 years	0	0.00	3447.66	5.53	3453.19
4 to 5 years	0	0.00	8053.55	0	8053.55
5 to 7 years	0	0.00	5320.9	0	5320.90
7 to 10 years	0	0.00	1824.83	0	1824.83
Over 10 years	0	0.00	5840.24	0	5840.24
Total	**19958.61**	**27081.56**	**36450.04**	**308.21**	**83798.42**

(f) BY MAJOR INDUSTRY OR COUNTERPARTY TYPE OF TBL:

• ***AMOUNT OF IMPAIRED LOANS AND IF AVAILABLE, PAST DUE LOANS, PROVIDED SEPARATELY:***

(Amount in Million)

Industry	Impaired	Past due
Agriculture	39.85	133.11
Industry (Other than Working capital)	457.36	2267.80
Working Capital	375.76	1261.74
Export Financing	65.60	82.75
Import Financing	159.83	188.48
Transport & communication	25.58	35.51
Internal trade financing	495.78	833.11
Housing	392.32	507.86
Special Programme		
Others	454.10	796.49
Inland & Foreign Bills	4.16	45.26
Total	**2470.36**	**6152.11**

• ***SPECIFIC AND GENERAL PROVISION OF TBL:***

(Amount in Million)

Sector	General Provision	Specific Provision
Consumer Financing	167.26	70.64
Small & Medium Enterprise Financing	11.83	133.68
Housing Finance	153.63	69.82
Loans to BHs/MBs/SDs against Shares etc.	8.66	
Loans for Professionals to setup business	0.11	0.03
Other Corporate Credit	616.41	633.46
Agricultural Credit	1.04	0.02
Total	**958.94**	**907.65**

• ***CHARGES FOR SPECIFIC ALLOWANCES AND CHARGE-OFFS DURING THE PERIOD.***

(Amount in Million)

Against Classified Loans & Advances	
Provision held on 1 January	763.34
Fully provided debts written off	
Recoveries from previously written off debts	
Provisions made during the year	144.31
Net Charge to the Profit Loss Account	144.31
Provision held at end of year	907.66

Against Unclassified Loans & Advances	
Provision held on 1 January	677.40
Provisions made during the year	245.77
Provision held at end of year	**923.17**
Against Special Mention Accounts	
Provision held on 1 January	67.85
Provisions made during the year	(32.07)
Provision held at end of year	**35.77**

General Provision for Off Balance Sheet Exposures	
Provision held on 1 January	220.74
Provisions made during the year	96.00
Provision held at end of year	316.74

(g) **GROSS NON PERFORMING ASSETS (NPAS) OF TBL:**

(Amount in Million)

Gross Non Performing Assets (NPAs)	2470.36
Non Performing Assets (NPAs) to outstanding loans & advances	3.12%
Movement of Non Performing Assets for NPAs	
Opening balance	2503.84
Additions	1264.32
Reductions	(1297.80)
Closing Balance	2470.36
Movements of specific provisions for NPAs	
Opening balance	763.34
Provision made during the period	144.30
Write-off	
Write back of excess provisions	
Closing Balance	**907.65**

Equities: Disclosures for Banking Book Position

A. Qualitative Disclosure:

a) 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**

Investment of TBL in equity securities is broadly categorized into two parts: securities (Ordinary shares, Mutual Fund) that are traded in the secondary market (trading book assets) and Un-quoted securities (including preference share and subscription for private placement). Unquoted securities are categorized as banking book equity exposures which are further subdivided into two groups: unquoted securities which are invested without any expectation that these will be quoted in near future (i.e. held to maturity) and securities that are acquired under private placement or IPO and are going to be traded in the secondary market after completing required formalities. Usually these securities are held for trading or investment for making capital gains.

- **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.**

Bank investment in these equity securities for the purpose of capital gain by selling them in future or held for dividend income. Dividends received from these equity securities are accounted for as and when received. Both Quoted and Un-Quoted equity securities are valued at cost and necessary provisions are maintained if the prices fall below the cost price.

As per Bangladesh Bank guidelines, the HFT equity securities are revaluated once in each week using marking to market concept and HTM equity securities are amortized once a year according to Bangladesh Bank guideline.

B. Quantitative Disclosure:

b) 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.1105.96 million
Fair Market Value of shares in Listed Securities	Tk. 948.34 million

c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.

Tk.20.78 million

d) • **Total unrealized gains (losses)**
Tk. (157.62) million

- **Total latent revaluation gains (losses)**
-Nil.

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

e) 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.

Interest rate risk in the banking book (IRRBB)

A. Qualitative Disclosure:

(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.

IRRBB is the framework to monitor and measure the adverse impact of interest rates on the Bank's financial condition. This impact is calculated from following perspectives:

- **Earnings perspective:** Indicates the impact on Bank's Net Interest Income (NII) in the short term.

