Disclosures on Risk-based Capital (Basel II)

The objective of Market Discipline in (Basel-II) is to establish more transparent and more disciplined financial market so that stakeholders can assess the position of a bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy to meet probable loss of assets. For the said purpose, this "Disclosures on Risk Based Capital (Basel II)" is made as per Bangladesh Bank's Guideline.

As per Bangladesh Bank guidelines the quarterly Risk Based Capital adequacy position are given below:

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 one (01) subsidiary 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 72 branches and 07 (seven) SME centers all over Bangladesh.

The Bank has a subsidiary namely- **Trust Bank Investment Limited**. Legal Status and nature of the company is given below:

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 25 October 2010 as a full fledged Merchant Bank bearing Certificate No. MB-45/10. The Company started its operation on 14 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.

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 2012, there was no Tier III component of capital at TBL.

B. Quantitative Disclosure:

Capital Adequacy of Trust Bank Limited under Basel-II during 2012 as below:

Particulars	**Taka in million**
Tier-1 (Core Capital):	
▪ Fully Paid-up Capital/Capital Deposited with BB	3,459.47
▪ Statutory Reserve	1,966.01
▪ Non-repayable Share premium account	532.23
▪ Retained Earnings	883.51
Total Eligible Tier-1 Capital	**6841.22**
Tier-2 (Supplementary Capital):	
❖ General Provision (Unclassified loans + SMA+ off Balance Sheet exposure)	1458.34
❖ Revaluation Reserves for Securities up to 50%	4.28
❖ Subordinated debt	2,000.00
Total Eligible Tier-2 Capital	**3462.62**
Total eligible capital:	**10,303.84**

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.

Bank maintains capital to cushion the risk of loss in value of exposure, businesses etc. so as to protect the interest of depositors, general creditors and stake holders against any unforeseen losses. Bank has a well defined Internal Capital Adequacy Assessment Process (ICAAP) policy to comprehensively evaluate and document all risks and to provide appropriate capital so as to evolve a fully integrated risk/ capital model for both regulatory and economic capital. TBL has also put in place a robust Risk Management Architecture with due focus not only on Capital optimization, but also on Profit Maximization.

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).

The capital requirement is affected by the economic environment, regulatory requirement and by the risk arising from bank's activities. Capital Planning exercise of the bank is carried out every year to ensure the adequacy of capital at the times of changing economic conditions, even at the time of economic recession. In capital planning process the bank reviews:

- Current capital requirement of the bank
- The targeted and sustainable capital in terms of business strategy, policy
- The future capital planning is done on a three- year's outlook.

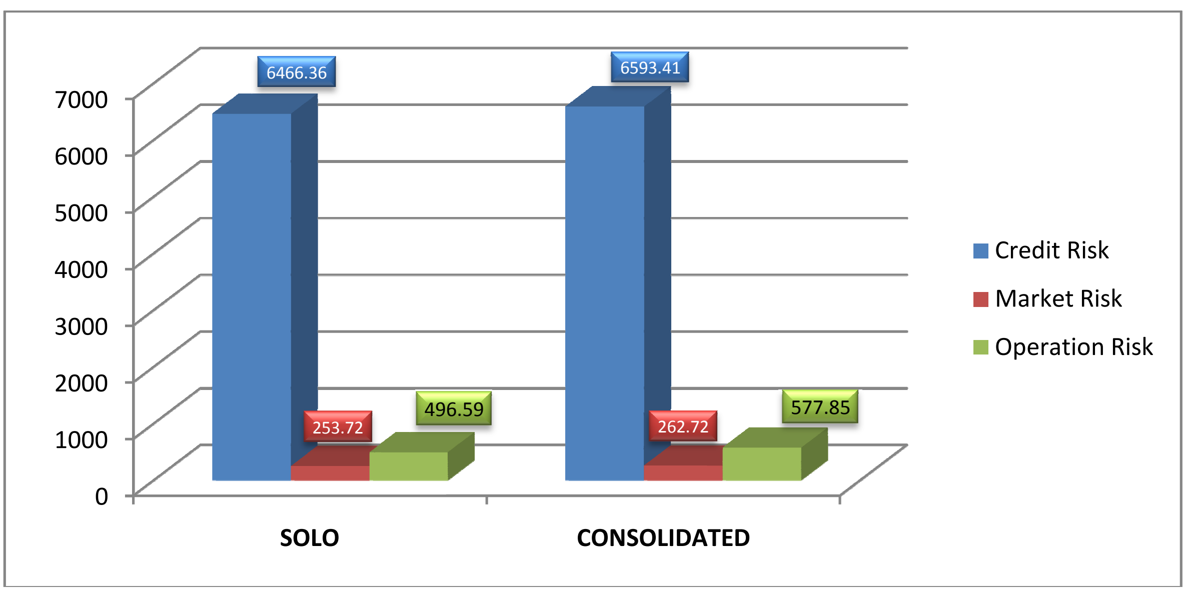
TBL has maintained capital adequacy ratio at 13.06% & 13.86% on the basis of "Solo" and "Consolidated" respectively as against the minimum regulatory requirement of 10%. Tier-I capital adequacy ratio under "Solo" basis is 9.01% which "Consolidated" basis is 9.20% as against the minimum regulatory requirement 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	5729.00	5856.05
	Off-Balance sheet	737.36	737.36
B.	**Capital requirement for Market Risk**	253.72	262.72
C.	**Capital requirement for Operational Risk**	496.59	577.85
	Total Capital Requirement (A+B+C)	**7216.67**	**7433.98**

