

**Commercial Bank of Ceylon PLC - Bangladesh Operations****Disclosures on Risk based Capital Requirement under Pillar III of Basel II for the year ended 31 December 2013****1 Disclosure Policy:**

In accordance with Bangladesh Bank revised guidelines on risk based capital adequacy under Basel II issued through BRPD Circular No. 24 dated August 3 2010, the purpose of these requirements is to complement the capital adequacy requirements and Pillar III - Supervisory review process. 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 risk;
- c. To maintain capital adequacy ratio as per Bangladesh Bank's time to time Requirements;
- d. To adopt the credit rating agencies as external credit assessment institutions (ECAI);
- e. To adopt standardized approach for both credit and market risk 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 as a foreign Branch of Commercial Bank of Ceylon PLC incorporated in Srilanka.

**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 2013 was Taka 5,922.81 million out of which Taka 5,648.53 million was under Tier-I capital and remaining Taka 274.28 million was under Tier-II capital. The main features of our Tier-I Capital are -Out of Taka 5,648.53 Million, Taka 4,551.83 Million is Deposit kept with Bangladesh Bank as per section 13 (4) of Banking Companies Act 1991 and remaining 1,096.70 Million is the Retained Profit as at 31 December 2013. The Bank's Tier-II Capital are consist of General Provision of Taka 270.65 Million and remaining 3.63 Million is 50% of Revaluation Gain on Treasury Bills/Bond as at 31 December 2013.

**Quantitative Disclosure:****Amounts in Taka**

## A) Amount of Tier-1 Capital

Fully Paid-up Capital / Capital Deposited with BB	4,551,827,557
Non-repayable Share premium account	-
Statutory Reserve	-
General Reserve	-
Retained Earnings	1,096,704,836
Minority interest in Subsidiaries	-
Non-Cumulative irredeemable Preferences shares	-
Dividend Equalization Account	-
	<b>5,648,532,393</b>

## Amount deducted from Tier-1 Capital

• Good will	-
• Shortfall	-
• Others	-
	<b>5,648,532,393</b>

**Net Total of Tier-1 Capital****5,648,532,393**

## B) Total amount of Tier 2 capital (net of deductions from Tier 2 capital)

**274,276,279**

## C) Total eligible capital (A+B)

**5,922,808,672**

**Commercial Bank of Ceylon PLC - Bangladesh Operations**

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**3.2 Capital Adequacy**

**Qualitative Disclosure of Capital Adequacy**

The Bank has maintained regular reporting with Bangladesh Bank regarding the Capital adequacy. The Bank is in a process of establishing an Internal capital adequacy assessment process in line with BASEL-II guidelines as well as ICAAP documents issued by Bangladesh Bank. 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 capitalized at all level throughout the year.

The Bank maintains a capital of Taka 5,922.81 million (Core Capital of Taka 5,648.53 million + Supplementary Capital of Taka 274.28 million) as against total risk weighted assets of Taka 23,770.60 million. The Bank's Capital Adequacy Ratio (CAR) as at 31 December 2013 is 24.92% as against the minimum requirement of 10% as of 31 December 2013 as per BRPD Circular No. 10 dated 10 March 2010. Tier-I capital was 23.76 % of RWA against minimum requirement of 5% of RWA. As a result the Bank has a buffer Capital of Taka 3,545.75 million to maintain to mitigate the additional uncertain risk which are not cover under Pillar-II of Basel-II.

**Quantitative Disclosure of Capital Adequacy**

	<b>Amounts in Taka</b>
A) Amount of Regulatory Capital to meet unforeseen loss	
Amount of Capital required to meet Credit Risk	2,045,660,000
Amount of Capital required to meet Market Risk	56,900,000
Amount of Capital required to meet Operational Risk	274,500,000
	<b>2,377,060,000</b>
B) Actual Capital Maintained:	
Total tier I Capital	5,648,532,393
Total tier II Capital	274,276,279
Total tier III Capital	-
	<b>5,922,808,672</b>
C) Some additional capital over MCR maintained by the Bank	<b>3,545,748,672</b>
<b>% of Capital Adequacy required</b>	
Tire I	5.00%
<b>Total</b>	<b>10.00%</b>
<b>% of Capital Adequacy maintained</b>	
Tire I	23.76%
<b>Total</b>	<b>24.92%</b>

**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, December 2010, claims that are past due for 90 days or more are clubbed under this past due category.

Apart from the Basel II requirement, for accounting purpose bank is maintaining its past due loan in accordance with the BRPD Circular No. 05 dated 5 June, 2006 on 'Loan Classification & Provisioning'.

Description of approaches followed for specific allowances and statistical methods.

