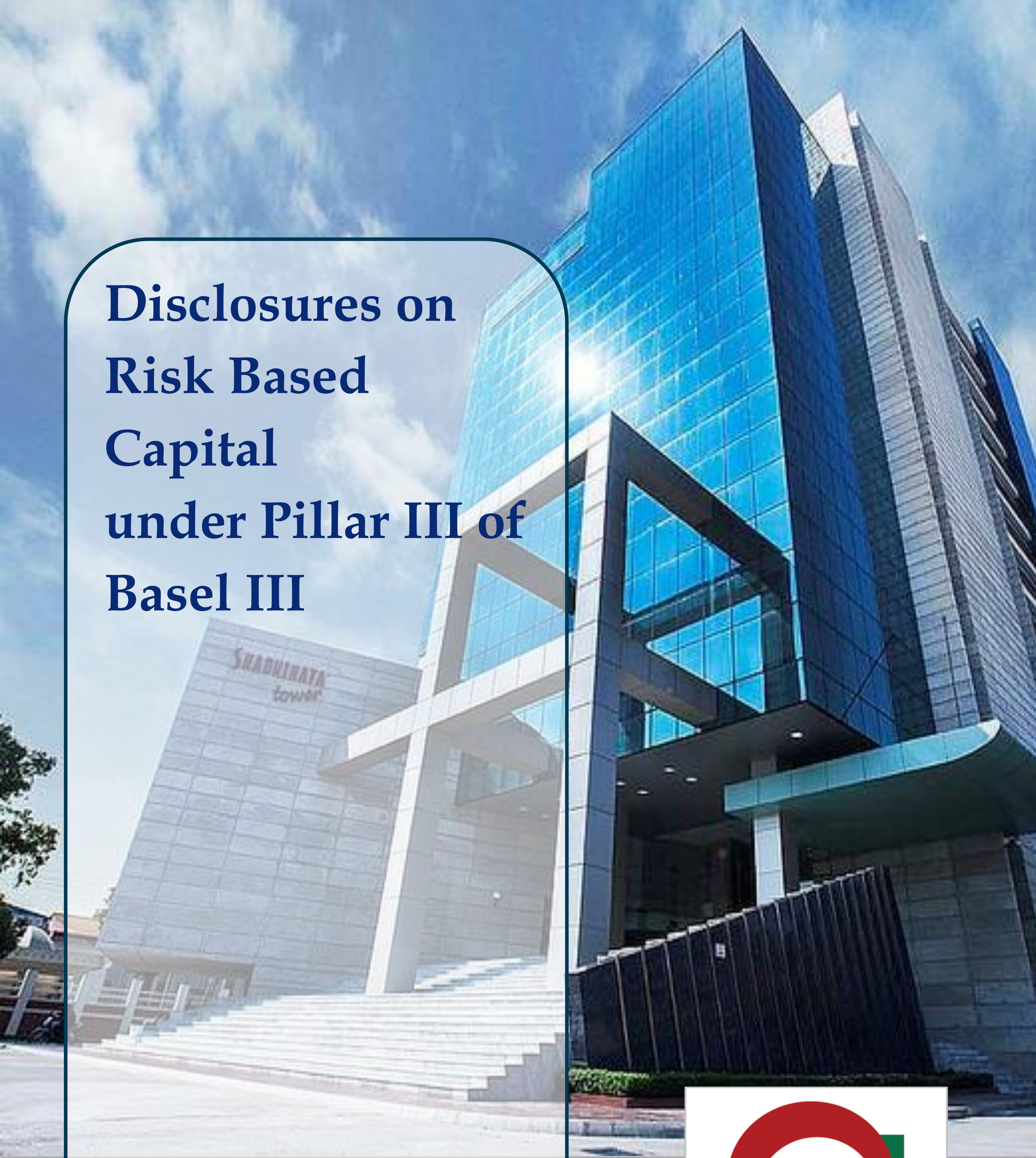
Disclosures on Risk Based Capital under Pillar III of Basel III



Trust Bank Limited

December 2023

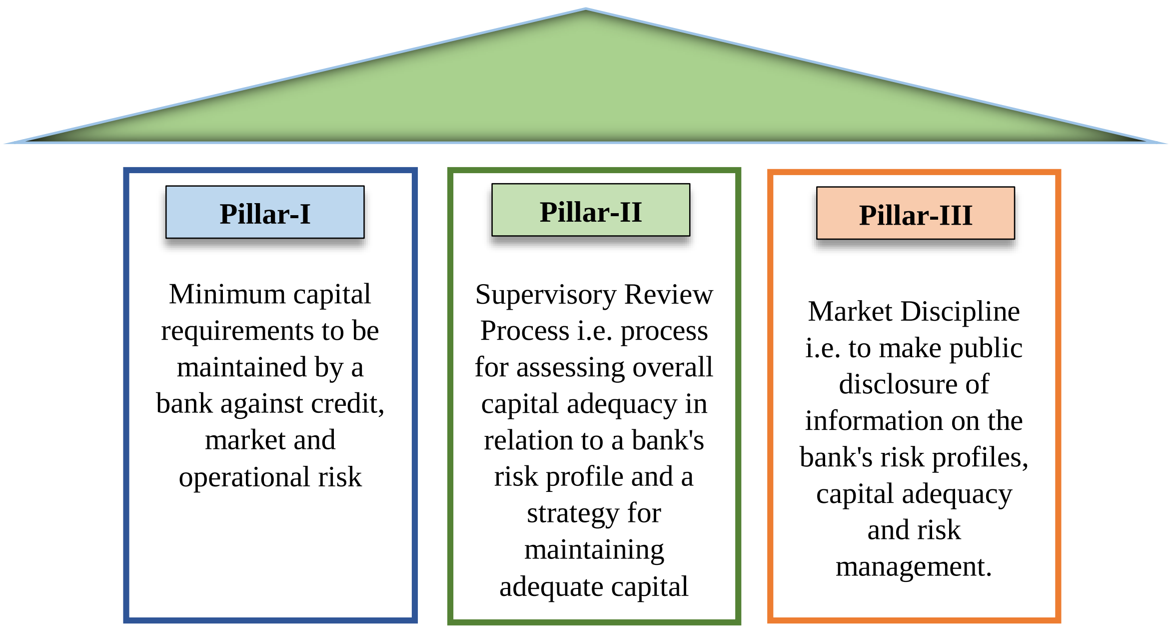
Trust Bank

A Bank for Financial Inclusion

Disclosures on Risk Based Capital under Pillar – III of Basel III

Basel III was introduced by Basel Committee on Banking Supervision (BCBS) to strengthen the stability of the banking system. By applying stringent capital and liquidity standards, it intended to improve the banking sector's shock absorption capacity arising from financial and economic stress and reduce the risk of contagion from the financial sector to the real economy. The Disclosure on Risk Based Capital under Basel III aims to establish a transparent and disciplined financial market so that stakeholders can assess the position of the bank regarding holding of assets and to identify the risks relating to the assets and capital adequacy of the Bank.

