# Disclosures on Risk Based Capital (Basel II)

The capital of a bank acts as a "cushion" or "buffer" to the extent of its size, in absorbing potential losses arising from these risks, thereby safeguarding the depositors' funds, at least to that extent. Hence, capital adequacy is an essential requisite for banks to maintain over and above the stipulated requirements under the integrated risk management system.

Trust Bank Ltd. 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. Pillar 3 disclosures as per Bangladesh Bank master circular on Basel-II Capital Regulations are set out in the following sections for information as a regulatory compliance.

## a) Scope of application

| **Qualitative Disclosures** | |
|---|---|
| **a)** The name of the top corporate entity in the group to which this 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 **(iii)** 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.<br><br>A brief description of the Bank and its subsidiary are given below:<br><br>**<u>Trust Bank Limited</u>**<br>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 91 branches, 06 (six) SME centers, 4 Trust Bank T-Lobby & CDMs (Cash Deposit Machine) and 144 ATM booths all over Bangladesh. |

| | |
|---|---|
| | **Off-shore Banking Unit (OBU):**<br>The Off-shore Banking Unit (OBU) of the Bank is the separate business entity governed by the applicable rules & regulations and guidelines of Bangladesh Bank. The number of OBU was 1 (One) as on reporting date 31 December 2014 located at Dilkusha Corporate Branch Dhaka.<br><br>Investments in OBUs are risk weighted with the exposure of the Bank.<br><br>**There are 2 (Two) Subsidiaries of Trust Bank which are as under:**<br><br>***1. Trust Bank Investment Ltd:***<br><br>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.<br><br>***2. Trust Bank Securities Limited:***<br><br>Trust Bank Securities 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.<br><br>The main objective of the company is carry on business of stock broker/dealers in relation to shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the Company. |
| 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 in all subsidiaries not included in the consolidation that are deducted and name(s) of such subsidiaries. | Not applicable |

## b) <u>Capital Structure</u>

<table>
<tr><th>Qualitative Disclosures</th><th></th></tr>
<tr><td rowspan="4">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.</td><td>As per RBCA guidelines of Bangladesh Bank:<br><br>Tier-1 Capital : It is called ‘Core Capital’ comprises of highest quality of capital elements consists of -<br><br>i) Fully Paid-up Capital ii) Statutory Reserve iii) Non-repayable Share premium account iv) General Reserve v) Retained Earnings vi) Minority Interest in Subsidiaries vii) Non-Cumulative Irredeemable Preferences Shares viii) Dividend Equalization Account</td></tr>
<tr><td>Tier-2 Capital : It is called ‘Supplementary Capital’ represents other elements which fall short of some of the characteristics of the core capital consists of-<br>i) General Provision ii) Assets Revaluation Reserves up to 50% iii) Revaluation Reserves for Securities up to 50% iv) All other preference shares v) Subordinated debt shall be limited to a maximum of 30% of the amount of Tier-1 capital vi) 10% revaluation reserves for equity instruments eligible for Tier- 2 capital</td></tr>
<tr><td>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.</td></tr>
<tr><td>Compliance status of TBL as per condition for maintaining regulatory capital:<br><br>
<table>
<tr><td>1. The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.</td><td>Complied</td></tr>
<tr><td>2. 50% of revaluation reserves for fixed assets and securities eligible for Tier 2 capital.</td><td>Complied</td></tr>
<tr><td>3. 10% of revaluation reserves for equity instruments eligible for Tier 2 capital.</td><td>Complied</td></tr>
<tr><td>4. Subordinated debt shall be limited to a maximum of 30% of the amount of Tier 1 capital.</td><td>Complied</td></tr>
</table>
</td></tr>
</table>

