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# **Pan Asia Banking Corporation PLC**

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

### **As at 30<sup>th</sup> June 2019**

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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**  
**30th June 2019**

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## Introduction

The Bank recognizes, best corporate governance practices jointly with effective risk management techniques direct Bank towards the 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 down side risks in all its businesses and other operations.

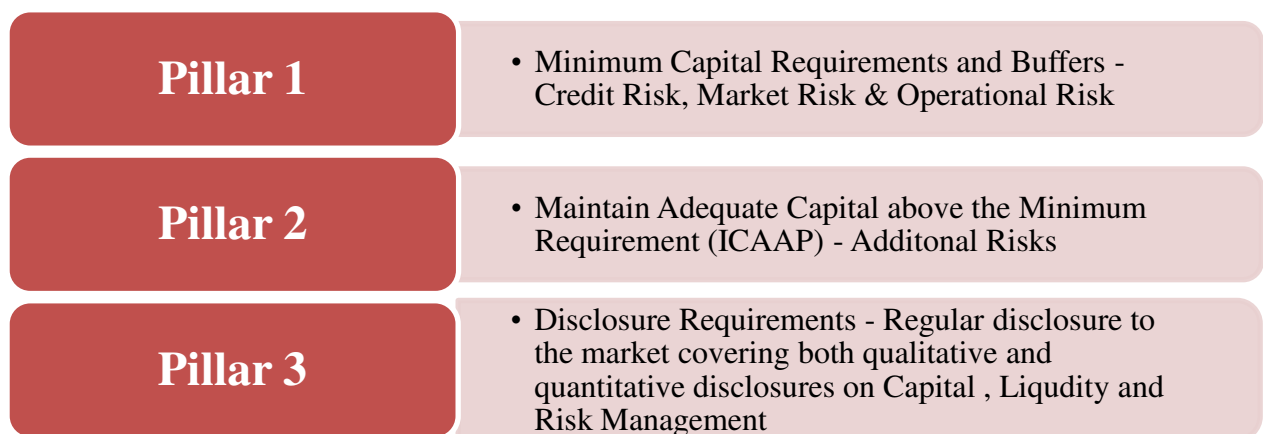
Based on historical data and careful analysis of market behavioural factors, the Bank is affirmative that effective investment in better risk management systems and processes would facilitate to mitigate the credit risk, market risk and the operational risk factors face by the Bank.

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 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 (LCB's) and Licensed Specialized Banks (LSB's) 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 - Minimum Capital Requirements and Buffers**

Commencing from 01st 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 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 than that of the banks with less than Rs.500 billion assets.

Accordingly, 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)**

<b>Components of Capital</b>	<b>01.01.2019</b>
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)**

<b>Components of Capital</b>	<b>01.01.2019</b>
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 is applicable. The Banks is in the process of pursuing the capital sources and taking measures to improve credit quality of the asset book to comply with the additional capital requirements arise with increase of capital conservation buffer by 0.625% effective from 01<sup>st</sup> January 2019.

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

The Bank needs to maintain adequate capital buffers to safeguard itself from the risk exposures as specified in the direction. Under Pillar 2, a Board approved ICAAP document needs to be submitted to 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 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, 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 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	30.06.2019	31.12.2018
<b>Regulatory Capital (Rs '000)</b>		
Total Common Equity Tier 1 Capital	12,095,648	11,341,900
Common Equity Tier 1 Capital	11,801,432	11,036,817
Tier 1 Capital	11,801,432	11,036,817
Total Capital	13,302,533	12,767,157
<b>Regulatory Capital Ratios (%)</b>		
Common Equity Tier 1 Capital Ratio ( <i>Minimum Requirement -7.00%</i> )	12.67	11.51
Tier 1 Capital Ratio ( <i>Minimum Requirement -8.50%</i> )	12.67	11.51
Total Capital Ratio ( <i>Minimum Requirement -12.50%</i> )	14.28	13.32
Leverage Ratio ( <i>Minimum Requirement - 3%</i> )	6.78	N/A
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets DBU (Rs'000)	49,501,962	41,565,575
Statutory Liquid Assets OBU (USD'000)	19,106	14,393
Statutory Liquid Assets Ratio ( <i>Minimum Requirement - 20%</i> )		
Domestic Banking Unit (%)	33.73	29.17
Off-Shore Banking Unit (%)	20.43	20.09
Liquidity Coverage Ratio (%)		
Rupee ( <i>Minimum Requirement - 2019 : 100%</i> )	205.55	166.08
All Currency ( <i>Minimum Requirement - 2019 : 100%</i> )	222.64	136.52
Net Stable Funding Ratio (%) - ( <i>Minimum Requirement - 2019 : 90%</i> )	133.54	N/A

