Disclosures on Risk Based Capital (Basel III)

Banks encounter various types of risks while carrying the business of financial intermediation as it is the highly leveraged sector of an economy. Risk and uncertainties, therefore, form an integral part and parcel of banking. Thus, risk management is the core to any banking service and hence the need for sufficient Capital to Risk-weighted Asset Ratio (CRAR) is felt. Regulation of capital assumes significant importance so as to reduce bank failures, to promote stability, safety and soundness of the banking system, to prevent systemic disaster and to ultimately reduce losses to the bank depositors.

An Action Plan/Roadmap was issued by Bangladesh Bank for implementation of Basel-III in Bangladesh vide BRPD Circular No: 18 Dated: 21st December, 2014. For effective implementation of Basel-III, the Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework in line with Basel III) has been issued by Bangladesh Bank.

Action Plan/Roadmap

Action	Deadline
Issuance of Guidelines on Risk Based Capital Adequacy	December, 2014
Commencement of Basel III Implementation process	January, 2015
Capacity Building of bank and Bangladesh Bank officials	January, 2015-December,2019
Initiation of Full Implementation of Basel III	January, 2020

Phase-in Arrangements

The phase-in arrangements for Basel III implementation will be as follows:

	2015	2016	2017	2018	2019
Minimum Common Equity Tier-1 (CET-1) Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	--	0.625%	1.25%	1.875%	2.50%
Minimum CET-1 plus Capital Conservation Buffer	4. 50%	5.125%	5.75%	6.375%	7.00%
Minimum T-1 Capital Ratio	5. 50%	5.50%	6.00%	6.00%	6.00%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00	10.625%	11.25%	11.875%	12.50%

The Basel III 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 BB circular on Basel-III Capital Regulations are set out in the following sections for information.

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 has 2 (Two) subsidiaries viz. (i) Trust Bank Investment Limited, (ii) Trust Bank Securities Limited. 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 101 branches, 1 Service Center, 05 SME/Krishi branches, 9 T-Lobby, 6 CDMs (Cash Deposit Machine) and 171 ATM booths all over Bangladesh. **Off-shore Banking Unit (OBU):** Off-shore Banking Unit is a separate business unit governed by the applicable rules & regulations and guidelines of Bangladesh Bank vide letter no. BRPD(P-3)744(116)/2010-2462 dated: 2nd June, 2010. The number of OBU was 1 (One) as on reporting date 31 December 2015 located at Dilkusha Corporate Branch Dhaka. Investments in OBUs are risk weighted with the exposure of the Bank.

<table>
<tr><td></td><td> There are 2 (Two) Subsidiaries of Trust Bank which are as under:
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.
The main objectives of the company are to carry out the business of full-fledged merchant banking activities like issue management, portfolio management, underwriting, corporate advisory services etc.
2. Trust Bank Securities Limited:
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.
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. </td></tr>
<tr><td>c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group</td><td>Not applicable</td></tr>
<tr><td>Quantitative Disclosures</td><td></td></tr>
<tr><td>d) The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.</td><td>Not applicable</td></tr>
</table>

b) Capital Structure:

Qualitative Disclosures	
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 or Tier 2.	For the purpose of calculating capital under capital adequacy framework, the capital of banks shall be classified into two tiers. The total regulatory capital will consist of sum of the following categories: **1)** Tier 1 Capital (going-concern capital): a) Common Equity Tier 1 b) Additional Tier 1 **2)** Tier 2 Capital (gone-concern capital)
	Common Equity Tier 1 Capital: It is called 'Core Capital' comprises of highest quality of capital elements consists of - **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)** Dividend Equalization Account **Less:** Regulatory adjustments applicable on CET1
	Additional Tier 1: i) Non-cumulative irredeemable preference share ii) Instruments issued by the banks that meet the qualifying criteria for AT1 iii) Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties as specified in Annex-4 of Basel III Guidelines (For Consolidated Reporting) **Less:** Regulatory adjustments applicable on AT1
	Tier-2 Capital : It is called 'gone-concern capital' represents other elements which fall short of some of the characteristics of the core capital consists of- **i)** General Provision **ii)** All other preference shares **iii)** Subordinated debt **iv)** Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties (For Consolidated reporting only) **v)** Revaluation Reserves as on 31st December, 2014 (50% of Fixed Assets and Securities and 10% of equities) **vi)** Other (if any item approved by Bangladesh Bank) **Less:** Regulatory adjustments applicable on Tier-2 capital

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

1. Common Equity Tier 1 of at least 4.5% of the total RWA.	Complied
2. Tier-1 capital will be at least 6.0% of the total RWA.	Complied
3. Minimum CRAR of 10% of the total RWA.	Complied
4. Additional Tier 1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher.	Complied
5. Tier 2 Capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher.	Complied
6. In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.5% of the total RWA is being introduced which will be maintained in the form of CET1.	Applicable from 2016

Quantitative Disclosures

b) The amount of Regulatory capital of Trust Bank Limited under Basel-III during 2015 as below