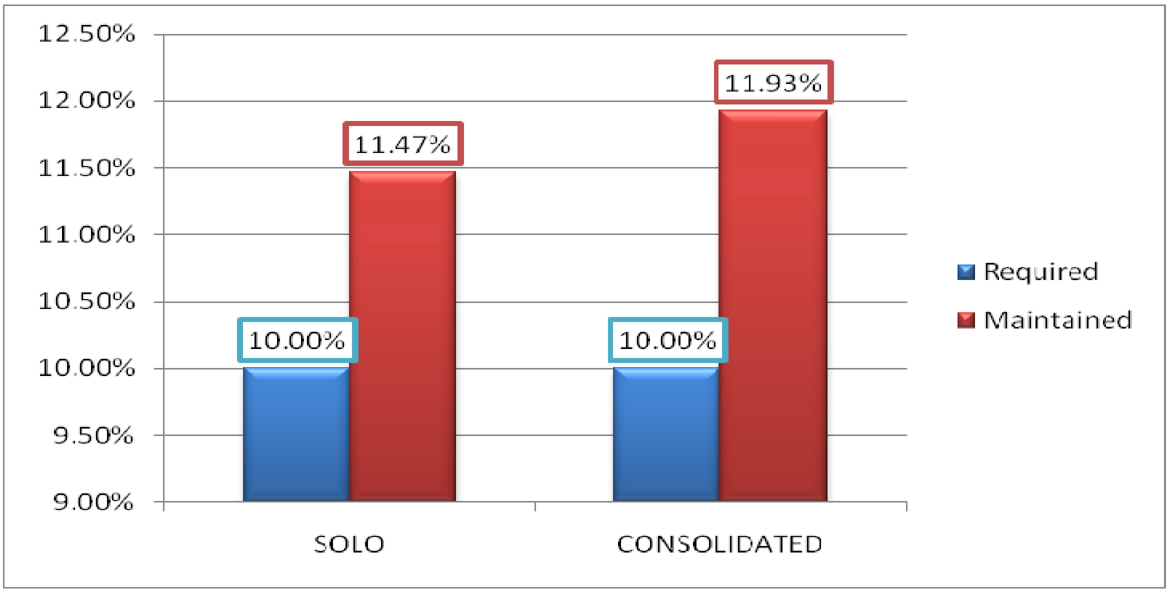
| | | |
|---|---|---|
| | 5. Limitation of Tier 3: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank's Tier 1 capital that is available after meeting credit risk capital requirement. | As on year end 2014, there was no Tier III component of capital at TBL |
| **Quantitative Disclosures** | | |

| b) Capital Adequacy of Trust Bank Limited under Basel-II during 2014 as below | | |
|---|---|---|
| ***1. Tier-1 (Core Capital )*** | **Solo** | **Consolidated** |
| | Amount in Million | |
| Fully Paid-up Capital/Capital Deposited with BB | 4,262.06 | 4,262.06 |
| Statutory Reserve | 2709.04 | 2709.04 |
| Non-repayable Share premium account | 75.58 | 75.58 |
| Retained Earnings | 1081.27 | 1414.57 |
| **Total Eligible Tier-1 Capital** | **8127.96** | **8461.25** |
| ***2. Tier-2 (Supplementary Capital)*** | | |
| General Provision | 1754.56 | 2419.36 |
| Revaluation Reserves for Securities up to 50% | 0.27 | 0.27 |
| Subordinated debt | 2438.39 | 2538.37 |
| **Total Eligible Tier-2 Capital** | **4193.22** | **4958.01** |
| **Total Eligible Capital** | **12321.18** | **13419.26** |