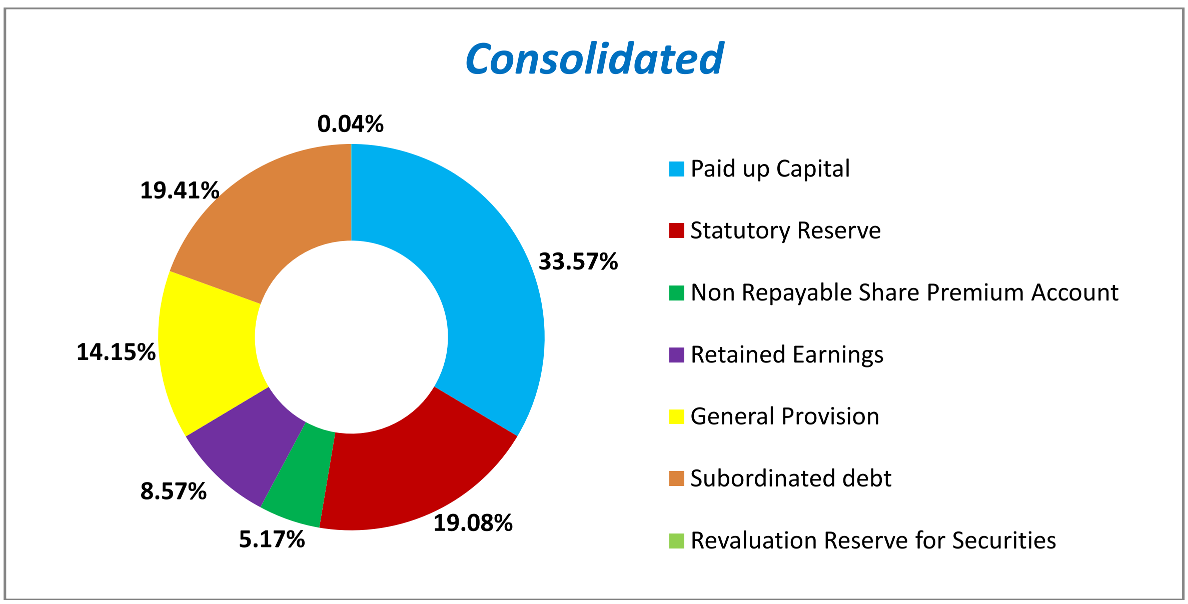


Capital Requirement: Credit Risk, Market Risk & Operation Risk

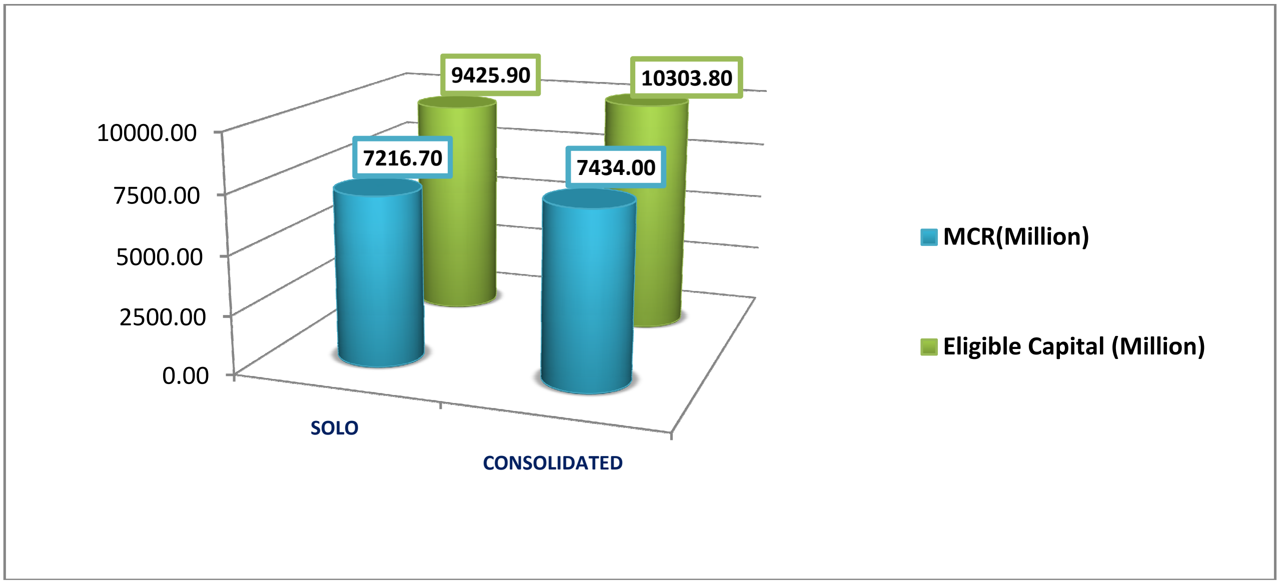
Minimum Capital Requirement (MCR) & Capital Adequacy Ratio (CAR) of TBL:

(Amount in Million)

Particulars	Consolidated
A. Eligible Capital :	
1. Tier-1 (Core Capital)	6841.20
2 .Tier-2 (Supplementary Capital)	3462.60
3. Tier-3 (eligible for market risk only)	
4. Total Eligible Capital	10,303.80
B. Capital Adequacy Ratio (CAR)	**13.86%**
C. Core Capital to RWA	9.20%
D. Supplementary Capital to RWA	4.66%
E. Minimum Capital Requirement (MCR)	7434.00
F. Excess Capital	2,869.80



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 refers to the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to do. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

Credit risk can be classified in the following way:

- Credit default risk - The risk of loss arising from a debtor being unlikely to pay its loan obligations in full or the debtor is more than 90 days past due on any material credit obligation; default risk may impact all credit-sensitive transactions, including loans, securities and derivatives.

- Concentration risk - The risk associated with any single exposure or group of exposures with the potential to produce large enough losses to threaten a bank's core operations. It may arise in the form of single name concentration or industry concentration.

- Country risk - The risk of loss arising from sovereign state freezing foreign currency payments (transfer/conversion risk) or when it defaults on its obligations (sovereign risk).

The policy of the Bank for classifying bank's loan assets is followed under the Bangladesh Bank BRPD Master Circular No. 14 dated: September 23, 2012 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 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	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**

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 Inspection Team of Bangladesh Bank, the same can be declassified with the approval of the Board of Directors of the respective bank. However, before placing such case to the Board of Directors, the Managing Director/Chief Executive Officer and the respective Branch Manager of the bank shall have to certify that the terms and conditions of declassification have been duly fulfilled by the borrowers.

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. Any loan classified during Bangladesh Bank's on-site inspection on the basis of qualitative judgment cannot be declassified without the consent of Bangladesh Bank.

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		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.

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 Bank has put in place a comprehensive Credit Policy which is reviewed and revised periodically. The Credit Risk Management Policy forms part of the Credit Policy. The main objectives of the Credit Policy are:

- Maintain quality of loan assets.
- Ensure reasonable return on the assets.
- Ensure an acceptable risk profile.
- Achieve proper sectoral /geographical distribution of assets.
- Compliance with regulatory norms in respect of exposure caps, pricing, Bangladesh Bank guidelines, targeted credit etc.

