
Pan Asia Banking Corporation PLC

Basel III - Pillar 3 Disclosures

As at 30th June 2021



Company Registration No. PQ 48

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

Pan Asia Banking Corporation PLC
Pillar 3 Disclosures
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Introduction

The Bank recognizes, best corporate governance practices jointly with effective risk management techniques directs the Bank towards sustainable achievement in business goals while staying above the minimum regulatory requirements. Banks usually operate in a vulnerable environment and are highly exposed to risk. Therefore, the Bank places a higher emphasis on a continuous basis on improving risk management processes and operating with sufficient level of capital to support its risk absorption capacity and business expansions. The Bank's risk management team has to play a vital role in maintaining prudential risk management practices across the Bank which enables early detection of downside risks in all its businesses and other operations.

Based on empirical data and close analysis of market behavior, the Bank is of the belief that effective investment in robust risk management practices would facilitate in mitigates the credit, market, operational and the other risk factors facing the Bank.

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

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 of Licensed Banks.

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

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

Pillar 1 - Minimum Capital Requirements and Buffers

Commencing from 1st July 2017, every LCB & LSB has to comply with minimum capital ratios and the buffers as prescribed in the direction. The minimum required capitals ratios vary among the banks depending on the size of the asset base. For the purpose of the direction, the Central Bank of Sri Lanka has identified banks with over Rs.500 billion asset base as “Domestic Systemically Important Banks (D-SIBs)” and prescribed higher minimum Capital buffers than that of the banks with less than Rs.500 billion assets.

Accordingly, the banks have to maintain capital ratios and the buffers as prescribed in the below tables;

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

Components of Capital	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	8.50%
Total Tier 1 Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	10.00%
Total Capital Ratio Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	14.00%

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

Components of Capital	01.01.2019
Common Equity Tier 1 Including Capital Conservation Buffer	7.00%
Total Tier 1 Including Capital Conservation Buffer	8.50%
Total Capital Ratio Including Capital Conservation Buffer	12.50%

Since the Bank’s asset base is below Rs. 500 billion at the moment, minimum capital ratio requirement stipulated in Table 2 applies.

However under the extraordinary measures taken by the Central Bank of Sri Lanka to provide flexibility to licensed banks to support COVID-19 affected business and individuals, as an immediate measure the Central Bank has permitted Non- DSIBs to drawdown their Capital Conservation Buffer (CCB) by 50 bps until further notice. Hence, the Bank minimum capital ratio requirements have been come down by 0.5% with effect from 31.03.2020.

Revised Minimum Capital Ratio Requirement for Banks with Assets less than Rs.500 billion (Table 3)

Components of Capital	31.03.2020
Common Equity Tier 1 Including Capital Conservation Buffer	6.50%
Total Tier 1 Including Capital Conservation Buffer	8.00%
Total Capital Ratio Including Capital Conservation Buffer	12.00%

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

The Bank needs to maintain adequate capital buffers to safeguard itself from the exposures to risk as specified in the direction. Under Pillar 2, a Board approved ICAAP document needs to be submitted to the Central Bank 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 needs 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. (risks which are not specifically addressed under Pillar 1)

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

Pillar 3 - Disclosure Requirements

Commencing from 1st July 2017, the Bank needs to disclose the regulator prescribed key information in relation to regulatory capital, liquidity and risk management with the published financial statements, in the annual report and 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 are 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 Leverage Ratio
 - iv) Basel III Computation of Liquidity Coverage Ratio
 - v) Basel III Computation of Net Stable Funding Ratio
 - vi) Main Features of Regulatory Capital Instruments

- 2) Risk Weighted Assets (RWA)
 - i) Capital Management
 - ii) Credit Risk 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

Table A - Key Regulatory Ratios - Capital and Liquidity

As at	30.06.2021	31.12.2020
Regulatory Capital (Rs '000)		
Total Common Equity Tier 1 Capital	14,657,973	14,657,973
Common Equity Tier 1 Capital	14,330,595	14,311,276
Tier 1 Capital	14,330,595	14,311,276
Total Capital	17,084,362	17,014,768
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (<i>Minimum Requirement -6.50%</i>)	12.59	13.24
Tier 1 Capital Ratio (<i>Minimum Requirement -8%</i>)	12.59	13.24
Total Capital Ratio (<i>Minimum Requirement -12%</i>)	15.01	15.74
Leverage Ratio (<i>Minimum Requirement - 3%</i>)	6.97	6.70
Regulatory Liquidity		
Statutory Liquid Assets DBU (Rs'000)	52,246,489	43,213,986
Statutory Liquid Assets OBU (USD'000)	30,573	23,418
Statutory Liquid Assets Ratio (<i>Minimum Requirement - 20%</i>)		
Domestic Banking Unit (%)	31.00	27.83
Off-Shore Banking Unit (%)	50.37	42.36
Liquidity Coverage Ratio (<i>Minimum Requirement -90%</i>)		
Rupee (%)	229.81	177.36
All Currency (%)	268.04	211.57
Net Stable Funding Ratio (%) (<i>Minimum Requirement - 90%</i>)	122.39	116.80

