

1. Disclosure Policy:

In accordance with Bangladesh Bank revised guidelines on risk based capital adequacy under Basel II to complement the capital adequacy requirements under Pillar III. Commercial Bank of Ceylon PLC ("the Bank") has approved policy to observe the disclosure requirements set out by the Bangladesh Bank (BB).

The major highlighted regulations of the Bangladesh Bank are:

- a. To comply with international best practices and make the Bank's Capital more risk-absorbent;
- b. To maintain minimum capital requirement by the Bank against credit, operational and market risks;
- c. To maintain capital adequacy ratio as per requirement of the Bangladesh Bank's;
- d. To adopt the approved credit rating agencies as external credit assessment institutions (ECAI);
- e. To adopt standardised approach for both credit and market risks and basic indicator approach for operational risk;
- f. To submit capital adequacy returns to Bangladesh Bank on a quarterly basis.

2. Scope of Applications

The risk based capital adequacy framework applies to Commercial Bank of Ceylon PLC, Bangladesh Operations, on " Solo Basis" as the Bank has no subsidiaries or significant investments rather operating in Bangladesh as a Branch of foreign bank, Commercial Bank of Ceylon PLC, incorporated in Sri Lanka.

3. Disclosures Framework

The disclosures requirements as per Bangladesh Bank Basel II Guidelines are enumerated below:

3.1 Capital Structure

Qualitative Disclosure

The Bank's total capital as of 31 December 2010 was Taka 3,294.97 million out of which Taka 3,038.88 million was under Tier-I and remaining Taka 256.08 million was under Tier-II. The main features of our Tier-I capital of Taka 3,038.88 million is Taka 2,103.04 million kept with Bangladesh Bank as per section 13 (4) of Banking Companies Act 1991 and the remaining 935.84 million is the retained earnings at 31 December 2010. The Bank's Tier-II capital is consists of general provision of Taka 211.15 million and remaining 44.93 million is 50% of revaluation gain on treasury bills/bonds as at 31 December 2010.

Quantitative Disclosure

Amounts in Taka

A) Amount of Tier-1 capital	
Fully paid-up capital/ capital deposited with BB	2,103,040,786
Non-repayable share premium account	-
Statutory reserve	-
General reserve	-
Retained earnings	935,840,083
Minority interest in subsidiaries	-
Non-cumulative irredeemable preferences shares	-
Dividend equalisation account	-
	3,038,880,869
B) Amount deducted from Tier-1 capital	
• Goodwill	-
• Shortfall	-
• Others	-
C) Net total of Tier-I Capital (A+B)	3,038,880,869
D) Total amount of Tier 2 capital, net of deductions from Tier 2 capital	256,087,917
E) Total eligible capital (C+D)	3,294,968,786

3.2 Capital Adequacy

Qualitative Disclosure of Capital Adequacy

The Bank has maintained regular reporting requirement of Bangladesh Bank regarding capital adequacy. The Bank is in the final stage of formulating an internal capital adequacy assessment process (ICAAP) documents in line with Bangladesh Bank BASEL-II guidelines. The Bank also ensure the capital level that are sufficient to cover all material risk of the Bank. The entire objective of the Bank's capital planning is to ensure that the Bank is adequately capitalised at all level throughout the year.

The Bank maintains a capital of Taka 3,294.97 million (core capital of Taka 3,038.88 million plus supplementary capital of Taka 256.09 million) as against total risk weighted assets of Taka 20,362.54 million. The Bank's Capital Adequacy Ratio (CAR) as at 31 December 2010 is 16.18% as against the minimum requirement of 9% as of 31 December 2010 as per BRPD circular no. 10 dated 10 March 2010. Tier-I capital was 14.92% of risk weighted assets (RWA) against minimum requirement of 5% of RWA. As a result, the Bank has a buffer Capital of Taka 1,462.27 million to mitigate the additional potential risk which might arose under Pillar-II of Basel-II.

