MONETARY BOARD
CENTRAL BANK OF SRI LANKA

29 December 2016	**BANKING ACT DIRECTIONS**	**No. 01 of 2016**

CAPITAL REQUIREMENTS UNDER BASEL III FOR LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS

In terms of powers conferred by Sections 19(7)(a) and 76G(7) of the Banking Act No. 30 of 1988, the Monetary Board has determined the minimum capital ratios for licensed commercial banks (LCBs) and licensed specialised banks (LSBs) having regard to the guidelines issued by the Bank for International Settlements in June 2006, December 2010 and revised in June 2011.

1. Empowerment

1.1 In terms of Section 102 of the Monetary Law Act, the Monetary Board may from time to time by Order prescribe the minimum capital ratios which the capital of LCBs and LSBs shall bear to the total volume of their assets or to any specified category of such assets.

1.2 In terms of Sections 46(1) and 76J(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, regarding the manner in which any aspect of the business of such banks is to be conducted.

2. Scope of Application

2.1 These Directions shall be applicable to every LCB and LSB:

(i) Incorporated in Sri Lanka on a solo and consolidated basis

(ii) Branches of banks incorporated or established outside Sri Lanka on a standalone basis

3. Minimum Capital Requirements and Buffers

3.1 Commencing 01 July 2017, every LCB and LSB shall maintain, at all times, the minimum capital ratios and buffers as prescribed in Schedule I hereto in respect of total risk weighted assets.

3.2 The effective dates for implementation and ratios are indicated in Tables 1 and 2 below.

Table 1 – Banks with Assets Less than Rs. 500 billion

Components of Capital	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier 1 including Capital Conservation Buffer	5.75%	6.375%	7.00%
Total Tier 1 including Capital Conservation Buffer	7.25%	7.875%	8.50%
Total Capital Ratio including Capital Conservation Buffer	11.25%	11.875%	12.50%

Table 2 – Banks with Assets of Rs. 500 billion and Above

Components of Capital	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	6.25%	7.375%	8.50%
Total Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	7.75%	8.875%	10.00%
Total Capital Ratio including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks	11.75%	12.875%	14.00%

4. Maintain Adequate Capital above the Minimum Capital Requirement

4.1 Every LCB and LSB shall, at all times maintain adequate capital to cover its exposures to all risks considering the requirements specified in the Regulatory Framework on Supervisory Review Process (SRP) in Schedule II hereto.

4.2 Every LCB and LSB shall develop and implement a sound Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the requirements specified in Regulatory Framework on SRP.

4.3 All LCBs and LSBs shall submit a Board approved ICAAP Document to the Director of Bank Supervision within five months from the end of its financial year.

5. Disclosure Requirements

5.1 Commencing 1 July 2017, every LCB and LSB shall disclose key information in relation to regulatory capital, liquidity and risk management with the published financial statements as specified in Schedule III with comparative information on both solo and consolidated basis.

6. Steps to Secure Compliance

6.1 In the event any bank needs to augment its capital to meet the above regulatory capital ratios, such bank shall comply with these Directions commencing 01 July 2017.

6.2 Where an LCB or an LSB has failed to comply with these Directions, such LCB or LSB shall not pay dividends or repatriate profits or adopt any other measure that will further deteriorate the regulatory capital position of such LCB or LSB until such compliance is effected and confirmed by the Director of Bank Supervision.

7. Revocation of Directions and Circulars

The following Directions and Circulars are hereby revoked.

(i) Circulars No. 02/04/002/0105/001 and 02/04/002/0151/001 dated 20 March 2001 on Publication of Capital Adequacy Statements in the Annual Report

(ii) Circular No. 02/04/003/0400/002 dated 16 December 2004 on Shipping Guarantees Issued by Banks

(iii) Circular dated 26 December 2007 on the Adoption of Basel II Capital Adequacy Framework beginning 2008

(iv) Banking Act Directions No. 9 and 10 of 2007 on Maintenance of Capital Adequacy Ratio

(v) Disclosure requirements in Section H of the Banking Act Directions No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks

(vi) Banking Act Directions No. 9 and 10 of 2011 on Amendment to Directions on Maintenance of Capital Adequacy Ratio

(vii) Circular No. 02/17/500/0086/001 dated 07 December 2012 on ICRA Lanka Limited - Recognition as an External Credit Assessment Institution

(viii) Banking Act Directions No. 5 of 2013 on Supervisory Review Process (Pillar 2 of Basel II) for Licensed Commercial Banks and Licensed Specialised Banks

(ix) Revised Guidelines dated 31 March 2014 on Computation of Risk Weighted Amount for Operational Risk – Implementation of the Standardised Approach

(x) Circular No. 02/17/600/0029/001 dated 31 March 2014 on Implementation of the Standardised Approach on Computation of Risk-Weighted Amount for Operational Risk under Basel II Capital Adequacy Framework issued to LCBs and LSBs

Dr. Indrajit Coomaraswamy

Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka

SCHEDULE I

PILLAR I

MINIMUM CAPITAL REQUIREMENTS AND BUFFERS

ABBREVIATIONS

AMA	–	Advanced Measurement Approaches
AT1	–	Additional Tier 1
BIA	–	Basic Indicator Approach
BIS	–	Bank for International Settlements
BCBS	–	Basel Committee on Banking Supervision
CAR	–	Capital Adequacy Ratio
CBSL	–	Central Bank of Sri Lanka
CCB	–	Capital Conservation Buffer
CCR	–	Counterparty Credit Risk
CET1	–	Common Equity Tier 1
CIPC	–	Cash Items in the Process of Collection
CRM	–	Credit Risk Mitigation
D-SIB	–	Domestic Systemically Important Bank
ECAI	–	External Credit Assessment Institution
GOSL	–	Government of Sri Lanka
IMF	–	International Monetary Fund
LKR	–	Sri Lanka Rupee
MDB	–	Multilateral Development Bank
NPA	–	Non Performing Assets
PSE	–	Public Sector Entities
RWA	–	Risk Weighted Assets
SA	–	Standardised Approach
SLECIC	–	Sri Lanka Export Credit Insurance Corporation
SME	–	Small and Medium Enterprise
SMM	–	Standardised Measurement Method
LCB	–	Licensed Commercial Bank
LSB	–	Licensed Specialised Bank

MINIMUM CAPITAL REQUIREMENTS AND BUFFERS UNDER BASEL III

1. Implementation of Basel III Framework

1.1 Commencing 01 July 2017 capital ratios of licensed banks will be computed based on the document "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking System" issued by the Basel Committee on Banking Supervision (BCBS) of the Bank for International Settlement in December 2010 (Revised in June 2011).

2. Capital Requirements

2.1 **Total Regulatory Capital**

Regulatory capital of licensed banks will consist the following:

i) Tier 1 Capital
   - a) Common Equity Tier 1 capital (CET1)
   - b) Additional Tier 1 capital (AT1)

ii) Tier 2 Capital

2.2 **Risk Weighted Assets**

Capital requirements shall be maintained as a percentage of risk weighted assets (RWA) calculated based on the following approaches:

i) The Standardised Approach for credit risk

ii) The Standardised Measurement Method for market risk

iii) The Basic Indicator Approach, the Standardised Approach or the Alternative Standardised Approach for operational risk

2.3 **Capital Buffers**

Capital buffers shall be implemented on staggered basis and are required to be maintained above the minimum CET1 and total capital as a percentage of RWA as follows:

i) Capital Conservation Buffers (CCBs) for all licensed banks

ii) Capital Surcharge for Domestic Systemically Important Banks (D-SIBs) for licensed banks with total assets equal to or greater than Rs. 500 billion

iii) Countercyclical Buffers will be implemented as and when excess aggregate credit growth is judged to be associated with a build-up of system wide risk

2.4 **Timeline of Implementation**

Capital requirements as a percentage of RWA shall be applied on a staggered basis to be fully implemented by 01 January 2019 as indicated in Table 1 and 2 below.

Table 1
Capital Requirements for Banks with Assets Less than Rs. 500 billion

Ratios (%)	01.07.2017	01.01.2018	01.01.2019
Minimum CET1	4.50	4.50	4.50
CCB	1.25	1.875	2.50
Minimum CET1 plus CCB	**5.75**	**6.375**	**7.00**
Minimum Tier 1 plus CCB	**7.25**	**7.875**	**8.50**
Minimum Total Capital plus CCB	**11.25**	**11.875**	**12.50**

Table 2
Capital Requirements for Banks with Total Assets of Rs. 500 billion or above

Ratios (%)	01.07.2017	01.01.2018	01.01.2019
Minimum CET1	4.50	4.50	4.50
CCB	1.25	1.875	2.50
Capital Surcharge for D-SIBs	0.50	1.000	1.50
Minimum CET1 plus CCB and Capital Surcharge for D-SIBs	**6.25**	**7.375**	**8.50**
Minimum Tier 1 plus CCB and Capital Surcharge for D-SIBs	**7.75**	**8.875**	**10.00**
Minimum Total Capital plus CCB and Capital Surcharge for D-SIBs	**11.75**	**12.875**	**14.00**

2.5 The difference between the minimum total capital ratio (including buffers) and the minimum Tier 1 ratio (including buffers) can be met with Tier 2 capital or higher forms of capital subject to the condition that the bank shall raise Tier 2 capital only up to a maximum of 100 per cent of CET1 capital.

3. Transitional Arrangements

3.1 Capital instruments that do not meet the eligibility criteria for inclusion in CET1 capital will be excluded with effect from 01 July 2017.

3.2 Capital instruments issued up to 31 December 2016 will be eligible to be included in Tier 2 capital subject to a discount of $1/5^{th}$ each year during the four years immediately preceding maturity.

4. Submission of Data

4.1 All banks shall report the position as at the last calendar day of each quarter/financial year, through the web-based system as follows:

i) **The quarterly return (BSD-QF-20-CR)** within 1 month after the end of each quarter.

  a) Revision to the return shall be made in the following quarter immediately after completion of the audit.

ii) **The annual audited return (BSD-AF-20-CR)** within 6 months after the end of the financial year.

4.2 If the submission deadline falls on a bank holiday, it will be deferred to the next working day.

4.3 The reporting formats and instructions on calculation of capital ratios are given as follows:

Appendix I	:	Reporting Formats for Capital Requirements
Appendix II	:	Part I - Computation of Capital Ratios
Appendix III	:	Part II - Guidelines for Computation of Total Capital
Appendix IV	:	Part III - Guidelines on Computation of Total Risk Weighted Assets

Appendix I

REPORTING FORMATS FOR CAPITAL REQUIREMENTS

Part I – Computation of Capital Ratios

Web Based Return Code	Item	Amount
20.1.1.0.0.0	**Common Equity Tier 1 Capital**	
20.1.2.0.0.0	**Total Tier 1 Capital**	
20.1.3.0.0.0	**Total Capital**	
20.1.4.0.0.0	**Total Risk Weighted Amount**	
20.1.4.1.0.0	Risk Weighted Amount for Credit Risk	
20.1.4.2.0.0	Risk Weighted Amount for Market Risk	
20.1.4.3.0.0	Risk Weighted Amount for Operational Risk	
20.1.5.0.0.0	**Common Equity Tier 1 Capital Ratio**	
20.1.5.1.0.0	Capital conservation buffer	
20.1.5.2.0.0	Capital surcharge on D-SIBs	
20.1.6.0.0.0	**Total Tier 1 Capital Ratio**	
20.1.7.0.0.0	**Total Capital Ratio**	

Part II – Computation of Total Capital (Rs. '000)

Web Based Return Code	Item	Amount
20.2.1.1.0.0	**Common Equity Tier 1 (CETI) Capital after Adjustments**	
20.2.1.1.1.0	**Total Common Equity Tier 1 (CET1) Capital**	
20.2.1.1.1.1	Equity capital or stated capital/assigned capital	
20.2.1.1.1.2	Reserve fund	
20.2.1.1.1.3	Published retained earnings/(Accumulated retained losses)	
20.2.1.1.1.4	Accumulated other comprehensive income (OCI)	
20.2.1.1.1.5	General and other disclosed reserves	
20.2.1.1.1.6	Unpublished current year's profit/(losses) and gains reflected in OCI	
20.2.1.1.1.7	Ordinary shares issued by consolidated banking and financial subsidiaries of the bank and held by third parties	
20.2.1.1.2.0	**Total Adjustments to CET1 Capital**	
20.2.1.1.2.1	Goodwill (net)	
20.2.1.1.2.2	Other intangible assets (net)	
20.2.1.1.2.3	Revaluation losses of property, plant and equipment	
20.2.1.1.2.4	Deferred tax assets (net)	
20.2.1.1.2.5	Cash flow hedge reserve	
20.2.1.1.2.6	Unrealised gains on sale related securitisation transactions	
20.2.1.1.2.7	Shortfall of the cumulative impairment to specific provisions	
20.2.1.1.2.8	Changes in own credit risk	
20.2.1.1.2.9	Defined benefit pension fund assets	
20.2.1.1.2.10	Investment in own shares	
20.2.1.1.2.11	Reciprocal cross holdings in the capital of banking and other financial institutions	
20.2.1.1.2.12	Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	

Web Based Return Code	Item	Amount
20.2.1.1.2.13	Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	
20.2.1.1.2.14	Shortfall of capital in financial subsidiaries	
20.2.1.1.2.15	Regulatory adjustments applied to CET1 capital due to insufficient AT1 and Tier 2 capital to cover adjustments	
20.2.1.1.2.16	Amount due from head office & branches outside Sri Lanka in Sri Lankan Rupees	
20.2.1.1.2.17	Amount due to head office & branches outside Sri Lanka in Sri Lankan Rupees	
20.2.1.1.2.18	Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	
20.2.2.1.0.0	**Additional Tier 1 (AT1) Capital after Adjustments**	
20.2.2.1.1.0	**Total Additional Tier 1 (ATI) Capital**	
20.2.2.1.1.1	Qualifying Additional Tier 1 capital instruments	
20.2.2.1.1.2	Instruments issued by consolidated banking and financial subsidiaries of the bank and held by third parties	
20.2.2.1.2.0	**Total Adjustments to AT1 Capital**	
20.2.2.1.2.1	Investment in own shares	
20.2.2.1.2.2	Reciprocal cross holdings in AT1 capital instruments	
20.2.2.1.2.3	Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	
20.2.2.1.2.4	Significant investments in the capital of banking and financial institutions where the bank own more than 10 per cent of the issued ordinary share capital of the entity	
20.2.2.1.2.5	Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	
20.2.3.1.0.0	**Tier 2 Capital after Adjustments**	
20.2.3.1.1.0	**Total Tier 2 Capital**	
20.2.3.1.1.1	Qualifying Tier 2 capital instruments	
20.2.3.1.1.2	Revaluation gains	
20.2.3.1.1.3	General provisions	
20.2.3.1.1.4	Instruments issued by consolidated banking and financial subsidiaries of the bank and held by third parties	
20.2.3.1.2.0	**Total Adjustments to Tier 2 Capital**	
20.2.3.1.2.1	Investment in own shares	
20.2.3.1.2.2	Reciprocal cross holdings in Tier 2 capital instruments	
20.2.3.1.2.3	Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	
20.2.3.1.2.4	Significant investments in the capital of banking and financial institutions where the bank own more than 10 per cent of the issued ordinary share capital of the entity	
20.2.4.1.0.0	**Total Tier 1 Capital**	
20.2.5.1.0.0	**Total Capital**	

Part III(A) – Computation of Risk Weighted Amount for Credit Risk (Rs. '000)