**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)
- General provision for Performing and Special Mention Credit Facilities (limited to 1.25% of risk weighted assets on credit risk)
- Approved 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

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

As at	30.06.2019 Rs'000	31.12.2018 Rs'000
<b>Common Equity Tier 1 (CET1) Capital after Adjustments</b>	<b>11,801,432</b>	<b>11,036,817</b>
<b>Common Equity Tier 1 (CET1) Capital</b>	<b>12,095,648</b>	<b>11,341,900</b>
Equity Capital - Stated Capital	3,614,253	3,614,253
Reserve Fund	451,189	451,189
Published Retained Earnings	7,294,841	7,294,841
Published Accumulated Other Comprehensive Income (OCI)	(18,383)	(18,383)
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Losses and Gains reflected in OCI	753,748	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the	-	-
<b>Total Adjustments to CET1 Capital</b>	<b>294,216</b>	<b>305,083</b>
Goodwill (net)	-	-
Intangible Assets (net)	294,216	305,083
Others	-	-
<b>Additional Tier 1 (AT1) Capital after Adjustments</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 (ATI) Capital</b>	<b>-</b>	<b>-</b>
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank	-	-
<b>Total Adjustments to AT1 Capital</b>	<b>-</b>	<b>-</b>
Investment in Own Shares	-	-
Others	-	-
<b>Tier 2 Capital after Adjustments</b>	<b>1,501,101</b>	<b>1,730,340</b>
<b>Tier 2 Capital</b>	<b>1,501,101</b>	<b>1,730,340</b>
Qualifying Tier 2 Capital Instruments	150,000	450,000
Revaluation Gains	310,201	311,906
Loan Loss Provisions	1,040,900	968,434
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank	-	-
<b>Total Adjustments to Tier 2 Capital</b>	<b>-</b>	<b>-</b>
Investment in Own Shares	-	-
Others	-	-
<b>CET1 Capital</b>	<b>11,801,432</b>	<b>11,036,817</b>
<b>Total Tier 1 Capital</b>	<b>11,801,432</b>	<b>11,036,817</b>
<b>Total Capital</b>	<b>13,302,533</b>	<b>12,767,157</b>
<b>Total Risk Weighted Assets (RWA)</b>	<b>93,154,152</b>	<b>95,854,315</b>
RWAs for Credit Risk	83,272,015	86,562,741
RWAs for Market Risk	707,677	51,471
RWAs for Operational Risk	9,174,461	9,240,103
<b>CET1 Capital Adequacy Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	<b>12.67</b>	<b>11.51</b>
of which: Capital Conservation Buffer (%)	2.50	1.88
<b>Total Tier 1 Capital Adequacy Ratio (%)</b>	<b>12.67</b>	<b>11.51</b>
<b>Total Capital Adequacy Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer &amp; Surcharge on D-SIBs) (%)</b>	<b>14.28</b>	<b>13.32</b>
of which: Capital Conservation Buffer (%)	2.50	1.88

\* The decrease in credit risk during the period is due to drop in loans and advances of the Bank during first half 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 destabilising 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"

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 28<sup>th</sup> December 2018.

Commencing I January 2019, the minimum Leverage Ratio for licensed banks shall be 3 % and need to be computed as prescribed below.

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

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	30.06.2019 Rs'000	31.12.2018 Rs'000
<b>Tier 1 Capital</b>	<b>11,801,432</b>	N/A
<b>Total Exposures</b>	<b>174,006,729</b>	N/A
On-Balance Sheet Items (excluding Derivatives and securities Financing Transactions, but including Collateral)	147,213,815	N/A
Derivative Exposures	20,566,707	N/A
Securities Financing Transaction Exposures	3,444,243	N/A
Other Off-Balance Sheet Exposures	2,781,964	N/A
<b>Basel III Leverage Ratio (%) (Tier 1/Total Exposure)</b>	<b>6.78</b>	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 30 <sup>th</sup> June 2019)	3,614	150
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 reporting period and the previous period. The Bank has to maintain 100% as LCR for year 2019 and onwards for both Rupee and all currencies.