- **Economic perspective:** Indicates the impact on the net-worth of bank due to re-pricing of assets, liabilities and off-balance sheet items.

The Asset - Liability Management Committee (ALCO) is responsible for evaluating and institutionalizing appropriate systems and procedures for monitoring and managing the IRRBB. The Risk Management Committee reviews various decisions taken by the ALCO for managing IRRBB. The ALM Policies define the framework for managing IRRBB through measures such as:

- **Interest Rate Sensitivity Report:** Measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions) in various tenor buckets based on re-pricing or maturity, as applicable.

- **Duration Gap Analysis:** The gap or mismatch risk as at a given date, is measured by calculating gaps over different time intervals. Gap analysis measures mismatches between rate sensitive liabilities (RSL) and rate sensitive assets (RSA). The report is prepared by grouping liabilities and assets into time buckets according to maturity. The Gap report provides a good framework for determining the earnings impact.

- **Stress Testing :** Trust Bank has also been exercising the Stress Testing for measuring the Interest Rate Risk on its on-balance sheet exposure for estimating the impact of the net change in the market value of equity on the Capital Adequacy Ratio (CAR) due to change in interest rates only on its on-balance sheet positions (as the bank holds no interest bearing off -balance sheet positions and/or derivatives) under the assumption of different interest rate changes as per Bangladesh Bank guideline.

B. 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.

On Solo Basis:

(Amount in Million)

Interest Risk-Increase in Interest Rate: (Magnitude of Shock)	**Situation-1 1%**	**Situation-2 2%**	**Situation-3 3%**
Regulatory Capital (After shock)	8840.45	7853.37	6866.29
RWA (After shock)	89076.99	89076.99	89076.99
CAR (After shock)	9.92%	8.82%	7.71%
Total Assets	116,738.85	116,738.85	116,738.85
Duration Gap in years	0.93	0.93	0.93
Changes in Market value of Equity due to an increase in interest Rate, Δ MVE	(987.08)	(1974.16)	(2961.24)

Market Risk:

A. Qualitative Disclosure:

VIEWS OF BOD ON TRADING/INVESTMENT ACTIVITIES

The Board of Directors approves all policies related to the market risk components, reviews compliance and set limits on regular basis to check key performance indicators of trading and investment activities of the bank. The objective is to provide cost effective funding to finance assets growth and trade related transactions.

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.

MARKET RISK MANAGEMENT SYSTEM

The Treasury Division manage market risk covering liquidity, interest rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. ALCO meets at least once in a month.

POLICIES AND PROCESSES FOR MITIGATING MARKET RISK:

There are approved limits for Market risk related instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against market risks. The exchange rate committee of the Bank meets on a daily basis to review the prevailing market condition, exchange rate, forex position and transactions to mitigate foreign exchange risks.

Foreign Exchange Risk:

Foreign Exchange Risk can be defined as a measure by the variance of the domestic currency value of an asset, liability or operating income that is attributable to unanticipated change in the exchange rates. Simply put it, is the risk that relates to the gain/losses that arise due to fluctuations in the exchange rates.

MEASUREMENT OF FOREIGN EXCHANGE RISK POSITION:

(a) Currency wise holding review
(b) Instances of limit breaches
(c) Sensitivity analysis
(d) Un-reconciled Nostro accounts over 90 days

KEY REQUIREMENTS OF FOREIGN EXCHANGE RISK MANAGEMENT POLICY:

(a) A statement of risk principles and objectives governing the extent to which the institution is willing to assume foreign exchange risk;

(b) Explicit and prudent limits on the institutions' exposure to foreign exchange risk;

(c) Clearly defined levels of delegation of trading authorities.

Interest Rate Risk:

It is the potential loss from unexpected changes in interest rates which can significantly alter a bank's profitability and market value of equity. The amount at risk is a function of the magnitude and direction of interest rate change and the size and maturity structure of the mismatch position.

If Interest Rate rises, the cost of fund increases more rapidly than the yield on assets, thereby reducing net Income. If the exposure is not managed properly it can erode both the profitability and shareholder value.

MEASUREMENT OF INTEREST RATE RISK POSITION:

(a) Maturity Gap analysis
(b) Duration Gap Analysis
(c) Value at Risk

KEY REQUIREMENTS OF AN INTEREST RATE RISK MANAGEMENT POLICY:

(a) The measurement of appropriate limits on risk taking;

(b) Adequate systems and standards for measuring risk;

(c) Standards for valuing positions and measuring performance;

(d) A comprehensive interest rate risk reporting and interest rate risk management review process;

(e) Effective internal controls.

Liquidity Risk:

Liquidity risk is defined as the risk that the bank will be unable to meet its payment obligations on a day-to-day basis. In broader sense structural liquidity risk is defined as the possibility that the financial resources to meet future payment obligations will not be available as and when they fall due, in full, in standard market terms.