Quantitative Disclosure of Capital Adequacy

	Amounts in Taka
A) Amount of regulatory capital to meet unforeseen losses	
Amount of capital required to meet credit risk	1,621,911,145
Amount of capital required to meet market risk	40,400,855
Amount of capital required to meet operational risk	170,316,165
	1,832,628,164
B) Actual capital maintained:	
Total tier I capital	3,038,880,869
Total tier II capital	256,087,917
Total tier III capital	-
	3,294,968,786
C) Some additional capital over MCR maintained by the Bank	1,462,265,390
% of capital adequacy required	
Tire I	4.50%
Total	9.00%
% of capital adequacy maintained	
Tire I	14.92%
Total	16.18%

3.3 Credit Risk

Qualitative Disclosures:

The general qualitative disclosure requirement with respect to credit risk includes the following:

Definition of past due and impaired (for accounting purposes)

According to the Bangladesh Bank's Guidelines on Risk Based Capital Adequacy, claims that are past due for 90 days or more are clubbed under this past due category. Apart from Basel II requirement bank is maintaining its past due loan in accordance with the BRPD circular no. 05 dated 5 June 2006 on loan classification and provisioning.

Description of approaches followed for specific allowances and statistical methods.

The Bank is following the standardised approach in line with Bangladesh Bank guidelines and no other statistical model is used apart from the supervisory procedures prescribed by the Bangladesh Bank in this regard.

Discussion of Bank's credit risk management policy

Credit risk is one of the most significant risks in terms of sustainability, regulatory and capital requirements, which Commercial Bank of Ceylon PLC, Bangladesh Operations is exposed to. Bank's policy is to develop a high quality and diversified credit portfolio comprises of corporate, SME and retail / personal customers in Bangladesh towards better credit risk management.

With a view to segregate credit risk from credit marketing, as also in line with Basel-II requirement, an independent Credit Risk Department is in existence in the bank since 1997. Credit risk management focuses on the quality of customer's individual loans as well as the overall loans and advances portfolio, examining and reporting the underlying trends, concentrations and ensuring a sustainable credit risk culture throughout its Bangladesh Operation.

Credit risk management system of the Bank also closely monitors the changes in economic and market conditions and guides business and functional management at all levels on their credit portfolio. It works towards maintaining a robust credit culture through prudent strategies, credit policies, procedures and management of credit portfolio.

Thus the scope of credit risk management and identification practices need to follow the procedures below:

To identify and manage credit risk, the Bank engages in procedures such as-

- i. Set up strategy for credit origination and relationship management
- ii. Credit risk management
- iii. Loan documentation and credit administration
- iv. Recovery and management of problem loans
- v. Portfolio management
- vi. Conveying credit status through reporting

The Bank uses internal lending guidelines and procedures to ensure that all lending officers understand the Bank's appetite for risk in servicing counter party requirements, and thus facilitates evaluation and approval of individual credit transactions. The Bank has standard methods of analyzing various risk aspects involved in extending credit, considering risk areas such as business risk, financial risk, management risk, security risk, etc besides continuously reviewing the exposures and concentrations of the customer, group, industry, geography and lending types. Outcome of these risk analyses is used to establish internal credit risk grading for each borrower.

Maintenance of Specific Provision

Commercial Bank of Ceylon PLC, Bangladesh Operations strictly complies with its internal credit procedure prepared in line with prevailing Bangladesh Bank's guidelines including BRPD circular no. 05 dated 05 June 2006 concerning management of non-performing loans, loan classification and provisioning.

In line with above guidelines, the Bank reviews the loans and advances throughout the year so as to assess them in order to maintain the provision required thereagainst at the end of the each quarter during the year.

Provisioning Rates

The specific provisioning rates on loans and advances is being maintained as guided by BRPD circular no. 05 dated 29 April 2008.

Base for Provision

Provision is to be made at the above rate on the net loan amount after deduction of the amount of interest suspense account and the deductible value of eligible securities from the outstanding balance of classified accounts in line with above guidelines.

Moreover, BRPD circular no. 5 dated 05 June 2006 also warrants further provisioning based on our qualitative judgments in case where any uncertainty or doubts arises in respect of recovery of any continuous loan, demand loan or fixed term loan, which will also compel the Bank to classify such loans on the basis of qualitative judgment. If the specific provisions assessed under the qualitative methodology are higher than the specific provisions assessed under the formulaic approach above, the higher of two is recognised in liabilities under "provisions for loans and advances" with any movement in the provision charged/ released having reflected in the profit and loss statement.