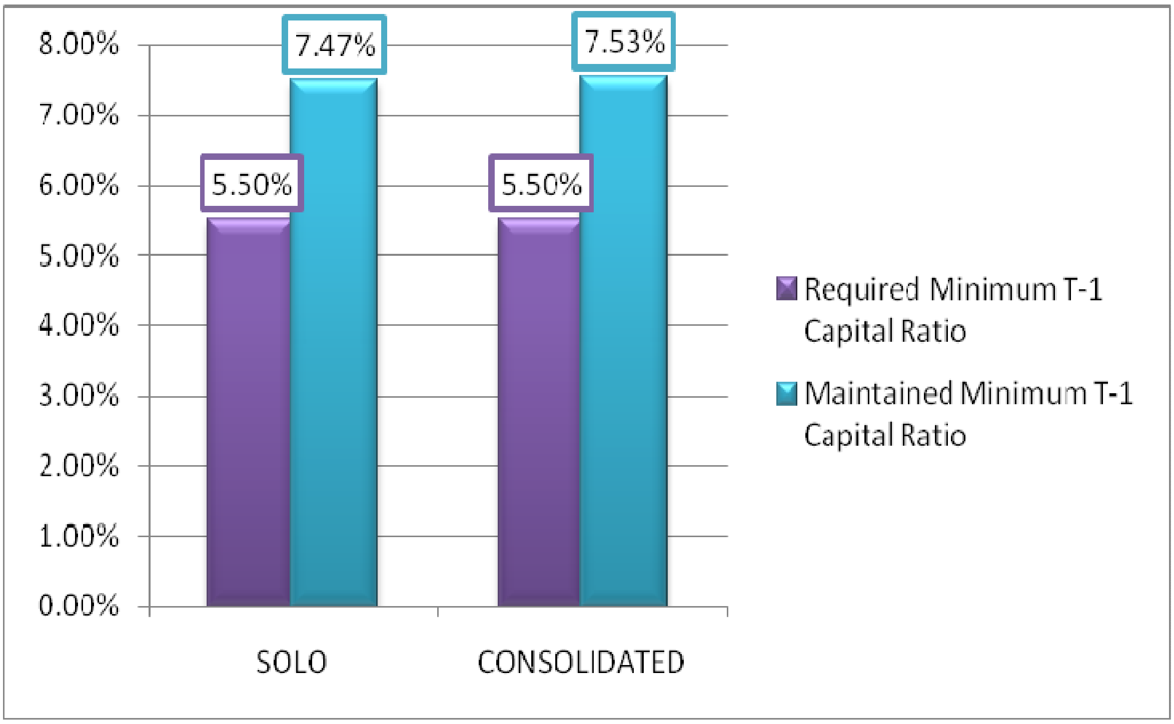
1. Common Equity Tier-1 (Going Concern Capital)	**Solo**	**Consolidated**
	Amount in Million	
Fully Paid-up Capital/Capital Deposited with BB	4,688.27	4,688.27
Statutory Reserve	3,333.69	3,333.69
Retained Earnings	1,432.22	1,766.71
Minority interest in Subsidiaries	0.00	0.00
Less: Deferred Tax Assets (DTA)	(86.74)	(88.66)
Total Common Equity Tier-1 Capital	9,367.44	9,700.01
2. Tier-2 Capital (Gone-Concern Capital)		
General Provision	1,422.29	1,422.09
Subordinated debt	2,800.00	2,800.00
Revaluation Reserves for Securities up to 50%	0.27	0.27
Less: Revaluation Reserves for Fixed Assets, Securities & Equity Securities (follow Phase-in deductions as per Basel III) Guideline	(0.05)	(0.05)
Total Admissible Tier-2 Capital	4,222.50	4,222.31
Total Regulatory Capital	**13,589.94**	**13,922.31**

c) Capital Adequacy:

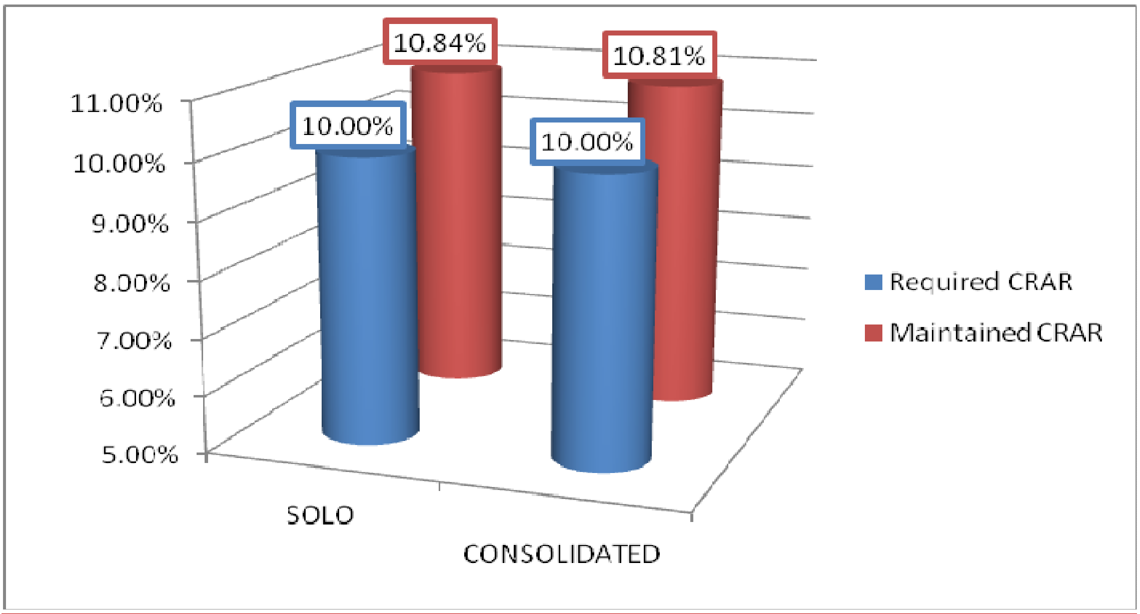
Qualitative Disclosures		
a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	The Bank is subject to the Capital adequacy norms as per Master Circular on Basel-III Capital regulations issued by the Bangladesh Bank. The Basel III capital regulation is being implemented from 2015. In line with the guidelines of the Bangladesh Bank, the Bank has adopted the following approaches for computing the capital charge. For Credit Risk – Standardized Approach For Market Risk – Standardized Approach Operational Risk – Basic Indicator Approach ❑ The Bank has a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP) as stipulated by Bangladesh Bank. The ICAAP also details the Risk Appetite of the Bank, assessment of material risks, the process for capital adequacy assessment to support business projections, adequacy of risk control framework, capital raising plans and Bank-wide stress testing. ❑ The periodic assessment of bank's performance against the Risk Appetite defined under ICAAP and results of stress testing are reported to the Board of Directors for their review. ❑ CRAR has been computed based on the Basel III 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	11,378.28	11,376.70
c) Capital requirement for Market Risk	277.32	515.78
d) Capital requirement for Operational Risk	886.45	984.54
▪ **Total Capital Requirement (b+c+d)**	**12,542.05**	**12,877.03**
e) **Capital to Risk – weighted Asset Ratio:**		
1. Common Equity Tier 1 (CET 1) Ratio	7.47%	7.53%

2. Tier 1 Capital Adequacy Ratio	7.47%	7.53%
3. Tier-2 Capital Adequacy Ratio	3.37%	3.28%
Capital to Risk-weighted Asset Ratio (CRAR)	10.84%	10.81%
f) Capital Conservation Buffer	Applicable from 2016	Applicable from 2016
g) Available Capital under Pillar 2 Requirement	1047.94 (Million)	1045.31 (Million)
Minimum Capital Requirement (MCR)	**12,542.00 (Million)**	**12,877.00 (Million)**

Minimum T-1 Capital Ratio:

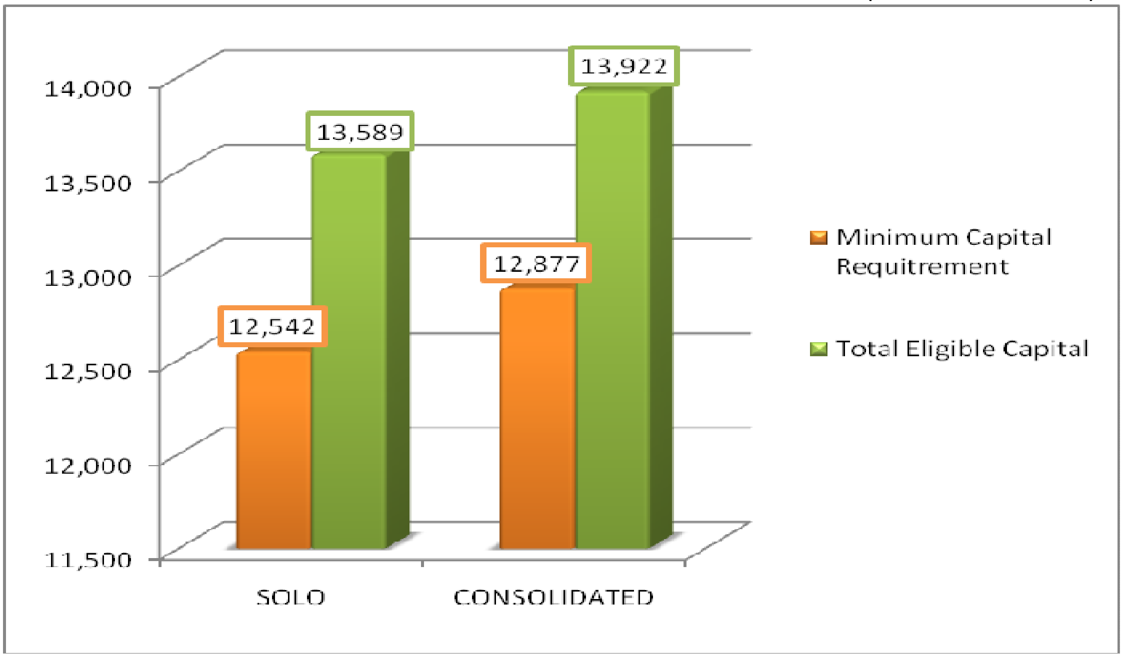


Capital to Risk-weighted Asset Ratio (CRAR):