Capital Structure and Capital Adequacy

The Bank's capital structure according to the Banking Act 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;

- 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,

- Eligible Subordinated Debt (limited to 50% of CET 1 Capital)
- 100% of impairment for assets in Stage 1 & 50% of impairment for assets in Stage 2 under SLFRS subject to maximum limit of 1.25% RWA in Credit Risk
- Approved Revaluation Surpluses on Freehold Land and Building (Subject to a discount of 50%)

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

Table B- Basel III Computation of Capital Ratios

As at	30.06.2021 Rs'000	31.12.2020 Rs'000
Common Equity Tier 1 (CET1) Capital after Adjustments	14,330,595	14,311,276
Common Equity Tier 1 (CET1) Capital	14,657,973	14,657,973
Equity Capital - Stated Capital	3,614,253	3,614,253
Reserve Fund	641,125	641,125
Published Retained Earnings	10,424,886	10,424,886
Published Accumulated Other Comprehensive Income (OCI)	(22,292)	(22,292)
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Losses and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank	-	-
Total Adjustments to CET1 Capital	327,379	346,697
Goodwill (net)	-	-
Intangible Assets (net)	327,379	346,697
Others	-	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others	-	-
Tier 2 Capital after Adjustments	2,753,768	2,703,492
Tier 2 Capital	2,753,768	2,703,492
Qualifying Tier 2 Capital Instruments	820,000	820,000
Revaluation Gains	673,872	676,690
Loan Loss Provisions	1,259,896	1,206,802
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and	-	-
Total Adjustments to Tier 2 Capital	-	-
Investment in Own Shares	-	-
Others	-	-
CET1 Capital	14,330,595	14,311,276
Total Tier 1 Capital	14,330,595	14,311,276
Total Capital	17,084,362	17,014,768
Total Risk Weighted Assets (RWA)	113,828,476	108,118,388
RWAs for Credit Risk	100,791,671	96,544,148
RWAs for Market Risk	1,047,833	178,491
RWAs for Operational Risk	11,988,972	11,395,748
CET1 Capital Adequacy Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	12.59	13.24
of which: Capital Conservation Buffer (%)	2.00	2.00
Total Tier 1 Capital Adequacy Ratio (%)	12.59	13.24
Total Capital Adequacy Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	15.01	15.74
of which: Capital Conservation Buffer (%)	2.00	2.00

* The increase in credit risk during the period is due to increase in loans and advances of the Bank during first 6 months of the year.

Leverage Ratio

The Basel Committee on Banking Supervision (BCBS) introduced a leverage ratio in the 2010 under Basel III package of reforms with intention of introducing a framework with a simple, transparent, non-risk based.

The Leverage Ratio to act as a credible supplementary measure to the risk based capital requirement in order to restrict the build-up of leverage in the banking sector, helping to avoid any destabilizing deleveraging processes which can damage the broader financial system and the economy, and reinforce the risk-based requirements with a simple, non-risk based “backstop” measure.

The Central Bank has issued Direction No 12 of 2018 on “Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialized Banks” on 28th December 2018.

Minimum Leverage Ratio requirement for licensed banks is 3% and need to be computed as prescribed below.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}} \times 100$$

Capital Measure is the Tier 1 Capital as specified in the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III and both on and off balance sheet exposures including derivative exposures has to be considered under exposure measure.

Computation of Leverage Ratio

As at	30.06.2021 Rs'000	31.12.2020 Rs'000
Tier 1 Capital	14,330,595	14,311,276
Total Exposures	205,705,327	213,562,780
On-Balance Sheet Items (excluding Derivatives and securities Financing Transactions, but including Collateral)	179,227,987	172,731,290
Derivative Exposures	15,560,861	34,007,390
Securities Financing Transaction Exposures	7,849,860	3,862,420
Other Off-Balance Sheet Exposures	3,066,619	2,961,680
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)*100	6.97	6.70