**Table D - LCR Disclosure Template**

As at	30.06.2019		31.12.2018	
	Total Un-weighted Value Rs'000	Total Weighted Value Rs'000	Total Un-weighted Value Rs'000	Total Weighted Value Rs'000
<b>Total Stock of High-Quality Liquid Assets (HQLA)</b>	<b>23,634,337</b>	<b>22,809,432</b>	<b>19,562,913</b>	<b>19,235,760</b>
<b>Total Adjusted Level 1 Assets</b>	<b>20,032,211</b>	<b>20,032,211</b>	<b>18,878,000</b>	<b>18,878,000</b>
<b>Level 1 Assets</b>	<b>19,994,466</b>	<b>19,994,466</b>	<b>18,893,304</b>	<b>18,893,304</b>
<b>Total Adjusted Level 2A Assets</b>	<b>2,896,865</b>	<b>2,462,335</b>	-	-
<b>Level 2A Assets</b>	<b>2,896,865</b>	<b>2,462,335</b>	-	-
<b>Total Adjusted Level 2B Assets</b>	<b>705,261</b>	<b>352,631</b>	<b>684,913</b>	<b>342,456</b>
<b>Level 2B Assets</b>	<b>705,261</b>	<b>352,631</b>	<b>684,913</b>	<b>342,456</b>
<b>Total Cash Outflows</b>	<b>149,662,738</b>	<b>26,552,366</b>	<b>148,465,439</b>	<b>29,718,169</b>
Deposits	106,458,174	9,263,114	97,383,964	8,243,853
Unsecured Wholesale Funding	7,314,860	3,650,413	18,516,396	9,548,582
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	22,362,913	112,047	20,700,844	61,499
Additional Requirements	13,526,792	13,526,792	11,864,235	11,864,235
<b>Total Cash Inflows</b>	<b>380,257</b>	<b>16,307,376</b>	<b>20,069,947</b>	<b>15,628,348</b>
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	-	2,716,146	7,615,787	3,994,423
Operational Deposits	380,257	-	820,235	-
Other Cash Inflows	-	13,591,230	11,633,925	11,633,925
<b>Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days) *100</b>		<b>222.64%</b>		<b>136.52%</b>

## Net Stable Funding Ratio

The Net stable funding ratio is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. “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. As per the directions, the NSFR requirement will be staggered and come to full effect effective from 01st July 2019.

Effective Date	01.01.2019	01.07.2019
Minimum Requirement	90%	100%

## Computation of Net Stable Funding Ratio

As at	30.06.2019 Rs'000	31.12.2018 Rs'000
Total Available Stable Funding	123,733,810	N/A
Required Stable Funding – On Balance Sheet Assets	92,561,969	N/A
Required Stable Funding – Off Balance Sheet Items	97,129	N/A
Total Required Stable Funding	92,659,097	N/A
<b>NSFR</b>	133.54%	N/A

### 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.

## 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 30.06.2019					
	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	38,571,102	-	38,507,323	-	2,799,607	7%
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	791,269	24,873,167	791,269	497,463	1,099,571	85%
Claims on Financial Institutions	1,906,429	1,101,977	1,906,429	1,200	1,096,762	57%
Claims on Corporates	17,786,301	1,458,245	14,433,709	411,069	13,834,402	93%
Retail Claims	75,953,983	19,088,269	66,662,998	2,144,055	53,689,368	78%
Claims Secured by Gold	3,081,618	-	3,081,618	-	265,595	9%
Claims Secured by Residential Property	4,791,388	-	4,791,388	-	3,599,041	75%
Claims Secured by Commercial Real Est.	-	-	-	-	-	-
Non-Performing Assets (NPAs) <sup>(i)</sup>	3,739,296	-	3,718,198	-	4,375,709	118%
Higher-risk Categories	6,158	-	6,158	-	9,237	150%
Cash Items and Other Assets	4,060,590	-	4,060,590	-	2,502,723	62%
<b>Total Assets</b>	<b>150,688,132</b>	<b>46,521,659</b>	<b>137,959,679</b>	<b>3,053,787</b>	<b>83,272,015</b>	<b>59%</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

- The Bank followed a prudent approach growing its loan book during last 06 months, reacting to steep deterioration in the asset quality in the industry and with the objective of maintaining healthy capital ratios.