MEASUREMENT OF LIQUIDITY POSITION:

Our Risk Management Unit uses the following tools for review the Liquidity Risk:

(a) Indicators

- ► Statutory Liquidity Requirement (SLR)
- ► Cash Reserve Ratio (CRR)
- ► Advance Deposit Ratio
- ► Structural Liquidity Profile
- ► Liability Concentration
- ► Category-wise growth of Deposit
- ► Wholesale Borrowing Guideline
- ► Maximum Cumulative Outflow (MCO)
- ► Medium Term Funding Ratio (MTF)
- ► Volatile Liability Dependence
- ► Liquid Asset to Total Deposit
- ► Liquid Assets to Short Term Liabilities
- ► Borrowed Funds to Total Assets
- ► Liquidity Coverage Ratio (LCR)
- ► Net Stable Funding Ratio (NSFR)

(b) Maturity Mismatch Analysis

(c) Cash Flow Projections

(d) Stock of Liquid Assets

KEY REQUIREMENTS OF A LIQUIDITY RISK MANAGEMENT POLICY:

The liquidity risk management policy must reflect the daily strategy and longer-term liquidity plans, and have as its major components:

(a) The measurement of liquidity position;
(b) Monitoring liquidity; and
(c) Contingency planning.

B. Quantitative Disclosures:

The Capital requirements for specified risk are as follows:

(Amount in Million)

SL	Market Risk	Capital Requirement
A	Interest Rate Related instruments	21.48
B	Equities	189.67
C	Foreign Exchange Position	40.71
D	Commodities	0
	Total	**251.87**

Operational Risk:

A. *Qualitative Disclosure:*

- **Views of BOD on system to reduce Operational Risk:**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk includes legal risk but excludes strategic and reputational risks. Operational risk is inherent in the Bank's business activities in both domestic as well as overseas operations and covers a wide spectrum of issues. Operational risk can result from a variety of factors, including failure to obtain proper internal authorizations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors. Operational risk in the Bank is managed through a comprehensive system of internal controls, systems and procedures to monitor transactions, key back-up procedures and undertaking regular contingency planning. The control framework is designed based on categorization of functions into front-office comprising business groups, middle office comprising credit and treasury middle offices, back-office comprising operations, corporate and support functions.

The overall objective of the Operational Risk Management is:

- Determine Bank's appetite for Operational Risk
- Framework to identify, assess and monitor operational risk for effective mitigation.
- Strengthen overall control environment at the Bank
- Improvement in customer service and minimize operational losses

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. Audit committee of the Board oversees the activities of Internal Control & Compliance Division (ICCD) to protect against all operational risk.

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.

IN 2013 IC & C DIVISION CONDUCTED FOLLOWING NO. OF AUDIT:

No. of Comprehensive Audit on branches	79
No. of Comprehensive Audit at Head Office	12
No. of Spot audits	24
No. of Spot Inspection on Anti Fraud Internal Control	16

To comply with the directives of Bangladesh Bank a special meeting of the Board of Directors was held on 22nd August, 2013 to review the compliance/implementation status on the observations of Bangladesh Bank's comprehensive inspection report, where the representatives of Bangladesh Bank were also present.

- **Performance gap of executives and staffs:**

Trust Bank Limited always tries to be the best pay master in the sector and ensure best workplace safety for its employees to avoid inconsistent employment practices and unsound workplace safety by way of discrimination regarding employee's compensation, health and safety. TBL strong brand image plays an important role in employee motivation. As a result there is no significant gap.

- **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.

Trust Bank Limited has invested heavily in IT infrastructure for better automation and online transaction environment. The bank also has huge investment on alternative power supply (both UPS & generators) and network links to avoid business description and system failure. Its IT system does not allow any kind of external access to avoid external fraud by way of theft/ hacking of information assets, forgery etc. TBL has also invests considerable on security from terrorism and vandalism to avoid damage to physical assets.

- **Policies and Processes for mitigating operational risk:**

The policy for operational risks including internal control & compliance risk is approved by Board taking into account relevant guidelines of Bangladesh Bank. The Bank developed a Risk Management Unit and supervisory review Committee for review and managing operation risk as well as evaluating of the adequacy of the capital. For mitigating operational risk Internal Control and compliance division undertakes periodical and special audit of the branches and departments at the Head Office for review of the operation and compliance of statutory requirements.

- **Approach for calculating capital charge for operational risk:**

In line with RBCA guidelines, Bank has adopted the Basic Indicator Approach to compute the capital requirements for Operational Risk. Under Basic Indicator Approach, average income of last 3 years is taken into consideration for arriving at Risk Weighted Assets.

Quantitative Disclosures:

(Amount in Million)

Particulars	RWA	Capital Requirement
Minimum Capital Requirement for : Operational Risk	5,929.20	592.92