Disclosures on Risk Based Capital (Basel III)

For the year ended on December 31, 2016

Trust Bank
A Bank for Financial Inclusion

The public disclosure of prudential information is an important component of Basel Committee on Banking Supervision's framework of capital measurement and capital adequacy, known as Basel III. The Bank is required to set out the public disclosure upon its capital requirements, level of risks and risk management system in order to facilitate and enhance greater insight information for the outsiders and market participants to assess and analyze all risks and capital adequacy of the Bank. This disclosure shall be deemed as the essential market mechanism in escorting the Bank to achieve effective risks management system beyond simply the internal control of the Bank and the supervision of Bangladesh Bank.

In line with the Bangladesh Bank BRPD Circular no. 35 of December 29, 2010 as to Guidelines on 'Risk Based Capital Adequacy for Banks' and subsequent BRPD Circular 18, dated December 21, 2014 on 'Guidelines on Risk Based Capital Adequacy', following detailed qualitative and quantitative disclosures are provided in accordance with the central bank directions covering scope of capital adequacy framework, capital of the bank, risk exposure and assessment methodology, risk mitigation strategies and capital adequacy of the bank.

To cope up with the international best practices and to make the bank's capital shock absorbent 'Guidelines on Risk Based Capital Adequacy (RBCA) for banks' (Revised Regulatory Capital Framework in line with Basel II) was introduced from January 01, 2009 as a parallel run with BRPD Circular No. 10, dated November 25, 2002 (Basel I). At the end of parallel run, Basel II regime started from January 01, 2010 and the guidelines on RBCA came fully into force with its subsequent supplements/revisions. After that Bangladesh Bank issued 'Guidelines on Risk Based Capital Adequacy (RBCA) for banks' (Revised Regulatory Capital Framework in line with Basel III) vide its BRPD Circular 18 dated December 21, 2014 that Basel III reporting start from January 2015 and full implementation will start from January 2020. Instructions regarding Minimum Capital Requirement (MCR), Adequate Capital and Disclosure requirement as stated in the guidelines had to be followed by all scheduled banks for the purpose of statutory compliance.

Phase-in Arrangements

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

Particulars	**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 Requirement): covers the calculation of RWAs for credit risk, market risk and operational risk.

Pillar 2 (Supervisory Review Process): covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations. Bank's own internal models and assessments support this process.

Pillar 3 (Market Discipline): covers external communication of risk and capital information by banks as specified in the Basel rules to promote transparency and good risk management.

Market discipline 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.

1. Scope of Application

Qualitative Disclosures:

(a)The name of the top corporate entity in the group to which this guideline applies:

The framework applies to Trust Bank Limited (TBL) on 'Consolidated Basis' as there are two subsidiaries of the Bank as on the reporting date i.e. December 31, 2016. However, 'Solo Basis' information has been presented beside those of 'Consolidated Basis' to facilitate comparison.

(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 i.e.
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- Trust Bank Investment Limited
- 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. As on 31st December, 2016 the Bank is operating its business through head office having 101 branches, 06 SME/Krishi branches, 1 SME Service Center, 9 T-Lobby, 7 CDMs (Cash Deposit Machine) and 187 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 2016 located at Dilkusha Corporate Branch Dhaka. Investments in OBUs are risk weighted with the exposure of the Bank.

There are 2 (Two) Subsidiaries of Trust Bank which is as under:

- **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 fully 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.

- **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.

(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 surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group.

Not Applicable

2. 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 in 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:

I. Tier 1 Capital (going-concern capital):

- Common Equity Tier 1
- Additional Tier 1

II. 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 –

- Fully Paid-up Capital
- Statutory Reserve
- Non-Repayable Share Premium Account
- General Reserve
- Retained Earnings
- Minority Interest in Subsidiaries
- Dividend Equalization Account

Less: Regulatory adjustments applicable on CET1

Additional Tier 1:

- Non-cumulative irredeemable preference share
- Instruments issued by the banks that meet the qualifying criteria for AT1
- 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-

- General Provision
- All other preference shares
- Subordinated debt
- Minority Interest i.e. Tier-2 issued by consolidated subsidiaries to third parties (For Consolidated reporting only)
- Revaluation Reserves as on 31st December, 2014 (50% of Fixed Assets and Securities and 10% of equities)
- 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 for the year 2016		
1.	Common Equity Tier I of at least 4.5% of the total RWA	Complied
2.	Tier I capital will be at least 5.50% of the total RWA	Complied
3.	Minimum CRAR of 10% of the total RWA	Complied
4.	Additional Tier I capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher	Complied
5.	Tier II capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET 1, whichever is higher	Complied
6.	In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 0.625% of the total RWA is being introduced which is maintained in the form of CET 1	Complied

