

Annexes 

Annex 3: Risk Management Report

Basel III – Disclosures under Pillar 3 as per the Banking Act Direction Number 01 of 2016

Disclosure 1

Key regulatory ratios – Capital and liquidity

As at December 31,	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Regulatory capital				
Common equity	109,879,697	95,725,306	107,110,518	94,151,253
Tier 1 capital	109,879,697	95,725,306	107,110,518	94,151,253
Total capital	150,167,520	123,989,935	147,398,341	122,415,882
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (minimum requirement – 7.375%) (with effect from January 1, 2018) (%)	11.431	12.122	11.338	12.111
Tier 1 capital ratio (minimum requirement – 8.785%) (with effect from January 1, 2018) (%)	11.431	12.122	11.338	12.111
Total capital ratio (minimum requirement – 12.875%) (with effect from January 1, 2018) (%)	15.623	15.701	15.603	15.746
Regulatory liquidity				
Statutory liquid assets (Rs. '000)			257,020,724	243,945,792
Statutory liquid assets ratio (minimum requirement – 20%)				
Domestic Banking Unit (%)			24.47	27.28
Offshore Banking Unit (%)			30.20	30.95
Liquidity coverage ratio (%) – Rupee (Minimum requirement – 90%) (with effect from January 1, 2018)			236.20	272.15
Liquidity coverage ratio (%) – All currency (Minimum requirement – 90%) (with effect from January 1, 2018)			238.69	209.17

Disclosure 2

Basel III computation of capital ratios

As at December 31,	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	109,879,697	95,725,306	107,110,518	94,151,253
Total common equity Tier 1 (CET1) capital	111,316,894	96,980,344	110,822,797	96,696,269
Equity capital (stated capital)/assigned capital	39,147,882	37,143,541	39,147,882	37,143,541
Reserve fund	7,444,403	6,492,552	7,354,143	6,476,952
Published retained earnings/(accumulated retained losses)	5,499,654	1,783,969	5,726,294	1,798,112
Published accumulated other comprehensive Income (OCI)	522,284	(1,501,321)	352,491	(1,522,156)
General and other disclosed reserves	58,241,987	52,799,820	58,241,987	52,799,820
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	460,684	261,783	-	-
Total adjustments to CET 1 capital	1,437,197	1,255,038	3,712,279	2,545,016
Goodwill (net)	400,045	400,045	-	-
Intangible assets (net)	1,033,339	851,180	906,114	776,812
Revaluation losses of property, plant and equipment	3,813	3,813	3,813	3,813
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	-	-	2,802,352	1,764,391
Additional Tier I (AT1) capital after adjustments	-	-	-	-
Total additional Tier I (AT1) capital	-	-	-	-
Qualifying additional Tier I capital instruments	-	-	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to AT1 Capital	-	-	-	-
Investment in own shares	-	-	-	-
Reciprocal cross holdings in AT1 capital instruments	-	-	-	-
Investments in the capital of banking and financial institutions where the Bank does not own more than 10% of the issued ordinary share capital of the entity	-	-	-	-
Significant investments in the capital of banking and financial institutions where the bank own more than 10% of the issued ordinary share capital of the entity	-	-	-	-
Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	-	-	-	-
Tier 2 capital after adjustments	40,287,823	28,264,629	40,287,823	28,264,629
Total Tier 2 capital	40,287,823	28,264,629	40,287,823	28,264,629
Qualifying Tier 2 capital instruments	33,103,574	22,799,002	33,103,574	22,799,002
Revaluation gains	3,087,658	2,024,804	3,087,658	2,024,804
General provision	4,096,591	3,440,823	4,096,591	3,440,823
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to Tier 2 capital	-	-	-	-
Investment in own shares	-	-	-	-
Others (specify)	-	-	-	-
CET 1 capital	109,879,697	95,725,306	107,110,518	94,151,253
Total Tier 1 capital	109,879,697	95,725,306	107,110,518	94,151,253
Total capital	150,167,520	123,989,935	147,398,341	122,415,882