The Bank has defined segment wise exposure limits, industry wise exposure caps, individual and group borrower wise exposure caps .The operational processes and systems of the Bank relating to credit are built on sound credit risk management principles and are subjected to periodical review. In order to improve the quality of appraisals and to ensure accelerated response to customers, particularly in respect of high value credits, relationships and appraisal functions are segregated between the concerned branch and the core credit groups of different clusters. Bank has revised many of its existing systems, procedures and structures with respect to Credit Approval Process, Credit Rating, Prudential Limits, Documentation, Credit Monitoring and Review Mechanism.

Bank has a Credit Monitoring Policy and a Recovery Policy, which are reviewed from time to time. Bank has system in place for identification of credit weaknesses well in advance. A Loan Review Mechanism for constantly evaluating the quality of loan book, by way of review of sanctions made, renewal process , submission of monitoring reports , credit related MIS , is in place. The Bank has a Credit Monitoring & Review Department which would take care of the monitoring of the assets.

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 2012)	Domestic	Overseas	Total
Loans & advances	58,599.09		**58,599.09**
Commitments			
Other non-derivative off-balance sheet exposures			
Debt securities			
OTC derivatives			
Total	**58,599.09**		**58,599.09**

(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	13,188.93	9,415.92	19,433.49	76.28	**42,114.61**
Chittagong	2,416.75	6,133.24	3,761.94	-	**12,311.94**
Sylhet	477.04	49.42	621.44	0.24	**1,148.15**
Rajshahi	389.19	13.35	549.32	3.05	**954.91**
Barishal	7.31	-	26.62	-	**33.93**
Khulna	212.02	600.74	850.73	-	**1,663.49**
Rangpur	56.80	1.60	313.67	-	**372.07**
Total	**16,748.05**	**16,214.27**	**25,557.21**	**79.57**	**58,599.09**

(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	0.00	0.00	226.67	389.89
Medium Scale Industry	0.00	141.12	394.54	449.56
Large Scale Industry	0.00	0.00	9,024.73	12,475.41
Total	**0.00**	**141.12**	**9,645.94**	**13,314.86**

(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	TBIL	Total
Up to 1 month	3,236.38	7,970.89	350.36	6.15	4,485.99	16,049.77
1 to 3 months	2,342.92	3,292.79	67.35	0.94		5,704.00
3 to 6 months	2,687.63	3,574.12	220.13	3.23		6,485.11
6 to 12 months	3,995.14	1,376.47	1,998.70	2.44		7,372.75
1 to 2 years	-	-	3,188.90	66.58		3,255.48
2 to 3 years	-	-	3,692.62	163.58		3,856.20
3 to 4 years	-	-	3,399.64	-		3,399.64
4 to 5 years	-	-	3,290.66	-		3,290.66
5 to 7 years	-	-	2,857.63	-		2,857.63
7 to 10 years	-	-	2,045.00	-		2,045.00
Over 10 years	-	-	4,282.85	-		4,282.85
Total	**12,262.07**	**16,214.27**	**25,393.84**	**242.92**	**4,485.99**	**58,599.09**

(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	54.25	55.97
Industry (Other than Working capital)	482.05	688.65
Working Capital	551.26	651.65
Export Financing	0.00	0.00
Import Financing	167.29	178.91
Transport & communication	0.42	10.81
Internal trade financing	388.88	400.51
Housing	503.61	606.84
Special Programme	0.00	0.00
Others	262.04	485.81
Inland & Foreign Bills	94.05	301.82
Total	**2,503.84**	**3,380.97**

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

(Amount in Million)

Sector	General Provision	Specific Provision
Consumer Financing	166.90	68.54
Small & Medium Enterprise Financing	15.45	95.78
Housing Finance	138.71	46.59
Loans to BHs/MBs/SDs against Shares etc.	11.65	0.00
Loans for Professionals to setup business	0.19	0.57
Other Corporate Credit	408.86	550.85
Agricultural Credit	3.49	1.02
Total	**745.25**	**763.35**

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

(Amount in Million)

Against Classified Loans & Advances	
Provision held on 1 January	339.392
Fully provided debts written off	0
Recoveries from previously written off debts	0
Provisions made during the year	423.956
Net Charge to the Profit Loss Account	423.956
Provision held at end of year	763.348