## c) Capital Adequacy

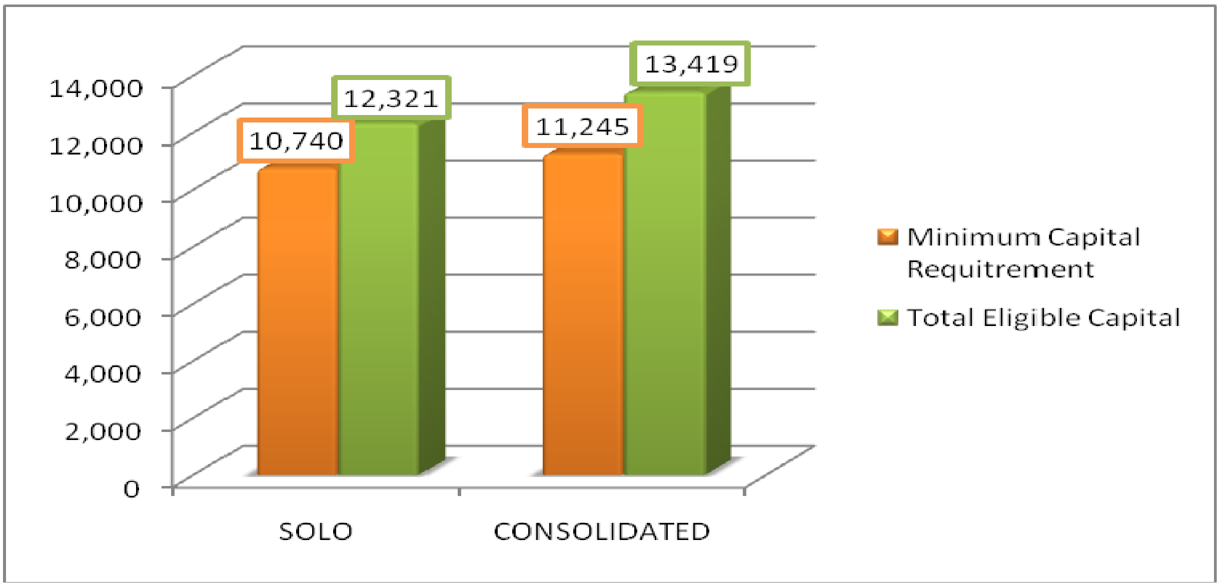
| **Qualitative Disclosures** | |
|---|---|
| a) A summary discussion of the bank's approach to assess the adequacy of its capital to support current and future activities. | The Bank is exposed to Credit risk, market risk, Operational risk and other Pillar II risks. Based on the scale of business, operations approaches have been put in place to compute the required capital of the bank and controls that are commensurate the risk profile of the bank.<br><br>In line with the guidelines of the Bangladesh Bank, the Bank has adopted the following approaches for computing the capital charge.<br><br>For Credit Risk – Standardized Approach<br>For Market Risk – Standardized Approach<br>Operational Risk – Basic Indicator Approach |

| | | |
|---|---|---|
| | ❑ The Business projections, capital requirement, Assessment methodology, controlling mechanism, etc., have been discussed in ICAAP document and it has been reviewed on yearly basis.<br>❑ CAR has been computed based on the Basel II guidelines and it is well above the regulatory minimum level of 10%. | |
| **Quantitative Disclosures** | Amount in Million | |
| ***Capital requirement under following Risk:*** | **Solo** | **Consolidated** |
| b) *Capital requirement for Credit Risk* | 9957.78 | 10141.90 |
| c) *Capital requirement for Market Risk* | 130.78 | 283.45 |
| d) *Capital requirement for Operational Risk* | 651.35 | 819.53 |
| *Total Capital Requirement (a+b+c)* | 10739.91 | 11244.88 |
| ***Minimum Capital Requirement (MCR) & Capital Adequacy Ratio (CAR) of TBL:*** | | |
| ❑ ***Eligible Capital :*** | | |
| ***1.*** *Tier-1 (Core Capital )* | 8127.96 | 8461.25 |
| ***2 .****Tier-2 (Supplementary Capital)* | 4193.22 | 4958.01 |
| ***3.*** *Tier-3 (eligible for market risk only)* | - | - |
| ***4.*** *Total Eligible Capital* | 12321.18 | 13419.26 |
| ❑ ***Capital Adequacy Ratio (CAR)*** | 11.47% | 11.93% |
| ❑ *Core Capital to RWA* | 7.57% | 7.52% |
| ❑ *Supplementary Capital to RWA* | 3.90% | 4.41% |
| ❑ *Minimum Capital Requirement (MCR)* | **10739.91** | **11244.88** |
| ❑ *Excess Capital* | 1581.27 | 2174.38 |




## Minimum Capital Requirements

**December, 2014**




## Eligible Capital

**December, 2014**

## d) Credit Risk:

**Qualitative Disclosures**

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

**i)** Definitions of past due and impaired

| 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 6 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 (Upto 10.00 Lac)** | 6≤O<9 | 9≤O<12 | O≥12 |
| **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 |

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

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

***General Provision:***

Bank maintains general provision in the following way-

***For Unclassified Loan:***

| *Type of Loan* | *Rate of Provision* |
|---|---|
| Small & Medium Enterprise Financing (SMEF) | 0.25% |
| Consumer Financing (Other than HF & LP) | 5% |
| Consumer Financing (House Financing, HF) | 2% |
| Consumer Financing<br>(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 | 2.5% |