Quantitative Disclosures:

(b) The amount of Regulatory capital of Trust Bank Limited under Basel-III during 2016 as below:

(Amount in Million)

Particulars	Solo	Consolidated
1.Common Equity Tier-1 (Going Concern Capital)		
Fully Paid-up Capital/Capital Deposited with BB	5,063.33	5,063.33
Statutory Reserve	4,027.40	4,027.40
Retained Earnings	2,044.12	2,385.58
Minority interest in Subsidiaries	0	0.001
Less: Deferred Tax Assets (DTA)	(112.04)	(114.08)
Total Common Equity Tier-1 Capital	**11,022.81**	**11,362.23**

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2. Tier-2 Capital (Gone-Concern Capital)		
General Provision	2,435.35	2,435.35
Subordinated debt	6,000.00	6,000.00
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	(0.11)	(0.11)
Total Admissible Tier-2 Capital	8,435.52	8,435.52
Total Regulatory Capital	**19,458.32**	**19,797.75**

3. 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:

Trust Bank Limited with its focused strategy on risk management has always been consistent in maintaining capital adequacy ratio above the regulatory requirements. 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.

With regard to regulatory capital computation approaches (Minimum Capital Requirement) the bank is following the prescribed approach of Bangladesh Bank. Below are risk wise capital computation approaches that the bank is currently applying:

- 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.

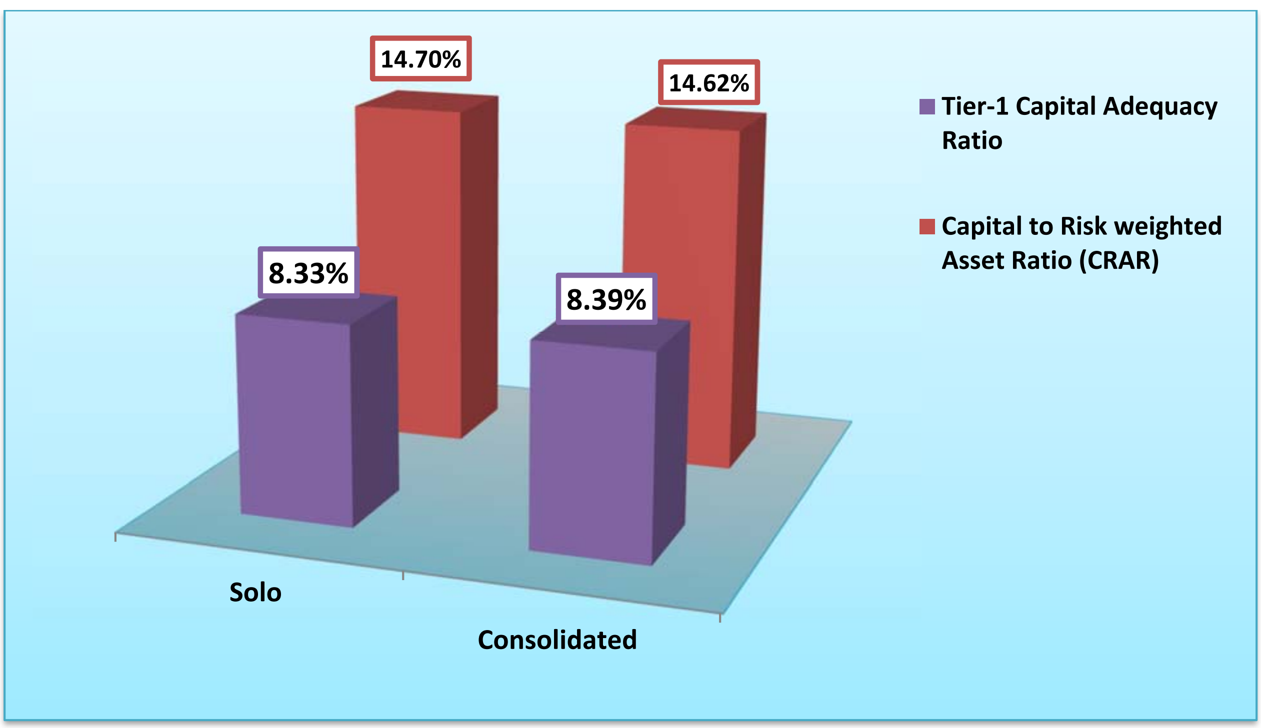
The periodic assessment of bank's performance against the Risk Appetite defined under ICAAP and results of stress testing are reported to the Board of Directors for their review. CRAR has been computed based on the Basel III guidelines and it is well above the regulatory minimum level of 10%.