Against Unclassified Loans & Advances	
Provision held on 1 January	715.257
Provisions made during the year	(37.852)
Provision held at end of year	677.405
Against Special Mention Accounts	
Provision held on 1 January	20.976
Provisions made during the year	46.871
Provision held at end of year	67.847

General Provision for Off Balance Sheet Exposures	
Provision held on 1 January	193.257
Provisions made during the year	27.490
Provision held at end of year	220.747

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

(Amount in Million)

Gross Non Performing Assets (NPAs)	2,503.842
Non Performing Assets (NPAs) to outstanding loans & advances	4.58%
Movement of Non Performing Assets for NPAs	
Opening balance	1,534.310
Additions	1,721.832
Reductions	(752.300)

Closing Balance	2,503.842
Movements of specific provisions for NPAs	
Opening balance	339.392
Provision made during the period	423.956
Write-off	0.000
Write back of excess provisions	0.000
Closing Balance	**763.348**

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**

  The bank holds unquoted equities of which is not trading and the same are shown as banking book asset in the balance sheet. As these securities are not quoted or trade in the security Market they are shown in the balance sheet at cost price and no revaluation reserve has been created against these equities.

- **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. 1077.24 million
Fair Market Value of shares in Listed Securities	Tk. 995.05 million

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

Tk.16.92 million

d) • **Total unrealized gains (losses)**
Tk. (82.18) 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.**

The impact of fluctuation in interest rate on liabilities and assets has a direct impact on earnings and hence on the market value of Equity. Bank's ALCO is assigned the job of periodically monitoring and controlling the risks and returns, funding and deployment, setting Bank's lending / deposit rates and also directing the investment activities of the Bank.

The estimation of interest rate risk involves interest rate sensitive assets (RSAs) and interest rate sensitive liabilities (RSLs). The techniques for managing interest rate risk include:

- Duration Gap Analysis
- Stress Testing

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)	8922.51	8419.02	7915.53
RWA (After shock)	71587.16	71587.16	71587.16
CAR (After shock)	12.46%	11.76%	11.06%
Total Assets	95,260.62	95,260.62	95,260.62
Duration Gap in years	0.58	0.58	0.58
Changes in Market value of Equity due to an increase in interest Rate, ∆ MVE	(503.49)	(1006.98)	(1510.47)

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 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.

Market Risk Management System

Treasury Division manages the market risk and ALCO monitors the activities of treasury Division in managing such risk.

Policies and processes for mitigating market risk:

To mitigate the several market risks the bank formed Asset Liability Management Committee (ALCO) who monitors the Treasury Division's activities to minimize the market risk. ALCO is primarily responsible for establishing the market risk management and asset liability management of the Bank, procedures thereof, implementing core risk management framework issued by the regulator.

The Treasury Division is taking following measures to minimize the several market 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

- ► Loan to Deposit Ratio
- ► Loan to Adjusted Deposit Ratio
- ► Liquid Assets to Total Deposits Ratio
- ► Liquid Assets to Total Assets Ratio
- ► Short term & Medium term funding Ratio
- ► Low cost Deposit Ratio
- ► Deposit Trend
- ► CRR & SLR position
- ► Un-drawn commitment
- ► Proposal for fresh Loans & Advances
- ► Concentration of deposit
- ► Counterparty wise limit utilization status

(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	7.00
B	Equities	208.01
C	Foreign Exchange Position	47.70
D	Commodities	
	Total	**262.71**

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 process, people and systems (for example failed IT system, or fraud perpetrated by a bank employee), or from eternal causes, whether deliberate, accidental or natural. It is inherent in all of the Bank's activities. Operational risks are monitored and, to the extent possible, controlled and mitigated.

Our 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. 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 2012 IC & C DIVISION CONDUCTED FOLLOWING NO. OF AUDIT:

No. of Comprehensive Audit on branches	69
No. of Comprehensive Audit at Head Office	10
No. of Spot audits	25
No. of Special audits	20

To comply with the directives of Bangladesh Bank a special meeting of the Board of Directors was held on 17th September, 2012 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:**

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.

- **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 invests heavily in IT infrastructure for better automation and online transaction environment. The bank also has sufficient investment on alternative power and network links to avoid business description and system failure. The Bank's IT system does not allow any kind of external access to avoid external fraud by way of theft/ hacking of information assets, forgery etc. Trust Bank invests heavily 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	5,778.50	577.85