## 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**

<b>As at 30th June 2019</b>	<b>RWA Amount Rs'000</b>
<b>(a) RWA for Interest Rate Risk</b>	<b>62,906</b>
General Interest Rate Risk	62,906
(i) Net Long or Short Position	62,906
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
<b>(b) RWA for Equity</b>	<b>2,651</b>
(i) General Equity Risk	1,325
(ii) Specific Equity Risk	1,325
<b>(c) RWA for Foreign Exchange &amp; Gold</b>	<b>22,903</b>
<b>Risk Weighted Amount for Market Risk ((a+b+c) * Reciprocal of Total Capital Ratio)</b>	<b>707,677</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**

As at 30th June 2019 Business Lines	Capital Charge Factor	Fixed Factor	Gross Income		
			1 <sup>st</sup> Year Rs'000	2 <sup>nd</sup> Year Rs'000	3 <sup>rd</sup> Year Rs'000
<b>The Basic Indicator Approach</b>	15%	-	9,044,698	7,357,011	6,534,442
<b>The Standardised 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 Standardised 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 (LKR'000)</b>					
The Basic Indicator Approach					<b>1,146,808</b>
<b>Risk Weighted Amount for Operational Risk (LKR'000)</b>					
The Basic Indicator Approach					<b>9,174,461</b>

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

As at 30th June 2019	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
<b>Assets</b>	<b>150,296,750</b>	<b>151,135,509</b>	<b>149,523,447</b>	<b>1,317,846</b>	<b>294,216</b>
Cash and Cash Equivalents	1,932,256	1,933,636	1,933,636	-	-
Balances with Central Bank	5,212,272	5,212,272	5,212,272	-	-
Derivative Financial Instruments	614	614	-	614	-
Financial Assets recognized through Profit or Loss	1,317,232	1,317,232	-	1,317,232	-
Loans and Advances - at Amortized Cost	104,202,742	106,065,692	106,065,692	-	-
Debt and Other Instruments - at Amortized Cost	33,659,834	33,769,345	33,769,345	-	-
Financial Assets - Fair Value through Other	6,158	6,158	6,158	-	-
Property, Plant and Equipment	1,884,170	1,884,170	1,884,170	-	-
Intangible Assets	294,216	294,216	-	-	294,216
Deferred Tax Asset	99,355	-	-	-	-
Other Assets	1,687,901	652,174	652,174	-	-
<b>Liabilities</b>	<b>150,296,750</b>	<b>151,135,509</b>	-	-	-
Due to Banks	574,884	574,884	-	-	-
Derivative Financial Instruments	47	47	-	-	-
Due to Depositors - at Amortized Cost	117,782,582	118,137,162	-	-	-
Due to Debt Securities holders - at Amortized Cost	10,104,280	10,148,899	-	-	-
Senior Debentures	2,764,707	2,766,176	-	-	-
Current Tax Liabilities	791,124	894,598	-	-	-
Deferred Tax Liabilities	-	234,621	-	-	-
Other Provisions and Accruals	215,446	214,636	-	-	-
Other Liabilities	2,921,067	2,176,019	-	-	-
Subordinated Debentures	3,142,221	3,142,221	-	-	-
<b>Off-Balance Sheet Liabilities</b>			-	-	-
Guarantees	2,568,887	2,568,887	2,568,887	-	-
Performance Bonds	819,201	819,201	819,201	-	-
Letters of Credit	1,426,364	1,426,364	1,426,364	-	-
Other Contingent Items	21,357,844	21,357,844	21,357,844	-	-
Undrawn Loan Commitments	17,548,461	17,548,461	17,548,461	-	-
<b>Shareholders' Equity</b>			-	-	-
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	7,314,548	8,165,954	-	-	-
Other Reserves	1,071,591	1,066,039	-	-	-
<b>Total Shareholders' Equity</b>	<b>12,000,392</b>	<b>12,846,246</b>	-	-	-