Commercial Bank of Ceylon PLC - Bangladesh Operations
Disclosures on Risk Based Capital Requirement under Pillar III of Basel II for the year
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Quantitative Disclosure

Amounts in Taka

Total Exposures of Credit Risk

A. Funded

- a) Domestic
- b) Overseas (Nostro Balances)

15,647,594,599
 552,031,142
16,199,625,741

B. Non-Funded

- a) Domestic
- b) Overseas

-
 4,190,619,199
4,190,619,199

C. Distribution of risk exposure by claims

- a) Cash and cash equivalents
- b) Claims on Bangladesh Government and Bangladesh
- c) Claims on other sovereigns and central banks*
- d) Claims on Bank for international settlements, International Monetary Fund and European Central Bank
- e) Claims on multilateral development banks (MDBs)
- f) Claims on public sector entities (other than Govt. of Bangladesh) in Bangladesh
- g) Claims on banks & NBFIs:
 - Maturity over 3 months
 - Maturity less than 3 months
- h) Claims on corporate (excluding equity exposure):
- i) Claims under credit risk mitigation
- j) Claims categorised as retail portfolio & small enterprise (excluding consumer finance)
- k) Consumer finance
- l) Claims fully secured by residential property
- m) Claims fully secured by commercial real estate
- n) Past due loans/NPL
- o) Investments in premises, plant and equipment and all other fixed assets
- p) Claims on fixed assets under operating lease
- q) All other assets
 - i) Claims on GoB & BB (advance income tax)
 - ii) Staff loan/Investments
 - iii) Other assets
- r) Off-balance sheet items:-
 - Claims on Banks:
 - Maturity over 3 months
 - Maturity less than 3 months
 - Claims on corporate
 - Retail portfolio and small enterprises

111,694,626
 2,248,259,303
 -
 -
 -
 -
 -
 934,214,403
 765,256,093
 9,031,073,487
 1,801,492,877
 75,936,233
 173,892,961
 9,775,022
 2,255,903
 8,146,287
 138,270,314
 406,275,709
 69,989,200
 423,093,325
 30,733,734
 14,153,955
 4,120,729,020
 25,002,490
20,390,244,940

D. Details of exposure under credit risk mitigation (CRM)

- Claims secured by financial collateral
- Net exposure after the application of haircuts
- Claims secured by eligible guarantee

1,801,492,877
 1,162,148,070
 1,388,528,187

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E. Industry Distribution of Exposures

Amounts in Taka

<u>Category</u>	<u>Bank and NBFIs</u>	<u>Manufacturing industries</u>	<u>Retail and Consumer finance</u>	<u>Others</u>	<u>Total</u>
<u>Balance Sheet Items</u>					
Claims on sovereigns and central banks	2,248,259,303	-	-	406,275,708	2,654,535,011
Claims on banks and NBFIs	1,987,065,688	-	-	-	1,987,065,688
Claims on corporate	-	10,363,640,815	-	-	10,363,640,815
Claims on retail portfolio and consumer finance	-	-	382,258,821	-	382,258,821
Fixed assets	-	-	-	138,270,314	138,270,314
Staff loan	-	-	-	69,989,200	69,989,200
All other assets	-	-	-	603,865,892	603,865,892
Total on balance sheet items	4,235,324,991	10,363,640,815	382,258,821	1,218,401,114	16,199,625,741
<u>Off Balance Sheet Items</u>					
Claims on banks	44,887,689	-	-	-	44,887,689
Claims on corporate	-	4,120,729,020	-	-	4,120,729,020
Claims on retail portfolio and consumer finance	-	-	25,002,490	-	25,002,490
Total off balance sheet items	44,887,689	4,120,729,020	25,002,490	-	4,190,619,199
Total	4,280,212,680	14,484,369,835	407,261,311	1,218,401,114	20,390,244,940