The Bank is following the standardized approach in line with the Bangladesh Bank guideline and no other statistical model is used apart from the supervisory one in this regard.

Discussion of the 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 comprised of corporate, SME and retail / personal customers in Bangladesh towards better credit risk management.

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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 the Bangladesh Operation.

The objectives of the Bank's credit risk management practices are to maintain credit portfolio quality in line with risk appetite, through risk control and risk management.

Credit risk management system of the bank also closely monitors 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 guideline 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 type. Outcome of these risk analyses are 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. 14 dated 23 September 2012, BRPD Circular No. 19 dated 27 December 2012 and BRPD Circular No. 05 dated 29 May 2013 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. 14 dated 23 September 2012.

**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 circulars no. 14 dated 23 September 2012 and 19 dated 27 December 2012 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 ended 31 December 2013

**Quantitative Disclosure****Amounts in Taka****Total Exposures of Credit Risk****A) Funded Exposures**

a) Domestic

23,838,600,000

b) Overseas (Nostro Balances)

-

**23,838,600,000****B) Non-funded exposures**

a) Domestic

-

b) Overseas

4,907,600,000

**4,907,600,000****C) Broken down by Major types of Credit Exposure**

a) Cash and Cash Equivalents

246,400,000

b) Claims on Bangladesh Government and Bangladesh

5,743,600,000

c) Claims on other Sovereigns &amp; 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 BGD

-

g) Claims on Banks &amp; NBFIs:

-

Maturity Over 3 Months

474,900,000

Maturity less than 3 Months

797,000,000

h) Claims on Corporate

10,801,100,000

i) Claims under Credit Risk Mitigation

1,847,600,000

j) Claims categorized as retail portfolio & Small Enterprise  
(excluding Consumer Finance)

275,700,000

k) Consumer Finance

220,800,000

l) Claims fully secured by residential property

5,100,000

m) Claims fully secured by commercial real estate

4,200,000

n) Past due loans/NPL

79,600,000

o) Investments in premises, plant and equipment and all other fixed

97,300,000

p) Claims on Fixed Assets under Operating Lease

q) All Other Assets

i) Claims on GoB &amp; BB (Advance Income Tax)

1,603,100,000

ii) Staff Loan/Investments

96,500,000

iii) Other Assets

1,545,700,000

r) Off-balance sheet items:-

Claims on Banks:

Maturity Over 3 Months

30,400,000

Maturity less than 3 Months

19,400,000

Claims on corporate

4,651,300,000

Retail portfolio and small enterprises

206,500,000

**28,746,200,000****D. Details of Exposure under Credit Risk Mitigation (CRM)**

• Claims secured by financial collateral

2,627,200,000

• Net exposure after the application of haircuts

3,022,000,000

• Value of Financial Collateral after haircuts

2,337,600,000

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## E. Industry Distribution of Exposures

Category	NBFIs	industries	Consumer	Others	Total
<b>Balance Sheet Items</b>					
and central banks	5,990,000,000	-	-	-	5,990,000,000
NBFIs	1,271,900,000	-	-	-	1,271,900,000
Claims on corporate	-	12,733,400,000	-	-	12,733,400,000
Claims on retail portfolio	-	-	500,700,000	-	500,700,000
Fixed assets	-	-	-	97,300,000	97,300,000
Staff loan	-	-	-	96,500,000	96,500,000
All other assets	-	-	-	3,148,800,000	3,148,800,000
items	<b>7,261,900,000</b>	<b>12,733,400,000</b>	<b>500,700,000</b>	<b>3,342,600,000</b>	<b>23,838,600,000</b>

<b>Off Balance Sheet Items</b>					
Claims on banks	49,800,000	-	-	-	49,800,000
Claims on corporate	-	4,651,300,000	-	-	4,651,300,000
Claims on retail portfolio	-	-	206,500,000	-	206,500,000
items	<b>49,800,000</b>	<b>4,651,300,000</b>	<b>206,500,000</b>	-	<b>4,907,600,000</b>
Total	<b>7,311,700,000</b>	<b>17,384,700,000</b>	<b>707,200,000</b>	<b>3,342,600,000</b>	<b>28,746,200,000</b>

## F. Geographical Distribution of Exposure

Category	Dhaka	Chittagong	Sylhet	Total
<b>Balance Sheet Items</b>				
Claims on sovereigns and central banks	5,924,111,002	53,533,753	12,355,245	5,990,000,000
Claims on banks and NBFIs	1,271,900,000	-	-	1,271,900,000
Claims on corporate	10,791,672,488	1,775,667,437	166,060,075	12,733,400,000
Claims on retail portfolio and consumer finance	373,607,850	83,892,801	43,199,349	500,700,000
Fixed assets	82,320,588	13,541,626	1,437,786	97,300,000
Staff loan	96,500,000	-	-	96,500,000
All other assets	3,128,940,144	11,851,759	8,008,097	3,148,800,000
Total on balance sheet items	<b>21,669,052,072</b>	<b>1,938,487,376</b>	<b>231,060,552</b>	<b>23,838,600,000</b>