Quantitative Disclosures:

Amount in Million

Particulars	Solo	Consolidated
b) Capital requirement for Credit Risk	11,702.15	11,640.10
c) Capital requirement for Market Risk	401.78	685.82
d) Capital requirement for Operational Risk	1,130.77	1,219.62
Total Capital Requirement (b+c+d)	**13,234.69**	**13,545.54**
e) Capital to Risk weighted Asset Ratio (CRAR)		
1.Common Equity Tier 1 (CET 1) Ratio	8.33%	8.39%
2.Tier 1 Capital Adequacy Ratio	8.33%	8.39%
3.Tier-2 Capital Adequacy Ratio	6.37%	6.23%
Capital to Risk-weighted Asset Ratio (CRAR)	14.70%	14.62%
Minimum Capital Requirement (MCR)	13,234.69	13,545.54
f) MCR (10%) + Capital Conservation Buffer (0.625%)	14,061.86	14,392.14
g) Available Capital under Pillar 2 Requirement	5,396.46	5,405.61

Capital to Risk-weighted Asset Ratio (CRAR):



4. Credit Risk

Qualitative Disclosures:

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

Credit risk is defined as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Credit risk is one of the most significant risks in terms of sustainability, regulatory and capital requirements, which the bank is exposed to. Bank's policy is to develop a high quality and diversified credit portfolio comprised of corporate, SME and retail customers in Bangladesh towards better credit risk management.

(i) Definitions of past due and impaired:

Bank classifies loans and advances (loans and bill discount in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the Bangladesh Bank guidelines in this respect. All the loans and advances are grouped into four categories for the purpose of classification, which are as followings:

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.

- **All classified loans can be defined as below:**

Types of Facility	Loans Classification					
	Sub Standard	Provision (%)	Doubtful	Provision (%)	Bad & Loss	Provision (%)
	Over Due Period		Overdue Period		Overdue Period	
Continuous Loan & Demand Loan	3 months or more but less than 6 months	**20%**	6 months or more but less than 9 months	**50%**	9 months or more	**100%**
Fixed Term Loan up to Tk. 10 Lac	6 months or more but less than 9 months	**20%**	9 months or more but less than 12 months	**50%**	12 months or more	**100%**
Fixed Term Loan more than Tk. 10 Lac	3 months or more but less than 6 months	**20%**	6 months or more but less than 9 months	**50%**	9 months or more	**100%**
Short Term Agricultural & Micro Credit	12 months or more but less than 36 months	**5%**	36 months or more but less than 60 months	**5%**	60 months or more	**100%**

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

Rate of provision:

Business Unit		Rates of Provision				
		Un-Classified (UC)		Classified		
		Standard	Special Mention Account (SMA)	Substandard (SS)	Doubtful (DF)	Bad Loan (BL)
Consumer	House Building and loans for professionals	**2%**	**2%**	**20%**	**50%**	**100%**
	Other than house building and professionals	**5%**	**5%**	**20%**	**50%**	**100%**
Loans to BHs/MBs against Share etc.		**2%**	**2%**	**20%**	**50%**	**100%**
Small and Medium Enterprise Finance		**0.25%**	**0.25%**	**20%**	**50%**	**100%**
Short term Agri-Credit & Micro Credit		**2.5%**	**2.5%**	**5%**	**5%**	**100%**
All Others		**1%**	**1%**	**20%**	**50%**	**100%**

(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 Exposure Broken down by Major Types of Credit Exposure:

Particulars	Amount in Million
Continuous loan (CL-2)	
Consumer Finance	1,220.79
Small & Medium Enterprise (SME)	5,941.09
Loans to BHs/MBs/SDs against Shares	62.51
Other Corporate Loans	12,802.87
Total	**20,027.26**
Demand loan (CL-3)	
Small & Medium Enterprise	5,129.18
Consumer Finance	1.21
Corporate Loans	29,326.17
Total	**34,456.56**
Term loan (CL-4)	
Consumer Finance (including staff, other than HF)	7,929.17
Housing Finance (HF)	9,919.72
Small & Medium Enterprise (SME)	3,440.26
Corporate Loans	65,055.10
Total	**86,344.25**
Short term Agri-credit and microcredit (CL-5)	
Short term Agri-credit	263.20
Total	**263.20**
Staff loan	896.17
Total Exposure of Trust Bank Limited	**141,987.44**