F. Geographical Distribution of Exposure

<u>Category</u>	<u>Dhaka</u>	<u>Chittagong</u>	<u>Sylhet</u>	<u>Total</u>
<u>Balance Sheet Items</u>				
Claims on sovereigns and central banks	2,550,196,406	91,074,765	13,263,841	2,654,535,012
Claims on banks and NBFIs	1,987,065,688	-	-	1,987,065,688
Claims on corporate	7,586,912,263	2,731,623,458	45,105,094	10,363,640,815
Claims on retail portfolio and consumer finance	272,074,842	90,145,155	20,038,824	382,258,821
Fixed assets	116,992,474	17,814,482	3,463,358	138,270,314
Staff loan	69,989,200	-	-	69,989,200
All other assets	586,077,357	2,224,967	15,563,567	603,865,891
Total on balance sheet items	13,169,308,230	2,932,882,827	97,434,684	16,199,625,741
<u>Off Balance Sheet Items</u>				
Claims on banks	44,828,040	59,649	-	44,887,689
Claims on corporate	3,206,780,484	913,948,536	-	4,120,729,020
Claims on retail portfolio and consumer finance	7,111,009	17,891,481	-	25,002,490
Total off balance sheet items	3,258,719,533	931,899,666	-	4,190,619,199
Total	16,428,027,763	3,864,782,493	97,434,684	20,390,244,940

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Amounts in Taka

G. Gross Non-Performing Assets (NPAs)	8,146,287
Total loans and advances	11,782,754,263
Non-performing loans and advances	
Special mentioned account (SMA)	53,818
Sub-standard (SS)	6,006,113
Doubtful (DF)	2,086,356
Bad/loss (BL)	-
Total non-performing loans and advances	8,146,287
Non-performing assets (NPAs) to outstanding loans and advances	0.07%
H. Movement of Non-Performing Assets (NPAs)	
Opening balance	17,811,307
Addition during the year	58,419,137
Reduction during the year	68,084,157
Closing balance	8,146,287
I. Movement of specific provisions for NPAs	
Opening balance	1,725,942.00
<u>Add</u> : Provisions made during the period	2,744,168
<u>Less</u> :Write-off	-
<u>Less</u> : Write-back of excess provisions	2,225,709
Closing balance	2,244,401

3.4 Assets

Qualitative Disclosure

Assets of the Bank includes both banking book assets and trading book assets. Trading book assets consist of foreign currency in hand, balances of nostro accounts and investment in treasury bills/bonds under Held for Trading (HFT) while all other assets of balance sheet such as loans and advances, investment in treasury bills/bonds under Held to Maturity (HTM), money at call and short notice and all fixed assets are the part of banking book assets. Assets are also divided in earning assets and non earning assets. The Balance Sheet size of the Commercial Bank of Ceylon PLC, Bangladesh Operations as on 31 December 2010 expanded by 2.79% compared to 31 December 2009. All the fixed assets of the Bank are properly insured. Apart from the credit portfolio of traditional banking activities and fixed assets, the Bank has significant amount of investment in treasury bonds. Return of Assets (RoA) was 2.47% at 31 December 2010 as against 2.06% as at 31 December 2009.

Earning Assets:

Following assets are included as earning assets as these are generating revenue for the Bank:

- Loans and advances/credit portfolio;
- Investments;
- Foreign currency held with Bangladesh Bank and overseas correspondent banks.

Non-earning Assets:

Non-earning assets are those assets from which do not generate revenue. Following are the components of non-earning assets:

- Cash in hand and balance with Bangladesh Bank and it's agent bank in local currency
- Fixed assets
- Other assets

Overall loans and advances as at 31 December 2010 stood at 11,782.75 million registering 11.58% growth compared with 31 December 2009. Overall investments as at 31 December 2010 stood at Taka 3,451.38 million registering 30.56% growth compared with 31 December 2009.

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Assets are monitored on a regular basis to cope with unexpected risk. Assets Liability Committee (ALCO) monitors and reviews the behaviour patterns of the assets. Assets are classified as per the directives of Bangladesh Bank.

Assets are classified as per directives and guidelines time to time issued by Bangladesh Bank. Classified loans and advances of the Bank as at 31 December 2010 was Taka 8.15 million which is 0.07% of total loan portfolio. Classified loans and advances have decreased by Taka 9.67 million compared to the year 2009. Adequate specific provision has been kept against such classified loans and advances as per Bangladesh Bank guidelines.