Web Based Return Code	Assets	Principal Amount of On-Balance Sheet Items	Credit Equivalent of Off-Balance Sheet Items	Total	Risk Weight %	Risk Weighted Assets Amount
20.3.1.0.0.0	**Total Risk Weighted Amount for Credit Risk**					
20.3.1.1.0.0	**Claims on Central Government and Central Bank of Sri Lanka**					
20.3.1.1.1.0	Central Government					
20.3.1.1.1.1	Rupee Claims on Central Government				0	
20.3.1.1.2.2	Foreign Claims on Central Government				20	
20.3.1.1.2.0	Central Bank of Sri Lanka				0	
20.3.1.2.0.0	**Claims on Foreign Sovereigns and their Central Banks**					
20.3.1.2.1.0	AAA to AA-				0	
20.3.1.2.2.0	A+ to A-				20	
20.3.1.2.3.0	BBB+ to BBB-				50	
20.3.1.2.4.0	BB+ to B-				100	
20.3.1.2.5.0	Below B-				150	
20.3.1.2.6.0	Unrated				100	
20.3.1.3.0.0	**Claims on Public Sector Entities (PSEs)**					
20.3.1.3.1.0	AAA to AA-				20	
20.3.1.3.2.0	A+ to A-				50	
20.3.1.3.3.0	BBB+ to BB-				100	
20.3.1.3.4.0	Below BB-				150	
20.3.1.3.5.0	Unrated				100	
20.3.1.4.0.0	**Claims on Official Entities and Multilateral Development Banks(MDBs)**					
20.3.1.4.1.0	BIS,IMF, ECB, EC and Eligible MDBs				0	
20.3.1.4.2.0	AAA+ to AA-				20	
20.3.1.4.3.0	A+ to BBB-				50	
20.3.1.4.4.0	BB+ to B-				100	
20.3.1.4.5.0	Below B-				150	
20.3.1.4.6.0	Unrated				100	
20.3.1.5.0.0	**Claims on Banks**					
20.3.1.5.1.0	**Rupee Exposures less than 3 months**					
20.3.1.5.1.1	AAA to BBB-				20	
20.3.1.5.1.2	BB+ to B-				50	
20.3.1.5.1.3	Below B-				150	
20.3.1.5.1.4	Unrated				100	
20.3.1.5.2.0	**Foreign Currency Exposures less than 3 months**					
20.3.1.5.2.1	AAA to A-				20	

Web Based Return Code	Assets	Principal Amount of On-Balance Sheet Items	Credit Equivalent of Off-Balance Sheet Items	Total	Risk Weight %	Risk Weighted Assets Amount
20.3.1.5.2.2	BBB+ to BBB-				50	
20.3.1.5.2.3	BB+ to B-				100	
20.3.1.5.2.4	Below B-				150	
20.3.1.5.2.5	Unrated				100	
20.3.1.5.3.0	**Rupee and Foreign Currency Exposures more than 3 months**					
20.3.1.5.3.1	AAA to AA-				20	
20.3.1.5.3.2	A+ to BBB-				50	
20.3.1.5.3.3	BB+ to B-				100	
20.3.1.5.3.4	Below B-				150	
20.3.1.5.3.5	Unrated				100	
20.3.1.6.0.0	**Claims on Financial Institutions**					
20.3.1.6.1.0	**Claims on Financial Institutions Regulated by CBSL**					
20.3.1.6.1.1	AAA to AA-				20	
20.3.1.6.1.2	A+ to BBB-				50	
20.3.1.6.1.3	BB+ to B-				100	
20.3.1.6.1.4	Below B-				150	
20.3.1.6.1.5	Unrated				100	
20.3.1.6.2.0	**Claims on Other Financial Institutions**					
20.3.1.6.2.1	AAA to AA-				20	
20.3.1.6.2.2	A+ to A-				50	
20.3.1.6.2.3	BBB+ to BB-				100	
20.3.1.6.2.4	Below BB-				150	
20.3.1.6.2.5	Unrated				100	
20.3.1.7.0.0	**Claims on Corporates**					
20.3.1.7.1.0	AAA to AA-				20	
20.3.1.7.2.0	A+ to A-				50	
20.3.1.7.3.0	BBB+ to BB-				100	
20.3.1.7.4.0	Below BB-				150	
20.3.1.7.5.0	Unrated				100	
20.3.1.8.0.0	**Retail Claims**					
20.3.1.8.1.0	Retail claims that qualify for regulatory capital purposes					
20.3.1.8.1.1	SME exposures secured on immovable property				60	
20.3.1.8.1.2	Other SME exposures				75	
20.3.1.8.1.3	Individual exposures				75	
20.3.1.8.2.0	Retail claims that do not qualify for regulatory capital purposes				100	
20.3.1.8.3.0	**Claims Secured by Gold**					
20.3.1.8.3.1	Loan to Value Ratio equal to or less than 70%				0	

Web Based Return Code	Assets	Principal Amount of On-Balance Sheet Items	Credit Equivalent of Off-Balance Sheet Items	Total	Risk Weight %	Risk Weighted Assets Amount
20.3.1.8.3.2	Loan to Value Ratio over 70% and less than 100%				20	
20.3.1.8.3.3	Loan to Value Ratio equal to or over 100%				100	
20.3.1.9.0.0	**Claims Secured by Residential Property**					
20.3.1.9.1.0	Claims that qualify for regulatory capital purposes				50	
20.3.1.9.2.0	Claims that do not qualify for regulatory capital purposes				100	
20.3.1.10.0.0	**Claims Secured by Commercial Real Estate**				**100**	
20.3.1.11.0.0	**Non-Performing Assets (NPAs)**					
20.3.1.11.1.0	Specific Provisions are equal to or more than 20%				100	
20.3.1.11.2.0	Specific Provisions are less than 20%				150	
20.3.1.12.0.0	**Non-Performing Assets Secured by Residential Property**					
20.3.1.12.1.0	Specific Provisions are equal to or more than 20%				50	
20.3.1.12.2.0	Specific Provisions are less than 20%				100	
20.3.1.13.0.0	**Higher Risk Categories**					
20.3.1.13.1.0	Venture capital funds/companies and private equity investments				150	
20.3.1.13.2.0	Significant investments in the capital of financial institutions				250	
20.3.1.14.0.0	**Cash Items and Other Assets**					
20.3.1.14.1.0	**Cash Items**					
20.3.1.14.1.1	Notes and coins in own vault				0	
20.3.1.14.1.2	Gold bullion held in own vault				0	
20.3.1.14.1.3	Cash items in the process of collection				20	
20.3.1.14.2.0	**Other Assets**					
20.3.1.14.2.1	Property Plant and Equipment				100	
20.3.1.14.2.2	Other Assets/Exposures				100	

Part III(B) – Credit Equivalent of Off-Balance Sheet Items (Rs. '000)

Web Based Return Code	Description	Principal amount of Off-Balance Sheet Items	Credit Conversion Factor (%)	Credit Equivalent of Off-Balance Sheet Items
20.3.2.0.0.0	**Off-balance Sheet Items**			
20.3.2.1.0.0	**Direct Credit Substitutes**			
20.3.2.1.1.0	General Guarantees of Indebtedness		100	
20.3.2.1.2.0	Standby LCs serving as Financial Guarantees		100	
20.3.2.1.3.0	Bank Acceptances		100	

Web Based Return Code	Description	Principal amount of Off-Balance Sheet Items	Credit Conversion Factor (%)	Credit Equivalent of Off-Balance Sheet Items
20.3.2.1.4.0	Others (please specify)		100	
20.3.2.2.0.0	**Transaction-related Contingencies**			
20.3.2.2.1.0	Performance Bonds, Bid Bonds & Warranties		50	
20.3.2.2.2.0	Standby LCs Related to Particular Transactions		50	
20.3.2.2.3.0	Others (please specify)		50	
20.3.2.3.0.0	**Short-Term Self-Liquidating Trade-Related Contingencies**			
20.3.2.3.1.0	Shipping Guarantees		20	
20.3.2.3.2.0	Documentary Letters of Credit		20	
20.3.2.3.3.0	Trade Related Acceptances		20	
20.3.2.3.4.0	Others (please specify)		20	
20.3.2.4.0.0	**Sale and Repurchase Agreements and Assets Sale with recourse where the credit risk remains with the Bank**			
20.3.2.4.1.0	Sale and Repurchase Agreements		100	
20.3.2.4.2.0	Housing Loans Sold with Recourse		100	
20.3.2.4.3.0	Other Assets Sold with Recourse		100	
20.3.2.4.4.0	Forward Assets Purchase		100	
20.3.2.4.5.0	Partly Paid Shares/Securities		100	
20.3.2.4.6.0	Others (please specify)		100	
20.3.2.5.0.0	**Obligations under an On-going Underwriting Agreement**			
20.3.2.5.1.0	Underwriting of Shares/Securities Issue		50	
20.3.2.5.2.0	Note Issuance Facilities and Revolving Underwriting Facilities		50	
20.3.2.5.3.0	Others (please specify)		50	
20.3.2.6.0.0	**Other commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time**			
20.3.2.6.1.0	Formal Standby Facilities and Credit Lines		0	
20.3.2.6.2.0	Undrawn Term Loans		0	
20.3.2.6.3.0	Undrawn Overdraft Facilities/Unused Credit Card Lines		0	
20.3.2.6.4.0	Others (please specify)		0	
20.3.2.7.0.0	**Commitments with an original maturity up to 1 year**			
20.3.2.7.1.0	Formal Standby Facilities and Credit Lines		20	
20.3.2.7.2.0	Undrawn Term Loans		20	
20.3.2.7.3.0	Others (please specify)		20	
20.3.2.8.0.0	**Other commitments with an original maturity of over one year**			
20.3.2.8.1.0	Formal Standby Facilities and Credit Lines		50	
20.3.2.8.2.0	Undrawn Term Loans		50	
20.3.2.8.3.0	Others (please specify)		50	

Web Based Return Code	Description	Principal amount of Off-Balance Sheet Items	Credit Conversion Factor (%)	Credit Equivalent of Off-Balance Sheet Items
20.3.2.9.0.0	**Foreign Exchange Contracts**			
20.3.2.9.1.0	Original maturity-less than one year		2	
20.3.2.9.2.0	Original maturity-more than one year and less than two years		5	
20.3.2.9.3.0	Original maturity-more than two years (for each additional year)		3	
20.3.2.10.0.0	**Interest Rate Contracts**			
20.3.2.10.1.0	Original maturity-less than one year		0.5	
20.3.2.10.2.0	Original maturity-more than one year and less than two years		1	
20.3.2.10.3.0	Original maturity-more than two years (for each additional year)		1	

Part III(C) – Exposures Recognised under Credit Risk Mitigation (CRM) (Rs. '000)

Web Based Return Code	CRM techniques	Principal Amount
20.3.3.0.0.0	**Total CRM exposure**	
20.3.3.1.0.0	**Collateralised transactions**	
20.3.3.1.1.0	**Retail Exposure**	
20.3.3.1.1.1	Cash	
20.3.3.1.1.2	Government Securities	
20.3.3.1.1.3	Provident Fund Balances	
20.3.3.1.1.4	Debt securities rated by a recognised ECAI	
20.3.3.1.1.5	Debt securities not rated by a recognised ECAI	
20.3.3.1.1.6	Equities that are included in a main index	
20.3.3.1.2.0	**Other Exposures**	
20.3.3.1.2.1	Cash	
20.3.3.1.2.2	Government Securities	
20.3.3.1.2.3	Provident Fund Balances	
20.3.3.1.2.4	Debt Securities rated by a recognised ECAI	
20.3.3.1.2.5	Debt Securities not rated by a recognised ECAI	
20.3.3.1.2.6	Equities that are included in a main index	
20.3.3.2.0.0	**Other CRM Techniques**	
20.3.3.2.1.0	On-balance sheet netting	
20.3.3.2.2.0	Guarantees	

Part IV – Computation of Risk Weighted Amount for Market Risk (Rs. '000)

Web Based Return Code	Item	Capital Charge Amount
20.4.1.0.0.0	**Total Capital Charge for Market Risk = (20.4.1.1.0.0 + 20.4.1.2.0.0 + 20.4.1.3.0.0)**	
20.4.1.1.0.0	**Capital Charge for Interest Rate = (20.4.1.1.1.0 + 20.4.1.1.2.0)**	
20.4.1.1.1.0	**General Interest Rate Risk**	

Web Based Return Code	Item	Capital Charge Amount
20.4.1.1.1.1	Net Long or Short Position	
20.4.1.1.1.2	Horizontal Disallowance	
20.4.1.1.1.3	Vertical Disallowance	
20.4.1.1.1.4	Options	
20.4.1.1.2.0	**Specific Interest Rate Risk**	
20.4.1.2.0.0	**Capital Charge for Equity = (20.4.1.2.1.0 + 20.4.1.2.2.0)**	
20.4.1.2.1.0	General Equity Risk	
20.4.1.2.2.0	Specific Equity Risk	
20.4.1.3.0.0	**Capital Charge for Foreign Exchange & Gold**	
20.4.2.0.0.0	**Total Risk-Weighted Amount for Market Risk = (20.4.1.0.0.0*…)**	

Part V(A) - Computation of Risk Weighted Amount for Operational Risk (Rs. '000)

Web Based Return Code	Business Lines (20.5.1.4.0.0)	Capital Charge Factor (α and β) (20.5.1.5.0.0)	Fixed Factor 'm' (20.5.1.6.0.0)	Gross Income (20.5.1.7.0.0)			Capital Charges (20.5.1.8.0.0)		
				1st Yr	2nd Yr	3rd Yr	1st Yr	2nd Yr	3rd Yr
20.5.1.1.0.0	**The Basic Indicator Approach**	**15%**							
20.5.1.2.0.0	**The Standardised Approach**								
20.5.1.2.1.0	Corporate Finance	18%							
20.5.1.2.2.0	Trading and Sales	18%							
20.5.1.2.3.0	Payment and Settlement	18%							
20.5.1.2.4.0	Agency Services	15%							
20.5.1.2.5.0	Asset Management	12%							
20.5.1.2.6.0	Retail Brokerage	12%							
20.5.1.2.7.0	Retail Banking	12%							
20.5.1.2.8.0	Commercial Banking	15%							
20.5.1.3.0.0	**The Alternative Standardised Approach**								
20.5.1.3.1.0	**Sub Total**								
20.5.1.3.1.1	Corporate Finance	18%							
20.5.1.3.1.2	Trading and Sales	18%							
20.5.1.3.1.3	Payment and Settlement	18%							
20.5.1.3.1.4	Agency Services	15%							
20.5.1.3.1.5	Asset Management	12%							
20.5.1.3.1.6	Retail Brokerage	12%							
20.5.1.3.2.0	**Sub Total**								
20.5.1.3.2.1	Retail Banking	12%	0.035						
20.5.1.3.2.2	Commercial Banking	15%	0.035						
20.5.1.9.0.0	**Capital Charges for Operational Risk**								
20.5.1.9.1.0	**The Basic Indicator Approach**								

Web Based Return Code	Business Lines (20.5.1.4.0.0)	Capital Charge Factor (α and β) (20.5.1.5.0.0)	Fixed Factor 'm' (20.5.1.6.0.0)	Gross Income (20.5.1.7.0.0)			Capital Charges (20.5.1.8.0.0)		
				1st Yr	2nd Yr	3rd Yr	1st Yr	2nd Yr	3rd Yr
20.5.1.9.2.0	**The Standardised Approach**								
20.5.1.9.3.0	**The Alternative Standardised Approach**								
20.5.1.10.0.0	**Risk-Weighted Amount for operational Risk**								
20.5.1.10.1.0	**The Basic Indicator Approach (20.5.1.9.1.0 *…)**								
20.5.1.10.2.0	**The Standardised Approach (20.5.1.9.2.0 * …)**								
20.5.1.10.3.0	**The Alternative Standardised Approach (20.5.1.1.9.3 * …)**								

Part V(B) – Computation of Gross Income for Operational Risk - Basic Indicator Approach and the Standardised Approach (Rs. '000)