(c) Geographical Distribution, Broken down in Significant Areas by Major Types of Credit Exposures of TBL:

Division	Amount in Million
Dhaka	106,846.89
Chittagong	23,553.90
Khulna	3,597.56
Sylhet	3,373.71
Rajshahi	2,143.04
Barisal	176.97
Rangpur	1,890.30
Mymensingh	405.08
Total	**141,987.44**

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

Industry Type	Amount in Million
Agro & Fisheries	2,776.03
RMG	18,825.25
Textile	5,561.51
Food and allied industries (Edible Oil included)	5,314.54
Pharmaceutical industries	2,937.29
Chemical, fertilizer, etc.	1,434.36
Cement and ceramic industries	2,599.82
Ship building industries	608.52
Ship breaking industries	2,399.75
Power and gas	8,124.73
Other manufacturing or extractive industries (Rubber & Plastic, Paper, Steel Engineering & Metal Products included)	13,746.06
Service Industries (Telecom & ICT,Medical Service included)	8,604.71
Other Industry	2,211.95
Trade & Commerce	21,401.72
Construction & Housing	25,387.62
Transport	1,181.02
Consumer Financing (Personal Services)	12,964.16
Loans to Financial Institution (NBFI & NGO included)	2,666.80
Others	3,241.59
Total Exposure	**141,987.44**

(e) Residual Contractual Maturity Breakdown of the Whole Portfolio, Broken down by Major Types of Credit Exposure of TBL:

Particulars	Amount in Million
Repayable on demand	7,343.37
Up to one month	19,890.88
Not more than three months	28,118.17
More than three months but not more than one year	48,349.54
More than one year but not more than five years	28,333.72
More than five years	9,951.76
Total	**141,987.44**

(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	199.59	3,311.25
Consumer Financing	112.41	148.76
Housing Finance	-	366.39
Loans for Professionals to setup business	-	-
Loans to BHs/MBs/SDs against Shares etc.	-	-
Other Corporate Credit	1,467.03	6,894.54
Short Term Agri Credit & Micro Credit	3.25	5.43
Staff Loan	-	-
Total	**1,782.28**	**10,726.37**

*** Impaired Loan is determined from Gross NPL after deducting the value of eligible security.**

- **Specific and general provision (Required):**

Amount in Million

Sector	General Provision	Specific Provision
Small & Medium Enterprise Financing	38.61	577.22
Consumer Financing	451.56	75.12
Housing Finance	192.21	73.88
Loans for Professionals to setup business	0.14	-
Loans to BHs/MBs/SDs against Shares etc.	1.25	-
Other Corporate Credit	1,078.85	968.29
Short Term Agri Credit & Micro Credit	6.50	0.16
Against Off-Balance Sheet	614.28	-
TBL Total	**2,383.40**	**1,694.67**
Off-shore Banking Unit	**29.01**	**-**
Grand Total	**2,412.41**	**1,694.67**

- **Charges for specific allowances and charge-offs during the period:**

Amount in Million

Against Unclassified Loans & Advances	
Provision held on 1 January	1,510.15
Provisions made during the year	205.84
Provision held at end of year	**1,715.99**
Against Special Mention Accounts	
Provision held on 1 January	90.37
Provisions made during the year	(14.30)
Provision held at end of year	**76.07**

General Provision for Off Balance Sheet Exposures	
Provision held on 1 January	577.91
Provisions made during the year	36.37
Provision held at end of year	**614.28**

Provision for Off-shore Banking Units	
Provision held on 1 January	24.12
Provisions made during the year	4.89
Provision held at end of year	**29.01**

(g) Gross Non Performing Assets (NPAs):

Amount in Million

Gross Non Performing Assets (NPAs)	4,556.09
Non Performing Assets (NPAs) to outstanding loans & advances	3.21%
Movement of Non Performing Assets for NPAs	
Opening balance	3,588.48
Additions	2,638.78
Reductions	(1,671.17)
Closing Balance	4,556.09
Movements of specific provisions for NPAs	
Opening balance	1,455.15
Provision made during the period	760.19
Write-off	(422.09)
Write back of excess provisions	(98.58)
Closing Balance	1,694.67

5. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

(a) Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons:

Investment in equity is mainly for capital gain purpose but Bank has some investment for relationship and strategic reasons. Investment in equity securities by TBL is broadly categorized into two parts:

- **Quoted securities** include Common or Preference Shares & Mutual Fund that are traded in the secondary market.

- **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.