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As at December 31,	GROUP		BANK	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total risk weighted amount	961,218,800	789,711,397	944,682,441	777,427,117
Risk weighted amount for credit risk	906,681,121	725,500,975	890,440,654	713,765,370
Risk weighted amount for market risk	15,786,211	6,303,710	15,707,609	6,303,710
Risk weighted amount for operational risk	38,751,468	57,906,712	38,534,178	57,358,037
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D – SIBs) (%)	11.431	12.122	11.338	12.111
Of which: capital conservation buffer (%)	1.875	1.250	1.875	1.250
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D – SIBs (%)	1.000	0.500	1.000	0.500
Total Tier I capital ratio (%)	11.431	12.122	11.338	12.111
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	15.623	15.701	15.603	15.746
Of which: capital conservation buffer (%)	1.875	1.250	1.875	1.250
Of which: countercyclical buffer (%)				
Of which: capital surcharge on D – SIBs (%)	1.000	0.500	1.000	0.500

Disclosure 3**Computation of leverage ratio**

As at December 31,	GROUP		BANK	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Tier I capital	109,879,697	95,725,306	107,110,518	94,151,253
Total exposures	1,857,698,877	1,626,970,079	1,841,358,688	1,613,561,019
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	1,307,181,461	1,151,136,046	1,290,856,264	1,137,316,666
Derivative exposures	398,880,824	328,406,037	398,880,824	328,817,950
Securities financing transaction exposures	52,188,205	61,017,837	52,188,205	61,017,837
Other off-balance sheet exposures	99,448,387	86,410,159	99,433,395	86,408,566
Basel III leverage ratio (%) (Minimum requirement 3%)	5.91	5.88	5.82	5.83

Disclosure 4**Basel III computation of liquidity coverage ratio**

As at December 31,	2018		2017	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total stock of High Quality Liquid Assets (HQLA)	160,707,217	153,018,792	167,783,592	167,583,281
Total adjusted level 1 assets	110,448,524	110,448,524	167,382,970	167,382,970
Level 1 assets	110,448,524	110,448,524	167,382,970	167,382,970
Total adjusted level 2A assets	49,831,202	42,356,522	-	-
Level 2A assets	49,831,202	42,356,522	-	-
Total adjusted level 2B assets	427,491	213,746	400,622	200,311
Level 2B assets	427,491	213,746	400,622	200,311
Total cash outflows	1,304,126,474	219,126,881	1,126,874,188	204,822,466
Deposits	767,129,947	76,712,994	647,140,480	64,714,048
Unsecured wholesale funding	233,365,717	106,526,815	228,997,705	111,382,639
Secured funding transaction	-	-	-	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	303,630,810	35,887,072	250,736,003	28,725,779
Additional requirements	-	-	-	-
Total cash inflows	253,447,001	155,019,572	190,872,659	124,705,986
Maturing secured lending transactions backed by the following collateral	61,274,814	54,621,691	37,491,907	37,069,704
Committed facilities	-	-	-	-
Other inflows by counterparty which are maturing within 30 calendar days	109,687,516	64,171,184	74,594,943	47,223,317
Operational deposits	24,920,222	-	11,301,982	-
Other cash inflows	57,564,449	36,226,697	67,483,827	40,412,965
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) *100		238.69		209.17

2016-2021 listed rated unsecured subordinated redeemable debentures	2016-2026 Listed rated unsecured subordinated redeemable debentures	2018-2023 Basel III compliant - Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion	2018-2028 Basel III Compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability Conversion	2013-2023 Floating rate subordinated loans – Tier 2 IFC borrowing
Commercial Bank	Commercial Bank	Commercial Bank	Commercial Bank	International Finance Corporation
Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	United States
October 28, 2016	October 28, 2016	July 23, 2018	July 23, 2018	March 13, 2013
Rs. 100/-	Rs. 100/-	Rs. 100/-	Rs. 100/-	
Dated	Dated	Dated	Dated	Dated
October 27, 2021	October 27, 2026	July 22, 2023	July 22, 2028	March 14, 2023
3,043,080	1,928,200	8,393,840	1,606,160	13,725,000
Liability	Liability	Liability	Liability	Liability
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
Fixed	Fixed	Fixed	Fixed	Floating
12% p.a.	12.25% p.a.	12% p.a.	12.5% p.a.	06 Months LIBOR + 5.75%
Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
N/A	N/A	A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of – (a) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR (b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board."	A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Directions No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of – (a) "A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR (b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board."	N/A
N/A	N/A	Fully	Fully	N/A
N/A	N/A	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.	Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.	N/A
N/A	N/A	The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.	The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.	N/A

Disclosure 6

Summary discussion on adequacy/meeting current and future capital requirements

Bank prepares the Corporate Plan and Budget on a rolling basis covering a period of 5 years which includes the computation of Capital Adequacy ratios (CARs).