		Interest Income 20.5.2.3.0.0			Interest Expenses 20.5.2.4.0.0			Non-Interest Income 20.5.2.5.0.0			Realized Profits from the Sale of Securities in the Banking Book 20.5.2.6.0.0			Extraordinary/ Irregular Item of Income 20.5.2.7.0.0		
Web Based Return Code	Business Lines	1st Yr	2nd Yr	3rd Yr	1st Yr	2nd Yr	3rd Yr	1st Yr	2nd Yr	3rd Yr	1st Yr	2nd Yr	3rd Yr	1st Yr	2nd Yr	3rd Yr
20.5.2.1.0.0	**Basic Indicator Approach**															
20.5.2.2.0.0	**Standardised Approach**															
20.5.2.2.1.0	Corporate Finance															
20.5.2.2.2.0	Trading and Sales															
20.5.2.2.3.0	Payment and Settlement															
20.5.2.2.4.0	Agency Services															
20.5.2.2.5.0	Asset Management															
20.5.2.2.6.0	Retail Brokerage															
20.5.2.2.7.0	Retail Banking															
20.5.2.2.8.0	Commercial Banking															

Part V(B) – Computation of Gross Income for Operational Risk - The Alternative Standardised Approach (Rs. '000)

		Interest Income 20.5.2.3.0.0			Interest Expenses 20.5.2.4.0.0			Non-Interest Income 20.5.2.5.0.0			Realized Profits from the Sale of Securities in the Banking Book 20.5.2.6.0.0			Extraordinary/ Irregular Item of Income 20.5.2.7.0.0		
Web Based Return Code	**Business Lines**	**1st Yr**	**2nd Yr**	**3rd Yr**	**1st Yr**	**2nd Yr**	**3rd Yr**	**1st Yr**	**2nd Yr**	**3rd Yr**	**1st Yr**	**2nd Yr**	**3rd Yr**	**1st Yr**	**2nd Yr**	**3rd Yr**
20.5.2.3.0.0	**The Alternative Standardised Approach**															
20.5.2.3.1.0	**Sub Total**															
20.5.2.3.1.1	Corporate Finance															
20.5.2.3.1.2	Trading and Sales															
20.5.2.3.1.3	Payments and Settlement															
20.5.2.3.1.4	Agency Services															
20.5.2.3.1.5	Asset Management															
20.5.2.3.1.6	Retail Brokerage															

PART I – GUIDELINES FOR COMPUTATION OF CAPITAL RATIOS

Web Based Return Code	Item
20.1.1.0.0.0	**Common Equity Tier 1 Capital** Total Common Equity Tier 1 capital after adjustment = WBRC 20.1.1.1.0.0 of Part II. Automatically added.
20.1.2.0.0.0	**Total Tier 1 Capital** Total Tier 1 capital after adjustment = WBRC 20.1.4.1.0.0 of Part II. Automatically added.
20.1.3.0.0.0	**Total Capital** Total capital = WBRC 20.1.5.1.0.0 of Part II. Automatically added.
20.1.4.0.0.0	**Total Risk Weighted Amount**
20.1.4.1.0.0	Risk Weighted Amount for Credit Risk = WBRC 20.3.1.0.0.0 of Part III(A)
20.1.4.2.0.0	Risk Weighted Amount for Market Risk = WBRC 20.4.2.0.0.0 of Part IV Automatically added.
20.1.4.3.0.0	Risk Weighted Amount for Operational Risk = WBRC 20.5.1.10.1.0 or 20.5.1.10.2.0 or 20.5.1.10.3.0 of Part V(A) Automatically added.
20.1.5.0.0.0	**Common Equity Tier 1 Capital Ratio = 20.1.1.0.0.0/20.1.4.0.0.0**
20.1.5.1.0.0	Capital conservation buffer
20.1.5.2.0.0	Capital surcharge on D-SIBs
20.1.6.0.0.0	**Total Tier 1 Capital Ratio = 20.1.2.0.0.0/20.1.4.0.0.0**
20.1.7.0.0.0	**Total Capital Ratio = 20.1.3.0.0.0/20.1.4.0.0.0**

PART II - GUIDELINES FOR CALCULATION OF TOTAL CAPITAL

Part II(A) – COMPUTATION OF TOTAL REGULATORY CAPITAL

Web Based Return Code	Item
20.2.1.1.0.0	**Common Equity Tier 1 (CET1) Capital after Adjustments**
20.2.1.1.1.0	**Common Equity Tier 1 (CET1) Capital**
20.2.1.1.1.1	**Equity Capital (Stated Capital)/Assigned Capital**
(1)	**Licensed Banks Incorporated in Sri Lanka** i) Equity capital shall comprise both voting and non-voting ordinary share capital, including share premium/discounts. ii) Non-voting ordinary shares should be identical in all aspects to voting ordinary shares except for voting rights.
(2)	**Licensed Banks Incorporated Outside Sri Lanka (branches or subsidiaries of foreign banks established in Sri Lanka)** Capital that shall be assigned to the branch/subsidiary by the head office of licensed banks incorporated or established outside Sri Lanka.
(3)	**Criteria for Classification/Inclusion as Equity Capital for Regulatory Capital Purposes** i) Highest subordinated claim at the time of liquidation of the bank. ii) Entitled to a claim on the residual assets that is proportional to its share of issued capital, after all senior claims have been repaid in liquidation. iii) Principal is perpetual and never repaid outside of liquidation. iv) Bank will not indicate any expectation that the instrument will be bought back, redeemed or cancelled and the statutory or contractual terms shall not provide any feature which might give rise to such an expectation. v) Distributions are paid out of distributable items available for ordinary shareholders. The level of distributions is not tied or linked to the amount paid at issuance and is not subject to a contractual cap. However, the amount of distributions shall be limited to a maximum of distributable items. vi) There are no circumstances under which the distributions are obligatory. vii) Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. Accordingly, no preferential distributions are permitted. viii) It is the issued capital that takes the first and proportionately greatest share of any losses as they occur. ix) The paid-in amount is recognised as equity capital for determining the statement of financial position insolvency.

Web Based Return Code	Item
	x) The paid-in amount is classified as equity under Sri Lanka Accounting Standards. xi) It is directly issued and paid-in and the bank has not directly or indirectly funded the purchase of the instrument. xii) The paid-in amount is neither secured nor covered by a guarantee of the issuer or a related entity or subject to any other arrangement that legally or economically enhances the seniority of the claim. xiii) It is issued only with the approval of the Board of Directors of the issuing bank and in line with other provisions specified in the Articles of Association and the Companies Act No. 7 of 2007. xiv) It is clearly and separately disclosed in the bank's financial statements.
20.2.1.1.1.2	**Reserve Fund** Reserve fund as in the latest audited financial statements maintained in terms of Section 20 of the Banking Act No. 30 of 1988.
20.2.1.1.1.3	**Published Retained Earnings/(Accumulated Retained Losses)**
(1)	Accumulated published retained earnings/(losses) reflected in the statement of changes in equity in the latest audited financial statements.
(2)	Dividends paid and/or declared shall be deducted from retained earnings.
(3)	Losses arising from items that will not be recycled into the income statement shall be deducted from the published retained earnings accordingly. i.e., changes in revaluation surplus of property, plant and equipment and actuarial gains and losses on defined benefit plans.
20.2.1.1.1.4	**Other Comprehensive Income (OCI)**
(1)	**Items that are or may be reclassified/recycled subsequently to the income statement** i) 60 percent of accumulated OCI gains reflected in the statement of changes in equity in the latest audited financial statements subject to reclassification to the income statement shall be included in CET1 capital. ii) Maximum amount of OCI gains recognised is limited to 10 percent of total CET1 capital before item (i) above. iii) OCI gains (net of tax) that are already realised and recycled on disposal and shall be excluded. iv) OCI losses arising from items subject to reclassification must be immediately deducted. v) Items that are or may be reclassified/recycled subsequently to the income statement. a) Gains and losses arising from translating the financial statements of a foreign operation b) Gains and losses on re-measuring available-for-sale financial assets c) Gains and losses on cash flow hedges
(2)	**Items that will not be reclassified/recycled subsequently to the income statement** Gains that will not be reclassified shall not be taken into CET1 capital (i.e. changes in revaluation surplus of property, plant and equipment and actuarial gains and losses on defined benefit plans).

Web Based Return Code	Item
20.2.1.1.1.5	**General and Other Disclosed Reserves** General and other disclosed reserves created or increased by appropriation of retained earnings as in the latest audited financial statements excluding reserves maintained for specific purposes.
20.2.1.1.1.6	**Unpublished current year profit/(losses) and OCI gains in the latest reporting period**
(1)	The unpublished current year profit and OCI gains subject to item 20.2.1.1.1.4 shall be included with the certification of the external auditor.
(2)	The unpublished current year loss reflected in the income statement shall be deducted
20.2.1.1.1.7	**Voting and Non-Voting Ordinary Shares Issued by Consolidated Banking and Financial Subsidiaries of the Bank and Held by Third Parties** Minority interest arising from the issue of ordinary shares by a consolidated banking and financial subsidiary of the bank.
(1)	**Criteria for Inclusion of Minority Interest in CET1 Capital** i) Meet all of the criteria for classification as ordinary shares for regulatory capital purposes given in WBRC 20.2.1.1.1.1 ii) The consolidated subsidiary is a financial institution regulated by CBSL
(2)	**Calculation of Minority Interest Recognised in Consolidated CET1 Capital** **Step 1 - Surplus CETI Capital of the Subsidiary** = CET1 capital of the Subsidiary - (Minimum CET1 capital requirement of the subsidiary + CCB on a staggered basis over a period of 2.5 years) **Step 2 - Surplus CET1 Capital of the Subsidiary Attributable to Minority Shareholders** = Surplus CET1 capital of the Subsidiary * Percentage of CET1 capital held by Minority Shareholders **Step 3 - Minority Interest Recognised in Consolidated CET1 Capital** = Total Eligible Minority Interest - Surplus CET1 capital of the subsidiary attributable to minority shareholders
20.2.1.1.2.0	**Adjustments to CET1**
	Adjustments to be applied both on a solo and a consolidated basis.
20.2.1.1.2.1	**Less: Goodwill**
(1)	Goodwill as shown in the balance sheet.
(2)	Goodwill shall be in accordance with the Sri Lanka Accounting Standard – SLFRS 3 on Business Combinations.
20.2.1.1.2.2	**Less: Other Intangible Assets** Intangible assets shall be in accordance with the Sri Lanka Accounting Standard - LKAS 38 on Intangible Assets.

Web Based Return Code	Item
20.2.1.1.2.3	**Less: Revaluation Losses of Property, Plant and Equipment**
(1)	Revaluation losses shall not be netted against the revaluation gains.
(2)	Sri Lanka Accounting Standard - LKAS 16 on Property Plant and Equipment will be applicable.
20.2.1.1.2.4	**Less: Deferred Tax Assets (DTAs) (net)**
(1)	DTAs shall be netted with Deferred Tax Liability (DTLs).
(2)	Sri Lanka Accounting Standard - LKAS 12 on Income Taxes will be applicable.
20.2.1.1.2.5	**Cash Flow Hedge Reserve** The amount of the cash flow hedge reserve which relates to the hedging of items that are not fair valued, i.e., valued at amortised cost, in the statement of financial position (including projected cash flows). **Less:** Positive amounts of the cash flow hedge **Add:** Negative amounts of the cash flow hedge
20.2.1.1.2.6	**Less: Unrealised Gains on Sale Related Securitisation Transactions** An increase in equity capital due to unrealised gains related to securitisation transactions
20.2.1.1.2.7	**Less: Shortfall of the Cumulative Impairment to Specific Provisions** Any shortfall in specific provisions as per Banking Act Directions on Classification of Loans and Advances, Income Recognition and Provisioning over cumulative impairment.
20.2.1.1.2.8	**Changes in Own Credit Risk** Changes in fair value of financial liabilities measured at fair value recognised in the income statement **Add:** Unrealised losses from changes in fair value of liabilities due to changes in the bank's own credit risk **Less:** Unrealised gains from changes in fair value of financial liabilities due to changes in bank's own credit risk
20.2.1.1.2.9	**Less: Defined Benefit Pension Fund Assets (Net)**
(1)	Defined benefit assets in excess of defined benefit liabilities.
(2)	Sri Lanka Accounting Standard - LKAS 19 on Employee Benefits and the Sri Lanka Accounting Standard - LKAS 26 on Accounting and Reporting by Retirement Benefit Plans will be applicable.
20.2.1.1.2.10	**Less: Investment in Own Shares**
(1)	Bank's investments in own shares or investment/purchases in its capital instruments (shares and debt instruments) due to contractual obligations shall be deducted in the relevant Tiers of capital in the computation of capital ratios. The same application shall be adopted to investments in own shares within the group entities as well. However, prior approval of the Monetary Board is required to invest in own shares.

Web Based Return Code	Item
20.2.1.1.2.11	**Less: Reciprocal Cross Holdings in the Capital of Banking and Other Financial Institutions**
(1)	Reciprocal crossholdings shall mean lower amount of both entities' investments in the capital instruments in different Tiers of capital.
(2)	The bank should total its own investments in investee entity, i.e., financial institutions, and investee entity's investment in the bank. Banks shall apply a corresponding deduction approach for such investments.
(3)	The remaining portion of such investments, i.e., above the lower amount of both entities, shall be deducted in different Tiers of capital under the provisions of WBRC 20.2.1.1.2.12 and 20.2.1.1.1.2.13
(4)	**Corresponding Deduction Approach** Deduction should be applied to the same component of capital (Common Equity Tier 1, Additional Tier 1 and Tier 2 capital) for which the capital would qualify if it was issued by the bank itself.
20.2.1.1.2.12	**Less: Investments in the Capital of Banking and Financial Institutions where the Bank does not own more than 10 per cent of the Issued Ordinary Share Capital of the Entity**
(1)	The following types of investments shall be considered for the purpose of this calculation: i) Capital including ordinary shares (only direct holdings of both voting and non-voting ordinary shares) and all other types of capital instruments (e.g.: preference shares and subordinated debt). ii) If the instrument is issued by a regulated financial entity and not included in regulatory capital of such entity, such investments shall not be included.
(2)	If the total of all investments listed above in aggregate exceed 1 per cent of the bank's CET1 capital (after applying all regulatory adjustments listed prior to this deduction in full) then the amount above 1 per cent is required to be deducted, applying a corresponding deduction approach.
(3)	The amount to be deducted from CET1 capital should be calculated as the total of all holdings which in aggregate exceed 1 per cent of the bank's CET1 capital multiplied by the ordinary share investments as a percentage of the total capital investments.
(4)	A similar approach shall be applied for deduction from AT1 and Tier 2 capital.
(5)	The remaining investment, i.e., investment less than 1 per cent of CET1 capital, which is not deducted from the respective Tiers of capital should be risk weighted appropriately.
(6)	For the application of risk weighting, the amount of investments must be allocated on a pro rata basis between portfolios based on the credit risk (WBRC 20.3.1.5.0.0 to 20.3.1.6.0.0) and market risk (WBRC 20.4.1.1.0.0 to 20.4.1.2.0.0) rules.
20.2.1.1.2.13	**Less: Significant Investments in the Capital of Financial Institutions where the Bank owns more than 10 per cent of the Issued Ordinary Share Capital of the Entity**
(1)	The types of investments for this purpose shall be equal to 20.2.1.1.2.12 (1).
(2)	All investments included in 20.2.1.1.2.12 (1) above that are not ordinary shares must be fully deducted following a corresponding deduction approach.