The Basel III framework consists of three-mutually reinforcing pillars:



Trust Bank Limited (TBL) has implemented Basel III framework as part of its capital management strategy in line with the BRPD circular no.18 'Guidelines on Risk Based Capital Adequacy' dated December 21, 2014. Market discipline disclosures under Basel III are made following the same guideline in order to complement the minimum capital requirement and the supervisory review process. This disclosure is a rigorous effort of the bank in establishing a transparent and well-structured financial market by providing accurate and timely information related to liquidity, solvency, performance and risk profile of the bank. The new capital and liquidity standards have greater business implications for banks.

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 three subsidiaries of the Bank as on the reporting date i.e. 31 December, 2023. 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 3 (Three) subsidiaries i.e.

- Trust Bank Investment Limited
- Trust Bank Securities Limited
- Trust Axiata Digital 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) on 17th June 1999 under the Companies Act, 1994 for carrying out all kinds of banking activities and commenced its operation on 17th June, 1999 with the permission of Bangladesh Bank. It is listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited.

As on 31st December 2023, the Bank is operating its business through Head Office having 114 branches, 8 Sub-branches, 1 SME Service Center, 12 Collection Booth, and 264 ATMs 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 31st December, 2023 located at Head Office. Investments in OBUs are risk-weighted with the exposure of the Bank.

- **Trust Bank Investment Limited:**

Trust Bank Investment Limited (TBIL) is a fully owned subsidiary of Trust Bank Limited and incorporated with the Registrar of Joint Stock Companies & Firms, Bangladesh as a public limited company on September 09, 2010 under the Companies Act, 1994. TBIL obtained merchant bank license from the Bangladesh Security and Exchange Commission on October 25, 2010 and is authorized to undertake Portfolio Management, Underwriting, Issue Management and Corporate counseling

TBIL started its operation on 14th November 2010 by taking over the Asset and Liabilities of the Merchant Banking Division of the Bank, except the Own Investment Portfolio of TBL, to comply with the instructions of Bangladesh Bank.

❑ **Trust Bank Securities Limited:**

Trust Bank Securities Limited (TBSL) was incorporated on 7th February, 2013 as a Private Limited Company bearing registration No: C-107267/13 under the companies Act, 1994. The registered office of TBSL is located at level-01, Shadhinata Tower, Bir Srestha Shaheed Jahangir Gate, Dhaka Cantonment, Dhaka-1206.

The main objective of the company is to carry out 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.

❑ **Trust Axiata Digital Limited:**

Trust Axiata Digital Limited (TADL) is a joint venture of Trust Bank Limited and Axiata Digital Services Sdn Bhd (ADS). It is formed to carry out the business of Mobile Financial Services (MFS) operations and Payment Service Provider (PSP) operations as defined in Bangladesh Mobile Financial Services (MFS) Regulations, 2018 and Bangladesh Payment and Settlement Systems Regulations, 2014, including any amendments thereof and/or any other applicable laws, rules and regulations.

With the underlying objective of ensuring a wide range of MFS for banked and unbanked population of Bangladesh, TADL has executed the launch of its MFS product on 30th December 2020 with the brand name "**tap**". TADL offers the most convenient, flexible, secured and affordable services and its purpose is to gain financial inclusion of a wide range of people from all level of income.

(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:

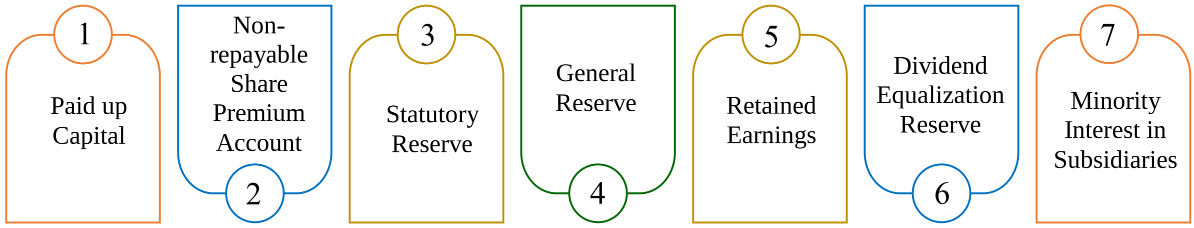
(a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 or in Tier 2.

For the purpose of calculating capital under capital adequacy framework, the capital of banks has been classified into two tiers. The total regulatory capital consists of sum of the following categories:

I. Tier 1 Capital (going-concern capital): This form of capital can absorb losses without triggering bankruptcy of the bank. Hence, it is the core measure of a bank's financial strength from regulator's point of view.

The components of Tier-1 capital are:

a) Common Equity Tier 1 Capital
It comprises of highest quality of capital elements.



Less: Regulatory adjustments applicable on CET1

b) 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

II. Tier-2 Capital: It is called 'gone-concern capital' and represents elements which fall short of some of the characteristics of the core capital.