The Bank carefully analyses the CARs against increases in risk-weighted assets underlying the budgeted expansion of business volumes. The Bank has set up an internal guideline on minimum CARs and ensures that appropriate measures are employed to improve the CARs are also built into the budget.

Budgeting process of the Bank encapsulates all future capital requirements of the Bank and this process invariably captures estimated capital expenditure and the business growth in determining the optimum level of capital to be maintained. The Bank has prepared a capital augmentation plan covering the capital sourced from both internally and externally. The Bank has a well established monitoring process to ensure the level of achievement against the pre-determine target and corrective action is taken for any deviations.

Besides, the Bank has a dynamic ICAAP process with rigorous stress testing embodied in addition to taking into consideration the qualitative aspects such as reputational and strategic risks. This process also proactively identifies the gaps in CARs in advance, allowing the Bank to take calculated decisions to optimise utilisation of capital.

The Bank has addressed all material risk exposures when formulating strategic plan and has a well-diversified assets portfolio which is neither overly exposed to any counterparty nor to any sector. Ways and means of improving the CARs are being monitored on an ongoing basis. Further, in extreme situations, the Bank will deliberate on strategically curtailing risk weighted assets expansion.

The Bank always strives to achieve a reasonable growth in profit which is above the industry average and is ever mindful to pay a consistent stream of dividends to the shareholders. Part of the profit generated is retained for future business expansion. Given the size of the Bank, capital generated through retained profits over the years could be considered as one of the primary sources of internal capital to the Bank. Besides the dividend policy of the Bank designed in such a manner to pay part of the dividend in the form of issuing shares, a vital internal capital for the Bank.

A comprehensive analysis of "Managing Financial Capital" given on pages 24 and 25.

Disclosure 7**Credit risk under standardised approach****Credit risk exposures and credit risk mitigation (CRM) effects**

As at December 31, 2018	GROUP					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (%)
Claims on Central Government and Central Bank of Sri Lanka	299,661,319	41,175,000	299,661,319	823,500	23,308,812	7.76
Claims on foreign sovereigns and their central banks	29,694,585	-	29,694,585	-	29,694,585	100.00
Claims on public sector entities (PSEs)	5,585	-	5,585	-	5,585	100.00
Claims on Banks exposures	40,360,321	173,922,359	40,360,321	3,528,272	24,698,739	56.28
Claims on financial institutions	26,386,185	-	26,386,185	-	14,160,704	53.67
Claims on corporates	511,568,254	367,881,944	456,041,995	84,124,210	517,784,918	95.86
Retail claims	254,194,995	15,129,246	214,106,152	7,155,801	182,609,658	82.53
Claims secured by residential property	70,914,449	-	70,914,449	-	56,474,104	79.64
Non-performing assets (NPAs)	15,659,305	-	15,659,305	-	21,291,635	135.97
Cash items and other assets	67,457,672	-	67,457,672	-	36,652,381	54.33
Total	1,315,902,670	598,108,549	1,220,287,568	95,631,783	906,681,121	68.90

