INTRODUCTION:

The purpose of this report issued by Trust Bank Limited (hereinafter "TBL" or "the Bank") is to comply with the regulatory disclosure requirements in accordance with the Bangladesh Bank BRPD Circular # 35 of 29 December 2010 as to Guidelines on 'Risk Based Capital Adequacy for Banks' in line with Basel II according to market discipline defined in Basel II Pillar III. The disclosure provided in this report should be read in conjunction with the Annual Report of 2011.

1. OBJECTIVES AND POLICIES WITH REGARD TO CREDIT, OPERATIONAL AND MARKET RISKS:

The different risk categories of the Bank are monitored through various tools, committees and reports. Asset Liability Management Committee meeting, chaired by the Chief Executive Officer and comprising the high level executives of the bank takes place on a monthly basis and assesses the actual risk situation. A Basel II Implementation Committee, chaired by the Deputy Managing Director, takes place on a quarterly basis to assess the Basel II implementation situation of the bank.

On a monthly basis a Risk Management Report summarizes all major risks, identifies the risk owners and defines the deadline for solving potential issues. This report is submitted to the Risk Management Unit for discussion and approval. Checks, limits and controls are evaluated on a monthly basis by the Unit.

A complete set of policies as per Guidelines of Core Risk Management of Bangladesh Bank regulates the businesses conducted by the Bank.

A. Scope of application

Qualitative Disclosures:

a) The name of the top bank in the group to which the framework applies.

Trust Bank Limited is a scheduled commercial bank established under the Bank Companies Act, 1991 and incorporated as a Public Limited Company under the Companies Act, 1994 in Bangladesh on 17 September 1999. The Bank is the controlling entity of its single wholly owned subsidiary.

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

(a) that is fully consolidated;
(b) that are given a deduction treatment; and
(c) that are neither consolidated nor deducted.

The consolidated financial statements of the Bank comprise the financial statements of Trust Bank Limited and its subsidiary, Trust Bank Investment Limited (TBIL) together constitutes the ‘Group’. The financial statements of the Bank are prepared on a going concern basis under historical cost convention and in accordance with First Schedule (Sec- 38) of Bank Companies Act, 1991 as amended by Bangladesh Bank (Central Bank) BRPD Circular No. 14 dated June 25, 2003 other Bangladesh Bank circulars, International Financial Reporting

Standards adopted as Bangladesh Accounting Standard (BAS), the Companies Act, 1994, the Listing Rules of the Stock Exchange, the Securities and Exchange Rule 1987 and other laws and regulations applicable in Bangladesh.

c) Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

- Not applicable.

Quantitative Disclosures:

d) The aggregate amount of capital deficiencies - Nil.

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 Tier 1 or in Tier 2.

<u>Type of Capital Features</u>

Equity (Tier I) : The Equity Capital of the Bank as on 31.12.2011 stood at Tk. 8637.39 million in the forms of Paid-up Capital of Tk. 2661.13 million, Statutory Reserve of Tk. 1827.24 million, Retained Earnings of Tk. 1371.81 million and Minority Interest in Subsidiaries of Tk. 705 only.

Tier II Capital: Supplementary capital of the Bank represents general provision, revaluation reserve of held-to-maturity securities (50% of such reserve) and subordinated debt (30% of equity capital). At the close of business on 31 December 2011, our supplementary capital consisted of General Provision of Tk. 1017.43 million and Revaluation Reserve for Securities of Tk. 1.74 million and subordinated debt of Tk. 1758.05 million.

