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# **Pan Asia Banking Corporation PLC**

## **Basel III - Pillar 3 Disclosures**

### **As at 30<sup>th</sup> September 2017**

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Company Registration No. PQ 48

Registered Address: No. 450, Galle Road, Colombo 3

# **Pan Asia Banking Corporation PLC**

## **Pillar 3 Disclosures**

**30<sup>th</sup> September 2017**

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## Introduction

The Bank trusts effective risk management together with better corporate governance contributes to the stability and sustainable credibility of the Bank. Therefore, the Bank places great emphasis continually on improving risk management processes and on having sufficient level of capital to support its risk absorption capacity and business expansions.

Based on historical data and careful analysis of market behavioural factors, the Bank is affirmative that effective investment in better risk management systems and processes would facilitate to mitigate the credit risk, market risk and the operational risk factors face by the Bank.

Further use of market discipline is deemed to be an important driver in the enhancement of the risk management system from Bank as well as stakeholders perspective. Therefore, the bank believes comprehensive disclosure of capital level, credit risk, market and operational risk level would fulfill the expectations of the regulators as well as the investors.

## Scope of Basel III Framework

The Basel Committee on Bank Supervision (BCBS) has implemented a set of capital, liquidity and funding reforms known as “Basel III”. The objectives of reforms are to increase the quality, consistency and transparency of capital to enhance the risk management framework.

Accordingly, Central Bank of Sri Lanka has issued Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB’s) and Licensed Specialized Banks (LSB’s) on 29<sup>th</sup> December 2016. As per the direction, Capital Requirements applicable for a Licensed Commercial Bank from 1<sup>st</sup> July 2017 onwards consist of three pillars.

<b>Pillar 1</b>	<ul style="list-style-type: none"><li>• Minimum Capital Requirements and Buffers - Credit Risk, Market Risk &amp; Operational Risk</li></ul>
<b>Pillar 2</b>	<ul style="list-style-type: none"><li>• Maintain Adequate Capital above the Minimum Requirement (ICAAP) - Additional Risks</li></ul>
<b>Pillar 3</b>	<ul style="list-style-type: none"><li>• Disclosure Requirements - Regular disclosure to the market covering both qualitative and quantitative disclosures on Capital , Liquidity and Risk</li></ul>

## Pillar 1 - Minimum Capital Requirements and Buffers

Commencing from 01<sup>st</sup> July 2017, every LCB & LSB has to comply with minimum capital ratios and the buffers as prescribed in the direction. Required minimum capitals ratios are varying among the banks depending on the size of the asset base. For the purpose of the direction Central Bank of Sri Lanka has identified Banks with over Rs.500 billion asset base as Domestic Systemically Important Banks (D-SIB's) and prescribed higher minimum Capital buffers.

Accordingly, banks have to maintain capital ratios and the buffers as prescribed in the below tables at all time.

### Minimum Capital Ratio Requirement for Banks with Assets of Rs.500 billion and above (Table 1)

Components of Capital	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	6.250%	7.375%	8.500%
Total Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	7.750%	8.875%	10.000%
Total Capital Ratio Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	11.750%	12.875%	14.000%

### Minimum Capital Ratio Requirement for Banks with Assets less than Rs.500 billion (Table 2)

Components of Capital	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer	5.750%	6.375%	7.000%
Total Tier 1 Including Capital Conservation Buffer	7.250%	7.875%	8.500%
Total Capital Ratio Including Capital Conservation Buffer	11.250%	11.875%	12.500%

Since the Bank's asset base is below Rs.500 billion at the moment, minimum capital ratio requirements stipulated in Table 2 is applicable. As a player in a highly regulated industry, the Bank has to design and execute strategies at the right time in order to accomplish the business goals while achieving capital standards set by the regulator.