As at December 31, 2018	BANK					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (%)
Claims on Central Government and Central Bank of Sri Lanka	299,407,561	41,175,000	299,407,561	823,500	23,308,812	7.76
Claims on foreign sovereigns and their central banks	23,253,664	-	23,253,664	-	23,253,664	100.00
Claims on public sector entities (PSEs)	5,585	-	5,585	-	5,585	100.00
Claims on Banks exposures	35,851,262	173,922,359	35,851,262	3,527,857	20,189,266	51.27
Claims on financial institutions	26,386,185	-	26,386,185	-	14,160,704	53.67
Claims on corporates	505,795,279	367,776,631	450,269,021	84,122,312	512,010,044	95.81
Retail claims	254,194,996	15,129,246	214,106,152	7,155,801	182,609,658	82.53
Claims secured by residential property	70,914,449	-	70,914,449	-	56,474,104	79.64
Non-performing assets (NPAs)	15,282,546	-	15,282,546	-	20,914,876	136.85
Higher-risk categories	1,099,129	-	1,099,129	-	2,747,822	250.00
Cash items and other assets	65,258,983	-	65,258,983	-	34,766,119	53.27
Total	1,297,449,639	598,003,236	1,201,834,537	95,629,470	890,440,654	68.63

Disclosure 8**Credit risk under standardised approach****Exposures by asset classes and risk weights (Post CCF and CRM)**

As at December 31, 2018									GROUP
	0%	20%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	183,940,757	116,544,062	-	-	-	-	-	-	300,484,819
Claims on foreign sovereigns and their central banks	-	-	-	-	-	29,694,585	-	-	29,694,585
Claims on public sector entities (PSEs)	-	-	-	-	-	5,585	-	-	5,585
Claims on official entities and multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
Claims on Banks exposures	-	20,102,316	6,216,001	-	-	17,570,275	-	-	43,888,592
Claims on financial institutions	-	789,995	23,186,970	-	-	2,409,220	-	-	26,386,185
Claims on corporates	-	18,162,452	15,719,405	-	-	506,267,597	16,752	-	540,166,206
Retail claims	333,944	1,095,083	-	2,465,245	145,824,747	71,542,934	-	-	221,261,953
Claims secured by residential property	-	-	28,880,691	-	-	42,033,758	-	-	70,914,449
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	-	-	53,977	-	-	4,286,691	11,318,637	-	15,659,305
Higher-risk categories	-	-	-	-	-	-	-	-	-
Cash items and other assets	24,585,211	7,775,099	-	-	-	35,097,362	-	-	67,457,672
Total	208,859,912	164,469,007	74,057,044	2,465,245	145,824,747	708,908,007	11,335,389	-	1,315,919,351

Credit risk under standardised approach (Contd.)

As at December 31, 2018									BANK
	0%	20%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Claims on Central Government and Central Bank of Sri Lanka	183,686,999	116,544,062	-	-	-	-	-	-	300,231,061
Claims on foreign sovereigns and their central banks	-	-	-	-	-	23,253,664	-	-	23,253,664
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	5,585	-	-	5,585
Claims on official entities and Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-
Claims on Banks exposures	-	20,102,317	6,216,000	-	-	13,060,802	-	-	39,379,119
Claims on financial institutions	-	789,995	23,186,970	-	-	2,409,220	-	-	26,386,185
Claims on corporates	-	18,162,452	15,719,405	-	-	500,492,725	16,752	-	534,391,334
Retail claims	333,944	1,095,083	-	2,465,245	145,824,747	71,542,934	-	-	221,261,953
Claims secured by residential property	-	-	28,880,691	-	-	42,033,758	-	-	70,914,449
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	-	-	53,977	-	-	3,909,933	11,318,637	-	15,282,547
Higher-risk categories	-	-	-	-	-	-	-	1,099,129	1,099,129
Cash items and other assets	24,272,784	7,775,099	-	-	-	33,211,099	-	-	65,258,982
Total	208,293,727	164,469,008	74,057,043	2,465,245	145,824,747	689,919,720	11,335,389	1,099,129	1,297,464,008

Disclosure 9**Market risk under standardised measurement method**

As at December 31,	GROUP		BANK	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) Capital charge for interest rate risk	339,612	354,758	339,612	354,758
General interest rate risk	72,544	150,553	72,544	150,553
(i) Net long or short position	72,544	150,553	72,544	150,553
(ii) Horizontal disallowance	-	-	-	-
(iii) Vertical disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific interest rate risk	267,068	204,205	267,068	204,205
(b) Capital charge for equity	73,975	58,849	73,975	58,849
(i) General equity risk	38,601	31,474	38,601	31,474
(ii) Specific equity risk	35,374	27,375	35,374	27,375
(c) Capital charge for foreign exchange and gold	1,618,888	327,079	1,608,768	327,079
(d) Capital charge for market risk [(a) + (b) + (c)]	2,032,475	740,686	2,022,355	740,686
Total risk – weighted amount for market risk [(d) * CAR]	15,786,211	6,303,710	15,707,609	6,303,710