Capital Requirement as per RBCA Guidelines of Bangladesh Bank for the year 2023:

Capital Requirement as per RBCA Guidelines	Status of Compliance
Common Equity Tier 1 of at least 4.5% of the total RWA	Complied
Tier-1 capital will be at least 6.0% of the total RWA	Complied
Minimum CRAR of 10% of the total RWA	Complied
Additional Tier I capital can be admitted maximum up to the Sum of 1.5% of the total RWA and 33.33% of excess CET 1*	Complied
Tier 2 capital can be admitted maximum up to the sum of 4.0% of the total RWA and 88.89% of Excess CET1*	Complied
In addition to minimum CRAR, Capital Conservation Buffer of 2.50% of the total RWA is being introduced which is maintained in the form of CET1	Complied

**As Per Paragraph 3.2, footnote 9 of RBCA Guidelines, BRPD circular-18, dated December 21, 2014*

Quantitative Disclosures:

(b) The amount of Regulatory capital of Trust Bank Limited under Basel-III as on 31.12.2023 is as below:

BDT in Million

Particulars	Solo	Consolidated
A. Tier-1 Capital (Going-Concern Capital)		
1. Common Equity Tier-1		
Fully Paid-up Capital	8,562.27	8,562.27
Statutory Reserve	9,779.75	9,779.75
Retained Earnings	4,419.39	4,629.56
Minority interest in Subsidiaries	-	211.96
Sub-total	**22,761.41**	**23,183.54**
Less, Regulatory Adjustments		
Goodwill and all other Intangible Assets	25.92	25.92
Deferred Tax Assets (DTA)	104.02	358.54
Total Common Equity Tier-1 Capital	**22,631.47**	**22,799.09**
2. Additional Tier-1 Capital	4,000.00	4,000.00
Total Tier-1 Capital (1+2)	**26,631.47**	**26,799.09**
B. Tier-2 Capital (Gone-Concern Capital)		
General Provision	4,835.67	4,835.67
Subordinated debt	7,300.00	7,300.00
3. Total Available Tier -2 Capital	12,135.67	12,135.67
4. Total Admissible Tier-2 Capital	**12,135.67**	**12,135.67**
Total Regulatory Capital (A+B)	**38,767.14**	**38,934.76**

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 has implemented The Standardized Approach (TSA) to calculate the RWA for Credit Risk and capital charge for Market Risk while Basic Indicator Approach (BIA) is adopted to calculate the capital charge for Operational Risk. The Bank has been successfully maintaining Capital to Risk Weighted Assets Ratio (CRAR) above the regulatory requirements. Besides meeting regulatory capital requirement, the Bank maintains adequate capital to absorb material risks foreseen. Therefore, the Bank's CRAR consistently remained above the regulatory limit during 2023 (Solo 13.75% & Consolidated 13.59%).

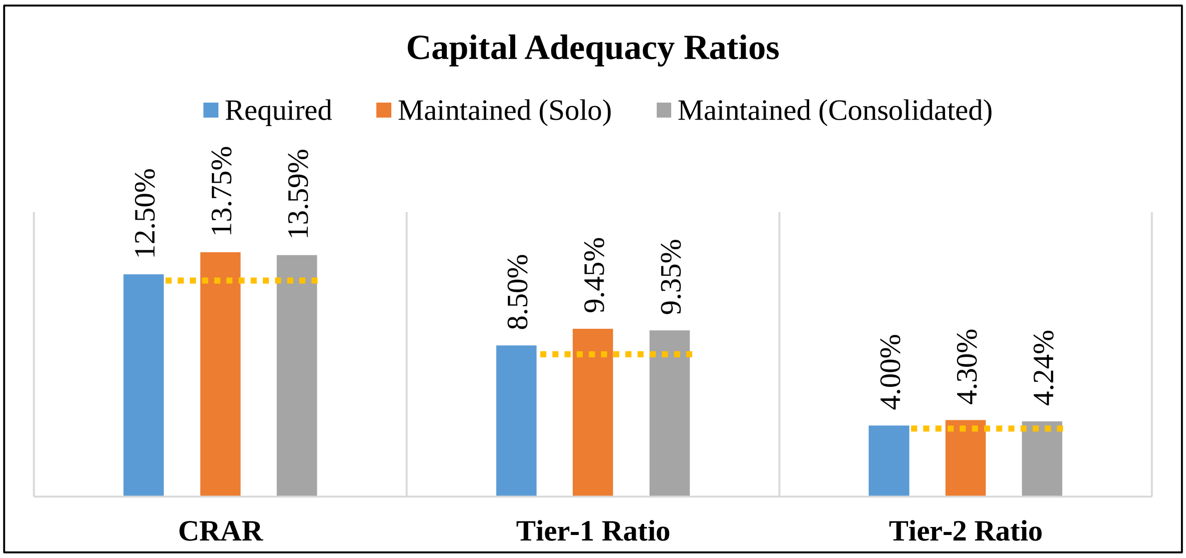
The Bank has a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP) as stipulated by Bangladesh Bank. The ICAAP also details the Risk Appetite of the Bank, assessment of material risks, the process for capital adequacy assessment to support business projections, adequacy of risk control framework, capital raising plans and Bank-wide stress testing.

The bank meticulously assesses capital requirements periodically considering future business growth to safeguard capital for supporting future activities. Risk Management Division (RMD) under guidance of the SRP team/ ERMC (Executive Risk Management Committee), is taking active measures to identify, quantify, manage and monitor all risks to which the Bank is exposed to. 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.

Quantitative Disclosures:

BDT in Million

Particulars	Solo	Consolidated
b) Capital requirement for Credit Risk	25,288.65	25,136.32
c) Capital requirement for Market Risk	263.72	801.94
d) Capital requirement for Operational Risk	2,640.82	2,716.06
Total Capital Requirement (b+c+d)	**28,193.19**	**28,654.32**
Total Risk Weighted Asset (RWA)	**281,931.94**	**286,543.22**
Minimum Capital Requirement (MCR) @ 10% of RWA	28,193.19	28,654.32
MCR (10%) plus CCB (2.50%) @12.50%	35,241.49	35,817.90
Total Capital Maintained	**38,767.14**	**38,934.76**
e) (i) Capital to Risk weighted Asset Ratio (CRAR)	**13.75%**	**13.59%**
(ii) Common Equity Tier 1 (CET 1) Ratio	8.03%	7.96%
(iii) Tier 1 Capital Adequacy Ratio	9.45%	9.35%
(iv) Tier 2 Capital Adequacy Ratio	4.30%	4.24%
Requirement for Capital Conservation Buffer (CCB)	2.50%	2.50%
f) Capital Conservation Buffer (CCB) Maintained	3.45%	3.35%
g) Available Capital under Pillar 2 Requirement*	3,525.65	3,116.86
**Total Capital Maintained less MCR with Capital Conservation Buffer (CCB)*		



4. Credit Risk

Qualitative Disclosures:

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

Credit risk is the potential for loss due to failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit risk also arises with deterioration of borrower's credit rating. Effective credit risk management is a vital component of a comprehensive risk management strategy and is critical to any bank's long term sustainability. The likelihood of the borrower defaulting and financial impact on the Bank in the case of failure are both considered when assessing credit risk.