Quantative Disclosures

Amounts in Taka

i) Banking Book Assets

A. Cash in hand and balance with Bangladesh Bank excluding foreign currency (FC)	956,913,143
B. Balance with other banks excluding FC	78,749,427
	1,035,662,570
C. Money at call and on short notice	370,000,000
	370,000,000
D. Investment (HTM)	
a. Government	1,403,040,786
b. Qualifying (banks, etc)	-
c. Equities	26,499,960
d. Others	100,000,000.00
	1,529,540,746
E. Loans and advances	
a. Past Due	
SMA	53,818
SS	6,006,113
DF	2,086,356
BL	-
b. Unclassified	11,774,607,976
	11,782,754,263
F. Risk weighted assets (RWA)	
a. Below 100% RWA	-
b. 100% RWA	-
c. Above 100% RWA	-
	-
G. Rating Status	
a. Rated assets	-
b. Unrated assets	-
	-
H. Other assets including fixed assets	929,632,442
	929,632,442
i) Total Banking Book Assets	15,647,590,021

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Amounts in Taka

ii) Trading Book Assets	
1. Foreign currencies held in hand	12,188,496
2. Foreign currencies held in Bangladesh Bank and nostro account	1,052,919,286
3. Investment (trading)	
a. Govt. (part of govt. HTM if held above the required SLR amount)	1,921,420,989
ii) Total Trading Book Assets (1+2+3)	2,986,528,770
Total Assets (i+ii)	18,634,118,791

3.5 Equities: Disclosures for Banking Book position

Qualitative Disclosure

The Bank has no investment in quoted shares. The Bank has only equity investment in Central Depository Bangladesh Limited (CDBL) shares as unquoted investments.

Quantitative Disclosure

Particulars	Number of Shares	Face Value	Cost
CDBL Shares (initial)	600,000	6,000,000	6,000,000
Bonus received for the year 2009	600,000	6,000,000	-
Purchased on 14 October 2010	341,666	3,416,660	20,499,960
Bonus received for the year 2010	1,200,000	12,000,000	-
Total CDBL Shares	2,741,666	27,416,660	26,499,960

3.6 Interest rate risk in the banking book (IRRBB)

Qualitative Disclosure

Interest rate risk refers to fluctuations in Bank's net interest income and the value of its assets and liabilities arising from internal and external factors.

Internal factors include the composition of the Bank's assets and liabilities, quality, maturity, interest rate and re-pricing period of deposits, borrowings, loans and investments.

External factors cover general economic conditions.

Rising or falling interest rates impact the Bank depending on Balance Sheet positioning. Interest rate risk in prevalent on both the assets as well as the liability sides of the Bank's Balance Sheet.

ALCO periodically monitors and controls the risks and returns, funding and deployment, setting Bank's lending and deposit rates, and directing the investment activities of the Bank. ALCO decides on the fixation of interest rates on both assets and liabilities after considering the macro economic outlook - both global and domestic, as also the macro aspects like cost- benefit, financial inclusion and host of other factors.

Quantitative Disclosure

1. Interest Risk - Increase in Interest Rate:

	Scenario 1	Scenario 2	Scenario 3
	Amounts in crore Taka		
Magnitude of Shock	1%	2%	3%
Weighted average yield on assets (%)	9.00	9.00	9.00
Total assets	18,634.77	18,634.77	18,634.77
Duration GAP	0.79	0.79	0.79
Fall in MVE (on-balance sheet)	135.06	270.12	405.18
Net fall in MVE (on-balance sheet & Off-Balance Sheet)	135.06	270.12	405.18
Tax adjusted loss	77.66	155.32	232.98
Revised capital	3,217.31	3,139.65	3,061.99
Revised RWA	20,284.84	20,207.18	20,129.52
Revised CAR (%)	15.86	15.54	15.21

3.7 Market Risk

Market Risk in Trading Book

Views of Board of Directors on Market Risk

Market risk is the risk of adverse revaluation or movement of any financial instrument as a consequence of changes in market prices or rates. Market risk exists in all trading, banking and investment portfolios but for the purpose of this report, it is considered as a risk specific to trading book of the Bank. The major types of market risk as specified in the Risk Based Capital Adequacy (RBCA) are as follows:

- i. Interest rate risk
- ii. Equity position risk
- iii. Foreign exchange risk and
- iv. Commodity risk

Among the above list, the main types of market risk faced by the Bank are interest rate risk and foreign exchange risk. The management of Bangladesh operations has given significant attention to market risk in trading book to assess the potential impact on the Bank's business due to the unprecedented volatility in financial markets.