Disclosure 10**Operational risk under the alternative standardised approach – Group**

As at December 31, 2018		Capital charge factor	Fixed factor	Gross income		
				1st year	2nd year	3rd year
		%		Rs. '000	Rs. '000	Rs. '000
Corporate finance		18		402,396	273,037	210,049
Trading and sales		18		880,078	844,325	3,956,308
Payment and settlement		18		511,789	591,811	651,440
Agency services		15		-	-	-
Asset management		12		-	-	-
Retail brokerage		12		-	-	-
Sub Total (a)				1,794,263	1,709,173	4,817,797
Retail banking (Loans and advances)		12	0.035	322,099,624	382,107,206	452,610,049
Commercial banking (Loans and advances)		15	0.035	477,587,106	556,018,749	606,642,106
Sub total (b)				799,686,730	938,125,955	1,059,252,155
The alternative standardised approach (a) + (b)				801,480,993	939,835,128	1,064,069,953
Capital charge for operational risk		4,989,252				
Risk-weighted amount for operational risk		38,751,468				

Operational risk under basic indicator approach – Group

As at December 31, 2017		Capital charge factor	Fixed factor	Gross income		
				1st year	2nd year	3rd year
		%		Rs. '000	Rs. '000	Rs. '000
The basic indicator approach		15		41,020,866	44,349,587	50,710,320
Capital charge for operational risk		6,804,039				
Risk-weighted amount for operational risk		57,906,712				

Operational risk under the alternative standardised approach – Bank

As at December 31, 2018	Capital charge factor %	Fixed factor	Gross income		
			1st year	2nd year	3rd year
			Rs. '000	Rs. '000	Rs. '000
Corporate finance	18		402,396	273,037	210,049
Trading and sales	18		897,167	766,080	3,911,019
Payment and settlement	18		511,789	591,811	651,440
Agency services	15		-	-	-
Asset management	12		-	-	-
Retail brokerage	12		-	-	-
Sub total (a)			1,811,352	1,630,928	4,772,508
Retail banking (Loans and advances)	12	0.035	318,400,031	378,807,792	448,200,815
Commercial banking (Loans and advances)	15	0.035	477,566,554	555,303,148	604,168,024
Sub Total (b)			795,966,585	934,110,940	1,052,368,839
The alternative standardised approach (a) + (b)			797,777,937	935,741,868	1,057,141,347
Capital charges for operational risk	4,961,275				
Risk-weighted amount for operational risk	38,534,178				

Operational risk under basic indicator approach – Bank

As at December 31, 2017	Capital charge factor %	Fixed factor	Gross income		
			1st year	2nd year	3rd year
			Rs. '000	Rs. '000	Rs. '000
The basic indicator approach	15		40,773,807	44,057,659	49,959,921
Capital charge for operational risk	6,739,569				
Risk-weighted amount for operational risk	57,358,037				

The Bank has moved to Alternative Standardised Approach (ASA) with effect from June 2018 after obtaining approval from the Central Bank of Sri Lanka.