- ✓ Active monitoring of account level activity and limit utilization trends help to inform the early alert and risk trigger mechanisms. Potential problem accounts are investigated, monitored and appropriate action is taken.
- ✓ The bank rigorously emphasizes and takes all-out efforts to maintain the credit rating percentage and to increase the rated number of Corporate and SME borrowers. Throughout the year 2023, TBL has maintained over 90 percent credit rating for both on-balance sheet & off-balance sheet exposure against total eligible clients for rating.
- ✓ Standing Committees dedicated to account and portfolio monitoring supported by portfolio information reports are a well-established discipline. The portfolio is monitored from the point of view of industry concentrations, risk grade distribution and tenor and security profiles amongst other parameters.

(i) Definitions of past due and impaired: All the loans and advances are grouped into four categories for the purpose of classification, which are; (i) Continuous Loan (ii) Demand Loan (iii) Fixed Term Loan and (iv) Short-term Agricultural and Micro-Credit.

- Any 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.
- Any 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 from the following day of the expiry date.
- 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 after six month's of the expiry date.
- The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date.

Continuous, Demand Loans & Term Loans (other than CMSME) are classified as:

i. Sub-standard - if past due for 3 months or more, but less than 9 months;
ii. Doubtful - if past due for 9 months or more, but less than 12 months;
iii. Bad/Loss - if past due for 12 months or more.

Continuous, Demand Loans & Term Loans are classified as (CMSME):

i. Sub-standard - if past due for 6 months or more, but less than 18 months;
ii. Doubtful - if past due for 18 months or more, but less than 30 months;
iii. Bad/Loss - if past due for 30 months or more.

Short-term Agricultural are classified as:

i. Sub-standard - if the irregular status continues after a period of 12 (twelve) months;
ii. Doubtful - if the irregular status continues after a period of 36 (thirty-six) months;
iii. Bad/Loss - if the irregular status continues after a period of 60 (sixty) months.

(ii) Description of approaches followed for specific and general allowances and statistical methods:
General Provision requirement for Unclassified Loans and advances:

Type of Loan	Rate of Provision	
	Standard	SMA*
Small & Medium Enterprise Financing (SMEF)	0.25%	0.25%
Consumer Financing (Other than HF & LP)	2%	2%
Consumer Financing (House Financing HF)	1%	1%
Consumer Financing (Loans for Professional to setup business)	2%	2%
Loans to BHs/ MBs/ Sds against Shares etc.	2%	2%
All Other Credit	1%	1%
Short Term Agricultural Credit & Micro Credit	1%	1%

**SMA=Special Mentioned Account*

Specific Provision Requirement for Classified Loans and Advances

Classification Status	Type of Loan	Rate of Provision
Substandard	Short Term Agri Credit & Micro Credit (STAC & MC)	5%
	Cottage, Micro & Small Credit (CMS)	5%
	Other than Short Term Agri Credit & Micro Credit and CMS	20%
Doubtful	Short Term Agri Credit & Micro Credit (STAC & MC)	5%
	Cottage, Micro & Small Credit (CMS)	20%
	Other than Short Term Agri Credit & Micro Credit and CMS	50%
Bad/Loss	All types of credit facilities	100%

(iii) Discussion of the Bank's Credit Risk Management Policy:
Credit risk management is a robust process that enables banks to proactively manage loan portfolio in order to minimize losses and earn an acceptable level of return for Shareholders. The credit risk management policy of the bank aims at a sustainable 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 to increase 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.

The Bank has developed careful, well-organized and systematic strategies to manage its credit risk which include the following:

- ⇒ Creating credit risk awareness culture
- ⇒ Approved Credit Policy by the Board of Directors
- ⇒ Separate Credit Risk Management Division
- ⇒ Separate Credit Administration Division

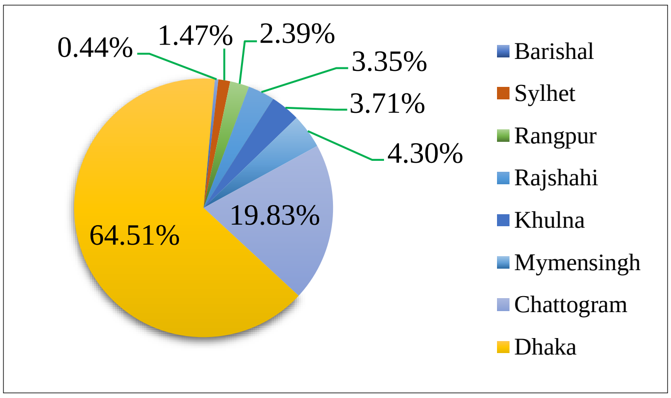
- ⇒ Segregation of Duties and Responsibilities
- ⇒ Formation of Recovery & Monitoring Division
- ⇒ Independent internal audit and direct access to Board/Audit committee
- ⇒ Credit quality and portfolio diversification
- ⇒ Early warning system
- ⇒ Provision and suspension of interest
- ⇒ Scientific lending and credit approval process
- ⇒ Counterparty credit rating
- ⇒ Strong NPL management system
- ⇒ Environmental and Social Risk Grading

(b) Total Gross Credit Risk Exposure Broken down by Major Types of Credit Exposure:

Particulars	**BDT in Million**
Continuous loan (CL-2)	
Consumer Finance	2,467.00
Small & Medium Enterprise (SME)	12,837.54
Loans to BHs/MBs/SDs against Shares	2,645.61
Other Corporate Loans	42,560.56
Sub-total	**60,510.71**
Demand loan (CL-3)	
Small & Medium Enterprise	12,976.61
Consumer Finance	11.68
Corporate Loans	76,967.35
Sub-total	**89,955.33**
Term loan (CL-4)	
Consumer Finance (including staff, other than HF)	4,849.22
Housing Finance (HF)	5,650.64
Small & Medium Enterprise (SME)	12,572.64
Loans to BHs/MBs/SDs against Shares	1,478.81
Loans for Professionals to setup business(LP)	-
Corporate Loans	145,322.55
Sub-total	**169,873.86**
Short term Agri-credit and microcredit (CL-5)	
Short term Agri-credit	641.44
Total	641.44
Staff loan	1,820.84
Offshore Banking	9,901.40
Total Exposure of Trust Bank Limited	**332,703.58**