Quantitative Disclosures:

Capital Adequacy of Trust Bank Limited under Basel-II during 2010 and 2011:

(Amount in Million)

Particulars	31st December, 2011	31st December, 2010
Tier-1 (Core Capital)		
Fully Paid-up Capital/Capital Deposited with BB	2661.13	2217.61
Statutory Reserve	1827.24	1566.40
Retained Earnings	1371.81	1142.73

Total Eligible Tier-1 Capital	5860.18	4926.74
Tier-2 (Supplementary Capital)		
General Provision (Unclassified loans + SMA+ off Balance Sheet exposure)	1017.43	819.06
Revaluation Reserves for Securities up to 50%	1.74	59.14
Subordinated debt	1758.05	0.00
Total Eligible Tier-2 Capital	2777.22	878.20
Total eligible capital	**8637.39**	**5804.94**

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.

In order to strengthen the capital base of banks in Bangladesh, the Bangladesh Bank in April 1992 introduced capital adequacy measures in banks, based on the capital adequacy framework (Basel I) issued by Basel Committee on Banking Supervision (BCBS). Initially, the framework addressed capital for credit risk, which was subsequently amended to include capital for market risk as well. The Bank has been compliant with regard to maintenance of minimum capital for credit and market risks.

Subsequently, the BCBS released the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (popularly known as Basel II document) on June 26, 2004. Bangladesh Bank has issued revised guidelines on December 29, 2010 for implementation of the Guidelines on Risk Based Capital Adequacy – Revised Regulatory Framework in line with Basel II. In accordance with the Bangladesh Bank framework, Trust Bank Limited successfully migrated to the revised framework from 2009. The Bank has continued the Parallel run of Basel II framework continuously tracking the exposures and studied the impact on Bank's Capital Adequacy Ratio (CAR) on a quarterly basis.

In accordance with Bangladesh Bank's requirement, the Bank has continued to adopt the Standardized Approach (SA) for Credit Risk and Basic Indicator Approach (BIA) for Operational Risk to compute capital as on March 31, 2010. Besides this, the Bank continues to apply the Standardized Approach (SA) for computing capital requirement for Market Risk. Bangladesh Bank has prescribed Banks to maintain a minimum CAR of 9% with regard to credit risk, market risk and operational risk upto June 2011 and afterwards CAR of 10% on an ongoing basis.

The CAR as per Basel II guidelines works to 11.84% as on 31.12.2011 (as against prescribed 10%). The Core Capital to Risk Weighted Assets (RWA) stands at 8.03% and Supplementary Capital to RWA at 3.81%.

The Bank has followed the Bangladesh Bank guidelines in force, to arrive at the eligible capital, risk weighted assets and CAR. As regards the adequacy of capital to support the future activities, the Bank has drawn an assessment of capital requirement for coming years with the approval of the Board. The additional eligible capital generated shall act as a buffer to support the future activities.

Quantitative disclosures

(Amount in Million)

b)	Capital requirement for Credit Risk		6394.63
c)	Capital requirement for Market Risk		388.61
d)	Capital requirement for Operation Risk		511.29
e)	Total and Tier 1 capital ratio:		
		Total Capital Ratio	Tier 1 Capital Ratio
	• For the consolidated group; and	11.84%	8.03%
	• For stand alone	11.30%	7.70%

D) CREDIT RISK:

The general qualitative disclosure requirement with respect to credit risk, including:

DEFINITIONS OF PAST DUE AND IMPAIRED (FOR ACCOUNTING PURPOSES);

For Banks and financial institutions, Credit Risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit Risk arises from the bank's dealings with or lending to the corporate, individual and other banks of financial institutions. To minimize the losses Trust Bank has strong comprehensive Credit Risk Management (CRM) policies and procedures. The objective of the Credit Risk Management is to select good credit risk and for this our CRM maintain the following steps by adopting suitable methodology:

- Risk Identification
- Risk Assessment
- Risk Grading
- Risk Pricing
- Risk Monitoring

The policy of the Bank for classifying bank's loan assets is followed under the Bangladesh Bank BRPD Master Circular No. 5 dated June 05, 2006 as follows:

Past Due/Over Due:

Categories	Definition of past due	When started
Continuous Loan	If not repaid/renewed within the fixed expiry date for repayment will be treated as past due.	Following day of expiry date
Demand Loan	If not repaid/rescheduled within the fixed expiry date for repayment will be treated as past due.	As above
Fixed Term Loan (not over five years)	Any installment(s) or part of installment(s) is not repaid within the fixed expiry date; the amount of unpaid installment(s) will be treated as past due.	As above
Fixed Term Loan (over five years)	Any installment(s) or part of installment(s) is not repaid within the fixed expiry date; the amount of unpaid installment(s) will be treated as past due.	After six months of expiry date
Short Term Agricultural Credit & Micro Credit	If not repaid within the fixed expiry date for repayment will be considered as past due.	As above

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	6≤O<9	9≤O<12	O≥12
Demand	6≤O<9	9≤O<12	O≥12
Term Loan (≤5 years)	6≤O<12	12≤O<18	O≥18
Term Loan (>5 years)	12≤O<18	18≤O<24	O≥24
SAC/MC	12<O≤36	36<O≤60	O>60

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

QUALITATIVE JUDGMENT:

Sometimes a loan (continuous or demand or fixed term) may not be classified according to the rules of objective criteria of loan classification. But such loan will be classified on the basis of qualitative judgment when there is uncertainty/doubt involved with the realization of loan. Basis of classifying loan are given below:

□ If the factors change which were considered at the time of sanctioning the loan; or
□ Erosion of capital of the borrowers due to adverse situation; or
□ If the value of the security declines; or
□ If the uncertainly of loan realization arises due to any adverse situation.
□ Moreover (a) frequently and unnecessary rescheduling or violation of the rules of rescheduling; or (b) the tendency of continuous limit over run ; or (c) filing suit for realization of loan ; or (d) if loan is sanctioned without any approval of proper authority.

Condition	Status of Loan
► **If it is expected that due to above mentioned reasons or any other reason there is a possibility to impair the value of loan but there is a reasonable prospect that the loan's condition could be improved if proper steps are taken.**	Substandard
► **If it is expected that it is unlikely to recover the full amount of loan by taking all steps properly.**	Doubtful
► **If it is expected that it is very unlikely to recover the loan even wholehearted efforts are taken.**	Bad / Loss

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

The bank will have to inform such declassifications to the Department of Banking Inspection/ concerned offices of Bangladesh Bank within 15 days of such decision taken by the Board of Directors. Bangladesh Bank will examine these matters on case-to-case basis and if any irregularities/deviations is detected, necessary legal action will be taken against the concerned officials.

Description of approaches followed for specific and general allowances:

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

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

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

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

Base for provision:

The computational methods for provisioning requirements are as bellow-

a) **Base for Provision =**
[Outstanding Balance- (Value of eligible securities + Balance of interest suspense)]

b) **Required Provision=** (Base for Provision x Rate of Provision)

Interest treatment of classified account:

Sl	Status	Interest will be credited to	If recovered
1	SS	Interest Suspense A/c	First the interest charged or not charged is to be recovered and the principal to be adjusted afterwards
2	DF	Interest Suspense A/c	
3	BL	Interest Memo A/c i.e. no charging in loan a/c)	

Discussion of the bank's credit risk management policy:

The Bank has formulated Loan Policy keeping in view Bangladesh Bank Guidelines to ensure best practice in credit risk management and maintain quality asset. Authorities are properly delegated ensuring check and balance in credit operation at every stage i.e. screening, assessing risk, identification and management and mitigation of credit risk as well as monitoring, supervision and recovery of loans with provision for early warning system.

There is a separate credit risk management division for dedicated credit risk management, separate credit administration division for ensuring perfection of securities a credit monitoring and recovery of irregular loans.