Web Based Return Code	Item
(3)	The deduction of investments which are not ordinary shares should be applied to the same Tier of capital for which the capital would qualify if it was issued by the financial institution itself. If the bank is required to make a deduction from a particular Tier of capital and it does not have enough of that Tier of capital to satisfy that deduction, the shortfall will be deducted from the next higher Tier of capital.
(4)	All investments included in 20.2.1.1.2.12 (1) above that are ordinary shares in excess of 1 per cent of CET1 capital (after making all regulatory deductions prior to this deduction) of the bank shall be fully deducted from CET1 Capital. The investments less than 1 per cent shall be risk weighted at 250 per cent (WBRC 20.3.1.13.2.0).
20.2.1.1.2.14	**Less: Shortfall of Capital in Financial Subsidiaries** Any shortfall of capital applicable for financial subsidiaries
20.2.1.1.2.15	**Regulatory adjustments applied to CET1 capital due to Insufficient AT1 and Tier 2 Capital to cover deductions** **Indicative List of Financial Institutions** i) Licensed commercial banks and licensed specialised banks licensed under the Banking Act No. 30 of 1988 (as amended) ii) Licensed finance companies licensed under the Finance Business Act No. 42 of 2011 iii) Specialised leasing companies registered under the Finance Leasing Act No. 56 of 2000 iv) Microfinance institutions registered under the Microfinance Act No. 6 of 2016 v) Insurance companies, their agents and insurance brokers registered under the Insurance Industry Act No. 43 of 2000 (as amended) vi) Primary dealers licensed under the Local Treasury Bills Ordinance No. 8 of 1923 (as amended) and Registered Stocks and Securities Ordinance No. 7 of 1937 (as amended) vii) Merchant/investment banks and venture capital companies incorporated under the Companies Act No. 7 of 2007 viii) Registered market intermediaries, including margin providers, investment managers, underwriters, securities clearing houses, credit rating agencies, stock brokers/dealer companies and managing companies of unit trust registered under the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended) ix) Any other financial subsidiaries/institutions established in or outside Sri Lanka
	Adjustments to CET1 applicable only for Branches of Foreign Banks
20.2.1.1.2.16	**Less: Amount due from head office & branches outside Sri Lanka in Sri Lankan Rupees** Debit balances in VOSTRO current accounts in Sri Lanka Rupees held by Head Office and branches outside Sri Lanka in Sri Lanka Rupees.

Web Based Return Code	Item
20.2.1.1.2.17	**Add: Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees** Credit balances in VOSTRO current accounts in Sri Lanka Rupees held by Head Office and branches outside Sri Lanka in Sri Lanka Rupees.
20.2.1.1.2.18	**Less: Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)** Net debit balances (after netting of credit balances) in NOSTRO current accounts in foreign currency held with Head Office and branches outside Sri Lanka and the net amount of fixed and other deposits placed with and amounts lent to Head Office and branches outside Sri Lanka (after netting of fixed and other deposits and amounts borrowed from Head Office and branches outside Sri Lanka) in foreign currency. Ignore any net credit balance.
20.2.2.1.0.0	**Additional Tier 1 (AT1) Capital after Adjustments**
20.2.2.1.1.0	**Additional Tier 1 (ATI) Capital**
20.2.2.1.1.1	**Qualifying Additional Tier 1 Capital Instruments** Instruments issued by the bank that meet the criteria for inclusion in AT1 capital. **Criteria for Classification/Inclusion in Additional Tier 1 Capital**
(1)	Issued and fully paid-in cash. Only the net proceeds received from the issuance of the capital instrument shall be included as capital.
(2)	Subordinated to the claims of depositors, creditors and holders of Tier 2 capital instruments issued by the bank.
(3)	Is neither secured nor covered by a guarantee of the issuer, related entity or any other arrangement that legally or economically enhances the seniority of the claim above the depositors, creditors and subordinated debt capital instruments issued under Tier 2 capital.
(4)	Perpetual, i.e., has no maturity date and have no step-ups or other incentives for early redemption.
(5)	The capital instrument may be callable at the initiative of the issuer only after a minimum of five years from the date of issue, subject to satisfying the following minimum requirements: i) Prior approval of the Monetary Board to exercise a call option has been obtained by the bank; ii) The bank shall not create an expectation that the call option will be exercised; and iii) The bank shall not exercise a call option unless: a) The capital instrument is replaced by the bank with capital of the same or better quality and the replacement of this capital is done in a manner that does not affect the income capacity of the issuing bank; or b) The bank demonstrates that its capital position/ratios will be maintained well above the minimum after the call option is exercised.

Web Based Return Code	Item
(6)	Any repayment of principal (e.g. through repurchases or redemptions) is done only with the prior approval of the Monetary Board. The bank shall not assume or create expectations that approval will be given by the Monetary Board.
(7)	Dividend/Coupon discretion: i) The bank has full discretion at all times to cancel distributions or payments: In this regard, dividend pushers and mandatory distributions are prohibited; ii) Any cancellation of dividend or coupon is not an event of default; iii) The bank must have full access to cancelled dividend or coupon payments to meet obligations as they fall due; and iv) Any cancellation of dividend or coupon does not impose restrictions on the bank, except in relation to distributions to ordinary shareholders.
(8)	Dividends/coupons must be paid out of distributable items: Any dividend or coupon to be paid under the capital instrument is only paid to the extent that the bank has retained profits for distributions.
(9)	The capital instrument shall not have a credit sensitive dividend feature. In this regard, the capital instrument shall not have a dividend or coupon that is reset periodically, based in whole or in part on the credit standing of the bank or any banking group.
(10)	The instrument cannot contribute to liabilities exceeding assets if such a statement of financial position forms part of the solvency test as specified in the Companies Act No. 7 of 2007.
(11)	Instruments classified as liabilities for accounting purposes must have principal loss absorption through: i) Conversion to ordinary shares at an objective pre-specified trigger point; ii) A write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: a) It reduces the claim of the capital instrument in liquidation of the issuing bank; b) It reduces the amount to be repaid when a call option is exercised; and c) It partially or fully reduces dividend or coupon payments on the capital instrument. iii) **Trigger points/events for the purpose of loss absorption at the point of non-viability:** The trigger point/event is 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; and 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. iv) Any compensation paid to the instrument holders as a result of the write-down must be paid immediately in the form of ordinary shares or its equivalent.

Web Based Return Code	Item
	v) The issuing bank must maintain at all times all prior authorisation necessary to immediately issue the relevant number of shares at the time of trigger event occurs.
(12)	The issuance of any new shares as a result of the trigger point/event must occur prior to any public sector injection of capital.
(13)	Neither the bank nor a banking group over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.
(14)	The capital instrument does not have any feature that hinders recapitalisation, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.
(15)	If the capital instrument is not issued by an operating entity or the holding company of the bank [e.g. issued through a special purpose vehicle (SPV)], the proceeds from the issuance of the capital instrument shall be immediately available, without limitation, to an operating entity or the holding company of the bank in a form which meets or exceeds all of the other criteria for inclusion in AT1 capital.
(16)	Prior approval of the Monetary Board is required for inclusion of capital instruments in AT1 capital.
(17)	If AT1 capital instruments issued out of a branch or a subsidiary in a foreign jurisdiction such instruments shall meet the eligibility criteria in both home and host country regulations relating to Basel III.
20.2.2.1.1.2	**Instruments Issued by Consolidated Banking and Financial Subsidiaries of the Bank and Held by Third Parties** Instruments issued by consolidated banking and financial subsidiaries of the bank and held by third parties that meet the criteria for inclusion in AT1 capital and are not included in CET1 capital.
20.2.2.1.2.0	**Adjustments to AT1 Capital**
20.2.2.1.2.1	**Less: Investment in Own Instruments** Bank's investments or investment/purchases in its capital instruments due to contractual obligations shall be deducted in the relevant Tiers of capital in the computation of capital ratios. The same application shall be adopted to investments in own capital instruments within the group entities as well. However, prior approval of the Monetary Board is required to invest in own capital instruments.
20.2.2.1.2.2	**Less: Reciprocal Cross Holdings in AT1 Capital Instruments** Instructions as given under WBRC 20.2.1.1.2.11
20.2.2.1.2.3	**Less: Investments in the Capital of Banking and Financial Institutions where the Bank does not own more than 10 per cent of the Issued Ordinary Share Capital of the Entity** Instructions as given under WBRC 20.2.1.1.2.12

Web Based Return Code	Item
20.2.2.1.2.4	**Less: Significant Investments in the Capital of Financial Institutions where the Bank owns more than 10 per cent of the Issued Ordinary Share Capital of the Entity** Instructions as given under WBRC 20.2.1.1.2.13
20.2.2.1.2.5	**Regulatory Adjustments Applied to AT1 Due to Insufficient Tier 2 Capital to Cover Adjustments**
20.2.3.1.0.0	**Tier 2 Capital after Adjustments**
20.2.3.1.1.0	**Tier 2 Capital** Maximum Tier 2 capital shall be limited to 100 per cent of CET1 capital.
20.2.3.1.1.1	**Qualifying Tier 2 Capital Instruments** **Criteria for Classification/Inclusion in Tier 2 Capital**
(1)	Issued and fully paid-in cash. Only the net proceeds received from the issuance of the capital instrument/term debt shall be included as capital.
(2)	Subordinated to the claims of depositors and general creditors.
(3)	Is neither secured nor covered by a guarantee or any other arrangement that legally or economically enhances the seniority of the claim above the depositors and general creditors of the bank.
(4)	Prior approval of the Monetary Board is required for inclusion of capital instruments/term debt in Tier 2 capital.
(5)	Shall be listed in a recognised stock exchange.
(6)	The total approved Tier 2 capital instruments/term debt shall not exceed 50 per cent of total CET1 capital.
(7)	Maturity of the capital instrument/term debt: i) Minimum original maturity of at least five years. Where the agreement governing the issuance of the capital instrument/ term debt provides for the loan to be drawn down in a series of tranches, the minimum original maturity for each tranche shall be 5 years from the date of its draw-down. ii) Recognition in regulatory capital in the remaining five years before maturity will be amortised on a straight line basis as specified in Table 1. The eligible amount to be amortised shall be equally distributed among the four quarters of that financial year when computing the quarterly capital ratios. **Table 1: The Amortization Schedule for Tier 2 Capital Instruments**

Remaining years to maturity (X)	Amount eligible to be included in Tier 2 capital
$X > 4$	100%
$3 < X \leq 4$	80%
$2 < X \leq 3$	60%
$1 < X \leq 2$	40%
$X \leq 1$	20%

Web Based Return Code	Item
	iii) There are no step-ups (changes in coupon rate or taxes) or other provisions that mandate or create an incentive for the bank to redeem the capital instrument/term debt.
(8)	The capital instrument/term debt may be callable at the initiative of the issuer only after a minimum of five years from the date of issue, subject to the following minimum requirements: i) The bank must obtain prior approval of the Monetary Board to exercise a call option ii) A bank shall not create an expectation that the call option will be exercised; and iii) The bank shall not exercise a call option unless: a) The capital instrument/term debt is replaced by the bank with capital of the same or better quality and the replacement of this capital is done in a manner that does not affects the income of the issuing bank; or b) The bank demonstrates that its capital position/ratios will be maintained well above the minimum after the call option is exercised
(9)	The investors in the capital instrument/term debt have no rights to accelerate the repayment of future scheduled payments (either coupon or principal), except in bankruptcy and liquidation of the bank.
(10)	Instruments classified as liabilities for accounting purposes must have principal loss absorption through: i) Conversion to ordinary shares at an objective pre-specified trigger point ii) A write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: a) It reduces the claim of the capital instrument in liquidation of the issuing bank b) It reduces the amount to be repaid when a call option is exercised c) It partially or fully reduces dividend or coupon payments on the capital instrument iii) Trigger points/events for the purpose of loss absorption at the point of non-viability: The trigger point/event is 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 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 iv) Any compensation paid to the instrument holders as a result of the write-down must be paid immediately in the form of ordinary shares or its equivalent. v) The issuing bank must maintain at all times all prior authorisation necessary to immediately issue the relevant number of shares at the time of trigger event. vi) The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital.

Web Based Return Code	Item
(11)	The capital instrument/term debt shall not have a credit sensitive dividend/coupon feature. In this regard, the capital instrument/term debt shall not have a dividend or coupon that is reset periodically, based in whole or in part on the credit standing of the bank or any banking group.
(12)	Neither the bank nor a banking group over which the bank exercises control or significant influence can have purchased the instrument and the bank cannot directly or indirectly have funded the purchase of the instrument.
(13)	If the capital instrument/term debt is not issued by an operating entity or the holding company of the bank (e.g. issued through an SPV), the proceeds from the issuance of the capital instrument/term debt shall be immediately available without limitation to an operating entity or the holding company of the bank in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 capital.
(14)	If Tier 2 capital instruments/term debt issued out of a branch or a subsidiary in a foreign jurisdiction, such instruments shall meet the eligibility criteria in both home and host country regulations relating to Basel III.
20.2.3.1.1.2	**Revaluation Gains** The revaluation gains shall satisfy the following requirements when including in Tier 2 capital. i) Prior approval of the Monetary Board. ii) The revaluation gains may be included in Tier 2 capital once in every three years subject to a discount of 50 per cent on the difference between the cost and the fair value/market value of property, plant and equipment. iii) Such revaluation is required to be prudently valued to reflect the current market prices in terms of the Banking Act Direction No. 1 of 2014 on the Regulatory Framework for Valuation of Immovable Property of LCBs and LSBs. iv) Revaluation gains shall be based on the current valuation. Revaluation shall be made with sufficient frequency to ensure that the carrying amount does not differ materially from the fair value/market value at the end of the reporting period. v) Sri Lanka Accounting Standard – LKAS 16 on Property Plant and Equipment, and the Sri Lanka Accounting Standard – LKAS 36 on Impairment of Assets will be applicable. vi) Impairment charges taken against any property, plant and equipment are not netted against the revaluation gains from any other asset. vii) If an item of immovable property is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued once in every three years. viii) Newly acquired or developed properties shall be included in Tier 2 capital after completing 3 years from the completion of acquisition/development.

Web Based Return Code	Item
20.2.3.1.1.3	**General Provisions** General provisions based on the Banking Act Directions No. 3 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning shall be eligible for inclusion in Tier 2 capital with a maximum of 1.25 per cent of risk weighted assets (RWAs) on credit risk under the Standardised Approach.
20.2.3.1.1.4	**Instruments Issued by Consolidated Banking and Financial Subsidiaries of the Bank and Held by Third Parties** These instruments shall meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital.
20.2.3.1.2.0	**Adjustments to Tier 2 Capital**
20.2.3.1.2.1	**Less: Investment in Own Capital Instruments** Bank's investments or investment/purchases in its debt capital instruments due to contractual obligations shall be deducted in the relevant Tiers of capital in the computation of capital ratios. The same application shall be adopted to investments in own capital instruments within the group entities as well. However, prior approval of the Monetary Board is required to invest in its own capital instruments.
20.2.3.1.2.2	**Less: Reciprocal cross holdings in Tier 2 capital instruments** Instructions as given under WBRC 20.2.1.1.2.11
20.2.3.1.2.3	**Less: Investments in the Capital of Banking and Financial Institutions where the Bank does not own more than 10 per cent of the Issued Ordinary Share Capital of the Entity** Instructions as given under WBRC 20.2.1.1.2.12
20.2.3.1.2.4	**Less: Significant Investments in the Capital of Financial Institutions where the Bank owns more than 10 per cent of the Issued Ordinary Share Capital of the Entity** Instructions as given under WBRC 20.2.1.1.2.13
20.2.4.1.0.0	**Total Tier 1 Capital**
20.2.5.1.0.0	**Total Capital**

PART II(B) - GUIDELINES ON MAINTAINING CAPITAL BUFFERS

1. Capital Conservation Buffer (CCB)

1.1 Objective

CCB is designed to ensure that banks build up capital buffers during normal times (i.e. outside the period of stress) which can be drawn down during a stressed period.