Disclosure 11**Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank Only**

<i>As at December 31, 2018</i>	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	1,303,484,870	1,302,112,789	1,201,834,541	5,051,170	99,323,671
Cash and cash equivalents	39,534,476	39,496,172	39,496,172	-	-
Balances with central banks	54,384,590	54,384,590	54,384,590	-	-
Placements with banks	19,898,515	19,863,797	19,863,797	-	-
Securities purchased under re-sale agreements	9,513,512	9,513,512	9,513,512	-	-
Derivative financial assets	7,909,962	-	-	-	-
Financial assets recognised through profit or loss/ held for trading – measured at fair value	5,520,167	5,520,167	468,997	5,051,170	-
Financial assets at amortised cost – loans and advances to banks	763,074	763,110	763,110	-	-
Financial assets at amortised cost – loans and advances to other customers	861,100,315	860,971,745	769,453,129	-	95,615,207
Financial assets at amortised cost – debt and other financial instruments/financial investments – held to maturity and loans and receivables	83,855,436	83,052,006	83,052,006	-	-
Financial assets measured at fair value through other comprehensive income/ financial investments – Available for sale	176,506,729	178,767,195	178,767,195	-	-
Investments in subsidiaries	4,263,631	4,263,631	1,461,279	-	2,802,352
Investments in associates and joint ventures	44,331	44,331	44,331	-	-
Property, plant and equipment	15,301,246	15,301,246	15,301,249	-	-
Intangible assets	906,112	906,112	-	-	906,112
Leasehold property	71,652	71,652	71,652	-	-
Deferred tax assets	-	-	-	-	-
Other assets	23,911,122	29,193,523	29,193,523	-	-
Liabilities	1,185,078,921	1,180,597,811	-	-	-
Due to banks	50,101,081	49,607,265	-	-	-
Derivative financial liabilities	8,021,783	-	-	-	-
Securities sold under repurchase agreements	49,104,462	49,110,188	-	-	-
Financial liabilities recognised through profit or loss – measured at fair value	-	-	-	-	-
Financial liabilities at amortised cost - due to depositors	983,037,314	961,873,321	-	-	-
Financial liabilities at amortised cost – other borrowings	25,361,912	25,347,338	-	-	-
Debt securities issued	-	-	-	-	-
Current tax liabilities	6,566,358	6,369,721	-	-	-
Deferred tax liabilities	646,248	3,612,000	-	-	-
Other provisions	-	-	-	-	-

<i>As at December 31, 2018</i>	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
Other liabilities	24,206,351	47,783,977	-	-	-
Due to subsidiaries	40,955	40,955	-	-	-
Subordinated term debts	37,992,457	36,853,046	-	-	-
Off-balance sheet liabilities	658,721,983	658,721,983	95,629,469	-	9,689,340
Guarantees	48,412,151	48,412,151	35,063,231	-	7,495,193
Performance bonds	45,112,151	45,112,151	20,860,414	-	1,695,662
Letter of credit	49,398,272	49,398,272	9,390,058	-	489,596
Other contingent items	354,278,889	354,278,889	14,262,837	-	8,889
Undrawn loan commitments	32,441,189	32,441,189	16,052,929	-	-
Other commitments	129,079,331	129,079,331	-	-	-
Shareholders' equity	118,405,949	121,514,978	-	-	-
Equity capital (stated capital)/assigned capital:					
Of which amount eligible for CET1	39,147,882	39,147,882	-	-	-
Of which amount eligible for AT1	-	-	-	-	-
Retained earnings	5,063,076	6,787,123	-	-	-
Accumulated other comprehensive income	(1,360,963)	24,019	-	-	-
Other reserves	75,555,954	75,555,954	-	-	-

Disclosure 12**Explanations of Differences between Accounting and Regulatory Exposure Amounts**