The Bank's strategies to manage the credit risks are as under:

a) Defined segment exposures delineated into retail, small and medium enterprises and to corporate clients;

b) Industry-wise segment caps on aggregate lending across Branches

c) Individual borrower wise caps on lending as well as borrower group wise lending caps linked as a percentage to the Bank's capital funds at the end of the previous year as per "Single Borrower" exposure limit set by Bangladesh Bank in its BRPD Master Circular No. 5 dated 09.04.2005.

d) Credit rating of borrowers and allowing credit exposures only to defined thresholds of risk levels; the approach also includes diversification of credit rating wise borrowers but within acceptable risk parameters.

e) The Bank's current entire business is within Bangladesh and hence there is no geographic cap on lending in Bangladesh. However, in respect of cross border trade which would involve exposures to banks and financial institutions located outside Bangladesh, there is a geographic cap on exposures apart from cap on individual bank/institution

f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit accounts.

g) A clear and well defined delegation of authority within the Bank in regard to decision making linking risk and exposure amount to level of approval.

h) Regular review of all credit structures and caps, continuously strengthening credit processes, and monitoring oversight which are regularly reviewed and duly approved by the Board of the Bank.

Quantitative disclosures:

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

(Amount in Million)

Outstanding (as on 31 December 2011)	Domestic	Overseas	Total
Loans & advances	54552.66	0	54552.66
Commitments			
Other non-derivative off-balance sheet exposures			
Debt securities			
OTC derivatives			
Total	**54552.66**		

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

(Amount in Million)

Division	Continuous Loan	Demand Loan	Term Loan	Short Term Agri. Credit	Total
Dhaka	12605.74	9807.05	16386.19	50.03	**38849.01**
Chittagong	2110.95	7208.57	3000.79	0.00	**12320.31**
Sylhet	483.91	39.23	664.67	0.30	**1188.11**
Rajshahi	273.84	36.73	438.43	6.61	**755.61**
Barishal	2.65	0.00	22.18	0.00	**24.83**
Khulna	172.99	278.40	601.43	0.00	**1052.82**
Rangpur	61.50	3.24	297.23	0.00	**361.97**
Total	**15711.58**	**17373.22**	**21410.92**	**56.94**	**54552.66**

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

(Amount in Million)

Industry Type	Public Sector		Private Sector	
	Term Loan	Working Capital	Term Loan	Working Capital
Small & Cottage Industry	-		247.90	252.20
Medium Scale Industry	-	27.30	584.00	350.10
Large Scale Industry	-	124.90	6781.40	11788.10
Total	**-**	**152.20**	**7613.30**	**12390.40**

D) RESIDUAL CONTRACTUAL MATURITY BREAKDOWN OF THE WHOLE PORTFOLIO, BROKEN DOWN BY MAJOR TYPES OF CREDIT EXPOSURE:

(Amount in Million)

Time band	Continuous Loan	Demand Loan	Term Loan	Agricultural Credit	TBIL	Total
Up to 1 month	2589.23	6398.62	303.97	50.58	4396.87	13739.28
1 to 3 months	1792.19	4373.32	54.52	24.01	0.00	6244.04
3 to 6 months	1937.78	2923.43	168.86	499.20	0.00	5529.27
6 to 12 months	4431.82	4499.49	545.80	45.34	0.00	9522.45
1 to 2 years	2.24	0.18	2780.35	51.07	0.00	2833.83
2 to 3 years	0.00	0.00	2718.78	140.56	0.00	2859.34
3 to 4 years	0.00	0.00	3786.56	18.00	0.00	3804.56
4 to 5 years	0.00	0.00	3134.18	0.29	0.00	3134.48
5 to 7 years	0.00	0.00	2533.48	0.00	0.00	2533.48
7 to 10 years	0.00	0.00	2261.31	0.00	0.00	2261.31
Over 10 years	0.00	0.00	2090.62	0.00	0.00	2090.62
Total	**10753.26**	**18195.04**	**20378.44**	**829.05**	**4396.87**	**54552.66**

E) BY MAJOR INDUSTRY OR COUNTERPARTY TYPE OF TBL:

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

(Amount in Million)