***Special Mention Account:***

| ***Type of Loan*** | ***Rate of Provision*** |
|---|---|
| Small & Medium Enterprise Financing (SMEF) | 0.25% |
| Consumer Financing (Other than HF & LP) | 5% |
| Consumer Financing (House Financing, HF) | 2% |
| Consumer Financing<br>(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 | 2.5% |

***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.

| | |
|---|---|
| **iii)** Discussion of the Bank's Credit risk management policy. | The Bank has formulated a comprehensive Credit Risk Management Policy and constituted various committees such as Credit Risk Management Committee, Basel Committee etc. to address host of management techniques which help the Bank in identifying, measuring, monitoring and controlling of credit risks by taking into account both external and internal factors affecting the credit risk. Credit Risk Management Policy primarily include credit appraisal standard like benchmark/hurdle ratios on key financial indicators, internal ceilings, prudential norms for large credit proposals, standards for loan collateral, portfolio management, credit concentration, Loan Review Mechanism/Credit Audit, special review of high value borrower accounts (Comprehensive Credit Monitoring Report), risk concentration/monitoring and pricing based on risk ratings, and review based on risk ratings etc, besides covering exposure ceiling for sensitive sectors such as capital market, real estate and ship breaking sectors. Proposal beyond their delegation is submitted to the Executive Committee and the top management. |

***Quantitative* Disclosures*:***

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

(Amount in Million)

| Major Types | Continuous Loan | Demand Loan | Fixed Term Loan | Short Term Agri. Credit & Micro Credit | Total |
|---|---|---|---|---|---|
| Small & Medium Enterprise Financing | 3480.66 | 1216.53 | 1460.34 | | 6157.53 |
| Consumer Financing | 1105.17 | 132.54 | 3279.99 | | 4517.69 |
| Loans to BHs/MBs/Sds against Share | 132.15 | | 1.31 | | 133.46 |
| Other than SMEF, CF,BHs/MBs/Sds | | | | | |
| Housing Finance | | | 9850.30 | | 9850.30 |
| Loan for Professionals to setup business (LP) | | | 4.48 | | 4.48 |
| Others | 14755.92 | 27160.88 | 40440.33 | 22.27 | 82379.40 |
| Staff Loan | | | | | 724.71 |
| **Total exposure in Trust Bank Limited (TBL)** | | | | | **103767.58** |
| **Total exposure in Trust Bank Investment Limited (TBIL)** | | | | | **4578.90** |
| **Total exposure in Offshore Banking** | | | | | **3126.77** |

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

(Amount in Million)

| Geographical Distribution | Amount | Grand Exposure |
|---|---|---|
| **Urban** | | **96035.30** |
| Dhaka | 73329.42 | |
| Chittagong | 17979.58 | |
| Sylhet | 2115.43 | |
| Rajshahi | 221.11 | |
| Barishal | 144.43 | |
| Khulna | 2202.04 | |
| Rangpur | 43.29 | |
| **Rural** | | **7732.28** |
| Dhaka | 2793.10 | |
| Chittagong | 1495.40 | |
| Sylhet | 630.19 | |
| Rajshahi | 1047.63 | |
| Barishal | | |
| Khulna | 889.66 | |
| Rangpur | 876.30 | |
| **Total** | | **103767.58** |

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

(Amount in Million)

| Industry Type | Amount |
|---|---|
| Agriculture | 1202.60 |
| RMG | 7733.42 |
| Textile | 5772.79 |
| Ship Building | 0.00 |
| Ship Breaking | 2453.55 |
| Other Manufacturing Industry | 23645.39 |
| SME loan | 4137.60 |
| Construction | 7599.43 |
| Power, Gas | 2269.23 |
| Transport, Storage and Communication | 3055.78 |
| Trade Service | 10748.30 |
| Commercial real estate financing | 6319.64 |
| Residential real estate financing | 5701.17 |
| Consumer Credit | 8018.47 |
| Capital Market | 133.46 |
| Non-bank financial Institutions | 142.85 |
| Others | 14833.90 |
| **Total Exposure** | **103767.58** |