Eligible Capital:

(Amount in Million)



d) Credit Risk:

<table>
<tr><td>Qualitative Disclosures</td><td>a) The general qualitative disclosure requirement with respect to credit risk:</td></tr>
<tr><td>i) Definitions of past due and impaired</td><td>

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**
</td></tr>
<tr><td>ii) Description of approaches followed for specific and general allowances and statistical methods</td><td>

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 (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%
</td></tr>
</table>

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 (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 credit risk management policy of the bank aims at a sustained growth of healthy loan portfolio. It articulates 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 optimization of stake holder's value. 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, segments and at the same time increasing the market share. The policy also aims at consistency and standardization of credit practices. There is a defined credit appraisal & credit approval authority, reporting cum monitoring / follow-up system and loan review mechanism/ credit audit system in place at the Bank as spelt out in board approved Credit Risk Management Policy.

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	4074.74	1814.05	1443.76	-	7332.55
Consumer Financing	1411.26	139.43	3819.99		5370.69
Loans to BHs/MBs/Sds against Share	171.41				171.41
Housing Finance			10605.94		10605.94
Loan for Professionals to setup business (LP)			5.99		5.99
Others	14224.44	31107.66	58733.08	11.17	104076.35
Staff Loan					875.24
Total exposure in Trust Bank Limited (TBL)					**128438.16**
Total exposure in Trust Bank Investment Limited (TBIL)					**3163.75**
Total exposure in Offshore Banking					**2176.49**

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		
Dhaka	93244.61	**118541.16**
Chittagong	20431.30	
Sylhet	1620.59	
Rajshahi	234.01	
Barishal	160.71	
Khulna	2417.38	
Rangpur	84.61	
Mymensingh	347.95	
Rural		
Dhaka	3267.02	**9897.00**
Chittagong	1858.28	
Sylhet	677.03	
Rajshahi	1342.31	
Barishal	-	
Khulna	1063.91	
Rangpur	1688.45	
Mymensingh	-	
Total		**128438.16**

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	1362.33
RMG	11467.03
Textile	6895.71
Ship Building	0.00
Ship Breaking	1057.49
Other Manufacturing Industry	26348.56
SME loan	5448.68
Construction	7118.30
Power, Gas	7180.04
Transport, Storage and Communication	3421.11
Trade Service	12723.90
Commercial real estate financing	7874.81
Residential real estate financing	9003.49
Consumer Credit	10865.56
Capital Market	171.41
Non-bank financial Institutions	0.00
Others	17499.74
Total Exposure	**128438.16**

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	2828.85	8799.53	1027.53	6.41	12662.32
1 to 3 months	4081.17	10066.22	310.88	1.50	14459.77
3 to 6 months	5019.18	11849.20	858.21	2.23	17728.82
6 to 12 months	7952.64	2346.18	4305.77	0.54	14605.13
1 to 2 years			2783.63	0.49	2784.12
2 to 3 years			5393.13		5393.13
3 to 4 years			13553.18		13553.18
4 to 5 years			16692.97		16692.97
5 to 7 years			11580.78		11580.78
7 to 10 years			6362.83		6362.83
Over 10 years			12615.11		12615.11
Total	**19881.84**	**33061.13**	**75484.02**	**11.17**	**128438.16**

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	1138.37	1553.11
Consumer Financing	116.99	244.43
Housing Finance	395.70	849.71
Loans for Professionals to setup business	-	
Loans to BHs/MBs/SDs against Shares etc.	-	
Other Corporate Credit	1936.34	8827.15
Short Term Agri Credit & Micro Credit	1.07	1.28
Staff Loan	-	
Total	**3588.48**	**11475.67**

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

(Amount in Million)

Sector	General Provision	Specific Provision
Small & Medium Enterprise Financing	15.50	454.71
Consumer Financing	262.70	80.21
Housing Finance	204.22	87.95
Loans for Professionals to setup business	0.13	0.00
Loans to BHs/MBs/SDs against Shares etc.	3.44	0.00
Other Corporate Credit	1138.30	808.20
Short Term Agri Credit & Micro Credit	0.26	0.07
Against Off-Balance Sheet	577.91	
TBL Total	**2202.45**	**1431.14**
Off-shore Banking Unit	**24.12**	**-**
Grand Total	**2226.57**	**1431.14**

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

Against Classified Loans & Advances	**Taka in Million**
Provision held on 1 January	1037.64
Fully provided debts written off	-
Recoveries from previously written off debts	-
Provisions made during the year	417.51
Net Charge to the Profit & Loss Account	417.51
Provision held at end of year	**1455.15**
Against Unclassified Loans & Advances	**Taka in Million**
Provision held on 1 January	1203.52
Provisions made during the year	306.63
Provision held at end of year	**1510.15**
Against Special Mention Accounts	
Provision held on 1 January	43.77
Provisions made during the year	46.61
Provision held at end of year	**90.37**