(b) 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 equity markets are traditionally volatile with a high-risk, high-returns profile. As such investors in the equity market have to plan and strategize to reduce their risks and increase their returns. 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 mark-to-market (revalued) once a week, and HTM equity securities are amortized annually. HTM securities are revalued if reclassified to HFT (with approval of the Board of Directors). The quoted shares of the bank are valued at cost or market price, whichever is lower.

Quantitative Disclosures:

Amount in Million

Particulars		Amount
(i)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:	Cost Price	**2,222.09**
	Market Price	**1,921.22**
Difference		**(300.90)**
(ii) Cumulative realized gains (losses) arising from sales and liquidations in the reporting period		**66.30**
(iii) Total unrealized gains (losses)		**(300.90)**
(iv) Total latent revaluation gains (losses)		**Nil**
(v) Any amounts of the above included in Tier 2 capital		**Nil**
(vi) 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	General Market Risk	**192.12**
	Specific Risk	**192.12**

6. Interest Rate Risk in the Banking Book (IRRB)

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:

Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. It is the risk related to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. Changes in interest rates affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change.

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 and 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.

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. 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:

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

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

The ALM & Market Risk Policies define the framework for managing IRRBB through measures such as:

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

- **Duration Gap Analysis**: Measures the mismatch in duration of assets & liabilities and the resultant impact on market value of equity.

- **Stress Testing**: Evaluates the impact on duration of capital of banking book under various stress scenarios.

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.

Particulars	Amount (BDT)		
Market Value of Assets	209,408.40 (Million)		
Market Value of Liabilities	197,712.60 (Million)		
Weighted Average of Duration of Assets (DA)	1.98		
Weighted Average of Duration of Liabilities (DL)	0.92		
Duration GAP (DA-DL)	1.11		
Yield to Maturity (YTM-Assets)	7.27%		
Yield to Maturity (YTM-Liability)	4.59%		
Magnitude of Interest Rate Change	**1%**	**2%**	**3%**
Change in market value of equity due to and increase in interest rate	(2,161.39) Million	(4,322.77) Million	(6,484.16) Million
Stress Testing	**Minor**	**Moderate**	**Major**
Regulatory capital (after shock)	17,345.80 (Million)	15,184.40 (Million)	13,023.00 (Million)
RWA (after shock)	131,799.60 (Million)	131,799.60 (Million)	131,799.60 (Million)
CAR (after shock)	13.16%	11.52%	9.88%

7. **Market Risk**

Qualitative Disclosures:

Market risk is the potential of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. Market risk arises in both trading and banking book activities.

The Bank manages its market risk by taking equal and opposite derivative positions in the market. Our trading activities are conducted in our Financial Markets and Treasury businesses.
Treasury's trading activity represents dealings that include the management of interest rate, foreign exchange (FX) and credit spread risk associated with wholesale funding, liquid asset portfolios and hedging of foreign currency earnings and capital deployed offshore.

(a) Views of Board of Directors (BOD) on trading/investment activities:

There is an approved policy to monitor risks related to changes in market dynamics. 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 whilst meeting customers' requirements.

(b) Methods used to Measure Market risk:

The Bank currently follows the standardized approach for computation of market risk as per the guidelines of Bangladesh Bank. The total capital requirement in respect of market risk is the aggregate capital requirement calculated for each of the risk sub-categories. For each risk category minimum capital requirement is measured in terms of two separately calculated capital charges for "specific risk" and "general market risk" as under:

Component of Market Risk	Capital Charged for Market Risk	
	General Market Risk	**Specific Market Risk**
Interest Rate Risk	Applied	Applied
Equity Price Risk	Applied	Applied
Foreign Exchange Risk	Applied	
Commodity Position Risk	Applied	

(c) Market Risk Management System:

Bank has an independent market risk framework to assess, manage and control the risk management function. The Treasury Division of the Bank manages market risk covering liquidity, interest rate and foreign exchange risks with oversight from Assets- Liability Management Committee (ALCO) comprising senior executives of the Bank who meets at least once in a month. ALCO is chaired by the Managing Director.

To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Of the ratios, the key ratios that ALCO regularly monitors are Liquid asset to total assets, Volatile liability dependency ratio, and medium term funding ratio, Snap liquidity ratio and Short term borrowing to Liquid assets ratio. ALCO also regularly monitors the interest rate sensitive gap and duration gap of total portfolio.

(d) Policies and Processes for mitigating market risk:

There are approved limits for credit to deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off balance sheet items and borrowing from money market and foreign exchange position. 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.