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

(Amount in Million)

| Time band | Continuous Loan | Demand Loan | Term Loan | Agricultural Credit | Total |
|---|---|---|---|---|---|
| **Up to 1 month** | 2967.87 | 9876.46 | 817.72 | 4.91 | 13666.96 |
| **1 to 3 months** | 3828.39 | 9275.80 | 156.29 | 0.95 | 13261.43 |
| **3 to 6 months** | 4575.65 | 7168.15 | 1810.96 | 1.91 | 13556.67 |
| **6 to 12 months** | 8101.99 | 2189.54 | 2843.69 | 14.50 | 13149.72 |
| **1 to 2 years** | | | 4862.98 | | 4862.98 |
| **2 to 3 years** | | | 3965.89 | | 3965.89 |
| **3 to 4 years** | | | 9171.01 | | 9171.01 |
| **4 to 5 years** | | | 11877.50 | | 11877.5 |
| **5 to 7 years** | | | 9832.54 | | 9832.54 |
| **7 to 10 years** | | | 3359.36 | | 3359.36 |
| **Over 10 years** | | | 7063.52 | | 7063.52 |
| **Total** | **19473.90** | **28509.95** | **55761.47** | **22.27** | **103767.58** |

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 |
|---|---|---|
| Small & Medium Enterprise Financing | 940.95 | 1325.03 |
| Consumer Financing | 167.11 | 401.79 |
| Housing Finance | 374.61 | 1105.97 |
| Loans for Professionals to setup business | | 0.18 |
| Loans to BHs/MBs/SDs against Shares etc. | | 5.34 |
| Other Corporate Credit | 1130.49 | 7557.12 |
| Short Term Agri Credit & Micro Credit | 1.01 | 1.86 |
| Staff Loan | 0.60 | |
| **Total** | **2614.76** | **10397.28** |

• ***SPECIFIC AND GENERAL PROVISION (REQUIRED)***

(Amount in Million)

| Sector | General Provision | Specific Provision |
|---|---|---|
| Small & Medium Enterprise Financing | 13.04 | 379.90 |
| Consumer Financing | 217.53 | 79.70 |
| Housing Finance | 189.51 | 81.11 |
| Loans for Professionals to setup business | 0.09 | 0 |
| Loans to BHs/MBs/SDs against Shares etc. | 2.67 | 0 |
| Other Corporate Credit | 812.27 | 496.88 |
| Short Term Agri Credit & Micro Credit | 0.53 | 0.05 |
| **TBL Total** | **1235.64** | **1037.64** |
| **Off-shore Banking Unit** | **31.26** | **-** |
| **Grand Total** | **1266.90** | **1037.64** |

| Against Classified Loans & Advances | Taka in Million |
|---|---|
| Provision held on 1 January | 907.66 |
| Fully provided debts written off | 0 |
| Recoveries from previously written off debts | 0 |
| Provisions made during the year | 129.98 |
| Net Charge to the Profit & Loss Account | 129.98 |
| Provision held at end of year | 1037.64 |

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

| Against Unclassified Loans & Advances | Taka in Million |
|---|---|
| Provision held on 1 January | 921.73 |
| Provisions made during the year | 281.79 |
| **Provision held at end of year** | **1203.52** |
| **Against Special Mention Accounts** | |
| Provision held on 1 January | 35.77 |
| Provisions made during the year | 7.99 |
| **Provision held at end of year** | **43.76** |

| General Provision for Off Balance Sheet Exposures | Taka in Million |
|---|---|
| Provision held on 1 January | 316.75 |
| Provisions made during the year | 159.25 |
| Provision held at end of year | 476.00 |

| Provision for Off-shore Banking Units | Taka in Million |
|---|---|
| Provision held on 1 January | 1.45 |
| Provisions made during the year | 29.82 |
| Provision held at end of year | 31.27 |

**g) Gross Non Performing Assets (NPAs) of TBL:**

(Amount in Million)

| Gross Non Performing Assets (NPAs) | |
|---|---|
| Non Performing Assets (NPAs) to outstanding loans & advances | 2614.76 |
| **Movement of Non Performing Assets for NPAs** | |
| Opening balance | 2470.36 |
| Additions | 1051.16 |
| Reductions | (906.76) |
| Closing Balance | 2614.76 |
| **Movements of specific provisions for NPAs** | |
| Opening balance | 907.66 |
| Provision made during the period | 129.98 |
| Write-off | 0 |
| Write back of excess provisions | 0 |
| **Closing Balance** | **1037.64** |