General Provision for Off Balance Sheet Exposures	**Taka in Million**
Provision held on 1 January	476.00
Provisions made during the year	101.91
Provision held at end of year	**577.91**

Provision for Off-shore Banking Units	**Taka in Million**
Provision held on 1 January	31.28
Provisions made during the year	(7.16)
Provision held at end of year	**24.12**

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

(Amount in Million)

Gross Non Performing Assets (NPAs)	3588.48
Non Performing Assets (NPAs) to outstanding loans & advances	
Movement of Non Performing Assets for NPAs	
Opening balance	2614.76
Additions	1850.90
Reductions	(877.18)
Closing Balance	**3588.48**
Movements of specific provisions for NPAs	
Opening balance	1037.64
Provision made during the period	417.51
Write-off	-
Write back of excess provisions	-
Closing Balance	**1455.15**

e) Equities: Disclosures for Banking Book Position:

(a) Qualitative Disclosures:	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: ❑ **Quoted Securities:** 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. ❑ **Unquoted Securities:** 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.	Investment in Shares and Securities are for gaining dividend income or capital gain. Dividend income are recognized in the books of accounts of the bank as and when such dividend is received or right to receive or establish. Both Quoted shares and unquoted shares are valued at cost and necessary provisions are maintained if the price falls below the cost. At the time of calculation of unrealized gain or loss of quoted shares, provisions on shares & securities are made in the books of accounts after netting off the values of the portfolios but however unrealized gains are not accounted for. As per Bangladesh bank guidelines, HFT (Held for Trading) securities are revalued once in a week using marking to market concept and all such securities are revalued once in a year according to the Bangladesh bank guidelines.

<table>
<tr><td>(b) Quantitative Disclosures:</td><td colspan="2"></td></tr>
<tr><td rowspan="3">a) 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>2083.72</td></tr>
<tr><td>Fair Market Value of shares in Listed Securities</td><td>1564.64</td></tr>
<tr><td>b) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.</td><td colspan="2">Nil</td></tr>
<tr><td>c) * Total unrealized gains (losses)</td><td colspan="2">Tk. (519.08) 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>d) 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 2015 was as under:
(Amount in Million)
<table>
<tr><th>Particulars</th><th>Amount (MV)</th><th>Weight</th><th>Capital Charge</th></tr>
<tr><td>Specific Risk</td><td>1564.64</td><td>10%</td><td>156.46</td></tr>
<tr><td>General Market Risk</td><td>1564.64</td><td>10%</td><td>156.46</td></tr>
<tr><td colspan="3">Total</td><td>312.93</td></tr>
</table></td></tr>
</table>

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

(a) Qualitative Disclosures:	
The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.	Interest rate risk is the risk of potential variability in earnings and capital value resulting from changes in market interest rates. IRRBB refers to the risk of deterioration in the positions held on the banking book of an institution due to movement in interest rates over time. The Bank holds assets, liabilities and off balance sheet items across various markets with different maturity or re-pricing dates and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates in such markets. **Organizational set-up:** ALCO is responsible for management of the balance sheet of the Bank with a view to manage the market risk exposure assumed by the Bank within the risk parameters laid down by the Board of Directors/Risk Committee. The Asset Liability Management Committee at the Bank monitors and manages the risk under the supervision of ALCO. Upon review of the indicators of IRRBB and the impact thereof, ALCO may suggest necessary corrective actions in order to rearrange the exposure with the current assessment of the markets. **Risk measurement and reporting framework:** The Bank proactively manages impact of IRRBB as a part of its ALM activities. ALM policy defines the different types of interest rates risks that are to be monitored, measured and controlled. ALCO decides strategies for managing IRRBB at the desired level. Further, ALM Committee periodically gives direction for management of interest rate risk on the basis of its expectations of future interest rates. Based on the guidance, ALCO manages the IRRBB with the help of various tools i.e. gap analysis, earning at risk (EaR), duration of equity (DoE) and stress testing for basis risk.

	IRRBB Identification, Measurement, Monitoring and Reporting: IRRBB architecture is the framework to measure, monitor and control the adverse impact of interest rates on the Bank's financial condition within tolerable limits. This impact is calculated from following perspectives: a) Earnings perspective: Indicates the impact on Bank's Net Interest Income (NII) in the short term. b) Economic perspective: Indicates the impact on the net-worth of bank due to re-pricing of assets, liabilities and off-balance sheet items. The ALM & Market Risk Policies define the framework for managing IRRBB through measures such as: I. **Interest Rate Sensitivity Report**: Measures mismatches between rate sensitive liabilities and rate sensitive assets in various tenor buckets based on re-pricing or maturity, as applicable. II. **Duration Gap Analysis**: Measures the mismatch in duration of assets & liabilities and the resultant impact on market value of equity. III. **Stress Testing**: Evaluates the impact on duration of capital of banking book under various stress scenarios.

(b) Quantitative Disclosures:

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.