<b>Off Balance Sheet Items</b>				
Claims on banks	48,697,847	1,102,153	-	49,800,000
Claims on corporate	3,449,172,522	1,202,127,478	-	4,651,300,000
Claims on retail portfolio and consumer finance	188,432,396	18,067,604	-	206,500,000
Total off balance sheet items	<b>3,686,302,765</b>	<b>1,221,297,235</b>	-	<b>4,907,600,000</b>
Total	<b>25,355,354,837</b>	<b>3,159,784,611</b>	<b>231,060,552</b>	<b>28,746,200,000</b>

## Commercial Bank of Ceylon PLC - Bangladesh Operations

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<b>E) Gross Non-Performing Assets ( NPAs)</b>	<b>86,518,981</b>
Total Loans & Advances	14,740,875,347
Non-Performing Loans and advances	<b>86,518,981</b>
Sub-standard	13,398,919.00
Doubtful	5,872,241.00
Bad/ Loss	67,247,821.00
Non-Performing Assets (NPAs) to Outstanding Loans and advances	<b>0.59%</b>
<b>F) Movement of Non-Performing Assets ( NPAs)</b>	
Opening balance	128,551,563
Addition during the year	86,456,208
Reduction during the year	128,488,790
Closing balance	<b>86,518,981</b>
<b>G) Movement of specific provisions for NPAs</b>	
Opening balance	43,715,908
Add: Provisions made during the period	3,853,062
Less :Write-off	-
Less: Write-back of excess provisions	17,258,486
Closing balance	<b>30,310,484</b>

## 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 2013 expanded by 10.39% compared to 31 December 2012. 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 2.96% at 31 December 2013 as against 2.47% as at 31 December 2012.

**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 2013 stood at 14,740.88 million registering .77% negative growth compared with 31 December 2012. Overall investments as at 31 December 2013 stood at Taka 7,068.61 million registering 51.84% growth compared with 31 December 2012.

Assets are monitored on a regular basis to cope with unexpected risk. Assets Liability Committee (ALCO) monitors and reviews the behavior 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 2013 was Taka 86.524 million which is 0.59% of total loan portfolio. Classified loans and advances have decreased by 32.70% compared to the year 2012. Adequate specific provision has been kept against such classified loans and advances as per Bangladesh Bank guidelines.

## Commercial Bank of Ceylon PLC - Bangladesh Operations

Disclosures on Risk based Capital Requirement under Pillar III of Basel II for the year ended 31 December 2013

Quantitative DisclosuresAmounts in Taka**i) Banking Book Assets**

A. Cash in hand and balance with Bangladesh Bank excluding foreign currency (FC)	1,426,955,889
B. Balance with other banks excluding FC	11,455,280
	<b>1,438,411,169</b>
C. Money at call and on short notice	70,000,000
	<b>70,000,000</b>
D. Investment (HTM)	
a. Government	4,563,081,655
b. Qualifying (banks, etc)	-
c. Equities	9,416,660
d. Others	40,000,000.00
	<b>4,612,498,315</b>
E. Loans and advances	
a. Past Due	
SMA	-
SS	13,398,919
DF	5,872,241
BL	67,247,821
b. Unclassified	14,654,356,366
	<b>14,740,875,347</b>
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	3,230,647,213
	<b>3,230,647,213</b>
<b>i) Total Banking Book Assets</b>	<b>24,092,432,044</b>
<b>ii) Trading Book Assets</b>	
1. Foreign currencies held in hand	12,181,380
2. Foreign currencies held in Bangladesh Bank and nostro account	1,212,322,630
3. Investment (trading)	
a. Govt. (part of govt. HFT, if held for Trading)	2,456,108,952
<b>ii) Total Trading Book Assets (1+2+3)</b>	<b>3,680,612,962</b>
<b>Total Assets (i+ii)</b>	<b>27,773,045,006</b>

## Commercial Bank of Ceylon PLC - Bangladesh Operations

## Disclosures on Risk based Capital Requirement under Pillar III of Basel II for the year ended 31 December 2013

## 3.5 Equities: Disclosures for Banking Book Positions

Qualitative Disclosure

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

Quantitative Disclosures Details of Unquoted Investments

Amounts in Taka

**Banking Book Assets**

<u>Particulars</u>	<u>Number of shares</u>	<u>Face Value</u>	<u>Cost</u>
CDBL Shares (Initial)	600,000	6,000,000	6,000,000
Bonus received for the year 2009	600,000	6,000,000	-
Purchased on October 14, 2010	341,666	3,416,660	3,416,660
Bonus declared for the year 2010	1,200,000	12,000,000	-
Bonus declared for the year 2011	685,417	6,854,170	-
<b>Total of CDBL Shares</b>	<b>3,427,083</b>	<b>34,270,830</b>	<b>9,416,660</b>

## 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 is prevalent on both the assets as well as the liability sides of the Bank's Balance Sheet.