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

Division	BDT in Million
Dhaka	214,618.43
Chattogram	65,977.30
Mymensingh	14,314.16
Khulna	12,329.71
Rajshahi	11,137.94
Rangpur	7,963.29
Sylhet	4,888.24
Barishal	1,474.52
Total	**332,703.58**

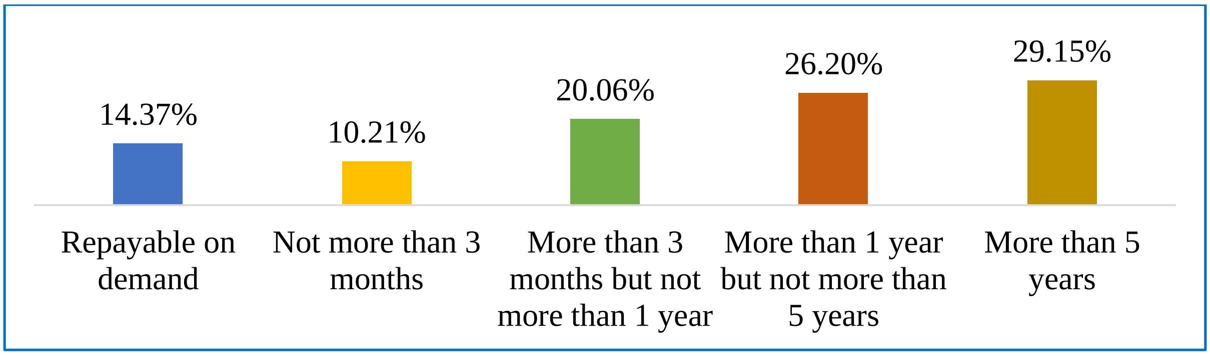


(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure of TBL:

Industry Type	BDT in Million
Agriculture, Fishing, and Forestry	5,742.82
RMG	25,660.39
Textile	25,651.28
Food and allied industries	27,822.94
Pharmaceutical industries	5,035.10
Chemical, fertilizer, etc.	9,907.28
Cement and ceramic industries	7,451.61
Ship building industries	2,684.23
Ship breaking industries	142.95
Power and gas	21,744.93
Other manufacturing or extractive industries	45,755.87
Service Industries	26,843.05
Other Industry	1,076.20
Trade & Commerce	24,013.78
Construction (commercial real estate, construction & land development loans)	38,935.88
Transport	4,106.28
Consumer Financing	41,389.97
Loans to Financial Institutions	13,949.37
Miscellaneous	2,968.81
Staff Loans	1,820.84
Total Exposure	**332,703.58**

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

Particulars	BDT in Million
Repayable on demand	47,819.66
Not more than 3 months	33,968.52
More than three months but not more than one year	66,749.34
More than one year but not more than five years	87,178.39
More than five years	96,987.67
Total	**332,703.58**



f) By major industry or counterparty type of TBL:

- **Amount of impaired loans and if available, past due loans, provided separately:**

BDT in Million

Industry	*Impaired	Past due
Small & Medium Enterprise Financing	2,866.10	7,231.80
Consumer Financing	168.45	227.85
Housing Finance	66.74	393.62
Loans for Professionals to setup business	-	-
Loans to BHs/MBs/SDs against Shares etc.	28.60	55.04
Other Corporate Credit	11,182.73	21,214.02
Short Term Agri Credit & Micro Credit	3.56	13.00
Staff Loan	-	-
Total	**14,316.18**	**29,135.33**

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

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

BDT in Million

Sector	General Provision	Specific Provision
Small & Medium Enterprise Financing	81.77	1,683.08
Consumer Financing	143.19	118.91
Housing Finance	51.87	97.85
Loans for Professionals to setup business	-	
Loans to BHs/MBs/SDs against Shares etc.	40.68	28.60
Other Corporate Credit	2,436.93	8,212.17
Short Term Agri Credit & Micro Credit	6.37	1.12

Sector	General Provision	Specific Provision
Against Off-Balance Sheet	1,489.50	-
TBL Total	4,250.31	10,141.73
Off-shore Banking Unit	99.01	-
"Special General Provision for COVID-19"	486.34	-
Grand Total	**4,835.66**	**10,141.73**

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

BDT in Million

Against Unclassified Loans & Advances	
Provision held on 1 January	3,165.65
Provisions made during the year	(453.04)
Provision held at end of year	2,712.61
Against Special Mention Accounts	
Provision held on 1 January	33.35
Provisions made during the year	14.85
Provision held at end of year	48.20
General Provision for Off Balance Sheet Exposures	
Provision held on 1 January	1,302.12
Provisions made during the year	187.38
Provision held at end of year	1,489.50

Provision for Off-shore Banking Units	
Provision held on 1 January	93.72
Provisions made during the year	5.29
Provision held at end of year	99.01

(g) Gross Non-Performing Assets (NPAs):

BDT in Million

Gross Non-Performing Assets (NPAs)	20,215.31
Non-Performing Assets (NPAs) to outstanding loans & advances	6.08%
Movement of Non-Performing Assets for NPAs	
Opening balance	14,212.22
Additions	18,200.48
Reductions	12,197.39
Closing Balance	**20,215.31**
Movements of specific provisions for NPAs	
Opening balance	12,823.53
Provision made during the period	4,571.43
Recovery from previously written off debts	52.57
Write-off	(7,902.16)
Write back of excess provisions	596.36
Closing Balance	**10,141.73**

5. Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to equity risk, including:

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

Equity risk is the risk that one's investments will depreciate because of stock market dynamics causing one to lose money. The capital charge for equities would apply on their current market value in bank's trading book. This capital charge for both specific risk and the general market risk will be at the rate of the required minimum capital adequacy ratio.

This is applied to all instruments that exhibit market behavior similar to equities. The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, for example: units of mutual funds and commitments to buy or sell equity.

Investment in equity securities by TBL is broadly categorized into two parts:
Quoted Securities: These instruments are quoted in active markets. These securities include common shares, mutual funds listed with Stock Exchanges. These instruments are categorized as trading book assets. Investments in trading book include securities holding for capital gains, dividend income and securities holding for strategic reasons. Unquoted Securities: Unquoted Securities have no active market for price quotation. These instruments are categorized as banking book assets. Once unquoted securities get listed in secondary market, they are reclassified as quoted and trading book assets.