(Amount in Million)

Interest Rate Risk in the banking book	**Residual maturity bucket**			
	3 months	**6 months**	**1 year**	**Above 1 year**
Interest Sensitive Assets (A)	31,443.54	15,850.09	31,713.99	77,057.20
Interest Sensitive Liabilities (B)	61,186.89	17,858.33	35,776.26	28,435.50
GAP (A-B)	(29,743.34)	(2,008.24)	(4,062.27)	48,621.71
Cumulative GAP	(29,743.34)	(31,751.58)	(35,813.85)	12,807.85

CRAR after Shock:

(Amt in Crore)

Magnitude of Shock	Situation-1 1%	Situation-2 2%	Situation-3 3%
Regulatory Capital (After shock)	1147.41	935.54	723.67
RWA (After shock)	12480.90	12480.90	12480.90
CRAR (After shock)	9.19%	7.50%	5.80%
Total Assets	17910.22	17910.22	17910.22
Total Liabilities and Equity	17910.22	17910.22	17910.22
Duration Gap in years	1.29	1.29	1.29
Changes in Market value of Equity due to an increase in interest Rate, ∆ MVE	211.87	423.73	635.60

g) Market Risk:

(a) Qualitative Disclosures:	
Views of BOD on trading/ investment activities	The Board approves all policies related to market risk, sets limits and reviews compliance on a regular basis. The objective is to provide cost effective funding to finance asset growth and trade related transactions.
Methods used to measure Market risk	Standardized approach has been used to measure the market risk. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. The methodology to calculate capital requirement under Standardized Approach for each of these market risk categories is as follows: **a) Capital charges for interest rate risk=** Capital Charge for General Market Risk **b) Capital charges for Equity Position Risk=** Capital Charge for Specific Risk+ Capital Charge for General Market Risk **c) Capital charges for Foreign Exchange Risk=** Capital Charge for General Market Risk **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. The exchange rate committee of the Bank meets on a daily basis to review the prevailing market condition, exchange rate, foreign exchange position and transactions to mitigate foreign exchange risks. Policies and processes for mitigating market risk are mentioned below- ➢ Risk Management and reporting is based on parameters such as Maturity Gap Analysis, Duration Gap Analysis, VaR etc, in line with the global best practices. ➢ Risk Profiles are analyzed and mitigating strategies/ processes are suggested by the Asset Liability Committee (ALCO). ➢ Foreign Exchange Net Open Position (NOP) limits (Day limit / Overnight limit), deal-wise trigger limits, Stop-loss limit, Profit / Loss in respect of cross currency trading are properly monitored and exception reporting is regularly carried out. ➢ Holding of equities is monitored regularly so that the investment remains within the limit as set by Bangladesh Bank. ➢ Asset Liability Management Committee (ALCO) analyzes market and determines strategies to attain business goals. ➢ Reconciliation of foreign currency transactions.
(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	27.83
B	Equities	312.93
C	Foreign Exchange Position	175.03
D	Commodities	
	Total	**515.78**

h) Operational Risk:

<table>
<tr><th>(a) Qualitative Disclosures:</th><th></th></tr>
<tr><td>i) Views of BOD on system to reduce Operational Risk</td><td>Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The way operational risk is managed has the potential to positively or negatively impact a bank's customers, its financial performance and reputation.

The Bank has put in place Board approved governance and organizational structure with clearly defined roles and responsibilities to mitigate operational risk arising out of the Bank's business and operations.</td></tr>
<tr><td>ii) Performance gap of executives and staffs</td><td>The bank believes that training and knowledge sharing is the best way to reduce knowledge gap. Therefore, it arranges trainings on a regular basis for its employees to develop their expertise. The bank offers competitive pay package to its employees based on performance and merit. It always tries to develop a culture where all employees can apply his/ her talent and knowledge to work for the organization with high ethical standards in order to add more value to the company and for the economy.</td></tr>
<tr><td>iii) Potential external events</td><td>No potential external events are expected to expose the Bank to significant operational risk.</td></tr>
<tr><td>iv) Policies and Processes for mitigating operational risk:</td><td>The Bank has adopted policies which deal with managing different Operational Risk. Bank strongly follows KYC norms for its customer dealings and other banking operations. The Internal Control and Compliance Division of the Bank, the inspection teams of Bangladesh Bank and External Auditors conduct inspection of different branches and divisions at Head Office of the Bank and submit reports presenting the findings of the inspections. Necessary control measures and corrective actions have been taken on the suggestions or observations made in these reports.