Industry	Impaired	Past due
Agriculture	13.60	24.90
Industry (Other than Working capital)	506.30	796.90
Working Capital	291.30	511.70
Export Financing	0.00	0.00
Import Financing	20.00	553.20
Transport & communication	24.80	32.70
Internal trade financing	202.90	371.20
Housing	243.60	324.20
Special Programme	0.00	0.00
Others	231.70	317.20
Inland & Foreign Bills	0.10	0.00
Total	**1,534.30**	**2,932.00**

• **_SPECIFIC AND GENERAL PROVISIONS:_**

(Amount in Million)

Sector	General Provision	Specific Provision
Consumer Financing	210.36	31.10
Small & Medium Enterprise Financing	27.77	16.37
Housing Finance	95.20	24.39
Loans to BHs/MBs/SDs against Shares etc.	14.32	0.00
Loans for Professionals to setup business	0.36	0.33
Other Corporate Credit	385.41	267.18
Agricultural Credit	2.82	0.02
Total	**736.23**	**339.39**

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

(Amount in Million)

Against Classified Loans & Advances	
Provision held on 1 January	304.75
Fully provided debts written off	
Recoveries from previously written off debts	
Provisions made during the year	34.64
Net Charge to the Profit Loss Account	34.64
Provision held at end of year	339.39

Against Unclassified Loans & Advances	
Provision held on 1 January	575.32
Provisions made during the year	139.94
Provision held at end of year	715.26
Against Special Mention Accounts	
Provision held on 1 January	28.83
Provisions made during the year	(7.85)
Provision held at end of year	20.98

General Provision for Off Balance Sheet Exposures	
Provision held on 1 January	174.00
Provisions made during the year	19.26
Provision held at end of year	193.26

F) Gross Non Performing Assets (NPAs) (including SMA) of TBL:

(Amount in Million)

Gross Non Performing Assets (NPAs)	**2,010.86**
Non Performing Assets (NPAs) to outstanding loans & advances	3.96%
Movement of Non Performing Assets for NPAs	
Opening balance	1,606.55
Additions	1,313.26
Reductions	(908.95)
Closing Balance	2,010.86
Movements of specific provisions for NPAs	
Opening balance	304.75
Provision made during the period	34.64
Write-off	0.00
Write back of excess provisions	0.00
Closing Balance	339.39

E) Equities: Disclosures for Banking Book Positions:

Qualitative Disclosure:

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**
  - Not applicable.

- **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.**
  - Quoted shares are valued at average cost or market price, whichever is lower. Unquoted shares are valued at average cost price or book value as per latest audited accounts.

Quantitative Disclosure:

- **Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.**

Value of Investments in Balance Sheet	
Shares in Listed Companies (valuation at average cost price)	Tk. 1005.95 million
Fair Market Value of shares in Listed Securities	Tk. 924.46 million

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

  Tk.14.51 million

- **Total unrealized gains (losses)**
  Tk.81.49 million

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

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

- **Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.**
  -Not applicable.

F) Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures:

a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.

Interest rate risk is the risk where changes in the market interest rates might affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as also the net-worth of the Bank (economic value perspective). The vulnerability of an institution towards the adverse movements of the interest rate can be gauged by using Duration GAP under stress testing analysis.

Trust Bank has also been exercising the Stress Testing using the Duration GAP for measuring the Interest Rate Risk on its on-balance sheet exposure for estimating the impact of the net change in the market value of equity on the Capital Adequacy Ratio (CAR) due to change in interest rates only on its on-balance sheet positions (as the bank holds no interest bearing off -balance sheet positions and/or derivatives) under the assumption of three different interest rate changes i.e. 1%, 2%, and 3%.

Quantitative Disclosures:

b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method of measuring IRRBB, broken down by currency.