(ii) Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.

The primary aim to investment in these equity securities is capital gain by selling them in future or held for dividend income. Dividends received from these equity securities are accounted for as and when received. Both Quoted and Un-Quoted equity securities are valued at cost and necessary provisions are maintained, if the prices fall below the cost price.

As per Bangladesh Bank guidelines, the HFT equity securities are revalued once in each week using marking to market concept and HTM equity securities are amortized once a year.

Quantitative Disclosures:

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

Solo

Particulars		**BDT in Million**
Investment in Quoted Share	Cost Price	224.26
	Market Price	189.31

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

(d) (i)	Total unrealized gains (losses)	(34.95)
(ii)	Total latent revaluation gains (losses)	Nil
(iii)	Any amounts of the above included in Tier 2 capital	Nil

(e) Required Capital Charge on Equities

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	18.93
	Specific Risk	18.93

6. Interest Rate Risk in the Banking Book

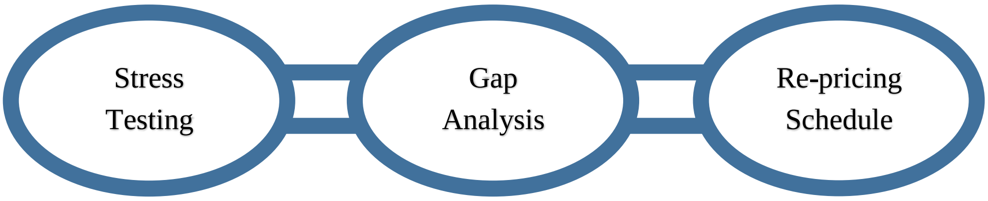
Qualitative Disclosure:

(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:

IRRBB refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value. Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately.

The responsibility of interest rate risk management rests with the bank's Assets Liability Management Committee (ALCO). The bank periodically computes the interest rate risks in the banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. Interest rate risk is assessed and managed by GAP analysis as well as Duration Gap Analysis under stress testing.

Interest rate risk in banking book is measured through the following approaches:



(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	BDT in Million
Market Value of Assets	444,300.10
Market Value of Liabilities	430,320.60

Particulars	Duration (in years)
Weighted Average of Duration of Assets (DA)	2.03
Weighted Average of Duration of Liabilities (DL)	1.04
Duration GAP	1.03

Changes in Market value of Equity due to an increase in interest rate as on December 31, 2023

BDT in Million

Duration GAP Analysis	Minor	Moderate	Major
	1%	2%	3%
Market value of equity	(4,214.54)	(8,429.07)	(12,643.61)
Regulatory capital (after shock)	34,552.60	30,338.10	26,123.50
RWA (after shock)	273,015.10	273,015.10	273,015.10
CRAR (after shock)	12.66%	11.11%	9.57%

7. Market Risk

Qualitative Disclosures:

Market risk is the risk to the Bank's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The primary categories of market risk for the bank are:

- *Interest Rate Risk:* Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition.
- *Equity Position Risk:* It is risk that results from adverse changes in the value of equity related portfolios.
- *Foreign Exchange Risk:* It is the risk that a bank may suffer losses as a result of adverse exchange rate movements in an individual foreign currency.
- *Commodity Risk:* Commodity price risk arises from changes in commodity prices and implied volatilities in commodity options.

(a) Views of Board of Directors (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. The Board regularly reviews trading and investment activities, and makes necessary advices and recommendations. Various internal limits have been set to monitor market risk and capital requirement is assessed as per standardized approach of Basel III.

(b) 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. For each risk category, minimum capital requirement is measured in terms of two separately calculated capital charges for 'specific risk' and 'general market risk'.

(c) Market Risk Management System:
The Asset Liability Management Policy of the Bank as approved by the Board ensures effective management of the Market Risk through a well-structured Treasury function which includes a Front Office, Mid Office and Back Office and an ALCO body. The aim of the Market Risk Management System is to minimize the impact of losses on earnings due to market fluctuations.

To ensure holistic market risk management systems, the Bank diligently adheres to the risk management guidelines for Banks, FX guidelines, and other Bangladesh Bank directives. The Treasury Division of TBL manages market risk covering liquidity, interest rate, and foreign exchange risks, with oversight from Asset Liability Management Committee (ALCO), which comprises of the Bank's senior management.

(d) Policies and Processes for mitigating market risk:
Market risk policies set various risk limits for effective management of Market Risk and ensure that the operations are in line with Bank's expectation of return to market risk through proper Asset Liability Management. Major methodologies employed to measure market risk are interest rate sensitivity gap analysis, duration gap analysis, FX VaR, and equity VaR computations.

Disciplined presentation and monitoring of these methods and control of loss from trading assets are ensured by putting in place Risk Appetite Statement, Management Action Triggers (MAT) and stop-loss limit. Notional limit and exposure limits are set for trading portfolios and foreign exchange open position. Foreign exchange risk is computed on the sum of net short positions or net long positions, whichever is higher, of the foreign currency positions held by the bank.

Quantitative Disclosures:
The Capital requirements for specified risk are as follows:

BDT in Million

Market Risk	Solo	Consolidated
Interest Rate Related instruments	21.67	21.67
Equities	37.86	576.08
Foreign Exchange Position	204.19	204.19
Commodities	-	-
Total	**263.72**	**801.94**

8. Operational Risk

Qualitative Disclosures:
Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

(a) Views of BOD on system to reduce Operational Risk:
The policy for measuring and managing operational risks is approved by the Board in line with the relevant guidelines of Bangladesh Bank. Audit Committee of the Board directly oversees the activities of Internal Control and Compliance Division to protect against all operational risks. As a part of continued surveillance, the management committee, Executive Risk Management Committee and Risk Management Division regularly review different aspects of operational risks and escalate the findings to appropriate authority while internal audit suggests formulating appropriate policies, tools & techniques for mitigation of operational risk of the bank.
The Board is relentlessly promoting an organizational culture prioritizing effective risk management and adherence to sound operating controls. The Board has approved a structured operational risk management framework to ensure operational risk exposures are managed within acceptable tolerance limits using dynamic tools and techniques following international best practices.