## e) Equities: Disclosures for Banking Book Position

| **Qualitative Disclosures:** | 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:<br><br>❑ **Quoted Securities:**<br>Securities (Ordinary shares, Mutual Fund) that are traded in the secondary market (trading book assets). These securities include Common share, Preference shares and Mutual funds.<br><br>❑ **Unquoted Securities:**<br><br>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 HTM) 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 (HFT) 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. | The primary aim is capital gain or 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 (BB) guidelines, Held For Trading (HFT) equity securities are marked-to-market (revaluated) once a week, and HTM equity securities are amortized annually. HTM securities are revaluated if reclassified to HFT. The quoted shares of the bank are valued at cost or market price, whichever is lower. |

<table>
<tr><td>Quantitative Disclosures:</td><td colspan="2"></td></tr>
<tr><td rowspan="3">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.</td><td>Value of Investments in Balance Sheet</td><td>Amount in Million</td></tr>
<tr><td>Shares in Listed Companies (Valuation at average cost price)</td><td>1,473.88</td></tr>
<tr><td>Fair Market Value of shares in Listed Securities</td><td>1,156.27</td></tr>
<tr><td>c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.</td><td colspan="2">Tk. 3.34 million</td></tr>
<tr><td>d) * Total unrealized gains (losses)</td><td colspan="2">Tk. (317.61) million</td></tr>
<tr><td>* Total latent revaluation gains (losses)</td><td colspan="2">Nil</td></tr>
<tr><td>* Any amounts of the above included in Tier – 2 capital.</td><td colspan="2">Nil</td></tr>
<tr><td>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.</td><td colspan="2">The capital requirements for equity investments as of 31 December 2014 was as under:<br><br>(Amount in Million)<br><table><tr><td>Particulars</td><td>Amount (MV)</td><td>Weight</td><td>Capital Charge</td></tr><tr><td>Specific Risk</td><td>1,156.27</td><td>10%</td><td>115.63</td></tr><tr><td>General Market Risk</td><td>1,156.27</td><td>10%</td><td>115.63</td></tr><tr><td colspan="3">Total</td><td>231.26</td></tr></table></td></tr>
</table>

## 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 in the banking book (IRRBB) refers to the potential adverse financial impact on the Bank's Banking Book from changes in interest rates. The Interest Rate Risk is measured and monitored through following analysis:<br>▪ **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.<br>▪ **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.<br>▪ **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. |

**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.

(Amt in Crore)

| **Interest Rate Risk in the banking book** | **Residual maturity bucket** | | | |
|---|---|---|---|---|
| | **3months** | **6months** | **1 year** | **Above 1 year** |
| Interest Sensitive Assets (A) | 3050.24 | 1104.81 | 2209.63 | 6249.08 |
| Interest Sensitive Liabilities (B) | 4597.94 | 1612.13 | 3224.26 | 1984.30 |
| GAP (A-B) | (1547.70) | (507.32) | (1014.63) | 4264.78 |
| Cumulative GAP | 1547.70) | (2055.01) | (3069.64) | 1195.14 |

**CAR before Shock:**

(Amt in Crore)

| Magnitude of Shock | Situation-1 1% | Situation-2 2% | Situation-3 3% |
|---|---|---|---|
| Regulatory Capital (After shock) | 1066.59 | 899.67 | 732.74 |
| RWA (After shock) | 10627.02 | 10627.02 | 10627.02 |
| CAR (After shock) | 10.04% | 8.47% | 6.90% |
| Total Assets | 14453.83 | 14453.83 | 14453.83 |
| Duration Gap in years | 1.28 | 1.28 | 1.28 |
| Changes in Market value of Equity due to an increase in interest Rate, $\Delta$ MVE | (166.92) | (333.85) | (500.77) |