In 2015 IC&C Division conducted following No. of audit:
<table><tr><td>No. of Comprehensive Audit on branches</td><td>97 Branches</td></tr><tr><td>No. of Comprehensive Audit at Head Office</td><td>19 Divisions/ Departments</td></tr></table></td></tr>
</table>

	No. of Spot audits	**a)** 12 Spot Audit **b)** 34 IT Audit **c)** 1088 no. pay point audits
	No. of Spot Inspection on Anti Fraud Internal Control	38 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. 18 dated 21 December 2014 Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III). 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: K = [(GI 1 + GI2 + GI3) α]/n	
(b) Quantitative Disclosures:		

The capital requirements for operational risk

(Amount in Million)

Particulars	**RWA**	**Capital Requirement**
Minimum Capital Requirement: Operation Risk	9845.45	984.54

i) Liquidity Ratio:

(a) Qualitative Disclosures:	
i) Views of BOD on system to reduce liquidity Risk	The Bank manages liquidity risk in accordance with its ALM Policy. This policy is framed as per regulatory guidelines and is approved by the Board of Directors. The ALM Policy is reviewed periodically to incorporate changes as required by regulatory stipulation or to realign with changes in the economic landscape. The ALCO of the Bank formulates and reviews strategies and provides guidance for management of liquidity risk within the framework laid out in the ALM Policy.

ii) Methods used to measure Liquidity risk	Liquidity risk is measured and monitored through two approaches- **1) Time Bucket Analysis :** Time Bucket Analysis involves comprehensive tracking of cash flow mismatches and is done through preparation of Structural liquidity statement on a regular basis. Appropriate tolerance levels/prudential limits have been stipulated for mismatches in different time buckets. **2) Ratio Analysis:** Under Ratio Analysis various balance sheet ratios are prescribed with appropriate limits. The compliance of ratios to the prescribed limits ensures that the Bank has managed its liquidity through appropriate diversification and kept it within the sustainable limit. The Bank also assess its short-term liquidity mismatches and reports the same in the short term dynamic liquidity report which represents the cash flow plans of various asset and liability generating units and seasonal variation of cash flow patterns of assets and liabilities of the bank over a period of 1-90 days.
iii) Liquidity Risk Management System	A liquidity risk management involves not only analyzing banks on and off balance sheet positions to forecast future cash flows but also how the funding requirement would be met. The later involves identifying the funding market the bank has access, understanding the nature of those markets, evaluating banks current and future use of the market and monitor signs of confidence erosion. Trust Bank has well organized liquidity risk management system as enumerated in ALM Policy which is approved by the Board. The Asset Liability Management Committee (ALCO) of the Bank monitors & manages liquidity and interest rate risk in line with the business strategy. ALM activity including liquidity analysis & management is conducted through coordination between various ALCO support groups residing in the functional areas of Balance Sheet Management, Treasury Front Office, Budget and Planning etc.

iv) Policies and Processes for mitigating Liquidity risk	An effective liquidity risk management process should include systems to identify measure, monitor and control its liquidity exposures. To mitigate the liquidity risk, Management of our bank identify and quantify the primary sources of a bank's following risk in a timely manner. By proper identify of the sources, management understand both existing as well as future risk that the bank can be exposed to. Our Management always alert for new sources of liquidity risk at both the transaction and portfolio levels. Key elements of an effective risk management process include an efficient MIS to measure, monitor and control existing as well as future liquidity risks and reporting them to senior management and the board of directors.	
(b) Quantitative Disclosures:		
	Liquidity Coverage Ratio	111.50%
	Net Stable Funding Ratio (NSFR)	124.64%
	Stock of High quality liquid assets	34633.55 (Million)
	Total net cash outflows over the next 30 calendar days	17508.40 (Million)
	Available amount of stable funding	158338.90 (Million)
	Required amount of stable funding	127034.53 (Million)

j) Leverage Ratio:

Qualitative Disclosures: (a)	
i) Views of BOD on system to reduce excessive leverage	Excessive leverage by banks is widely believed to have contributed to the global financial crisis. Thus Basel III rules have introduced leverage ratio as a non-risk-based backstop measure, to supplement risk-based capital requirements. Board of Directors of our Bank continuously monitoring the exposure limit of lending, capital strength of our Bank in order to avoid building-up excessive on- and off-balance sheet leverage.

ii) Policies and processes for managing excessive on and off-balance sheet leverage	Many regulators are considering raising the leverage ratio. This means that banks will have to keep more capital reserves. To increase capital reserves in order to meet higher leverage ratios requires selling assets to get cash or reducing lending. Higher leverage ratio can decrease the profitability of banks because it means banks can do less profitable lending. However, increasing the leverage ratio means that banks have more capital reserves and can more easily survive a financial crisis. In view of the impact of leverage into the business, our bank management takes decision about future investment. Considering the financial strength, Bank also make Capital planning and business budget to go on a right way.	
iii) Approach for calculating exposure	The leverage ratio is a volume-based measure and is calculated as Basel III Tier I capital divided by total on and off-balance sheet exposures. A minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level. Leverage Ratio = $\frac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$	
Quantitative Disclosures: (b)		
	Leverage Ratio	4.81%
	On balance sheet exposure	180451.08 (Million)
	Off balance sheet exposure	21140.41 (Million)
	Total exposure	201502.83 (Million)

k) Remuneration:

The following remuneration disclosures have been prepared in accordance with 'Guidelines on Risk Based Capital Adequacy (RBCA) for banks' provided by Bangladesh Bank. The prudential disclosures require that all banks meet the minimum requirements for public disclosure of qualitative and quantitative information of the remuneration practices.

The qualitative remuneration disclosures are broader in scope and cover all the individuals included where as the quantitative information relates to senior managers and material risk takers of the Trust Bank Limited, for the financial year ended December 31, 2015.