(b) Performance Gap of Executive and Staff:
Trust Bank recognizes the importance of having the right people at the right positions to achieve organizational goals. Our recruitment and selection is governed by the philosophy of fairness, transparency and diversity. Understanding what is working well and what requires further improvement is essential to our performance management system. The performance management process aims to clarify what is expected from employees as well as how it is to be achieved.
TBL has a policy to provide competitive package and best working environment to attract and retain the most talented people available in the industry. Bank's strong brand image plays an important role in employee motivation. Furthermore, step by step meticulous and user-friendly manuals, policies and processes addressing clear responsibilities and accountabilities towards individual's job mitigate performance gaps and enable users to operate more efficiently with least chances of failure.

(c) Potential external events:
Considering the increasing complexity of banking operation resulted from various trending macro-economic scenario and excessive competitive environment, it is unlikely to completely avoid potential external vulnerable events. Trust Bank remains vigilant and through effective risk management operation, the impact from potential external vulnerable events are quite minimum. The bank has developed different policies and processes to diversify risk, also train and aware the employees about business continuity Risk, information security risk, regulatory compliance risk, money laundering, cybercrime, vendor risk, emergency situation, fraud, forgery etc. which are contributing towards managing operational risk.

(d) Policies and processes for mitigating operational risk:
Operational risk is inherent in every business organization and covers a wide spectrum of issues. Risk management division consistently works for managing and mitigating operational

risk in conjunction with other business lines and support functions. Moreover, the Internal Control & Compliance Department (ICCD) conducts risk-based internal audits on the branches periodically.

In 2023 IC&C Division conducted the following No. of audit:

No. of Comprehensive Audit at Branches	114
No. of Comprehensive Audit at Head Office	33
No. of Spot audits	40 on IT risk
No. of Spot Inspection	60 Spot Inspection Report

Bank's risk governance structure, which includes the risk management committee at the board level; executive risk management committee at the senior management level, ensures inclusive risk management culture. The bank has board-approved risk management and internal control & compliance policies to ensure effective processes and adequate systems are in place for operational risk management.
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 Deputy Managing Director and their activities are devoted to protect against all money laundering and terrorist financing related activities.

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:
Trust Bank has adopted Basic Indicator Approach (BIA) to assess the capital charge for operational risk as of the reporting date. Accordingly, bank's operational risk capital charge has been assessed at 15% of positive annual average gross income over the previous three years as defined by the guideline of Risk Based Capital Adequacy (RBCA).

The capital charge for operational risk is enumerated by applying the following formula:
$K = [(GI\ 1 + GI\ 2 + GI\ 3)\ \alpha]/n$
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:

BDT in Million

Particulars	Solo	Consolidated
Minimum Capital Requirement for Operational Risk	**2,640.82**	**2,716.06**

9. Liquidity Ratio

Qualitative Disclosures:

Liquidity Risk is the risk of bank's inability to repay its obligations as they fall due or incurring excessive cost while mobilizing fund due to scarcity of cash fund at a certain period of time. The risk arises from mismatch in the expected level of cash flows from maturing assets and liabilities.

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:

The intensity and sophistication of liquidity risk management system depends on the nature, size and complexity of a bank's activities. Sound methods in measuring, monitoring and controlling liquidity risk is critical to sustainability of the bank. Therefore, The Board of Directors of the bank sets policy, different liquidity ratio limits, and risk appetite for liquidity risk management.

To ensure an appropriate liquidity risk management process, the Board of Directors delegates certain competences and responsibilities in connection with the Bank-wide liquidity risk strategy to the Risk and Treasury functions. Asset and Liability Management Committee is responsible for both statutory and prudential liquidity management.

(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 follows DOS circular no. 1, dated 1st January, 2015, on Implementation of Basel III liquidity ratio.

In the perspective of Bangladesh, identifying and monitoring the driving factors of liquidity risk is viewed from the following aspects:

i. Regulatory liquidity Indicators (RLIs):

01 Cash Reserve Ratio (CRR)
02 Statutory Liquidity Requirement (SLR)
03 Advance to Deposit Ratio (ADR)
04 Structural Liquidity Profile (SLP)
05 Maximum Cumulative Outflow (MCO)
06 Liquidity Coverage Ratio (LCR)
07 Net Stable Funding Ratio (NSFR)
08 Liquid Asset to Total Deposit Ratio
09 Liquid Asset to Short Term Liabilities
10 Undrawn Commitment Limit
11 Wholesale Borrowing

ii. Bank’s own liquidity monitoring tools:

(c) Liquidity Risk Management System:
Asset Liability Committee (ALCO) of the bank is responsible for managing liquidity risk which meets at least once in every month. Asset and Liability Management (ALM) desk closely monitors and controls liquidity requirements on a daily basis by proper coordination of funding activities. A monthly projection of fund flows is reviewed in ALCO meeting regularly. As per Bangladesh Bank guideline, management maintains sufficient CRR and SLR. Besides, Banks have to maintain LCR and NSFR at a minimum of 100%.

(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 and Net Stable Funding Ratio as on 31st December, 2023 are given below:

Particulars	BDT in Million
Stock of High quality liquid assets	73,334.52
Total net cash outflows over the next 30 calendar days	61,365.49
Liquidity Coverage Ratio (%)	**119.50%**

Particulars	BDT in Million
Available amount of stable funding	373,723.52
Required amount of stable funding	329,302.92
Net Stable Funding Ratio (%)	**113.49%**

10. Leverage Ratio

Qualitative Disclosures:

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

Basel III established the leverage ratio as a non-risk-sensitive measure to limit excessive growth of the balance sheet relative to available capital. It indicates banks financial position regarding its debt and capital or assets.

Trust Bank has embraced this ratio along with Basel III guideline as it acts as a credible supplementary measure to risk-based capital requirement and assesses the ratio periodically in order to properly address the issue.

The Board of Directors of TBL always puts special emphasis on the bank's capital strength and asset quality so that the core capital has the capacity to withstand the excessive shock arising out of leverage. For that matter the bank's BoD always remains cautious in maintaining sufficient level of core capital (Tier 1) and focused on growing On-and Off Balance Sheet Exposures at desired level.

The Board also believes that the Bank should maintain its leverage ratio on and above the regulatory requirements, which will eventually increase the public confidence in the organization.