1.2 Key Features of CCB

i) CCB that have been drawn down during a period of stress shall be rebuilt by way of reducing discretionary distributions of earnings.

ii) Discretionary distributions may include dividend payments and share buy-backs.

iii) Additional capital may be raised from the market to conserve internally generated capital.

iv) Future predictions of recovery will not be accepted as justification for maintaining generous distributions when capital buffers are depleted.

v) Fall in CCB in normal times, due to increasing RWAs without a commensurate increase in CET1 capital ratio (although adhering to the restrictions on distributions), will require increasing the buffer to the desired level within a time frame prescribed by the Monetary Board.

1.3 The Framework

i) Maintaining the full CCB requirement is mandatory from 01 January 2019 both on a solo and consolidated basis. However, this will not limit a draw-down of CCB during a period of stress. The phase-in arrangement of CCB from 01 July 2017 is indicated in Table 1.

Table 1 - Phase-in Arrangements for CCB

	01.07.2017	01.01.2018	01.01.2019
CCB	1.25%	1.875%	2.5%

ii) CCB of 2.5 per cent of RWAs shall be met by using CET1 capital remaining after complying with the minimum CET1 and Total Capital Ratios.

iii) Commencing 01 July 2017, distribution constraints will apply when a bank's capital level falls into the buffer range. However, during the buffer range the bank can carry out its business as normal except for restrictions imposed by CBSL.

iv) Table 2 and 3 below indicates the minimum capital conservation ratios (MCCR) a bank must meet at various levels of CET1 Capital and Total Capital Ratios, respectively.

v) "Minimum capital conservation ratios" refer to the percentage of a bank's earnings for a financial year that a bank is required to conserve in the subsequent financial year.

Table 2 - Minimum Capital Conservation Ratios for CET1 Capital

CET1 capital ratio buffer range (%)	MCCR (percentage of earnings)
4.50 - 5.125	100
> 5.125 - 5.75	80
> 5.75 - 6.375	60
> 6.375 - 7.00	40
> 7.00	0

Table 3 - Minimum Capital Conservation Ratios for Total Capital

Total capital ratio buffer range (%)	MCCR (percentage of earnings)
10.0 - 0.625	100
>10.625 - 11.25	80
>11.25 - 11.875	60
>11.875 - 12.5	40
>12.5	0

1.4 Any distributions in excess of constraints imposed in Table 2 and 3 shall require the prior approval of the Monetary Board.

1.5 Any draw down of CCB shall require the prior approval of the Monetary Board, and the bank should submit a capital augmentation plan for rebuilding the CCB. Monetary Board will provide an appropriate time frame to rebuild CCB.

1.6 Although the buffer may be capable of being drawn down, banks shall not operate in the buffer range during normal times.

1.7 **Other key aspects of CCB requirements:**

i) **Elements subject to the restriction on distributions**:

a) Cash dividends

b) Share buy-backs

c) Payments which do not result in depletion of CET1 capital are not considered as distributions.

ii) **Definition of Earnings:** Distributable profits before the deduction of elements subject to the restriction on distributions mentioned at (i) above.

2. Capital Surcharge on Domestic Systemically Important Banks (D-SIBs)

2.1 Objective

D-SIBs must have a higher capacity for loss absorbance to cover the greater risks that they pose to the financial system.

2.2 Key Features

Banks with total assets of Rs. 500Bn and over, as in the latest annual audited financial statements would be identified as D-SIBs in the banking sector.

2.3 The Framework

i) The capital surcharge on D-SIBs would commence from 01 July 2017 both on a solo and consolidated basis. The phase-in arrangement of capital surcharge on D-SIBs is indicated in Table 4.

Table 4 - Phase-in Arrangements for Capital Surcharge on D-SIBs

	01.07.2017	01.01.2018	01.01.2019
Capital Surcharge on D-SIBs	0.5%	1.0%	1.5%

ii) The capital surcharge requirements for D-SIBs are to be met with CET1 capital.

iii) If a bank fails to meet the capital surcharge on D-SIBs during the transitional period and full implementation time frame, licensed banks shall adhere to the time frame for meeting the requirement by imposing restrictions on discretionary distributions as stated below.

Table 5 - MCCR for CET1 Capital as of 01 July 2017 (in percentage)

CET1 Capital Ratio	MCCR	Total Capital Ratio	MCCR
5.75 - 5.875	100	11.25 - 11.375	100
> 5.875 - 6.00	80	> 11.375 - 11.50	80
> 6.00 - 6.125	60	> 11.50 - 11.625	60
> 6.125 - 6.25	40	> 11.625 – 11.75	40
> 6.25	0	> 11.75	0

Table 6 - MCCR for CET1 Capital as of 01 January 2018 (in percentage)

CET1 Capital Ratio	MCCR	Total Capital Ratio	MCCR
6.875 - 7.00	100	12.375 - 12.5	100
> 7.00 - 7.125	80	> 12.5 - 12.625	80
> 7.125 - 7.25	60	> 12.625 - 12.75	60
> 7.25 - 7.375	40	> 12.75 - 12.875	40
>7.375	0	> 12.875	0

Table 7 - MCCR for CET1 Capital as of 01 January 2019 (in percentage)

CET1 Capital Ratio	MCCR	Total Capital Ratio	MCCR
8.00 - 8.125	100	13.5 - 13.625	100
> 8.125 - 8.25	80	> 13.625 - 13.75	80
> 8.25 - 8.375	60	> 13.75 - 13.875	60
> 8.375 - 8.5	40	> 13.875 - 14.00	40
> 8.50	0	> 14.00	0

PART III - GUIDELINES ON COMPUTATION OF TOTAL RISK WEIGHTED ASSETS

Risk Weighted Amount for Credit Risk Based On the Standardised Approach

1 General Rules for Measuring Credit Risk Based on the Standardised Approach

1.1 Under the Standardised Approach (SA), the rating assigned by the eligible external credit assessment institutions (ECAIs) will largely support the measure of credit risk. Banks may rely upon the ratings assigned by the ECAIs recognised by CBSL (See paragraph 2) for assigning risk weights for capital requirement purposes as per the mapping furnished in these guidelines.

1.2 The risk weighting of claims will be as described under Specific Rules for Measuring Credit Risk Based on the Standardised Approach.

1.3 Claims (exposures) on a counterpart would include placements with banks, investments, loans and advances or any other credit exposure.

1.4 On-balance sheet claims (exposures) would be risk weighted applying the risk weight as given in specific rules while off-balance sheet items would continue to be converted to credit equivalents using the credit conversion factors given in part III(B) and thereafter risk weighted according to the risk weight applicable to the counterpart.

1.5 All exposures should be risk-weighted net of specific provisions and interest in suspense that has been charged to the respective customer account.

2 External Credit Assessments

2.1 **Recognition of Eligible Credit Rating Agencies**

2.1.1 The new capital standards require recognizing ECAIs and developing a mapping process to assign the ratings issued by eligible credit rating agencies to the risk weights available under the Standardised Approach. CBSL has identified Fitch Ratings Lanka Ltd and ICRA Lanka Limited operating in Sri Lanka for the purposes of risk weighting claims by banks for capital requirement purposes.

2.1.2 The following internationally recognized credit ratings agencies are also accepted as ECAIs.

a) Moody's

b) Standard and Poor's

c) Fitch Ratings

2.1.3 Banks are required to obtain the prior approval of CBSL for the use of other ECAIs.

2.2 **Scope of Application of External Ratings**

2.2.1 Banks should use the chosen ECAIs and their ratings consistently for each type of claim, for both risk weighting and risk management purposes. Banks will not be allowed to "cherry pick" the assessments provided by different ECAIs.

2.2.2 Banks shall not use one ECAI's rating for one exposure, while using another ECAI's rating for another exposure to the same counterpart, unless the respective exposures are rated by only one of the chosen ECAIs, whose ratings the bank has decided to use. External assessments for one entity within a corporate group cannot be used to risk weight other entities within the same group.

2.3 **Mapping Process**

2.3.1 The ratings issued by the eligible ECAIs have been mapped to the appropriate risk weights applicable as per the Standardised Approach under the Revised Framework. The rating risk weight - mapping furnished in the tables below shall be adopted by all banks:

Table 1 - Mapping of Notations of the Credit Rating Agencies in Sri Lanka

Fitch Rating Lanka	ICRA Lanka Limited	Rating Scale for Capital Ratios
AAA (lka)	(SL) AAA	AAA
AA+ (lka)	(SL) AA+	AA+
AA (lka)	(SL) AA	AA
AA- (lka)	(SL) AA-	AA-
A+ (lka)	(SL) A+	A+
A (lka)	(SL) A	A
A- (lka)	(SL) A-	A-
BBB+ (lka)	(SL) BBB+	BBB+
BBB (lka)	(SL) BBB	BBB
BBB- (lka)	(SL) BBB-	BBB-
BB+ (lka)	(SL) BB+	BB+
BB (lka)	(SL) BB	BB
BB- (lka)	(SL) BB-	BB-
B+ (lka)	(SL) B+	B+
B (lka)	(SL) B	B
B-(lka) & Lower	(SL) B- & Lower	B- & Lower

Table 2 - Mapping of Notations of the International Credit Rating Agencies

Standard and Poor's	Moody's	Fitch Ratings	Rating Scale of Capital Ratios
AAA	Aaa	AAA	AAA
AA+	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA-	Aa3	AA-	AA-
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB-	Baa3	BBB-	BBB-
BB+	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-
B+	B1	B+	B+
B	B2	B	B
B- & Lower	B3 & Lower	B- & Lower	B- & Lower

Table 3 - Mapping of Short Term Ratings

Standard and Poor's	Moody's	Fitch Ratings	ICRA Lanka Limited	Risk weights
A - 1+/A - 1	P - 1	F1+/ F1	(SL) A1+ / A1	20%
A - 2+/A - 2	P - 2	F2	(SL) A2+ / A2	50%
A - 3+/A - 3	P - 3	F3	(SL) A3+ / A3	100%
Below A - 3	NP	Below F3	(SL) Below A3	150%

2.4 **Short-Term Ratings**

2.4.1 Short-term assessments may only be used for short-term claims against banks and corporates.

2.4.2 For risk-weighting purposes, short-term ratings are deemed to be issue specific. They can only be used to derive risk weights for claims arising from the rated facility. They cannot be generalised to other short-term claims. In no event can a short-term rating be used to support a risk weight for an unrated long-term claim.

2.4.3 If a short-term rated facility attracts a 50% risk weight, unrated short-term claims cannot attract a risk weight lower than 100%. If an issuer has a short-term facility with an assessment that warrants a risk weight of 150%, all unrated claims, whether long term or short term, should also receive a 150% risk weight, unless the bank uses recognized CRM techniques for such claims.

2.4.4 The above risk weight mapping of both long term and short-term ratings of the chosen domestic rating agencies would be reviewed annually by CBSL.

2.5 **Use of Unsolicited Ratings**

A rating would be treated as solicited only if the issuer of the instrument has requested the credit rating agency for the rating and has accepted the rating assigned by the agency. As a general rule, banks should use only solicited rating from the chosen ECAIs. No ratings issued by the credit rating agencies on an unsolicited basis should be considered for risk weight computation as per the Standardised Approach.

2.6 **Issuer versus Issues Assessment**

Where a bank's exposure is to a particular issue that has an issue-specific assessment, the risk weight of the claim will be based on this assessment.

2.7 **Use of Multiple Rating Assessments**

2.7.1 Banks shall be guided by the following in respect of exposures/obligors having multiple ratings from the eligible ECAIs chosen by the bank for the purpose of risk weight Computation:

(i) If there is only one rating by an eligible credit rating agency for a particular claim, that rating would be used to determine the risk weight of the claim.

(ii) If there are two ratings accorded by eligible credit rating agencies, which map into different risk weights, the higher risk weight should be applied.

(iii) If there are three or more ratings accorded by eligible credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights should be applied, i.e., the second lowest risk weight.

PART III(A) – COMPUTATION OF RISK WEIGHTED AMOUNT FOR CREDIT RISK

Web Based Return Code	Assets	Risk Weight %
20.3.1.0.0.0	**Total risk-weighted amount for credit risk** The amount must agree to sum of total amount of on-balance sheet items (from WBRC 20.3.1.1.0.0 to 20.3.1.14.0.0) and total amount of credit equivalent items after applying the specific risk weight assigned.	
20.3.1.1.0.0	**Claims on Central Government and Central Bank of Sri Lanka** The amount must agree to sum of items WBRC 20.3.1.1.1.0 to 20.3.1.1.2.0.	
20.3.1.1.1.0	**Central Government**	
20.3.1.1.1.1	**Rupee Claims on Central Government** All rupee claims on Government of Sri Lanka	0
20.3.1.1.1.2	**Foreign Claims on Central Government** All foreign claims on Government of Sri Lanka are risk-weighted commencing 01.01.2018	20
20.3.1.1.2.0	**Central Bank of Sri Lanka** All claims on the Central Bank of Sri Lanka	0
20.3.1.2.0.0	**Claims on Foreign Sovereigns and their Central Banks** Exposures on foreign sovereigns and their central banks will attract risk weights as per the rating assigned to those sovereigns/sovereign exposures by international rating agencies as given. The amount must agree to sum of items from WBRC 20.3.1.2.1.0 to 20.3.1.2.6.0	
20.3.1.2.1.0	AAA to AA-	0
20.3.1.2.2.0	A+ to A-	20
20.3.1.2.3.0	BBB+ to BBB-	50
20.3.1.2.4.0	BB+ to B-	100
20.3.1.2.5.0	Below B-	150
20.3.1.2.6.0	Unrated	100
20.3.1.3.0.0	**Claims on Public Sector Entities (PSEs)** All performing claims on domestic public sector entities (including public corporations, statutory boards, provincial authorities, local government bodies, etc.) and claims on foreign PSEs will be risk weighted in a manner similar to claims on corporates as given. The amount must agree to sum of items from WBRC 20.3.1.3.1.0 to 20.3.1.2.5.0	
20.3.1.3.1.0	AAA to AA-	20

Web Based Return Code	Assets	Risk Weight %
20.3.1.3.2.0	A+ to A-	50
20.3.1.3.3.0	BBB+ to BB-	100
20.3.1.3.4.0	Below BB-	150
20.3.1.3.5.0	Unrated	100
20.3.1.4.0.0	**Claims on Official Entities and Multilateral Development Banks (MDBs)** The amount must agree with the sum of the following items from WBRC 20.3.1.4.1.0 to 20.3.1.4.6.0.	
20.3.1.4.1.0	**BIS, IMF, ECB, EC and Eligible MDBs** i) **Exposures on following official entities will be assigned a zero risk weight:** a) Bank for International Settlements (BIS) b) International Monetary Fund (IMF) c) European Central Bank (ECB) d) European Community (EC) ii) **The following Eligible MDBs will be assigned a zero risk weight:** a) The World Bank Group comprising of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) b) The Asian Development Bank (ADB) c) The African Development Bank (AFDB) d) The European Bank for Reconstruction and Development (EBRD) e) The Inter-American Development Bank (IADB) f) The European Investment Bank (EIB) g) The European Investment Fund (EIF) h) The Nordic Investment Bank (NIB) i) The Caribbean Development Bank (CDB) j) The Islamic Development Bank (IDB) k) The Council of Europe Development Bank (CEDB) l) The International Finance Facility for Immunization (IFFIm) iii) The risk weight applicable to claims on other MDBs will depend on the external rating assigned for each MDBs as follows:	0
20.3.1.4.2.0	AAA+ to AA-	20
20.3.1.4.3.0	A+ to BBB-	50
20.3.1.4.4.0	BB+ to B-	100
20.3.1.4.5.0	Below B-	150