## 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 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 | In Standardized Approach, the capital requirement for various market risks (interest rate risk, equity price risk, commodity price risk, and foreign exchange risk) is determined separately. The total capital requirement in respect of market risk is the sum of capital requirement calculated for each of these market risk sub-categories. The methodology to calculate capital requirement under Standardized Approach for each of these market risk categories is as follows:<br><br>a) **Capital charges for interest rate risk=** Capital Charge for General Market Risk<br><br>b) **Capital charges for Equity Position Risk=** Capital Charge for Specific Risk+ Capital Charge for General Market Risk<br><br>c) **Capital charges for Foreign Exchange Risk=** Capital Charge for General Market Risk<br><br>d) **Capital charges for Commodity Position Risk=** Capital Charge for General Market Risk |

| | |
|---|---|
| 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. Following tools are used to minimize several market risks:<br><br>***A.* Measurement of Foreign Exchange Risk Position:**<br>**I.** Currency wise holding review<br>**II.** Instances of limit breaches<br>**III.** Sensitivity analysis<br>**IV.** Un-reconciled Nostro accounts over 90 days<br><br>***B.* Measurement of Interest Rate Risk Position:**<br>**I.** Maturity Gap analysis<br>**II.** Duration Gap Analysis<br>**III.** Value at Risk<br><br>***C.* Measurement of Liquidity Risk Position:**<br>**I.** Indicators<br>❑ Statutory Liquidity Requirement (SLR)<br>❑ Cash Reserve Ratio (CRR)<br>❑ Advance Deposit Ratio<br>❑ Structural Liquidity Profile<br>❑ Liability Concentration<br>❑ Category-wise growth of Deposit<br>❑ Wholesale Borrowing Guideline<br>❑ Maximum Cumulative Outflow (MCO)<br>❑ Medium Term Funding Ratio (MTF)<br>❑ Volatile Liability Dependence<br>❑ Liquid Asset to Total Deposit<br>❑ Liquid Assets to Short Term Liabilities<br>❑ Borrowed Funds to Total Assets<br>❑ Liquidity Coverage Ratio (LCR)<br>❑ Net Stable Funding Ratio (NSFR)<br><br>**II.** Maturity Mismatch Analysis<br>**III.** Cash Flow Projections<br>**IV.** Stock of Liquid Assets |

| Quantitative Disclosures: | |
|---|---|

**The Capital requirements for specified risk are as follows:**

(Amount in Million)

| SL | Market Risk | Capital Requirement |
|---|---|---|
| A | Interest Rate Related instruments | 13.22 |
| B | Equities | 231.25 |
| C | Foreign Exchange Position | 38.97 |
| D | Commodities | |
| | **Total** | **283.45** |

## h) Operational Risk:

| Qualitative Disclosures: | |
|---|---|
| i) Views of BoD on system to reduce Operational Risk | The policy for operational risks including internal control & compliance risk is approved by Board taking into account relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of internal control & Compliance Division (ICCD) for managing operational risk. |
| ii) Performance gap of executives and staffs | TBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. TBL's strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap. |
| iii) Potential external events | No potential external events are expected to expose the Bank to significant operational risk. |
| iv) 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 Committee 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.<br>**In 2014 IC & C Division conducted following No. of audit:** |

| | |
|---|---|
| No. of Comprehensive Audit on branches | 88 Branches |
| No. of Comprehensive Audit at Head Office | 16 Divisions/ Departments |

| | | |
|---|---|---|
| | No. of Spot audits | **a)** 25 Spot Audit<br>**b)** 20 IT Audit<br>**c)** 657 no. pay point audits |
| | No. of Spot Inspection on Anti Fraud Internal Control | 24 spot inspection report on Anti Fraud Internal Control |
| v) Approach for calculating capital charge for operational risk | The Bank follows the Basic Indicator Approach (BIA) in terms of BRPD Circular No. 35 dated 29 December 2010 [Guidelines on 'Risk Based Capital Adequacy for Banks' (Revised regulatory capital framework in line with Basel II)]. The BIA stipulates the capital charge for operational risk is a fixed percentage, denoted by α (alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is enumerated by applying the following formula:<br><br>$K = [(GI\ 1 + GI2 + GI3)\ \alpha]/n$ | |
| **Quantitative Disclosures:** | | |

***b)The capital requirements for operational risk***

(Amount in Million)

| Particulars | RWA | Capital Requirement |
|---|---|---|
| Minimum Capital Requirement: Operation Risk | 8195.33 | 819.53 |