As at December 31, 2018	Reasons for differences							
	Differences observed between accounting carrying value and amounts considered for regulatory purposes	Net impact arising from Impairment (Stage 1,2 and 3)	Fair Value Adjustment	Effective Interest Rate (EIR) Adjustment	Re-classification of Interest Receivable/ Payable and others	Unamortised cost on staff loans (Day 1 difference)	Other SLFRS Adjustments	Tax Impact on SLFRS Adjustments
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets								
Cash and Cash Equivalents	38,304	(4,412)	-	-	42,716	-	-	-
Placements with Banks	34,718	(10,784)	-	-	45,502	-	-	-
Derivative Financial Assets	7,909,962	-	-	-	7,909,962	-	-	-
Financial assets at amortised cost – Loans and advances to banks	(36)	(36)	-	-	-	-	-	-
Financial assets at amortised cost – Loans and advances to other customers	128,570	(3,340,610)	-	-	7,551,026	(4,081,846)	-	-
Financial assets at amortised cost – Debt and other financial instruments/ Financial Investments – Held-to-maturity and Loans and receivables	803,430	(266,252)	-	-	1,069,682	-	-	-
Financial assets measured at fair value through other comprehensive income/ Financial Investments – Available for sale	(2,260,466)	(595,695)	(1,671,504)	-	6,733	-	-	-
Other Assets	(5,282,401)	-	-	-	(9,364,247)	4,081,846	-	-
Liabilities								
Due to banks	493,816	-	-	-	493,816	-	-	-
Derivative Financial Liabilities	8,021,783	-	-	-	8,021,783	-	-	-
Securities sold under repurchase agreements	(5,726)	-	-	(5,726)	-	-	-	-
Financial liabilities at amortised cost – due to depositors	21,163,993	-	-	(569,558)	21,733,551	-	-	-
Financial liabilities at amortised cost – other borrowings	14,574	-	-	-	14,574	-	-	-
Current Tax Liabilities	196,637	-	-	-	-	-	-	196,637
Deferred Tax Liabilities	(2,965,752)	-	-	-	-	-	-	(2,965,752)
Other Liabilities	(23,577,626)	726,640	-	-	(24,783,706)	-	632,391	(152,951)
Subordinated Term Debts	1,139,411	-	-	(6,768)	1,146,179	-	-	-
Shareholders' Equity								
Retained Earnings	(1,724,047)	(3,214,068)	-	582,052	635,171	-	(632,391)	905,189
Accumulated Other Comprehensive Income	(1,384,982)	-	(1,671,504)	-	-	-	-	286,522

Explanations of Differences between Accounting and Regulatory Exposure Amounts

Under SLFRS 9: "Financial Instruments: Recognition & Measurement", the Bank assess the impairment of loans and advances individually or collectively based on the principles of "expected credit loss" (Refer Note 19 on page 208 for details) model which is expected to capture future trends in the economy. However, the regulatory provision made on loans and advances under the Direction No. 03 of 2008 on "Classification of loans and advances, Income Recognition and Provisioning" (and subsequent amendments thereof) issued by the CBSL are "time/delinquency base". Further, under SLFRS 9, other debt financial assets not held at FVTPL, together with loan commitments and other off balance sheet exposures such as financial guarantee and letter of credits, are subjected to impairment provision, whereas no such regulatory provision is required for those financial assets as per CBSL direction. As a result, SLFRS 9 recognises higher provisions compared to CBSL guidelines.

Financial investments and financial liabilities (other than FVTPL) are carried at "cost" for regulatory reporting purposes while they are classified as "Financial assets measured at fair value through other comprehensive income" carried at fair value or Financial assets/liabilities at amortised cost under the SLFRS 9. The "Fair value" is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A variety of valuation techniques combined with the range of plausible market parameters as at a given point in time may still generate unexpected uncertainty beyond fair value. An "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Hence, the amortised cost of financial investments and financial liabilities under SLFRS 9 is different to the carrying value for regulatory reporting which is the "cost".

As per SLFRS 9, a "Day 1 difference" is recognised, when the transaction price differs from the fair value of other observable current market transactions in the same instrument. Eg: Employee below market loans. Refer Note 7.1.2.1 on page 182 for details. However, the carrying value of such transactions for regulatory reporting purposes is equal to cost/ transaction price.

Disclosure 13

Bank Risk Management Approach

"Effective risk management is at the core of the Bank's value creation model as we accept risk in the normal course of business. Significant resources are devoted to this critical function to ensure that it is well articulated, communicated and understood by all employees of the Bank as it is a shared responsibility. It is a dynamic and disciplined function increasing in sophistication and subject to stringent oversight by regulators and other stakeholders. The overarching objectives are to ensure that risks accepted are in line with the Bank's risk appetite and strategic priorities and that there is an appropriate trade-off between risk and reward enabling delivery of value to key stakeholders." The risk governance structure, responsibilities attributed throughout the bank, risk management framework, objectives, strategies, policy framework, risk appetite and tolerance limits for key risk types, and the overall risk management approach of the Bank are discussed in the section on "Risk Management" on pages 115 to 139.

Disclosure 14

Risk management related to key risk exposures

"The quantitative disclosures relating to key risk areas such as credit, market, liquidity, operational, and interest rate risk in the banking book are presented and discussed in the Risk Management Report on pages 319 to 353 and in the Financial Risk Management Report on pages 115 to 139."