Web Based Return Code	Assets	Risk Weight %
20.3.1.4.6.0	Unrated	100
20.3.1.5.0.0	**Claims on Banks Exposures** Total performing claims on banks denominated in LKR and foreign currency. The amount must agree to sum of total rupee claims and foreign currency claims. (WBRC 20.3.1.5.1.0 + 20.3.1.5.2.0 + 20.3.1.5.3.0) **Short-Term Claims:** In order to qualify for the preferential treatment for short-term claims, they should have an original contractual maturity of 3 months or less, and should not be rolled over. **Branches of banks incorporated abroad:** The rating applicable to the Head Office may be used as the rating applicable to the particular branch, if the branch is not rated locally.	
20.3.1.5.1.0	**Rupee Exposures less than 3 months** All performing claims on all banks (short-term) including LCBs and LSBs, excluding investment in equity shares and other instruments eligible for capital status, denominated in LKR would be risk weighted based on their external credit assessment as follows: The amount must agree with the sum of the following items from WBRC 20.3.1.5.1.1 to 20.3.1.5.1.4	
20.3.1.5.1.1	AAA to BBB-	20
20.3.1.5.1.2	BB+ to B-	50
20.3.1.5.1.3	Below B-	150
20.3.1.5.1.4	Unrated	100
20.3.1.5.2.0	**Foreign Currency Exposures less than 3 months** All performing claims denominated in foreign currency on banks (short-term) will be risk weighted based on their external credit assessment as given in the table below. The amount must agree with the sum of the following items from WBRC 20.3.1.5.2.1 to 20.3.1.5.2.5	
20.3.1.5.2.1	AAA to A-	20
20.3.1.5.2.2	BBB+ to BBB-	50
20.3.1.5.2.3	BB+ to B-	100
20.3.1.5.2.4	Below B-	150
20.3.1.5.2.5	Unrated	100
20.3.1.5.3.0	**Rupee and Foreign Currency Exposures more than 3 months** All performing claims, excluding investments adjusted under WBRC 20.2.1.1.2.12,	

Web Based Return Code	Assets	Risk Weight %
	20.2.2.1.2.3 and 20.2.3.1.2.3 in Part II(A) – Computation of Total Regulatory Capital, denominated in rupees and foreign currency on banks (more than 3 months) will be risk weighted based on their external credit assessment as given in the table below. The amount must agree with the sum of the following items from WBRC 20.3.1.5.3.1 to 20.3.1.5.3.5	
20.3.1.5.3.1	AAA to AA-	20
20.3.1.5.3.2	A+ to BBB-	50
20.3.1.5.3.3	BB+ to B-	100
20.3.1.5.3.4	Below B-	150
20.3.1.5.3.5	Unrated	100
20.3.1.6.0.0	**Claims on Financial Institutions** Total performing claims on non-bank financial institutions, excluding investments adjusted under WBRC 20.2.1.1.2.12, 20.2.2.1.2.3 and 20.2.3.1.2.3 in Part II(A) – Computation of Total Regulatory Capital. (WBRC 20.3.1.6.1.0 + 20.3.1.6.2.0)	
20.3.1.6.1.0	**Claims on Institutions Regulated by the Central Bank of Sri Lanka** The amount must agree with the sum of the following items from WBRC 20.3.1.6.1.1 to 20.3.1.6.1.5	
20.3.1.6.1.1	AAA to AA-	20
20.3.1.6.1.2	A+ to BBB-	50
20.3.1.6.1.3	BB+ to B-	100
20.3.1.6.1.4	Below B-	150
20.3.1.6.1.5	Unrated	100
20.3.1.6.2.0	**Claims on Other Financial Institutions** The amount must agree with the sum of the following items from WBRC 20.3.1.6.2.1 to 20.3.1.6.2.5	
20.3.1.6.2.1	AAA to AA-	20
20.3.1.6.2.2	A+ to A-	50
20.3.1.6.2.3	BBB+ to BB-	100
20.3.1.6.2.4	Below BB-	150
20.3.1.6.2.5	Unrated	100

Web Based Return Code	Assets	Risk Weight %
20.3.1.7.0.0	**Claims on Corporates** All performing claims on corporates shall be risk weighted as per the ratings assigned. Banks can, with prior approval of CBSL, exercise the option to rate all corporate customers at 100%. Once decided and approved by CBSL the banks should apply a single consistent approach. The amount must agree with the sum of the following items from WBRC 20.3.1.7.1.0 to 20.3.1.7.5.0.	
20.3.1.7.1.0	AAA to AA-	20
20.3.1.7.2.0	A+ to A-	50
20.3.1.7.3.0	BBB+ to BB-	100
20.3.1.7.4.0	Below BB-	150
20.3.1.7.5.0	Unrated	100
20.3.1.8.0.0	**Retail Claims** All performing retail claims include: Retail claims that qualify for regulatory capital purposes and retail claims that do not qualify for regulatory capital purposes **However, the following shall be excluded from the retail portfolio:** a) Investments in securities such as bonds and equities (to be treated as investments). b) Residential housing loans secured by mortgages over the residential property that qualify for inclusion as claims secured by residential property (refer WBRC 20.3.1.9.0.0). The amount must agree with the sum of the retail claims that qualify for regulatory capital purposes and retail claims that do not qualify for regulatory capital purposes. (WBRC 20.3.1.8.1.0 to 20.3.1.8.3.0)	
20.3.1.8.1.0	**Retail Claims that Qualify for Regulatory Capital Purposes** Performing claims that meet the criteria given below qualify for inclusion in the regulatory retail portfolio. The qualifying criteria for the Regulatory Retail Portfolio (applicable to both the retail and SME portfolios): **a) Orientation Criterion** – The exposure should be to an individual person or persons or to a SME. **b) Product Criterion** – The exposure should be of one of the following product types. Both fund based and non-fund based facilities to be included:	

Web Based Return Code	Assets	Risk Weight %
	i) Revolving credit and lines of credit including overdrafts and credit cards ii) Personal term loans and leases (e.g. instalment loans, vehicle loans and leases, student and educational loans, personal finance) iii) SME facilities. **c) Granularity Criterion** – The regulatory retail portfolio must be sufficiently diversified to a degree that reduces the risks in the portfolio. In order to meet this criterion, i) No aggregate exposure without considering CRM, to one counterpart should exceed 0.2% of the overall retail portfolio (excluding any non-performing retail/ SME claims). ii) "To one counterpart" means one or several entities that constitute a single beneficiary, eg: in the case of a small business affiliated to another small business, the limit would apply to the bank's aggregate exposure on both businesses. **d) Low value of Exposure** i) **SME Exposures** I. The maximum credit exposure of the lending bank to an SME shall not exceed Rs. 250 million. II. The annual turnover of the SME shall not exceed Rs.750 million. III. The annual turnover should be based on the latest available audited financial statements at the time of granting the facilities. IV. The annual turnover should be based on latest available audited financial statements or certified by a Chartered Accountant or an Approved Accountant acceptable to the Department of Inland Revenue. In the case of draft financial statements, the turnover certified by a Chartered Accountant or an Approved Accountant should be obtained within the year. V. In the case of grant of credit facilities less than Rs. 50 million, the condition III and IV above shall not be applicable and banks shall adopt their own internal mechanism to verify the SME's annual turnover. ii) **Individual Exposures** The amount must agree with the sum of following items from WBRC 20.3.1.8.1.1 to 20.3.1.8.1.3	

Web Based Return Code	Assets	Risk Weight %
20.3.1.8.1.1	**SME Exposures Secured on Immovable Property** a) Qualifying SME exposures, fully secured by a primary mortgage over immovable property, qualify for a lower risk weight of 60%. b) The claims shall meet the following qualifying criteria: i) A margin of at least 25% on the forced sale value of the property based on the latest valuation report. ii) Valuation of property: valuation of property is carried out by an external independent valuer or current internal assessment of the value of the properties subject to the conditions stated in the Directions on Classification of Loans and Advances, Income Recognition and Provisioning issued under the Banking Act.	60
20.3.1.8.1.2	**Other SME Exposures** Sum of qualifying SME exposures that do not meet the criteria given in WBRC 20.3.1.8.1.1 above.	75
20.3.1.8.1.3	**Individual Exposures** Sum of claims with maximum aggregate retail exposure (not taking any CRM into account) to one counterpart that does not exceed the lower of 0.2% of capital base (as included in the computation as at the reporting date) or Rs.10 million at the time of first granting.	75
20.3.1.8.2.0	**Retail Claims that do not Qualify for Regulatory Capital Purposes** Performing claims that do not qualify for inclusion in the regulatory retail portfolio.	100
20.3.1.8.3.0	**Claims Secured by Gold** The amount must agree with the sum of the following items from WBRC 20.3.1.8.3.1 to 20.3.1.8.3.3	
20.3.1.8.3.1	**Loan to Value Ratio equal to or less than 70%** Claims collateralized by gold with a loan to value ratio of equal to or less than 70% at the reporting date.	0
20.3.1.8.3.2	**Loan to Value Ratio over 70% and less than 100%** Total value of claims collateralized by gold with a loan to value ratio of over 70% and less than 100% at the reporting date.	20
20.3.1.8.3.3	**Loan to Value equal to or over 100%** Claims collateralized by gold with a loan to value ratio of equal to or over 100% at the reporting date.	100

<table>
<tr><th>Web Based Return Code</th><th>Assets</th><th>Risk Weight %</th></tr>
<tr><td>20.3.1.9.0.0</td><td>Claims Secured by Residential Property
The amount must agree with the sum of the claims secured by residential property that qualify for regulatory capital purposes and claims secured by residential property that do not qualify for regulatory capital purposes.
(WBRC 20.3.1.9.1.0 to 20.3.1.9.2.0)
The exposures secured by mortgages on commercial real estates shall be excluded from here.</td><td></td></tr>
<tr><td>20.3.1.9.1.0</td><td>Claims that Qualify for Regulatory Capital Purposes
a) Subject to conditions below, residential housing loans fully secured by a primary mortgage over such residential property that is or will be occupied by the borrower, or rented.
b) The claims should strictly meet the following qualifying criteria to be able to use the preferential risk weight:
• A margin of at least 25% on the forced sale value of the property based on the latest valuation report;
• Valuation of property: valuation of property is carried out by an external independent valuer or current internal assessment of the value of the properties subject to the conditions stated in the Directions on Classification of Loans and Advances, Income Recognition and Provisioning issued under Banking Act.
c) Mortgages other than primary mortgages will qualify for the same risk weight, subject to the above conditions, if:
• The mortgage is with the same bank
• The purpose of the loan is for residential purposes.</td><td>50</td></tr>
<tr><td>20.3.1.9.2.0</td><td>Claims that do not Qualify for Regulatory Capital Purposes
Performing claims that do not meet the criteria given above</td><td>100</td></tr>
<tr><td>20.3.1.10.0.0</td><td>Claims Secured by Commercial Real Estate
Commercial real estate exposure is defined as exposures secured by mortgages on commercial real estate such as office buildings, multi-purpose or multi-tenanted commercial premises, multi-family residential buildings, industrial or warehouse space, hotels, land acquisition, land development and construction.</td><td>100</td></tr>
</table>

Web Based Return Code	Assets	Risk Weight %
20.3.1.11.0.0	**Non-Performing Assets (NPAs)** The unsecured portion of NPAs, other than a qualifying residential mortgage loan which is addressed in item 20.3.1.12.0.0, net of specific provision will be risk weighted as items 20.3.1.11.1.0 and 20.3.1.11.2.0 below. For the purpose of computing the level of specific provisions of NPAs for deciding the risk-weighting, all funded NPA exposures of a single counterparty (without netting the value of the eligible collateral under CRM) should be reckoned in the denominator. For the purpose of defining the secured portion of the NPA, eligible collateral will be the same as recognised for credit risk mitigation purposes. Hence, other forms of collateral like land, buildings, plant, machinery, current assets, etc. will not be reckoned while computing the secured portion of NPAs for capital requirement purposes. The amount must agree with the sum of the following items WBRC 20.3.1.11.1.0 + 20.3.1.11.2.0.	
20.3.1.11.1.0	**Specific Provisions are equal to or more than 20%** Specific provisions equal or more than 20% of the outstanding amount of the NPA	100
20.3.1.11.2.0	**Specific Provisions are less than 20%** Specific provisions are less than 20% of the outstanding amount of the NPA	150
20.3.1.12.0.0	**Non-Performing Assets Secured by Residential Property** The unsecured portion of NPAs (without netting the value of property mortgage), net of specific provision will be risk weighted as items WBRC 20.3.1.12.1.0 and 20.3.1.12.2.0 For the purpose of computing the level of specific provisions in NPAs for deciding the risk-weighting, all funded NPA exposures of a single counterparty (without netting the value of property mortgage) should be reckoned in the denominator. The amount must agree with the sum of the following items WBRC 20.3.1.12.1.0 and 20.3.1.12.2.0	
20.3.1.12.1.0	**Specific Provisions are equal or more than 20%** Specific provisions equal or more than 20% of the outstanding amount of the NPA	50
20.3.1.12.2.0	**Specific Provisions are less than 20%** Specific provisions are less than 20% of the outstanding amount of the NPA	100
20.3.1.13.0.0	**Higher-risk Categories** Exposures to the following segments, which are considered as high-risk exposures:	

Web Based Return Code	Assets	Risk Weight %
20.3.1.13.1.0	**Venture capital funds/companies and Private equity investments**	150
20.3.1.13.2.0	**Significant Investments in the Capital of Financial Institutions** All investments in financial institutions that have not been adjusted under WBRC 20.2.1.1.2.13, 20.2.2.1.2.4 and 20.2.3.1.2.4 in Part II(A) – Computation of Total Regulatory Capital	250
20.3.1.14.0.0	**Cash Items and Other assets** The amount must agree with the sum of cash items 20.3.1.14.1.0 and Other Assets 20.3.1.14.2.0	
20.3.1.14.1.0	**Cash Items** Total of cash items from 20.3.1.14.1.1 to 20.3.1.14.1.3	
20.3.1.14.1.1	**Notes and Coins in Own Vault** Local currency notes and coins held by tellers, in ATMs, in vault and petty cash	0
20.3.1.14.1.2	**Gold Bullion held in Own Vault** Gold and bullion held in the bank's vaults. Gold items held in safe custody shall be excluded.	0
20.3.1.14.1.3	**Cash Items in the Process of Collection** Cheques, drafts and other cash items, such as money orders, postal orders drawn on banks and other authorized institutions and paid immediately on presentation and cash in transit. Trade bills, such as import bills and export bills, in the process of collection should be excluded from this item and considered as loans and advances.	20
20.3.1.14.2.0	**Other Assets** Total of items 20.3.1.14.2.1 and 20.3.1.14.2.2	
20.3.1.14.2.1	**Property Plant and Equipment** The item includes bank premises, immovable property, machinery and equipment, motor vehicles, furniture and fittings and other fixed assets, reported at cost or at revalued amount, net of accumulated depreciation excluding intangible assets.	100
20.3.1.14.2.2	**Other Assets/Exposures** All other assets/exposures which are not specified elsewhere.	100