## **Pillar 2 - Maintain Adequate Capital above the Minimum Requirement (ICAAP)**

The Bank has to maintain adequate capital to cover its all risk exposures as specified in the direction. Under Pillar 2, a Board approved ICAAP document need to be submitted to Central Bank of Sri Lanka for supervisory review process. ICAAP lets banks to identify, analyze and quantify its risk exposures using different methodologies, techniques and to quantify required level of capital to absorb the risks.

Further under pillar 2, Banks are instructed to scrutinize different type of risks which are not covered/fully captured under Pillar 1. Accordingly, following risk categories also need to be quantified and allocation of capital need to be done in computing the pillar 2 Capital Ratios.

- Risks not fully captured under Pillar 1 - Concentration risk (credit risk), interest rate/rate of return risk in the banking book (market risk) etc.
- Risk types not covered under Pillar 1 - Liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk. etc.

The Bank has already developed an ICAAP policy and framework which closely indicate the risk and capital assessment processes and ensures that adequate level of capital are maintained to support the Bank's current and projected demand for capital under expected and stressed conditions.

The Bank has submitted the ICAAP document prepared for year 2016 to Central Bank of Sri Lanka for supervisory review on due dates.

## **Pillar 3 - Disclosure Requirements**

Commencing from 1<sup>st</sup> July 2017, the Bank has to disclose the regulator prescribed key information in relation to regulatory capital, liquidity and risk management with the published financial statements and the in the web site.

Pillar 3 aims to provide consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

The Bank has implemented a Pillar 3 policy and procedure framework to address the requirements laid down for pillar 3 disclosure.

The complete disclosure report of information regarding capital management in accordance with Basel III- Pillar 3 is provided, of which quantitative information regarding capital structure, capital adequacy and monitoring of liquidity standards is disclosed on quarterly basis. The disclosures on Bank's risk management approach and risk management related to key risk exposures will be disclosed on annual basis.

## **Scope of Application**

In compliance with the requirements under Basel III Pillar 3 and the Bank's approved policies, the Bank disclose below set of information on quarterly and annual basis as prescribed by CBSL.

- 1) Regulatory Requirements on Capital Adequacy and Liquidity
  - i) Key Regulatory Ratios - Capital and Liquidity
  - ii) Basel III Computation of Capital Adequacy Ratio
  - iii) Basel III Computation of Liquidity Coverage Ratio
  - iv) Main Features of Regulatory Capital Instruments
  
- 2) Risk Weighted Assets (RWA)
  - i) Capital Management
  - ii) Credit under Standardized Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects
  - iii) Credit Risk under Standardized Approach: Exposures by Asset Classes and Risk Weights
  - iv) Market Risk under Standardized Measurement Method
  - v) Operational Risk under Basic Indicator Approach
  
- 3) Linkages Between Financial Statements & Regulatory Exposures
  - i) Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories
  - ii) Explanations of Differences Between Accounting and Regulatory Exposure Amounts
  
- 4) Risk Management
  - i) Bank Risk Management Approach
  - ii) Risk Management related to Key Risk Exposures

## Strategic Achievements

The Bank is in success so far in achieving key strategic measures as forecasted in the Capital Plan of year 2017. Bank places great emphasis on having a sufficient level of capital and liquidity position to support the business expansion and to meet regulatory requirements.

**Table A - Key Regulatory Ratios - Capital and Liquidity**

Item	Bank	
	Current Period As at 30/09/2017	Previous Period As at 31/12/2016
<b>Regulatory Capital (Rs '000)</b>		
Common Equity Tier 1 (Before Adjustments)	8,672,936	N/A
Tier 1 Capital	8,380,316	N/A
Total Capital	10,402,494	N/A
<b>Regulatory Capital Ratios (%)</b>		
Common Equity Tier 1 Capital Ratio ( <i>Minimum Requirement -5.75%</i> )	10.56	N/A
Tier 1 Capital Ratio ( <i>Minimum Requirement -7.25%</i> )	10.56	N/A
Total Capital Ratio ( <i>Minimum Requirement -11.25%</i> )	13.10	N/A
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets		
Domestic Banking Unit (Rs.'000)	25,505,475	32,493,941
Off-Shore Banking Unit (USD'000)	5,820	30,178
Statutory Liquid Assets Ratio ( <i>Minimum Requirement -20%</i> )		
Domestic Banking Unit (%)	22.65	28.03
Off-Shore Banking Unit (%)	21.09	38.82
Liquidity Coverage Ratio (%) - ( <i>Minimum Requirement as at 30.09.2017 - 80%</i> )		
Rupee (%)	135.67	163.62
All Currency (%)	133.04	230.21