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	N/A
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	17.07.2020
Par Value of Instrument (Rs.)	N/A	100
Perpetual or Dated	Perpetual	Dated
Original Maturity Date	N/A	16.07.2025
Regulatory Treatment		
Instrument Type	Common Equity Tier 1	Tier 2 Capital
Amount recognized in Regulatory Capital (in Rs. Mn as at 30 th June 2021)	3,614	820
Accounting Classification (Equity/Liability)	Shareholders' Equity	Liability (Debenture Issued)
Issuer Call subject to Prior Supervisory Approval	No	Yes
Optional Call Date, Contingent Call Dates and Redemption Amount	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.820mn) plus accrued interest
Coupons/Dividends		
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Fixed Rate
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	14% (Semi Annual Interest Payment)
Non-Cumulative or Cumulative	Non Cumulative	Non Cumulative
Convertible or Non-Convertible	Non-Convertible	Convertible
If Convertible, Conversion Trigger (s)	N/A	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in

		the Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	N/A	Fully
If Convertible, Mandatory or Optional	N/A	Mandatory
If Convertible, Conversion Rate	N/A	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.

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 and Licensed Specialized Banks” on 31st March 2015.

Commencing from 1st April 2015, the Bank has to maintain LCR Ratio for all currencies and for rupee as stipulated in the direction. The minimum ratio requirement is 100%.

However, the Monetary Board of the Central Bank granted approval to licensed banks to operate maintaining a LCR at 90% up to 30.06.2021 as the possible adverse impact on liquidity and other key performance indicators of licensed banks due to the implementation of the credit support scheme to assist COVID-19 hit businesses and individuals, and the need to meet other urgent liquidity needs, considers it imperative to strengthen the liquidity position of the banks.

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 reporting period and the previous period. The Bank maintained LCR for the Rupee & all currencies well above the minimum requirement.

Table D - LCR Disclosure Template

As at	30.06.2021		31.12.2020	
	Total Un-weighted Value Rs'000	Total Weighted Value Rs'000	Total Un-weighted Value Rs'000	Total Weighted Value Rs'000
Total Stock of High-Quality Liquid Assets (HQLA)	34,094,011	32,936,008	36,465,187	35,652,169
Total Adjusted Level 1 Assets	26,373,993	26,411,786	30,112,052	30,112,052
Level 1 Assets	26,373,993	26,373,993	30,252,004	30,252,004
Total Adjusted Level 2A Assets	7,720,018	6,562,015	6,353,135	5,400,165
Level 2A Assets	7,720,018	6,562,015	6,353,135	5,400,165
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	163,794,350	20,922,411	157,505,009	20,530,867
Deposits	126,682,437	11,372,664	121,646,939	10,827,541
Unsecured Wholesale Funding	16,550,957	9,349,084	15,122,034	9,477,884
Secured Funding Transactions	205,864	-	655,000	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	20,307,046	152,617	20,652,276	141,682
Additional Requirements	48,046	48,046	83,759	83,759
Total Cash Inflows	15,884,297	8,634,553	7,484,691	3,679,417
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	15,705,432	8,634,553	7,230,484	3,679,417
Operational Deposits	178,865	-	254,208	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days) *100		268.04%		211.57%

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding. “Available stable funding” is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the Net Stable Funding Ratio, which extends to one year.

The Central Bank has issued Direction No 08 of 2018 on “Net Stable Funding Ratio under Basel III liquidity Standards for Licensed Commercial Banks and Licensed Specialized Banks” on 21st November 2018. The minimum ratio requirement is 100%.

Effective Date	01.07.2019
Minimum Requirement	100%

However, the Monetary Board of the Central Bank granted approval to licensed banks to operate maintaining a NSFR at 90% up to 30.06.2021 as the possible adverse impact on liquidity and other key performance indicators of licensed banks due to the implementation of the credit support scheme to assist COVID-19 hit businesses and individuals, and the need to meet other urgent liquidity needs, considers it imperative to strengthen the liquidity position of the banks.

Available Stable Funding

Available Stable Funding (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon of one year. ASF factors such as 100%, 90%, 50% & 0% assigned according to presumed degree of stability of funding.

Required Stable Funding

Required Stable Funding (RSF) is a function of liquidity characteristics and residual maturities of various assets held and those of its off-balance sheet (OBS) exposures. RSF factors such as 0%, 5%, 10%, 15%, 50%, 65%, 85% and 100% are assigned to different asset categories accordingly.

Computation of Net Stable Funding Ratio

As at	30.06.2021 Rs'000	31.12.2020 Rs'000
Total Available Stable Funding	149,327,510	144,105,747
Required Stable Funding – On Balance Sheet Assets	121,868,875	123,240,780
Required Stable Funding – Off Balance Sheet Items	141,421	132,673
Total Required Stable Funding	122,010,296	123,373,453
NSFR	122.39%	116.80%

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.