On Solo Basis: (Amount in Million)

Interest Risk-Increase in Interest Rate: (Magnitude of Shock)	Situation-1 1%	Situation-2 2%	Situation-3 3%
Regulatory Capital (After shock)	7589.70	7068.00	6546.40
RWA (After shock)	70518.00	70518.00	70518.00
CAR (After shock)	10.76%	10.02%	9.28%
Total Assets	76215.00	76215.00	76215.00
Duration Gap in years	0.77	0.77	0.77
Changes in Market value of Equity due to an increase in interest Rate, ∆ MVE	(521.64)	(1043.28)	(1564.92)

G) Market Risk:

Qualitative Disclosures:

VIEWS OF BOD ON TRADING/INVESTMENT ACTIVITIES

The Board of Directors approves all policies related to the market risk components, reviews transaction reports and set limits on regular basis to check key performance indicators of trading and investment activities of the bank.

METHODS USED TO MEASURE MARKET RISK:

Trust Bank Limited follows measurement of Market Risk through the Standardized Approach as prescribed in the RBCA guidelines.

The interest rate risk is measured through calculation of “specific risk” and “general market risk”. Specific risk is applicable for each interest sensitive instruments/security whether it is a short or a long position, and general market risk is applicable for the interest rate risk in the portfolio where long and short positions in different securities or instruments are offset.

Equity Risk is measured through applying the minimum capital adequacy ratio to the current market value in bank’s trading book for both specific risk and the general market risk. This is applied to all instruments that exhibit market behavior similar to equities except non-convertible preference shares.

Foreign Exchange Risk is measured through applying the rate of the required minimum capital adequacy ratio of bank’s overall foreign exchange exposure including gold. The calculation of foreign exchange exposure is done on consolidated basis including subsidiaries.

As the ***Commodities Market*** is non-existent in Bangladesh and with no exposure of TBL, Commodity Risk is not applicable.

MARKET RISK MANAGEMENT SYSTEM:

Under Market Risk Management, Liquidity Risk, Interest Rate Risk, and Foreign Exchange Risk are monitored.

Liquidity Risk:

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

KEY REQUIREMENTS OF A LIQUIDITY RISK MANAGEMENT POLICY:

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

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

MEASUREMENT OF LIQUIDITY POSITION:

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

(a) Indicators

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

(b) Maturity Mismatch Analysis

(c) Cash Flow Projections
(d) Stock of Liquid Assets

Interest Rate Risk:

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

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

KEY REQUIREMENTS OF AN INTEREST RATE RISK MANAGEMENT POLICY:

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

(b) Adequate systems and standards for measuring risk;

(c) Standards for valuing positions and measuring performance;

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

(e) Effective internal controls.

MEASUREMENT OF INTEREST RATE RISK POSITION:

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

Foreign Exchange Risk

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

All assets and liabilities denominated in foreign exchange are exposed to foreign exchange risk. An appreciation or depreciation in the exchange rate will lead to a change in value of all assets and liabilities that are denominated in foreign currency. An appreciation in domestic currency will decrease the value of assets and liabilities, while depreciation in the domestic currency will enhance the value of assets and liabilities.

TBL Exchange Rate Committee meets on a daily basis to review the prevailing market condition, exchange rate, exposure and transactions to mitigate foreign exchange risk.

KEY REQUIREMENTS OF FOREIGN EXCHANGE RISK MANAGEMENT POLICY:

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

(b) Explicit and prudent limits on the institutions' exposure to foreign exchange risk;
(c) Clearly defined levels of delegation of trading authorities.

MEASUREMENT OF FOREIGN EXCHANGE RISK POSITION:

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

Policies and processes for mitigating market risk:

To minimize the risk, TBL has maintained sound portfolio management procedure to minimize risk through diversification of assets. On the other hand there are approved limit for credit deposit ratio, maturity mismatch, liquid assets to total assets ratio, Commitments for on-balance sheet items and off- balance sheet items and borrowing from money market and foreign exchange position. The ALCO committee of the bank meets on a regular basis to analysis the current market position, exchange rate, foreign exchange position to mitigate foreign exchange risks.