## In terms of Capital

The Bank met the Rs.7.5 billion interim minimum capital target set for 31<sup>st</sup> March 2017 by CBSL in accordance with the approved capital augmentation plan. Internal capital generation together with capital infusion via right issue took place in March 2017 contributed to achieve the above milestone.

The next phase in the capital augmentation plan that is Rs. 10 billion by 31<sup>st</sup> December 2017, the Bank expect to reach the final hurdle through internal capital generation accompanied by the carefully crafted policies and strategies of the business models stable revenue sources from quality lending book and additional income from rigorous recovery process.

## Capital Structure

The Bank's capital structure according to the CBSL direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB) and Licensed Specialized Banks (LSB) is revised in to Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

Common Equity Tier 1 (CET 1) Capital of the Bank comprises;

- Paid up Share Capital (Stated Capital)
- Retained Earnings after appropriation
- Statutory Reserve Fund

At present Bank has no instrument eligible for Additional Tier 1 (AT1) Capital.

Tier 2 Capital Consist of

- Subordinated Debentures (limited to 50% of CET 1 Capital)
- General provision for Performing and Special Mention Credit Facilities (limited to 1.25% of risk weighted assets on credit risk)
- Revaluation Surpluses on Freehold Land and Building (Subject to discount of 50%)

As per the regulatory directive maximum eligible Tier 2 capital is capped at 100% of CET1 Capital.

In adopting Basel III, capital instruments that do not meet the eligibility criteria for inclusion in CET1 capital has to be eliminated with effect from 01<sup>st</sup> July 2017. However the Bank does not own any CET1 capital instrument that is needed to be phased out when adopting Basel III.

Main features of capital instruments have been disclosed in the Table C of the report.

The Structure of the total Regulatory Capital of the Bank as at 30<sup>th</sup> September 2017 is as follows,

Item	Amount (Rs. '000)
<b>Common Equity Tier I (CETI) Capital after Adjustments</b>	<b>8,380,316</b>
<b>Total Common Equity Tier I (CET1) Capital before Adjustments</b>	<b>8,672,936</b>
Equity capital or stated capital	3,614,253
Reserve fund	304,581
Published retained earnings/(Accumulated retained losses)	4,754,101
<b>Total Adjustments to CET1 Capital</b>	<b>292,620</b>
Other intangible assets (net)	292,620
<b>Additional Tier 1 (AT1) Capital after Adjustments</b>	<b>-</b>
<b>Tier 2 Capital after Adjustments</b>	<b>2,022,178</b>
<b>Total Tier 2 Capital</b>	<b>2,022,178</b>
Qualifying Tier 2 Capital Instruments	1,200,000
Revaluation gains	400,345
General provisions	421,833
<b>Total Adjustments to Tier 2 Capital</b>	<b>-</b>
<b>Total Tier 1 Capital</b>	<b>8,380,316</b>
<b>Total Capital</b>	<b>10,402,494</b>