Quantitative Disclosures:

The Capital requirements for specified risk are as follows:

Amount in Million

Market Risk	Capital Requirement
Interest Rate Related instruments	36.39
Equities	100.20
Foreign Exchange Position	265.19
Commodities	-
Total	401.78

8. Operational Risk

Qualitative Disclosures:

(a)Views of BOD on system to reduce Operational Risk:

Operational risk is the risk arising from day to day operating activities which may translate into direct or indirect loss. The primary operational risk arises from the potential for core banking system breakdown and the need for the rapid recovery of operational data. Other operational risks include front and back office errors, fraud, breaches in internal controls and external events, resulting in financial loss or reputational damage. The bank manages these risks through appropriate risk controls and loss mitigation actions. These actions are put in place through the policies, procedures, contractual business continuity arrangements, training, and risk monitoring and reporting.

(b) Performance Gap of Executive and Staff:

Performance of employees is critically important to achieve organizational goals for that reason TBL ensures equal opportunity to its employees. TBL has a policy to provide competitive remuneration package and best working environment to attract and retain the most talented people available in the industry. Our recruitment and selection procedure are governed by the Philosophies of equality, transparency and assortment.

The bank believes that, training and knowledge sharing is the best way to reduce the performance gap. TBL offers a wide range of internal and external training programs to enhance the capabilities of its employees so that they can perform their assigned job more efficiently. As a result, there is no significant performance gap.

(c) Potential external events:

Like other banks, TBL also operates its business with few external risk factors relating to the socio-economic condition, political atmosphere, regulatory policy changes, change in demand , natural disaster etc. Considering the potential external risks, TBL is continuously working on identifying, assessing, mitigating, monitoring such operational risks factors which may have impact on the achievement of the bank's business objectives.

(d) Policies and processes for mitigating operational risk:

Operational Risk is the risk of financial losses related to breakdown in internal control and corporate governance. Such breakdown can be the result of human errors, inadequate or failed internal process and technical system, fraud or any other adverse external event. The Bank has adopted policies to deal with different operational risks.

The Internal Control and Compliance Division of the Bank, the inspection teams of Bangladesh Bank, and external auditors had conducted inspections in different branches and divisions at Head office throughout the year and prepared the reports according to the findings of those inspections. Considering the suggestions and observations of those reports management took essential control measures and corrective actions.

In 2016 IC&C Division conducted following No. of audit:

No. of Comprehensive Audit at Branches	107	Branches
No. of Comprehensive Audit at Head Office	16	Divisions/ Departments
No. of Spot audits	**a)** 0 **b)** 15 **c)** 1612	Spot Audit IT Audit no. pay point audits
No. of Spot Inspection	34	spot inspection report

TBL strongly follows the KYC norms for its customer dealings and other banking operations. Banks Anti- Money laundering activities are headed by CAMLCO in the rank of Executive Vice President and their activities are devoted to protect against all money laundering and terrorist finance related activities.

The newly established Central Customer Service & Complaint Management Cell was also engaged in mitigating the operation risks of the Bank. Apart from that, there is adequate check and balance at every stage of operation, authorities are properly segregated and there is at least dual control on every transaction to protect against operational risk.

(e) Approach for Calculating Capital Charges 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:

$$\mathbf{K = [(GI\ 1 + GI\ 2 + GI\ 3)\ \alpha]/n}$$

Where-
K = the capital charge under the Basic Indicator Approach
GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)
α = 15 percent
n = number of the previous three years for which gross income is positive.

Quantitative Disclosures:

The capital requirements for operational risk:

Amount in Million

Particulars	RWA	Capital Requirement
Minimum Capital Requirement: Operation Risk	**11,307.66**	**1,130.77**

9. Liquidity Ratio

Qualitative Disclosures:

Banks in general are vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. Liquidity Risk is the risk that the bank does not have adequate financial resources to meet its commitments in time as they fall due or will have to do so at excessive cost.
Thus, liquidity risk can be of two types:

- **Funding liquidity risk:** the risk that a firm will be unable to fulfill its current and future cash flow and collateral needs without affecting its daily operations or its financial condition

- **Market liquidity risk:** the risk that a firm cannot easily offset or sell a position without incurring a loss because of inadequate depth in the market.

(a) Views of Board of Directors on system to reduce Liquidity Risk:

TBL manages liquidity risk in accordance with its Asset Liability Management (ALM) Policy. This policy is framed as per the extant 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 Asset Liability Management Committee (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.

The Bank proactively manages liquidity risk as a part of its ALM activities. The Bank uses various statements, liquidity ratios and stress testing through scenario analysis. TBL has also framed a Liquidity of tight liquidity conditions. The LCP includes various indicators which are monitored regularly, and lays down the mechanism for escalation, remedial action and crisis management until return to normalcy.