PART III(B) - COMPUTATION OF CREDIT EQUIVALENT AMOUNT OF OFF-BALANCE SHEET ITEMS

Code	Description	Credit Conversion Factor (%)
20.3.2.0.0.0	**Off-balance Sheet Items** The exposure on off-balance sheet items is to be included in the computation of the risk weighted capital ratio. The conversion of the credit risk inherent in each off-balance sheet item would be converted into an on-balance sheet credit equivalent by multiplying the principal amount by a credit conversion factor. The credit equivalent amount would then be weighted according to the corresponding asset item. The amount must agree with the sum of the principal amount of off-balance sheet items and credit equivalent of off-balance sheet items from WBRC 20.3.2.1.0.0 to 20.3.2.10.0.0.	**-**
20.3.2.1.0.0	**Direct Credit Substitutes** Total direct credit substitutes of the following items from WBRC 20.3.2.1.1.0 to 20.3.2.1.4.0	
20.3.2.1.1.0	**General Guarantees of Indebtedness** General guarantees of indebtedness where the risk of loss in the transaction may crystallise into a direct liability and become a direct claim on the counterparty. These include guarantees in respect of counterparties like insurance agents, sales agents, etc. to cover any non-payment by them of premium, sales proceeds, etc. to their beneficiaries. Bank guarantees in favour of customs would cover any non-payment of customs duties by their counterparties.	100
20.3.2.1.2.0	**Standby Letters of Credit serving as Financial Guarantees** Stand-by Letters of Credit, which are direct, credit substitutes where the risk of loss in the transaction is equivalent to that of a direct claim on the counterparty. This includes stand-by Letters of Credit serving as financial guarantees for loans, securities and other financial liabilities.	100
20.3.2.1.3.0	**Bank Acceptances** Liabilities arising from acceptances on accommodation of bills but excludes bills that have been discounted by the bank itself. Risk participation and other similar commitments undertaken to repay the financial obligation of a customer, on his failure to do so, should be included.	100

Code	Description	Credit Conversion Factor (%)
20.3.2.1.4.0	**Others (please specify)** Any other obligation which carries the same risk of loss in the transaction and is equivalent to that of a direct claim on the counterparty	100
20.3.2.2.0.0	**Transaction-related Contingencies** Total transaction- related contingencies of following items from WBRC 20.3.2.2.1.0 to 20.3.2.2.3.0	
20.3.2.2.1.0	**Performance Bonds, Bid Bonds & Warranties** Transaction-related contingent items such as Performance Bonds, Bid Bonds and Warranties, where the risk of loss arises from an irrevocable obligation to pay a third party, the non-financial obligation of the customer upon his failure to fulfil obligations under a contract or a transaction. Such contingencies would crystallise into actual liabilities dependent upon the occurrence or non-occurrence of an event other than that of a default in payment by the counterparty.	50
20.3.2.2.2.0	**Standby Letters of Credit Related to Particular Transactions** Contingent liabilities relating to particular transactions. Here too, there is a likelihood of the contingencies crystallizing into actual liabilities depending upon the occurrence or non-occurrence of an event other than that of a default in payment by counterparty.	50
20.3.2.2.3.0	**Others (please specify)** Other contingent liabilities arising from an irrevocable obligation to pay a third party, the non-financial obligation of a customer upon his failure to fulfil such obligation or terms under contract or transaction.	50
20.3.2.3.0.0	**Short-Term Self-Liquidating Trade-Related Contingencies** Total short-term self-liquidating trade-related contingencies of following items from WBRC 20.3.2.3.1.0 to 20.3.2.3.4.0.	
20.3.2.3.1.0	**Shipping Guarantees** Invoice value of guarantees issued by the reporting institution to customers where the reporting institution agrees to indemnify fully, to a named shipping agent, against all liabilities arising from the release of goods without production of Bills of Lading and/or other shipping documents by the receiving party.	20
20.3.2.3.2.0	**Documentary Letters of Credit** Documentary credits collateralised by the underlying shipments which are short-term self-liquidating and trade-related transactions.	20

Code	Description	Credit Conversion Factor (%)
20.3.2.3.3.0	**Trade Related Acceptances** Liabilities arising from acceptances that are based on a specific trade transaction either domestic or foreign e.g. Letters of Credit.	20
20.3.2.3.4.0	**Others (please specify)** Contingent liabilities arising from short-term self-liquidating trade related obligations.	20
20.3.2.4.0.0	**Sale and Repurchase Agreements and Assets Sale with recourse where the credit risk remains with the Bank** Total of following items from WBRC 20.3.2.4.1.0 to 20.3.2.4.6.0	
20.3.2.4.1.0	**Sale and Repurchase Agreements** Sale and Repurchase Agreement (REPO) is an agreement whereby a bank sells an asset to a third party with a commitment to repurchase it at an agreed price on an agreed future date. Purchase and Resale Agreements (Reverse REPOS) should be considered as collateralised loans. The risk is to be measured as an exposure to the counterparty unless the underlying asset has been reported as an on-balance sheet item where the risk weight appropriate to the underlying asset should be used.	100
20.3.2.4.2.0	**Housing Loans Sold with Recourse** The amount of housing loans sold to a counterparty with recourse where the credit risk remains with the Bank.	100
20.3.2.4.3.0	**Other Assets Sold with Recourse** Assets sold with recourse where the credit risk remains with the reporting institution. The holder of the asset is entitled to put the assets back to the reporting institution within an agreed period or under certain prescribed circumstances – e.g. deterioration in the value or credit quality of the asset concerned.	100
20.3.2.4.4.0	**Forward Assets Purchase** Commitment to purchase, at a specified future date and/or on pre-arranged terms, a loan, security or other asset from another party.	100
20.3.2.4.5.0	**Partly Paid Shares/Securities** Unpaid amounts on partly-paid shares and securities where the issuer may call upon the bank to pay at a pre-determined or unspecified date in the future.	100
20.3.2.4.6.0	**Others (please specify)** Placements of forward deposits and other commitments with certain drawdown. A forward deposit is an agreement between two parties whereby one will place and	100

Code	Description	Credit Conversion Factor (%)
	the other will receive, at a pre-determined future date, a deposit, at an agreed rate of interest. A commitment to place a forward deposit should be reported under this item and weighted according to the risk-weight appropriate to the counterparty.	
20.3.2.5.0.0	**Obligations under an On-going Underwriting Agreement** Total of following items from WBRC 20.3.2.5.1.0 to 20.3.2.5.3.0.	**-**
20.3.2.5.1.0	**Underwriting of Shares/Securities Issue** Obligations due to underwriting of shares and securities, net of the amount sub-underwritten by another institution.	50
20.3.2.5.2.0	Note Issuance Facilities and Revolving Underwriting Facilities Arrangements where a borrower may draw funds up to a prescribed limit over a pre-defined period through the issue of notes which the reporting bank has committed to underwrite.	50
20.3.2.5.3.0	**Others (please specify)** Other obligations due to on-going underwriting agreements.	50
20.3.2.6.0.0	**Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time** Total of following items from WBRC 20.3.2.6.1.0 to 20.3.2.6.4.0.	
20.3.2.6.1.0	**Formal Standby Facilities and Credit Lines** Commitments include the undrawn portion of any binding arrangements which obligate the reporting institution to provide funds at some future date. Such commitments would have an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting bank at its discretion. Formal stand-by facilities and credit lines for Letters of Credit, Trust Receipts, etc. should be included under the item.	0
20.3.2.6.2.0	**Undrawn Term Loans** Undrawn portion of a term loans with an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting bank.	0
20.3.2.6.3.0	**Undrawn Overdraft Facilities/Unused Credit Card Lines** The undrawn portion of overdraft facilities and credit card lines with an original maturity of less than one year or which can be unconditionally cancelled at any time by the reporting bank.	0

Code	Description	Credit Conversion Factor (%)
20.3.2.6.4.0	**Others (please specify)** Any other commitment with an original maturity up to one year or which can be unconditionally cancelled at any time.	0
20.3.2.7.0.0	**Commitments with an original maturity up to 1 year** Total of following items from WBRC 20.3.2.7.1.0 to 20.3.2.7.3.0	
20.3.2.7.1.0	**Formal Standby Facilities and Credit Lines** The commitments under formal standby facilities and credit lines with an original maturity is up to one year.	20
20.3.2.7.2.0	**Undrawn Term Loans** The undrawn portion of term loans where the original maturity is up to one year.	20
20.3.2.7.3.0	**Others (please specify)** Any other commitment with an original maturity up to one year.	20
20.3.2.8.0.0	**Other Commitments with an Original Maturity of Over One Year** Total of following items from WBRC 20.3.2.8.1.0 to 20.3.2.8.3.0	
20.3.2.8.1.0	**Formal Standby Facilities and Credit Lines** The commitments under formal standby facilities and credit lines with an original maturity are over one year.	50
20.3.2.8.2.0	**Undrawn Term Loans** The undrawn portion of term loans where the original maturity is over one year.	50
20.3.2.8.3.0	**Others (please specify)** Any other commitment with an original maturity over one year.	50
20.3.2.9.0.0	**Foreign Exchange Contracts** Exchange rate contracts shall include the following items (‘a’ to ‘e’), but exclude exchange rate contracts which have an original maturity of 14 calendar days or less. a) Forward foreign exchange contracts b) Currency futures c) Currency options purchased d) Cross currency FX swaps e) Other similar instruments To arrive at the credit equivalent amounts of exchange rate contracts, applying the original exposure method, a bank will have to apply one of the conversion factors as given from 20.3.2.9.1.0 to 20.3.2.9.3.0 to the notional principal amounts of each instrument according to the nature of the instrument and its maturity.	

Code	Description	Credit Conversion Factor (%)
20.3.2.9.1.0	Original Maturity-less than One Year	2
20.3.2.9.2.0	Original Maturity-More than One year and less than Two years	5
20.3.2.9.3.0	Original Maturity-More than Two years (For each additional year)	3
20.3.2.10.0.0	**Interest Rate Contracts** Interest rate contracts shall include, a) Single currency interest rate swaps b) Basis swaps c) Forward rate agreements d) Interest rate futures e) Interest rate options purchased, and f) Other similar instruments To arrive at the credit equivalent amounts of interest rate contracts, applying the original exposure method, a bank will have to apply one of the conversion factors as given from 20.3.2.10.1.0 to 20.3.2.10.3.0 to the notional principal amounts of each instrument according to the nature of the instrument and its maturity.	**-**
20.3.2.10.1.0	Original Maturity-less than One Year	0.5
20.3.2.10.2.0	Original Maturity-More than One year and less than Two years	1
20.3.2.10.3.0	Original Maturity-More than two years (For each additional year)	1
Note: In the case of foreign exchange and interest rate contracts above, the netting of contracts subject to novation would be permitted. Therefore, the net rather than the gross claims arising out of swaps and similar contracts (subject to novation) with the same counterparts will be weighted. In this context, novation is defined as a bilateral contract between two counterparties under which any obligation to each other to deliver a given currency on a given date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single net amount for the previous gross obligations.		

PART III(C): EXPOSURES RECOGNISED UNDER CREDIT RISK MITIGATION

1 Overview of Credit Risk Mitigation (CRM)

1.1 Banks use a number of techniques to mitigate the credit risks to which they are exposed. For example, exposures may be collateralised by first priority claims, in whole or in part with cash or securities, a loan exposure may be guaranteed by a third party, or a bank may buy a credit derivative to offset various forms of credit risk. Additionally, banks may agree to net loans owed to them against deposits from the same counterpart.

1.2 Credit risk mitigation allows a wider range of credit risk mitigants to be recognised for regulatory capital purposes provided that these techniques meet the minimum conditions described below.

1.3 While the use of CRM techniques reduces or transfers credit risk, it simultaneously may increase other risks (residual risks). Residual risks include legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including strategy, consideration of the underlying credit, valuation, policies and procedures, systems, control of roll-off risks and management of concentration risk arising from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile.

1.4 **Treatment of Pools of CRM Techniques:** In case where a bank has multiple CRM techniques covering a single exposure (e.g. a bank has both collateral and guarantee partially covering an exposure), the bank will be required to subdivide the exposure into portions covered by each type of CRM technique (e.g. portion covered by collateral, portion covered by guarantee) and the risk-weighted assets of each portion must be calculated separately. When credit protection provided by a single protection provider has differing maturities, they must be subdivided into separate protection as well.

PART III(C): GUIDELINES ON RECOGNISING EXPOSURES UNDER CREDIT RISK MITIGATION

<table>
<tr><th>Code</th><th>CRM Techniques</th></tr>
<tr><td>20.3.3.0.0.0</td><td>Total CRM exposure
Total exposure of collateralised transactions and other CRM techniques.
All exposures should be reported net of specific provisions and interest in suspense that has been charged to the respective counterparty account. Exposures which are reported in this part under CRM should not be reported in the other parts of the capital requirements return. The amount is automatically shown on web-based return.
The amount must agree with the sum of items WBRC 20.3.3.1.0.0 and 20.3.3.2.0.0</td></tr>
<tr><td>20.3.3.1.0.0</td><td>Collateralised transactions
The sum of collateralised retail exposures and collateralised other exposures. The amount must agree to sum of items WBRC 20.3.3.1.1.0 and 20.3.3.1.2.0. The amount is automatically shown on web-based return.</td></tr>
<tr><td>(1)</td><td>A collateralised transaction is one in which:
• banks have a credit exposure or potential credit exposure; and
• that credit exposure or potential credit exposure is hedged in whole or in part by collateral posted by a counterpart or by a third party on behalf of the counterpart.</td></tr>
<tr><td>(2)</td><td>The Simple Approach will be Followed in computing the effects of CRM
a) In the Simple Approach, the portions of claims collateralised by the market value of recognised collateral receive the risk weight applicable to the collateral instrument. The risk weight on the collateralised portion will be subject to a floor of 20%. The remainder of the claim should be assigned to the risk weight appropriate to the counterparty.
b) Mismatches in the maturity of the underlying exposure and collateral will not be allowed, i.e. the collateral must be pledged for at least the life of the exposure.</td></tr>
<tr><td>(3)</td><td>Risk Weights
The 20% floor for the risk weight on a collateralised transaction will not be applied and 0% risk weight can be applied provided the exposure and the collateral are denominated in the same currency, and either:
a) the collateral is cash on deposit, or
b) the collateral is in the form of Government securities, or
c) the collateral is in the form of provident fund balances.</td></tr>
<tr><td>(4)</td><td>Minimum Conditions
a) Legal Certainty: All documentation used in collateralised transactions and guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. Banks must have</td></tr>
</table>

Code	CRM Techniques
	conducted sufficient legal review, which should be well documented, to verify this. Such verification should have a well-founded legal basis for reaching the conclusion about the binding nature and enforceability of the documents. Banks should also undertake such further review as necessary to ensure continuing enforceability b) **Ability to Liquidate:** The bank should have the right to liquidate or take legal possession of it, in a timely manner, in the event of the default, insolvency or bankruptcy (or one or more otherwise-defined credit events set out in the transaction documentation) of the counterparty (and, where applicable, of the custodian holding the collateral). Furthermore banks must take all steps necessary to fulfil those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest. c) **Material Correlation:** In order for collateral to provide protection, the credit quality of the counterparty and the value of the collateral must not have a material positive correlation. For example, securities issued by the counter party or by any related group entity - would provide little protection and so would be ineligible. d) **Recovery Procedures:** Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counter party and liquidating the collateral are observed, and that collateral can be liquidated promptly. Where the collateral is held by a custodian, banks must take reasonable steps to ensure that the custodian segregates the collateral from its own assets.
20.3.3.1.1.0	**Retail Exposure** The total amount of retail exposures against the collateral instruments given below from 20.3.3.1.1.1 to 20.3.3.1.1., which are eligible for recognition in the simple approach. The amount is automatically shown on web-based return.
20.3.3.1.1.1	**Cash** (as well as certificates of deposit or comparable instruments, including fixed deposit receipts, issued by the lending bank) on deposit with the bank, which is incurring the counterparty exposure.
20.3.3.1.1.2	**Government of Sri Lanka Securities**
20.3.3.1.1.3	**Provident Fund Balances**
20.3.3.1.1.4	**Debt securities rated by a recognised ECAI** These are either i) At least BB- when issued by sovereigns or PSEs that have been recognized, or ii) At least BBB- when issued by other entities (including banks), or iii) At least A-3//P-3 for short-term debt instruments

Code	CRM Techniques
20.3.3.1.1.5	**Debt securities not rated by a recognised ECAI** These are: i) Issued by a bank; and ii) Listed on a recognized exchange, and iii) Classified as senior debt iv) Other securities, specified by the Central Bank.
20.3.3.1.1.6	**Equities that are included in a Main Index** Equities those are included in the S & P SL20 index, subject to a discount of 25% on the market value.
20.3.3.1.2.0	**Other Exposures** The total amount of other exposures against the collateral instruments given from WBRC 20.3.3.1.2.1 to 20.3.3.1.2. which are eligible for recognition in the simple approach. The amount is automatically shown on web-based return. (WBRC 20.3.3.1.2.1 to 20.3.3.1.2.)
20.3.3.1.2.1	**Cash** Cash (as well as certificates of deposit or comparable instruments, including fixed deposit receipts, issued by the lending bank) on deposit with the bank, which is incurring the counterparty exposure.
20.3.3.1.2.2	**Government Securities**
20.3.3.1.2.3	**Provident Fund Balances**
20.3.3.1.2.4	**Debt securities rated by a recognised ECAI** These are either i) At least BB- when issued by sovereigns or PSEs that have been recognised, or ii) At least BBB- when issued by other entities (including banks), or iii) At least A-3//P-3 for short-term debt instruments.
20.3.3.1.2.5	**Debt securities not Rated by a recognised ECAI** These are: i) Issued by a bank ii) Listed on a recognised exchange iii) Classified as senior debt iv) Other securities, specified by the Central Bank.
20.3.3.1.2.6	**Equities that are Included in a Main Index** Equities which are included in the S&P SL20 index, subject to a discount of 25% on the market value.