**Table B - Basel III Computation of Capital Ratios**

Item	Amount (Rs. '000)	
	As at 30/09/2017	As at 31/12/2016
<b>Common Equity Tier 1 (CET1) Capital after Adjustments</b>	<b>8,380,316</b>	<b>N/A</b>
<b>Common Equity Tier 1 (CET1) Capital before Adjustments</b>	<b>8,672,936</b>	<b>N/A</b>
Equity Capital (Stated Capital)	3,614,253	N/A
Reserve Fund	304,581	N/A
Published Retained Earnings/(Accumulated Retained Losses)	4,754,101	N/A
Published Accumulated Other Comprehensive Income (OCI)	-	N/A
General and other Disclosed Reserves	-	N/A
Unpublished Current Year's Profit/Losses and Gains reflected in OCI	-	N/A
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	N/A
<b>Total Adjustments to CET1 Capital</b>	<b>292,620</b>	<b>N/A</b>
Goodwill (net)	-	N/A
Intangible Assets (net)	292,620	N/A
Others	-	N/A
<b>Additional Tier 1 (AT1) Capital after Adjustments</b>	<b>-</b>	<b>N/A</b>
<b>Additional Tier 1 (AT1) Capital</b>	<b>-</b>	<b>N/A</b>
Qualifying Additional Tier 1 Capital Instruments	-	N/A
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	N/A
<b>Total Adjustments to AT1 Capital</b>	<b>-</b>	<b>N/A</b>
Investment in Own Shares	-	N/A
Others	-	N/A
<b>Tier 2 Capital after Adjustments</b>	<b>2,022,178</b>	<b>N/A</b>
<b>Tier 2 Capital</b>	<b>2,022,178</b>	<b>N/A</b>
Qualifying Tier 2 Capital Instruments	1,200,000	N/A
Revaluation Gains	400,345	N/A
Loan Loss Provisions	421,833	N/A
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	N/A
<b>Total Adjustments to Tier 2 Capital</b>	<b>-</b>	<b>N/A</b>
Investment in Own Shares	-	N/A
Others	-	N/A
<b>CET1 Capital</b>	<b>8,380,316</b>	<b>N/A</b>
<b>Total Tier 1 Capital</b>	<b>8,380,316</b>	<b>N/A</b>
<b>Total Capital</b>	<b>10,402,494</b>	<b>N/A</b>
<b>Total Risk Weighted Assets (RWA)</b>	<b>79,393,449</b>	<b>N/A</b>
RWAs for Credit Risk	70,805,443	N/A
RWAs for Market Risk	446,564	N/A
RWAs for Operational Risk	8,141,443	N/A
<b>CET1 Capital Adequacy Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	<b>10.56</b>	<b>N/A</b>
Of which: Capital Conservation Buffer (%)	1.25	N/A
Of which: Countercyclical Buffer (%)	N/A	N/A
Of which: Capital Surcharge on D-SIBs (%)	N/A	N/A
<b>Total Tier 1 Capital Adequacy Ratio (%)</b>	<b>10.56</b>	<b>N/A</b>
<b>Total Capital Adequacy Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	<b>13.10</b>	<b>N/A</b>
Of which: Capital Conservation Buffer (%)	1.25	N/A
Of which: Countercyclical Buffer (%)	N/A	N/A
Of which: Capital Surcharge on D-SIBs (%)	N/A	N/A

**Table C - Main Features of Regulatory Capital Instruments**

	Ordinary Shares	Subordinated Debt
Issuer	Pan Asia Banking Corporation PLC	Pan Asia Banking Corporation PLC
CSE Security Code	PABC N0000	PABC D0300 PABC D0301
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	Multiple	30.10.2014
Par Value of Instrument (Rs.)	N/A	100
Perpetual or Dated	Perpetual	Dated
Original Maturity Date	N/A	29.10.2019
<b>Regulatory Treatment</b>		
Instrument Type	Common Equity Tier 1	Tier 2 Capital
Amount recognized in Regulatory Capital (in Rs '000 as at the Reporting Date)	3,614	1,200
Accounting Classification (Equity/Liability)	Shareholders' Equity	Liability (Subordinated Term Debts)
<b>Issuer Call subject to Prior Supervisory Approval</b>	No	Yes
Optional Call Date, Contingent Call Dates and Redemption Amount (Rs. '000)	N/A	Early repayment or redemption shall not be made without the prior consent from CBSL. The redemption amount of the debentures equal to total outstanding principal (Rs. 3,000 Mn) plus accrued interest
<b>Coupons/Dividends</b>		
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Fixed Rate
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	9.75% (Annual Interest Payment 9.5233% (Semi Annual Interest Payment)
Non-Cumulative or Cumulative	Non cumulative	Non cumulative
<b>Convertible or Non-Convertible</b>	Non-Convertible	Non-Convertible

## Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) ensures Banks maintaining sufficient unencumbered High Quality Liquid assets (HQLA) to survive a significant liquidity stress scenario over 30 days horizon. The Central Bank of Sri Lanka issued Banking Act Direction No. 01 of 2015 on “Liquidity Coverage Ratio under Basel III Liquidity Standards for Licensed Commercial Banks” on 31<sup>st</sup> March 2015.

Commencing from 1<sup>st</sup> April 2015, the Bank has to maintain LCR Ratio for all currencies and for rupee as stipulated in the direction. The ratio which initially starts from 60% minimum requirement will be increased up to 100% on a staggered basis by 1<sup>st</sup> January 2019.

Liquid assets are distributed across the Bank to support regulatory and internal requirements and are consistent with the distribution of liquidity needs by currency. The composition of the high quality liquid asset portfolio has remained relatively stable over the previous period. The Bank has to maintain 80% as LCR for year 2017 for both Rupee and all currencies.

**Table D - LCR Disclosure template**

Item	Amount (Rs.'000)			
	Current Period As at 30/09/2017		Previous Period As at 31/12/2016	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
<b>Total Stock of High-Quality Liquid Assets (HQLA)</b>	<b>14,097,395</b>	<b>13,505,288</b>	<b>18,811,846</b>	<b>17,855,477</b>
<b>Total Adjusted Level 1 Assets</b>	<b>13,259,989</b>	<b>13,259,989</b>	<b>17,919,670</b>	<b>17,919,670</b>
Level 1 Assets	13,086,585	13,086,585	17,323,023	17,323,023
<b>Total Adjusted Level 2A Assets</b>	-	-	<b>246,758</b>	<b>209,744</b>
Level 2A Assets	-	-	246,758	209,744
<b>Total Adjusted Level 2B Assets</b>	<b>837,406</b>	<b>418,703</b>	<b>645,418</b>	<b>322,709</b>
Level 2B Assets	837,406	418,703	645,418	322,709
<b>Total Cash Outflows</b>	<b>116,109,937</b>	<b>19,843,898</b>	<b>93,124,203</b>	<b>13,552,886</b>
Deposits	87,066,128	7,749,489	72,018,389	7,201,839
Unsecured Wholesale Funding	7,792,314	5,978,875	8,957,555	6,227,114
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	15,475,345	339,385	12,148,260	123,933
Additional Requirements	5,776,150	5,776,150	-	-
<b>Total Cash Inflows</b>	<b>12,423,849</b>	<b>9,692,520</b>	<b>9,133,223</b>	<b>5,796,810</b>
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	6,602,870	3,871,541	9,133,223	5,796,810
Operational Deposits	-	-	-	-
Other Cash Inflows	5,820,979	5,820,979	-	-
<b>Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days) *100</b>		<b>133.04%</b>		<b>230.21%</b>

The Bank monitors its LCR position on a daily basis, ensuring a buffer is maintained over the minimum regulatory requirement and the Board’s risk appetite. The Bank holds a diverse mix of High Quality Liquid Assets (HQLA), consisting primarily of cash, excess deposits with central banks and Government securities (Level 1 Liquid Assets). In addition, the Bank maintains level 2 Liquid Assets such as in gilt edged investments.