The Assets - Liability Management Committee (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. The 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.

**Credit Shock under Basel II ( Balance Sheet Exposure)**

Amount in Crore Taka

<b>Magnitude of Shock</b>	<b>Minor</b>	<b>Moderate</b>	<b>Major</b>
Weighted Average yield on assets (%)	10.00	10.00	10.00
Total Assets	2,777.30	2,777.30	2,777.30
Total RWA before Shock	2,377.06	2,377.06	2,377.06
Total increase in RWA after Shock	38.53	45.13	51.60
Total increase Capital requirement after Shock	3.85	4.51	5.16
Total RWA after Shock	2,415.59	2,422.19	2,428.66
Eligible Capital	592.28	592.28	592.28
Capital Adequacy Ratio after shock (%)	24.52	24.45	24.39
Capital Adequacy Ratio before shock (%)	24.92	24.92	24.92
Changes in CAR (%)	(0.40)	(0.46)	(0.53)



## Commercial Bank of Ceylon PLC - Bangladesh Operations

## Disclosures on Risk based Capital Requirement under Pillar III of Basel II for the year ended 31 December 2013

## Credit Shock under Basel II (Off Balance Sheet Exposure)

Magnitude of Shock	Minor	Moderate	Major
Weighted Average yield on assets (%)	10.00	10.00	10.00
Total Assets	2,777.30	2,777.30	2,777.30
Total RWA before Shock	2,377.06	2,377.06	2,377.06
Total increase in RWA after Shock	(11.32)	17.56	18.60
Total increase Capital requirement after Shock	(1.13)	1.76	1.86
Total RWA after Shock	2,365.74	2,394.62	2,395.66
Eligible Capital	592.28	592.28	592.28
Capital Adequacy Ratio after shock (%)	25.04	24.73	24.72
Capital Adequacy Ratio before shock (%)	24.92	24.92	24.92
Changes in CAR (%)	0.12	(0.18)	(0.19)

## Combined Shock

Magnitude of Shock	Minor	Moderate	Major
Capital Adequacy Ratio before shock (%)	24.92	24.92	24.92
Decrease in the FSV of the Collateral	-0.05	-0.11	-0.22
Increase in NPLs	-0.63	-1.91	-3.23
Negative Shift in NPLs categories	0.06	0.28	0.15
Interest Rate	-0.69	-1.38	-2.06
FEX: Currency Appreciation	-0.08	-0.17	-0.25
Equity Shock	-0.02	-0.03	-0.06
Total Change	-1.41	-3.32	-5.68
CAR after shock (%)	23.51	21.60	19.23

3.7 **Market Risk****Qualitative Disclosure**

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 type 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.

**Commercial Bank of Ceylon PLC - Bangladesh Operations****Disclosures on Risk based Capital Requirement under Pillar III of Basel II for the year ended 31 December 2013****Methods used to measure market risk:**

According to Bangladesh Bank guideline, Commercial Bank of Ceylon PLC, Bangladesh Operation is presently following the standardized 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 unhedged 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.

**Market risk on Trading Book**

The capital requirements for:

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

**Amounts in Taka**

	4,700,000
	-
	52,200,000
	-
	<b>56,900,000</b>

**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 overall risk management process. A sound internal process to assess the operational risk through a robust Internal Control mechanism is in place. A detailed corporate governance exercise has taken place for each and every work process flow. Existing controls have been evaluated and required measures adopted.

Operational risk Management process applied is as follows:

Risk based Audit together with Risk Grading Matrix (RGM) has been rolled out to keep operational lapses at a minimum level in our all Branches, Booths and SME service centers 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 physically Auditing through periodic visits.

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The Internal Control procedure is not only limited to on-site and off site audits but by its own merit identifies the risk associated with day to day operations and adopts measures to mitigate them.

In addition following mitigating steps are taken:

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

**Measures for Qualitative improvement as on-going basis:**

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.

> Performance gap of executives and staffs are being reviewed at the Management Committee Meeting and Audit Committee meeting and also Risk Management Unit(RMU) 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 Instruction is 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.

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

**Quantitative Disclosure****Amounts in Taka**

The capital requirements for operational risk

<b>274,500,000</b>
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