(b) Methods used to measure Liquidity risk:

TBL follows Bangladesh Bank's Risk Based Capital Adequacy guideline in line with Basel III for proper assessment and management of liquidity risk of the bank. TBL also started to follow DOS circular no. 1, dated 1st January, 2015, on Implementation of Basel III liquidity ratio.
The measurement tools those are used to assess liquidity risks are:

- **Liquidity Coverage Ratio (LCR)**
- **Net Stable Funding Ratio (NSFR)**
- **Statutory Liquidity Requirement (SLR)**
- **Cash Reserve Ratio (CRR)**
- **Asset to Deposit Ratio (ADR)**
- **Structural Liquidity Profile (SLP)**
- **Regulatory Liquidity Indicators (RLIs)**
- **Maximum Cumulative Outflow (MCO)**
- **Medium Term Funding Ratio (MTF)**
- **Volatile Liability Dependency Ratio**
- **Liquid Asset to Total Deposit Ratio**
- **Liquid Asset to Short Term Liabilities**

(c) Liquidity Risk Management System:

ALM strategy of TBL is designed to ensure that funding is available to meet liability repayments on time and to fund all investment opportunities in times of stress either by increasing liabilities or by converting assets into cash expeditiously and at reasonable cost. Liquidity risk is a low probability but high impact event. The essence of liquidity management is buying time to absorb liquidity shock. TBL continuously analyses and monitors its liquidity profile through coordination between various ALCO support groups, also maintains an adequate margin of safety in high quality liquid assets and access to diverse funding sources such as inter-bank market, assets and investments available for- sale and has contingency funding plan to meet liquidity requirements.

(d) Policies and processes for mitigating liquidity risk:

At Trust Bank Limited, Asset-Liability Management Committee (ALCO) has responsibility for monitoring liquidity measures and limits. ALCO reviews the policy at least annually or as and when required by taking into consideration of any changes in the market dynamics and appropriateness and put recommendation for changes in policy to the Board for approval. Board Risk Management Committee set policies and process to mitigate all risks including Liquidity risk.

Quantitative Disclosures:

Liquidity Coverage Ratio (%)	131.18%
Net Stable Funding Ratio (%)	117.80%
Stock of High quality liquid assets	45,484.72 (Million)
Total net cash outflows over the next 30 calendar days	5,748.50 (Million)
Available amount of stable funding	181,957.56 (Million)
Required amount of stable funding	154,458.33 (Million)

10. Leverage Ratio

Qualitative Disclosures:

(a) Views of BOD on system to reduce excessive leverage:

High leverage levels can lead to an excessive expansion of bank asset size, which maximizes, in the short to medium term, banks' return on equity. At the same time, leverage-fuelled bank capital structures increase bankruptcy risk, since they are an important cause of bank failures. In order to avoid building-up excessive on and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is expressed as a percentage which calibrated to act as a credible supplementary measure to the risk based capital requirements.

The leverage ratio is intended to achieve the following objectives:

- Constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy

- Reinforce the risk based requirements with an easy to understand and a non-risk based measure.

Boards of Directors of TBL are continuously monitoring the exposure limit of lending, capital strength of the Bank in order to avoid building-up excessive on- and off-balance sheet leverage.

(b) Policies and processes for managing excessive on and off-balance sheet leverage:

TBL follows Bangladesh Bank's Risk Based Capital Adequacy guideline in line with Basel III. There are approved limits for instruments both on-balance sheet and off-balance sheet items. The limits are monitored and enforced on a regular basis to protect against such risk.

(c) Approach for calculating exposure:

The bank will maintain leverage ratio on quarterly basis. The calculation at the end of each calendar quarter is submitted to BB showing the average of the month end leverage ratios based on the following definition of capital and total exposure. Items which are deducted completely from capital do not contribute to leverage and will therefore also be deducted from the measure of exposure. The exposure measure for the leverage ratio will generally follow the accounting measure of exposure.

(d) Calculation of Leverage Ratio:

A minimum Tier 1 leverage ratio of 3% is being prescribed both at solo and consolidated level.
Leverage Ratio = Tier 1 Capital (after related deductions)/ Total Exposure (after related deductions)

Quantitative Disclosures:

Amount In Million

Particulars	Solo	Consolidated
Leverage Ratio (%)	4.81%	4.93%
On balance sheet exposure	208,377.88	209,687.90
Off balance sheet exposure	20,863.23	20,923.76
Total exposure	229,129.07	230,497.58

11. Remuneration

To attract, retain and motivate top talents, TBL has a competitive pay and benefits package. The remuneration system combines the need to maintain a high performance culture along with market competitiveness. 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, 2016.