## Risk Weighted Assets

### Credit Risk

Credit Risk is the potential for loss due to the failure counterparty to meet its obligation to pay the Bank in accordance with agreed terms. It is managed through a framework that set out credit policies and procedure and credit approval authority delegation. Further policies are decided to reflect the country specific risk environment and portfolio characteristics of the Bank.

The Bank computes risk weighted assets on credit exposures using the Standardized approach. In assigning risk weights for calculation of risk weighted assets using the standardized approach under Basel III, the Bank uses credit ratings from external credit assessment institutions (ECAIs) who meet the qualifications specified by the CBSL. The credit ratings from external credit assessment institutions are applied to risk weight the claims on Banks, financial institutions and corporate customers. Claims on Retail and SME customers are risk weighted based on the criteria's specified in the directions.

The following table shows minimum capital requirement for credit risk classified by asset classes under Standardized approach.

**Table E- Credit Risk under Standardized Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects**

Asset Class	Amount (Rs'000) as at 30.09.2017					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density (%) <sup>(ii)</sup>
Claims on Central Government and Central Bank of Sri Lanka	28,734,591	-	28,734,591	-	-	0%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	1,064,627	10,497,854	1,064,627	209,957	753,392	59%
Claims on Financial Institutions	3,031,899	69,804	3,031,899	27,052	1,664,748	54%
Claims on Corporates	6,871,836	665,281	6,867,125	115,719	5,741,885	82%
Retail Claims	73,172,830	14,521,533	63,563,657	2,329,497	51,621,118	78%
Claims Secured by Residential Property	3,955,706	-	3,955,706	-	3,282,387	83%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs) <sup>(i)</sup>	3,882,544	-	3,882,544	-	5,220,304	134%
Higher-risk Categories	6,158	-	6,158	-	9,237	150%
Cash Items and Other Assets	3,776,034	-	3,776,034	-	2,512,372	67%
<b>Total</b>	<b>124,496,224</b>	<b>25,754,471</b>	<b>114,882,339</b>	<b>2,682,226</b>	<b>70,805,443</b>	<b>60%</b>

Notes: (i) NPA's - As per Banking Act Directions No. 03 of 2008 (as amended subsequently) on classification of Loans and Advances, income recognition and provisioning.

(ii) RWA Density - Total RWA/Exposures post CCF and CRM.

## Market Risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. It is managed under the market risk policies and processes to obtain the best balances of risk and return whilst meeting customer requirements.

The market risk subject to the capital charge requirements are:

- The Risk pertaining to Interest rate related instruments in the trading portfolios
- The Risk pertaining to the equities in the trading portfolios
- The Risk pertaining to the foreign exchange position.

The Bank follows the Standardized measurement method for computing the capital charge for exposures capture under market risk.

Below shows the RWA for market risk under Standardized Approach method:

**Table F - Market Risk under Standardized Measurement Method**

Item	RWA Amount (Rs.'000)
	as at 30.09.2017
<b>(a) RWA for Interest Rate Risk</b>	<b>31,652</b>
General Interest Rate Risk	31,652
(i) Net Long or Short Position	31,652
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
<b>(b) RWA for Equity</b>	<b>2,740</b>
(i) General Equity Risk	1,370
(ii) Specific Equity Risk	1,370
<b>(c) RWA for Foreign Exchange &amp; Gold</b>	<b>15,846</b>
<b>Risk Weighted Amount for Market Risk ((a+b+c) * Reciprocal of Total Capital Ratio)</b>	<b>446,564</b>

## Operational Risk

Operational risk is the potential for loss arising from the failure of people, processes or technology or the impact of external events. Operational risk exposures are managed through a set of processes that drive risk identification, assessment, control and monitoring. The senior management team under the guidance of the Board is responsible for overseeing potential risk across the Bank.

The Bank computes capital charges for operational risk based on the Basic Indicator Approach (BIA). When compared to other approaches, BIA is not an advanced approach. Therefore, the Bank is in the process of collecting information to move to 'The Standardized Approach (TSA)' with the prior approval of CBSL.