Methods used to measure market risk

According to Bangladesh Bank guideline, Commercial Bank of Ceylon PLC, Bangladesh Operation is presently following the standardised approach for market risk under Basel II.

Market risk management system and policies and processes for mitigating market risk

The Bank has an independent market risk framework to assess, manage and control the risk management function, which is responsible for measuring market risk exposures in accordance with prescribed policies, and monitoring and reporting these exposures against the approved limits on a daily basis according to Bank's appetite for market risk.

Interest rate risk

Interest Rate Risk (IRR) is a major source of market risk and is unavoidable in any financial institution where the re-pricing of assets and liabilities are not identically matched. The ALCO of Bangladesh Operations manages the potential impact, which might be caused by the volatility of changes in the market interest rates and yield curves.

The securities (Treasury bills/bonds) acquired with the intention to trade by taking advantage of short-term price and interest rate movement is classified under the trading book. The marked to market (MTM) of securities in the trading book is done at market value as per the Bangladesh Bank guidelines.

Foreign exchange risk

All foreign exchange exposures and related risks are reviewed by the ALCO monthly, which provides additional guidance to treasury dealing room in managing the risks. This is to ensure that any adverse exchange rate movements on the results of the Bank due to un-hedged foreign exchange positions are restrained within acceptable parameters.

In addition to daily revaluation of spot position and monthly revaluation of forward positions the treasury uses Value at Risk (VaR) to assess the market risk. VaR provides a single number to the management that reflects the maximum loss, which can occur within a confidence level over a certain period of time.

Quantitative Disclosure

The capital requirements for:

- A. Interest Rate Risk
- B. Equity Position Risk
- C. Foreign Exchange Risk
- D. Commodity Risk

Amounts in Taka

37,400,855
-
3,000,000
-
40,400,855

3.8 Operational risk

Qualitative disclosure

The Management of Commercial Bank of Ceylon PLC has strong corporate governance and bank operational risk is well monitored as a part of risk management process. A sound internal process to assess the operational risk through a robust Internal Control mechanism is in place.

Operational risk Management process applied are as follows:

Risk based Audit has been rolled out to keep operational lapses at a minimum level in our all Branches, Booths and service centres by reinforcing Internal Audit throughout the year by ICC- Internal audit team as well as Head Office Colombo Inspection team as a continuous process via on line and on site auditing through periodic basis.

In addition following mitigating steps are taken:

- a) Clear management reporting lines for each business units and branches with empowerment and accountability
- b) Appropriate segregation of duties
- c) Due diligence process in establishing customer relationship
- d) Regular staff rotation/transfers
- e) Regular system generated reporting to identify exceptional transactions
- f) Blanket Insurance cover against potential losses from internal & external events.

Performance gap of executives and staffs are being reviewed at the Management Committee Meeting and Audit Committee meeting and also in operation meeting held on monthly basis. Mitigation steps are decided and implemented accordingly.

Potential external events: Counter-party Risk are well monitored with enhanced due diligence. External threats Like, Payment gateway Control, Access Control/ Firewall etc. has been put in place and effectively working.

Operational Manuals are in place and Operating Instructions are being circulated regarding operational process with a view to mitigation of operational risk. Business Continuity Plan/ Disaster recovery site have been already worked out and are in place. HO team in in the process to finalize the details of BCP.

Presently the bank is maintaining adequate capital to mitigate its operational risk as per RBCA guideline by following the "Basic Indicator Approach".

Quantitative Disclosure

Amounts in Taka

The capital requirements for operational risk

170,316,165