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

TBL follows the approach mentioned in the Revised guideline of RBCA for calculating exposure of the bank. The exposure measure for the leverage ratio generally follows the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following are applied by the bank:

- On balance sheet exposures will be net of specific provisions
- Off-balance-sheet exposures weighted by the conversion factors of the standardized approach to credit risk

(c) Approach for calculating exposure:

The bank calculates the exposure under standardized approach as per Basel III guidelines. The capital measure for the leverage ratio is based on Tier 1 capital with relevant deductions of items, which do not contribute to leverage. The leverage ratio will generally follow the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following are applied by the bank:

- On balance sheet, non-derivative exposures will be net off of specific provisions & valuation adjustments (e.g. surplus/deficit on HFT positions)
- Items deducted from Tier 1 capital also applies here (e.g. DTA)
- Physical or financial collateral, guarantee or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposure
- Netting off of loans & deposits is not allowed
- OBS items are converted into credit exposure equivalents through credit conversion factors (CCFs). Depending on the risk category of the exposure a CCF of 20%, 50% or 100% is applied.

(d) Calculation of Leverage Ratio:
A minimum leverage ratio of 3.25% for the year 2023 is being prescribed both at solo and consolidated level.

Leverage Ratio = Tier 1 Capital (after related deductions)/ Total Exposure (after related deductions)

Quantitative Disclosures:

BDT in Million

Particulars	Solo	Consolidated
Tier-1 Capital	26,631.47	26,799.09
On balance sheet exposure	443,687.17	447,951.32
Off-balance sheet exposure	83,064.01	83,064.01
Regulatory Adjustments	129.94	384.46
Total exposure	526,621.24	530,630.87
Leverage Ratio (Required)	Minimum 3.25%	Minimum 3.25%
Leverage Ratio (Maintained)	5.06%	5.05%

11. Remuneration

Qualitative Disclosures	
(a)Information relating to the bodies that oversee remuneration	Remuneration Committee provides assistance to the Board of Directors to approve the policies regarding remuneration. The Committee consists of the following members as on Dec 31, 2023: • Mr. Ahsan Zaman Chowdhury, DMD & CBO • Mr. Md. Mahbubur Rahman, SEVP & Head of Operation Division • Brig Gen Munshi Mizanur Rahman, SEVP & Head of HRD • Mr. Mohammad Masud Shahjahan, EVP & Head of Treasury & NRB Division • Mr. Md. Mahfuzur Rahman, SAVP & CFO • Mr. Mohammad Shahadat Hossain, AVP, MD & CEO, TBIL • Mr. S.G.A. Alif-ul-Huq Akash, AVP, Manager, HR Planning and Resourcing, Compensation & Benefits HRD The committee is responsible for: • Any change in remuneration policy and structure by outlining the detailed procedure for exercising them

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Offering competitive remuneration packages for employees in each job grade commensurate with their job responsibilities
Providing basis on which performance based remuneration will be provided to the employee

The Bank has no permanent external consultant for managing remuneration, but expert opinion may be sought by the Management, in case to case basis, regarding taxation, legal 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 Forty Three (43) “Senior managers (SVP & above)”, at the end of the reporting period.
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<tr><td>(b) Information relating to the design and structure of remuneration process</td><td>
The objective of the Bank’s remuneration policy is-

To ensure fair reward management system for the employees in line with the 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

The structure of remuneration packages for employees of the Bank consists of following components:

Fixed Remuneration;
Variable Pay &
Employee Benefits

The fixed remuneration is made up of base remuneration including salary and other fixed allowances paid in cash. Fixed remuneration differs from grade to grade and generally changes with promotion/demotion to the higher/lower grades and increment.
Variable pay consists of incentive bonuses paid on the basis of the individual performance subject to annual profit of the Bank. Therefore, individual performance is measured and reviewed against set goals, which include financial and non-financial metrics.
Gratuity Fund, Provident Fund and Superannuation Funds are maintained by the Bank for employees as a future/long term benefit. Such remunerations differ based on the grade, basic pay and length of service of an employee. In addition, TBL has Employees’ Hospitalization Benefit Scheme to cover employees’ hospitalization expenses.
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	Moreover, the employees having job responsibilities involving risk factors are allowed risk allowances as prescribed in the policy. In addition, employees with 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 process	Banking sector of Bangladesh being very competitive, remuneration system is basically driven by market dynamics. Due to huge competition in a crowded market with substantial number of participants, restructuring of compensation package is more frequent than other industries. Trust Bank always strives to ensure internal equity and fair treatment in its remuneration system to be competitive in such industry. It takes into account the following key risks when managing and determining remuneration processes: • Financial Risks • Compliance Risks To make the compensation package fair, market survey is conducted from time to time when felt required so that • The package logically compensates employees for their expertise, time, mental and social engagement with the organization. • The package ensures internal & external equity Moreover, the bank manages key risks through its strategic and business unit plans, risk management framework, policies and procedures.
(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. Incentive Bonus is directly linked with the employees' individual rating during their performance evaluation process. These ratings are also key parameters for employees to be considered for promotion.
(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 remuneration considering the long-term performance of the employees (i.e. provident fund, gratuity, superannuation etc.). In case of following situation remuneration can be adjusted before vesting: • Disciplinary action (at the discretion of management) • Resignation of the employee prior to the payment date.

(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 includes: • Monthly Cash benefits (Manager's Charge Allowance, Cash Handling Allowance, Key Holding 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.
<u>Quantitative Disclosures</u>	
(g)Number of Meeting held by the Remuneration Committee during the financial year and remuneration paid to its member	The committee held 04 (Four) meetings during the financial year. No fees are paid to remuneration committee member or for attending such meeting.
(h)Number of employees having received a variable remuneration award during the financial year ***Number and total amount of guaranteed bonuses awarded during the financial year*** ***Number and total amount of sign-on award made during the financial year*** ***Number and total amount of severance payments made during the financial year***	**Incentive Bonuses:** 43 Senior Managers **Festival bonuses:** On an average 44 nos. of employees received 3 number of festival bonuses amounted BDT 1.56 Crore Nil Nil
(i) Total amount of outstanding deferred remuneration, split into cash, shares and share-lined instruments and other forms. ***Total amount of deferred remuneration paid out in the financial year***	Nil Nil
(j) Breakdown of amount of remuneration awards for the financial year to show	**Fixed Remuneration:** BDT 17.44 Crore **Variable Remuneration:** BDT 0.06 Crore **Incentive Bonus:** BDT 1.59 Crore 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. drawbacks 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**