Quantitative Disclosures:

The Capital requirements for specified risk are as follows:

(Amount in Million)

SL	Market Risk	Total Capital Charge
A	Interest Rate Related instruments	188.47
B	Equities	186.94
C	Foreign Exchange Position	13.20
D	Commodities	
	Total	**388.61**

h) Operational Risk:

Qualitative Disclosures

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes strategic and reputation risks. Operational risks in the Bank are managed through a comprehensive internal control framework. The control framework is designed based on categorization of all functions into front-office, comprising business groups; mid-office, comprising credit and treasury mid-offices; back-office, comprising operations; and corporate and support functions.

Our Board of Directors has established the strategic risk philosophy & developed the risk policies, procedures and methodologies for measuring and monitoring operational risks.

The Board of Directors, through establishment of Audit committee, is fulfilling its responsibilities including implementation of the policies and procedures to identify, measure, monitor and control these risks. Audit committee of the Board oversees the activities of Internal Control & Compliance Division (ICCD) to protect against all operational risk.

The Board of Directors has put in place a comprehensive internal audit framework for Operational Risk Management. Each year Internal Audit Department of IC&C Division of Head Office sets out an audit plan which is approved by the Managing Director and submitted to the Audit Committee of the Board.

A separate meeting of the Board of Directors is arranged every year for review and assessing the compliance level of the Bank on the comprehensive inspection report of Bangladesh Bank, where the representatives of Bangladesh Bank also remain present.

BESIDES, ON BEHALF OF THE BOARD THE AUDIT COMMITTEE-

- ► Reviews the efficiency & effectiveness of Internal Control and Internal audit function of the bank.
- ► Reviews the findings & recommendations made by Internal Audits for removing the irregularities detected in course of conducting audit in the branch & division/department of Head office.
- ► Reviews the corrective measures taken by the management as regards fraud, forgery & deficiency detected by internal & external auditors.

Performance gap of executives and staffs

TBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. TBL strong brand image plays an important role in employee motivation. As a result, there is no significant performance gap.

Potential external events

TBL has identified some potential external events as enumerated below:

- Losses due to acts intended to defraud, misappropriate property or circumvent the law, by a third party.
- Work Place Safety
- Clients, Products and Business Practices
- Losses arising from loss or damage to physical assets from unexpected events (e.g. natural disasters)
- Business Disruption and System failures.
- Deteriorated social or political context.
- Execution, Delivery and Process Management.

Policies and processes for mitigating operational risk:

Operational risk is managed or mitigated through the establishment of effective infrastructure and controls. Key elements of infrastructure include establishment of controls through documents policies and guidelines.

Internal Control & Compliance Division has been established to look into the operational issues of the bank. The Division has the responsibility of implementing the processes to regularly monitor operational risk profiles and material exposures to losses, and ensure regular reporting of pertinent information to senior management and the Board of Directors, who review proactive management of operational risk with utmost importance.

IC&C Division ensures the following objectives considering the Operational Risk:

- Performance Objectives: To accelerate competence and effectiveness of involvement.
- Information Objectives: To ensure dependability, efficiency and time worthiness of financial and management information.
- Compliance objectives: To adhere to regulatory framework including applicable laws and regulations.

The bank has also formed Risk Management Unit (RMU), which prepares Risk Management Papers. The unit holds monthly meeting to review the risks in operational matters and take appropriate measures to mitigate the risks. The Minutes of RMU meeting along with risk management papers is submitted to Bangladesh Bank quarterly.

Approach for calculating capital charge for operational risk

Basic Indicator Approach was used for calculating capital charge for operational risk as of the reporting date. The average of the gross income, as defined in the Guidelines on Risk Based Capital Adequacy- Revised Regulatory Framework in line with Basel II, for the previous three years i.e. 2009, 2010 and 2011 is considered for computing the capital charge.

Quantitative Disclosures

The capital requirements for operational risk =Tk. 511.29 Million