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

Asset Class	Amount (Rs'000) as at 30.06.2021					
	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 (%) ⁽ⁱⁱ⁾
Claims on Central Government and Central Bank of Sri Lanka	49,109,369	-	41,109,369	-	1,544,552	4%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Bank's Exposures	1,871,972	17,183,646	1,871,972	355,342	1,181,640	53%
Claims on Financial Institutions	406,414	301,195	406,414	1,195	407,609	100%
Claims on Corporates	17,517,933	3,291,457	14,443,163	464,891	14,517,028	97%
Retail Claims	99,398,547	15,738,677	89,626,983	2,328,504	70,945,218	77%
Claims Secured by Gold	6,390,329	-	6,390,329	-	1,139,058	18%
Claims Secured by Residential Property	4,026,426	-	4,026,426	-	2,724,715	68%
Claims Secured by Commercial Real Est.	-	-	-	-	-	-
Non-Performing Assets (NPAs) ⁽ⁱ⁾	4,525,497	-	4,525,497	-	4,814,096	106%
Higher-risk Categories	3,752	-	3,752	-	5,628	150%
Cash Items and Other Assets	5,511,401	-	5,511,401	-	3,512,126	64%
Total Assets	188,761,641	36,514,975	167,915,306	3,149,932	100,791,671	59%

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

Table F - Market Risk under Standardized Measurement Method

As at 30th June 2021	RWA Amount Rs'000
(a) RWA for Interest Rate Risk	-
General Interest Rate Risk	-
(i) Net Long or Short Position	-
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
(i) General Equity Risk	-
(ii) Specific Equity Risk	-
(c) RWA for Foreign Exchange & Gold	125,740
Risk Weighted Amount for Market Risk ((a+b+c) * Reciprocal of Total Capital Ratio)	1,047,833

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).

Capital Requirement under BIA is given below;

Table G - Operational Risk under Basic Indicator Approach

As at 30th June 2021 Business Lines	Capital Charge Factor	Fixed Factor	Gross Income		
			1 st Year Rs'000	2 nd Year Rs'000	3 rd Year Rs'000
The Basic Indicator Approach	15%	-	10,151,759	9,577,075	9,044,698
The Standardised Approach					
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%	-	-	-	-
The Alternative Standardised Approach					
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	-	-	-
Capital Charges for Operational Risk (LKR'000)					
The Basic Indicator Approach					1,438,677
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach					11,988,972

Table H - Reconciliation of Regulatory Capital to Financial Statements

As at 30th June 2021	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
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Assets	187,405,226	187,618,235	187,276,236	14,621	327,379
Cash and Cash Equivalents	2,174,734	2,175,812	2,175,812	-	-
Balances with Central Bank	2,651,976	2,651,976	2,651,976	-	-
Placements with Banks	1,249,275	1,250,170	1,250,170	-	-
Derivative Financial Instruments	14,621	14,621	-	14,621	-
Loans and Advances - at Amortized Cost	129,737,920	130,840,219	130,840,219	-	-
Debt and Other Instruments - at Amortized Cost	46,422,856	46,822,847	46,822,847	-	-
Financial Assets - FVOCI	3,752	3,752	3,752	-	-
Property, Plant and Equipment	2,267,631	2,267,631	2,267,631	-	-
Right-of-Use Assets	1,030,498	-	-	-	-
Intangible Assets	327,379	327,379	-	-	327,379
Other Assets	1,524,584	1,263,829	1,263,829	-	-
Liabilities	187,405,226	187,618,235	-	-	-
Due to Banks	3,336,739	3,336,739	-	-	-
Derivative Financial Instruments	20,737	20,737	-	-	-
Due to Depositors - at Amortized Cost	146,897,970	147,100,240	-	-	-
Due to Debt Securities holders - at Amortized Cost	13,711,621	13,759,264	-	-	-
Debentures Issued	871,896	871,896	-	-	-
Current Tax Liabilities	1,126,463	1,359,622	-	-	-
Deferred Tax Liabilities	97,514	196,835	-	-	-
Other Provisions and Accruals	256,067	253,543	-	-	-
Other Liabilities	4,282,251	3,229,929	-	-	-
Off-Balance Sheet Liabilities			-	-	-
Guarantees	3,001,628	3,001,628	3,001,628	-	-
Performance Bonds	1,016,176	1,016,176	1,016,176	-	-
Letters of Credit	1,950,464	1,950,464	1,950,464	-	-
Other Contingent Items	21,954,076	21,954,076	21,954,076	-	-
Undrawn Loan Commitments	14,338,778	14,338,778	14,338,778	-	-
Shareholders' Equity			-	-	-
Equity Capital - Stated 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	11,537,298	12,242,874	-	-	-
Other Reserves	1,652,417	1,632,304	-	-	-
Total Shareholders' Equity	16,803,968	17,489,431	-	-	-