Qualitative Disclosures:

(a) Information relating to the bodies that oversee remuneration:

In the year 2016, the management has formed a Remuneration Committee which provides assistance to the Executive Committee (EC) of Trust Bank Limited. Having recommendation from the EC, the Board of Directors approves the policies regarding remuneration. The Committee consists of the following members as on Dec 31, 2016:

- **Mr. Brig Gen Md. Mehdi Hassan (Retd), SGP, ndc, afwc, psc (Retd.), SEVP, Chairman**
- **Mr. Khaled Mahbub Morshed, EVP**
- **Mr. Mohammad Mohsin, EVP**
- **Mr. Md. Shafiqur Rahman, VP**
- **Ms. Mahmuda Momen, VP**
- **Mr. Maj. ABM Nurul Islam (Retd), VP**

In summary the committee is responsible for:

- Any changes in remuneration policy and structure
- Building competitive remuneration packages for employees in align with remuneration practices of the industry.
- Providing basis on which performance based remuneration will be provided

The Bank has no permanent external consultant for managing remuneration, but expert opinion may have been sought by the Management, in case to case basis, regarding taxation and other issues. The Bank has no foreign subsidiaries; rather it has branches in different regions of the country. The remuneration policy follows same rule and does not change due to the employees working in different regions of the country. Including MD & CEO the Bank has Thirty Eight (38) "senior managers", 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 ensure optimum level of fairness in reward to the service of the employees in alignment with Bank's core values and strategic business goals

- To provide a competitive pay package compared to the best practices in the industry

- To ensure effective governance of compensation

- To have mechanisms in place for effective supervisory oversight in compensation

This year, the salary structure of the bank was reviewed by the remuneration committee where the structure was adjusted with the then inflation rate. Moreover, a new festival bonus "**Boishakhi Bonus**" was introduced to the employees by taking approval from the Bangladesh Bank.

The structure of remuneration arrangements for employees consists of following components:

- Fixed Remuneration;
- Future benefits and
- Variable pay

The fixed remuneration is made up of base remuneration including salary and allowances paid in cash. Fixed remuneration differs from grade to grade and generally changes with the promotion/demotion to the higher/lower grades. Gratuity, PF and Superannuation funds are maintained by the Bank to pay remuneration to employees as a future benefit to them. Such remunerations differ based on the grade, basic pay and length of service of an employee.

Variable pay consists of incentive bonuses paid on the basis of the individual performance subject to satisfactory annual profit of the Bank. Therefore, individual performance is measured and reviewed against set goals, which include financial and non-financial metrics. Moreover, the employees having job duties showing 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 takes into account the following key risks when managing and determining remuneration processes:

- **Financial Risks:** While evaluating the performance of each employee as per pre-determined set criteria, the result of individual performance varies as well as the remuneration. Moreover, sudden termination or leave of an employee from the bank causes sudden need of fund to accommodate their end service benefits.
- **Compliance Risks:** The risk of non-adherence to regulatory compliances as well as violations of different rules causing significant losses from the side of the employees is taken into consideration while implementing the remuneration process.

Various disciplinary measures ranging from the issuance of warning letter to dismissal from the service for committing the irregularities is there and such measures affect the remuneration process.

(d) Description of the ways in which the bank seeks to link performance:

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 seeks 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 considering the long-term performance of the employees (i.e. incentive bonus, gratuity, superannuation etc.). Moreover, a loan on provident fund is also available based on employees' length of service to the Bank.

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 Remuneration Committee)

(f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using those different forms:

The main forms of such variable remuneration include:

- Monthly Cash benefits (Manager's Charge Allowance, Cash Handling Allowance etc.)
- Incentive plan for the employees to be paid annually (Incentive Bonus)

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 Disclosure:

(g) Number of Meeting held by the Remuneration Committee during the financial year and remuneration paid to its member:

The committee held 4 no. meeting during the financial year. No fees are paid to remuneration committee member or attendance such meeting.

(h) Number of employees having received a variable remuneration award during the financial year:

Incentive Bonuses: 38 Senior Managers

Number and total amount of guaranteed bonuses awarded during the financial year:

Festival bonuses: Total 36 no. of employees received 3 number of guaranteed festival bonuses amounted BDT 12,652,040.00.

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-lined 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 Remuneration: BDT 131,749,458.00
- Variable Remuneration: BDT 714,500.00
- Incentive Bonus: BDT 24,292,450.00

(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:
Not Applicable