Qualitative Disclosures	**(a)**	**Information relating to the bodies that oversee remuneration:** The Executive Committee (EC) of Trust Bank Limited provides assistance to the Board of Directors in relation to the remuneration arrangements of the Bank. The Board makes all final decisions in relation to those arrangements. The Committee consists of the following members as at Dec 31, 2015: • Maj Gen Md Mahfuzur Rahman, rcds, ndc, afwc, psc, PhD • Brig Gen Md Mehdi Hassan, SGP, ndc, afwc, psc • Mr. Ashrafuzzaman Khan • Brig Gen Md Zakir Hossain, psc, te • Mr. Ishtiaque Ahmed Chowdhury In summary the committee is responsible for: • Any changes in remuneration policy and structure • Basis on which performance based remuneration will provided The committee may consult a professional adviser or expert, at the cost of the Bank, if the committee considers it necessary to carry out its duties and responsibilities. However no adviser or expert was appointed during the reporting period.

		The Bank has no foreign subsidiaries or branches. The Bank has 36 (Thirty Six) "Senior managers" including MD & CEO at the end of the reporting period.
	(b)	**Information relating to the design and structure of remuneration processes:** Objective of Bank's Compensation policy is: • To maintain fair, consistent and equitable compensation practices in alignment with Bank's core values and strategic business goals. • To provide a competitive pay package compare to the best practices in the industry. • To ensure effective governance of compensation. • To have mechanisms in place for effective supervisory oversight in compensation. In the year 2015, the salary structure of the bank was reviewed by the EC and finally approved by the Board, where the structure was adjusted with the then inflation rate. The structure of remuneration arrangements for all employees consists of following components: • Fixed Remuneration; and • Variable pay The fixed remuneration is made up of base remuneration and superannuation. Base remuneration includes salary and allowances paid in cash. Superannuation is paid to the employee at the time of retirement. Variable pay consists of Incentive bonuses awards to most of the banks employee which are discretionary and recognize annual performance over the financial year. Therefore, performance is measured and reviewed against set goals which include financial and non-financial metrics. Moreover, the employees whose job nature shows risk factors are allowed risk allowances as prescribed in the policy. In

		addition, employees with compliance and supervisory responsibilities are also provided additional benefits besides their regular pay.
	(c)	**Description of the ways in which current and future risks are taken into account in the remuneration processes.** The Bank's remuneration practices are carefully managed takes into account the following key risks when implementing remuneration measures: • Financial Risks • Compliance Risks Risk and compliance requirements represent a gateway to whether an incentive bonus payment is made and the size of the payment. Despite, if the individual does not meet or only partially meets compliance requirements, no award or a reduced award may be made.
	(d)	**Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration:** Employees' performance is appraised annually in line with the achieved objectives, which have a positive and direct impact in their pay package. So, individual's remuneration may vary according to their performance. The payment is dependent on the Board's discretion, taking into account the recent performance of the Bank.
	(e)	**Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.** The Bank's remuneration system is designed to reward long-term as well as short-term performance, encourage retention and recognize special performance in the organization. The Bank provides reasonable remuneration for short-term performance besides for long-term performance the bank has some deferred payment options (i.e. incentive bonus, gratuity,

		superannuation etc.) In case of following situation remuneration can be adjusted before vesting: • Disciplinary Action (at the discretion of Enquiry committee) • Resignation of the employee prior to the payment date. At the same time previously paid or already vested variable pay can also be recovered under the case of disciplinary action (at the discretion of the Enquiry Committee and approval of Executive Committee)
	(f)	**Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms.** The main forms of such variable remuneration include: • Monthly Cash benefits • Incentive plan for the employees to be paid annually The form of variable remuneration depends on the job level of individual, risk involved, the time horizon for review of quality of the assignments performed.
Quantitative Disclosures	**(g)**	**Number of meetings held by the main overseeing remuneration during the financial year and remuneration paid to its member** The committee held 6 no. meeting during the financial year. No fees paid to the Committee Members as remuneration for attending such meetings.
	(h)	**Number of employees having received a variable remuneration award during the financial year.** Incentive Bonuses: 36 Senior Managers **Number and total amount of guaranteed bonuses awarded during the financial year** Festival bonuses: Total 36 no. of employees received 2 numbers of guaranteed festival bonuses amounted BDT 99,33,200.

		Number and total amount of sign-on award made during the financial year. Nil **Number and total amount of severance payments made during the financial year.** Nil
	(i)	**Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.** Nil **Total amount of deferred remuneration paid out in the financial year:** Nil
	(j)	**Breakdown of amount of remuneration awards for the financial year to show.** **Fixed:** BDT 11,31,94,530/- **Variable:** BDT 7,43,500/- **Incentive Bonus:** BDT 2,13,79,500/- All Non-deferred and cash based
	(k)	**Quantitative Information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. clawbacks or similar reversals or downward revaluation of awards) of deferred remuneration and retained remuneration:** **Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.** Nil **Total amount of reductions during the financial year due to ex post explicit adjustments.** Nil **Total amount of reduction during the financial year due to ex post implicit adjustments.** Nil