Capital Requirement under BIA is given below;

**Table G - Operational Risk under Basic Indicator Approach**

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 30.09.2017		
			1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year
<b>The Basic Indicator Approach</b>	15%		6,798,790	6,088,556	5,430,900
<b>The Standardized Approach</b>					
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%				
Commercial Banking	15%				
<b>The Alternative Standardized Approach</b>					
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%	0.035			
Commercial Banking	15%	0.035			
<b>Capital Charges for Operational Risk</b>					
The Basic Indicator Approach					<b>915,912</b>
The Standardized Approach					N/A
The Alternative Standardized Approach					N/A
<b>Risk Weighted Amount for Operational Risk</b>					
The Basic Indicator Approach					<b>8,141,443</b>
The Standardized Approach					N/A
The Alternative Standardized Approach					N/A

**Table H - Reconciliation of Regulatory Capital to Financial Statements**

Item	Amount (Rs. '000) as at 30.09.2017				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
<b>Assets</b>	<b>127,049,093</b>	<b>127,022,450</b>	<b>124,035,320</b>	<b>2,694,511</b>	<b>292,620</b>
Cash and Cash Equivalents	1,477,905	1,477,905	1,477,905	-	-
Balances with Central Bank of Sri Lanka	6,252,231	6,252,231	6,252,231	-	-
Placements with Banks	153,171	153,171	153,171	-	-
Derivative Financial Instruments	39,071	39,071	-	39,071	-
Other Financial Assets Held-For-Trading	2,655,440	2,655,440	-	2,655,440	-
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	688,831	688,831	688,831	-	-
Loans and Receivables to Other Customers	99,780,320	99,979,084	9,979,084	-	-
Financial Investments - Available-For-Sale	6,158	6,158	6,158	-	-
Financial Investments - Held-to-Maturity	12,971,094	12,971,094	12,971,094	-	-
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	1,991,883	1,991,883	1,991,883	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	292,620	292,620	-	-	292,620
Deferred Tax Assets	-	-	-	-	-
Other Assets	740,370	514,963	514,963	-	-
<b>Liabilities</b>	<b>127,049,095</b>	<b>127,022,450</b>	-	-	-
Due to Banks	4,177,382	4,177,382	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Other Financial Liabilities Held-for-Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	95,634,252	95,762,776	-	-	-
Other Borrowings	7,221,126	7,270,605	-	-	-
Debt Securities Issued	3,989,834	4,002,295	-	-	-
Current Tax Liabilities	529,773	503,149	-	-	-
Deferred Tax Liabilities	532,437	551,556	-	-	-
Other Provisions	146,288	145,353	-	-	-
Other Liabilities	1,206,310	1,159,560	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	3,215,325	3,215,325	-	-	-

**Table H - Reconciliation of Regulatory Capital to Financial Statements (Contd.)**

Item	Amount (Rs '000) as at 30.09.2017				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
<b>Shareholders' Equity</b>					
Equity Capital (Stated Capital)/Assigned Capital	3,614,253	3,614,253	-	-	-
-of which Amount Eligible for CET1	3,614,253	3,614,253	-	-	-
-of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	5,676,842	5,520,458	-	-	-
Accumulated Other Comprehensive Income	-	-	-	-	-
Other Reserves	1,105,272	1,099,738	-	-	-
<b>Total Shareholders' Equity</b>	<b>10,396,367</b>	<b>10,234,449</b>	-	-	-
<b>Off-Balance Sheet Liabilities</b>					
Guarantees	2,667,525	2,667,525	2,667,525	-	-
Performance Bonds	723,291	723,291	723,291	-	-
Letters of Credit	1,497,173	1,497,173	1,497,173	-	-
Other Contingent Items	14,185,914	14,185,914	14,185,914	-	-
Undrawn Loan Commitments	10,368,628	10,368,628	10,368,628	-	-
Other Commitments	-	-	-	-	-