Code	CRM Techniques
20.3.3.2.0.0	**Other CRM Techniques** The total amount of exposures against the other CRM techniques (other than collateralised transactions). The amount is automatically shown on web-based return. (WBRC 20.3.3.2.1.0 + 20.3.3.2.2.0)
20.3.3.2.1.0	**On-balance Sheet Netting** The total amount of exposures against the on-balance sheet netting.
(1)	A bank may use the net exposure of loans and deposits as the basis for its capital ratio computation where the bank: i) has a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction regardless of whether the counterpart is insolvent or bankrupt; ii) is able at any time to determine those assets (loans) and liabilities (deposits) with the same counterpart that are subject to the netting agreement; iii) monitors and controls its roll-off risks; and iv) monitors and controls the relevant exposures on a net basis.
20.3.3.2.2.0	**Guarantees** The total amount of exposures against the guarantees should be reported in line with the instructions given below.
(1)	**Guaranteed Transactions:** Where guarantees are direct, explicit, irrevocable and unconditional, banks may take account of such credit protection in calculating capital requirements.
(2)	**Minimum Conditions** a) A guarantee (or counter-guarantee) must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. b) Other than non-payment by a protection purchaser of money due in respect of the credit protection contract it must be irrevocable; there must be no clause in the contract that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. c) It must also be unconditional; there should be no clause in the protection contract outside the control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterpart fails to make the payment(s) due. d) In addition to the legal certainty requirements above, the following conditions must also be satisfied: • On the qualifying default or non-payment of the counterpart, the bank may in a timely manner pursue the guarantor for any monies outstanding under the documentation governing the

Code	CRM Techniques
	transaction. The guarantor may make one lump sum payment of all monies under such documentation to the bank, or the guarantor may assume the future payment obligations of the counterpart covered by the guarantee. The bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counterpart for payment. • The guarantee is an explicitly documented obligation assumed by the guarantor. • Except as noted in the following sentence, the guarantee covers all types of payments the underlying obligor is expected to make under the documentation governing the transaction, for example notional amount, margin payments, etc. • Where a guarantee covers payment of principal only, interests and other uncovered payments should be treated as an unsecured amount.
(3)	**Eligible Guarantors (counter-guarantors):** Credit protection given by the following entities will be recognised: sovereign entities, PSEs and other entities with a risk weight of 20% or better and a lower risk weight than the counterpart.
(4)	**Risk Weights:** a) The protected portion is assigned the risk weight of the protection provider. b) A zero risk weight will be applied to that portion of loans guaranteed by GOSL and CBSL. c) The portion of exposures guaranteed by the Sri Lanka Export Credit Insurance Corporation (SLECIC) and other guarantees acceptable to CBSL will receive a 50% risk weight. d) The uncovered portion of the exposure is assigned the risk weight of the underlying counterpart.

PART IV - COMPUTATION OF RISK-WEIGHTED AMOUNT FOR MARKET RISK

1 Scope and Coverage of Capital Charge for Market Risks

1.1 Market risk is defined as the risk of losses in on-balance sheet and off balance sheet positions arising from movements in market prices. The market risk subject to the capital charge requirements are:

i) The risks pertaining to interest rate related instruments in the trading book

ii) The risks pertaining to equities in the trading book.

iii) The risks pertaining to foreign exchange position (including gold positions) throughout the bank.

1.2 For the purpose of this section, the trading book and foreign exchange position will include the following:

i) Securities classified in the 'Trading Account' in terms of the Direction on Prudential Norms for Classification, Valuation and Operation of the Bank's Investment Portfolio issued by CBSL dated 01 March 2006.

ii) Open gold positions

iii) Open foreign exchange positions

2 GUIDELINES ON COMPUTATION OF RISK-WEIGHTED AMOUNT FOR MARKET RISK

Code	Item
20.4.1.0.0.0	**Total Capital Charge for Market Risk**
(1)	The total amount of capital charge for interest rate risk, capital charge for equity risk and capital charge for foreign exchange risk. (WBRC 20.4.1.1.0.0 + 20.4.1.2.0.0 + 20.4.1.3.0.0)
(2)	The capital charge for interest rate derivatives will be excluded from the capital charge for market risks.
(3)	**Aggregation of the Capital Charge for Market Risk** The capital charges for specific risk and general market risk are to be computed separately before aggregation.
20.4.1.1.0.0	**Capital Charge for Interest Rate Risk = (20.4.1.1.1.0 + 20.4.1.1.2.0)** The total amount of capital charge for general interest rate risk and capital charge for specific interest rate risk. The amount is automatically shown on web-based return.

Code	Item
(1)	**Measurement of Capital Charge for Interest Rate Risk** Measuring the risk of holding or taking positions in debt securities and other interest rate related instruments denominated in *Sri Lanka Rupees as well as foreign currencies* in the trading book. i) The capital charge for interest rate related instruments would apply to the **current market value** of these items in the bank's trading book. Since banks are required to maintain capital for market risk on an ongoing basis, they are required to mark-to-market their trading positions on a daily basis. The current market value will be determined according to the Direction on Prudential Norms for Classification, Valuation and Operation of the bank's investment portfolio issued by CBSL. ii) The minimum capital requirement is expressed in terms of two separately calculated charges, "**specific risk**" charge for each security, which is akin to the conventional capital charge for credit risk, both for short and long positions, and "**general market risk**" charge for interest rate risk in the portfolio, where long and short positions in different securities or instruments can be offset.
20.4.1.1.1.0	**General Interest Rate Risk**
(1)	The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market interest rates. The capital charge is the sum of four components WBRC 20.4.1.1.1.1 to 20.4.1.1.1.4. *Note – Items in WBRC 20.4.1.1.1.2, 20.4.1.1.1.3 and 20.4.1.1.1.4 will not apply at present.*
(2)	It has been decided to allow banks to initially adopt the Standardised Measurement Method, as Sri Lankan banks are still developing internal risk management models. There are two principal methods of measuring market risk under the Standardised Measurement Method, i.e. a 'maturity' method and a 'duration' method. It has been decided to adopt the 'duration' method to arrive at the capital charge. Accordingly, banks are required to measure the general market risk charge by calculating the price sensitivity of each instrument in the trading book separately and adding the resulting price sensitivities based on a maturity ladder, subject to disallowances if any.
(3)	The steps for the computation are as follows: i) calculate the price sensitivity of each instrument in terms of a change in interest rates between 1.2 and 2.0 percentage points, depending on the maturity of the instrument (see Table 1); ii) slot the resulting price sensitivities into a duration based maturity ladder with the fifteen time bands as set out in Table 1;

Code	Item

iii) subject long and short positions in each time band to a 5% vertical disallowance designed to capture basis risk; and

iv) carry forward the net positions in each time-band for horizontal offsetting subject to the disallowances set out in Table 2.

Note – Steps (ii) to (iv) are not required at present.

Table 1 - Duration Method – Time Bands and Assumed Changes in Yield

Time Bands	Assumed Change in Yield
Maturity Zone 1	
1 month or less	2.00
Over 1 month to 3 months	2.00
Over 3 months to 6 months	2.00
Over 6 months to 12 months	2.00
Maturity Zone 2	
Over 1.0 year to 1.9 years	1.80
Over 1.9 years to 2.8 years	1.60
Over 2.8 years to 3.6 years	1.50
Maturity Zone 3	
Over 3.6 years to 4.3 years	1.50
Over 4.3 years to 5.7 years	1.40
Over 5.7 years to 7.3 years	1.30
Over 7.3 years to 9.3 years	1.20
Over 9.3 years to 10.6 years	1.20
Over 10.6 years to 12 years	1.20
Over 12 years to 20 years	1.20
Over 20 years	1.20

Table 2 - Horizontal Disallowances

Maturity Zones	Time Band	Within the zones	Between adjacent zones	Between zones 1 and 3
Maturity Zone 1	month or less over 1 month to 3 months over 3 months to 6 months over 6 months to 12 months	40%	40%	
Maturity Zone 2	over 1.0 year to 1.9 years over 1.9 years to 2.8 years over 2.8 years to 3.6 years	30%		100%
Maturity zone 3	over 3.6 years to 4.3 years over 4.3 years to 5.7 years over 5.7 years to 7.3 years over 7.3 years to 9.3 years over 9.3 years to 10.6 years over 10.6 years to 12 years over 12 years to 20 years over 20 years	0%	40%	

Code	Item
20.4.1.1.1.1	**Net Long or Short Position** The net short or long position in the whole trading book.
20.4.1.1.1.2	**Horizontal Disallowance** A larger proportion of the matched positions across different time bands.
20.4.1.1.1.3	**Vertical Disallowance** A smaller proportion of the matched positions in each time-band.
20.4.1.1.1.4	**Options** A net charge for positions in options, where appropriate.
20.4.1.1.2.0	**Specific Interest Rate Risk** The capital charge for specific risk is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer. The risk charges to be used in the computation of specific risk will be as follows: i) Specific risk charge for government securities and central banks: a) Government securities issued by the GOSL and securities issued by the CBSL will be subject to a risk charge of zero percent. b) Securities issued by a foreign government or by a foreign central bank will be subject to a risk charge based on the credit rating as indicated in the following table:

Table 3 - Specific Risk Charge for Securities Issued by Foreign Governments/Central Banks

Sovereign Rate	Capital Charge for Specific Risk
AAA to AA-	0%
A+ to BBB-	0.25% (residual term to final maturity 6 months or less) 1% (residual term to final maturity greater than 6 and up to and including 24 months) 1.60% (residual term to final maturity exceeding 24 months)
All others	Required total capital ratio (including buffers)

ii) The 'Qualifying' category for Corporate entities:

a) Corporate entities (local) will be given a risk charge for specific market risk based on their ratings as indicated in the table below:

Table 4 - Specific Risk Charge for Corporates

External Rating	Capital Charge for Specific Risk
AAA to AA-	0.25%
A+ to BBB-	1.00% (residual term to final maturity 6 months or less) 1.60% (residual term to final maturity greater than 6 and up to and including 24 months) 10.00% (residual term to final maturity exceeding 24 months)
All others	Required total capital ratio (including buffers)

Code	Item
	b) The specific risk charge for **foreign corporates** would be **one notch less** favourable than the risk charge applied to the local corporates. iii) 'Public sector entities' should be treated like corporate entities unless they are backed by an explicit Treasury guarantee, which warrants a risk charge of zero percent. iv) The *'Other'* category: A capital charge based on the required minimum total capital ratio (including buffers) will apply to all other types of exposures. v) Banks may rely upon the ratings assigned by the ECAIs recognised by CBSL [See paragraph 2 of Part III(A)] for the purpose of ratings referred in the Table 3 and 4 above.
20.4.1.2.0.0	**Capital Charge for Equity** The total amount of capital charge for general equity risk and capital charge for specific equity risk. The amount is automatically shown on the web-based return. WBRC 20.4.1.2.1.0 + 20.4.1.2.2.0
	Measurement of Capital Charge for Equities The minimum capital requirement to cover the risk of holding or taking positions in equities in the trading book is set out below. It applies to all instruments that exhibit market behaviour similar to equities. The instruments covered include equity shares (voting and non-voting), convertible securities that behave like equities (e.g. units of unit trusts) and commitments to buy or sell equity securities (e.g. warrants, right issues and bonus issues).
20.4.1.2.1.0	**General Equity Risk** General market risk is defined as the overall net position in an equity market (i.e. the difference between the sum of the longs and the sum of the shorts). The general market risk charge will be the applicable minimum total capital ratio plus buffers.
20.4.1.2.2.0	**Specific Equity Risk** Specific risk is defined as the bank's gross equity positions (i.e. the sum of all long equity positions and of all short equity positions). The capital charge for specific risk for equities on the S & P SL20 Price Index will be the required total Tier 1 ratios with buffers as applicable, while all other equities will have a specific risk charge of total capital ratio plus buffers as applicable.
20.4.1.3.0.0	**Capital Charge for Foreign Exchange & Gold** Minimum capital requirement to cover the risk of holding or taking positions in foreign currencies, including gold.

<table>
<tr><th>Code</th><th>Item</th></tr>
<tr><td></td><td>The capital charge will be calculated by multiplying the applicable otal capital ratio with buffers by the overall net open position of foreign currency and gold.</td></tr>
<tr><td>(1)</td><td>Gold is treated as a foreign exchange position rather than a commodity because its volatility is more in line with foreign currencies, and banks manage it in a similar manner.</td></tr>
<tr><td>(2)</td><td>The off-balance sheet position, including forward contracts, will be included in computation of the capital charge for foreign exchange risks.</td></tr>
<tr><td>(3)</td><td>Computing the capital requirement for foreign exchange risk consists of two processes.
i) Measuring the Exposure in a Single Currency Position
The bank's net open position in each currency should be calculated by summing the net position of all on balance sheet and off-balance sheet position, including forward contracts denominated in that particular currency.
ii) Measuring the Risks Inherent in a Bank's Mix of Long and Short Positions in Different Currencies
Banks are required to adopt the shorthand method of computation. Under the shorthand method, the nominal amount of the net position in each foreign currency and in gold is converted at spot rates into the reporting currency (i.e. LKR). The overall net open position is measured by aggregating:
a) the sum of the net short positions or the sum of the net long positions, whichever is the greater, plus
b) the net position (short or long) in gold, regardless of sign.

Table 5 - Example of the Shorthand Measure of Foreign Exchange Risk
<table>
<tr><th>YEN</th><th>EURO</th><th>GB</th><th>INR</th><th>US$</th><th>GOLD</th></tr>
<tr><td>+50</td><td>+100</td><td>+150</td><td>-20</td><td>-180</td><td>-35</td></tr>
<tr><td colspan="3">+300</td><td colspan="2">-200</td><td>-35</td></tr>
</table>
In the above example, the capital charge would be 12.5% for banks with assets less than Rs. 500 bn and 14% for banks with assets equal or greater than Rs. 500 bn in 2019 multiplied by the higher of either the net long currency positions or the net short currency positions (i.e., 300) and of the net position in gold (35) = 335 x12.5% = 41.9 and =335x14% = 46.9.</td></tr>
<tr><td>20.4.2.0.0.0</td><td>Total Risk-weighted Amount for Market Risk = (20.4.1.0.0.0 * reciprocal of required total capital ratio including buffers)
The total amount of risk-weighted amount for market risk should be the capital charge for market risk multiplied by the reciprocal of the required minimum total capital ratio (with buffers).</td></tr>
</table>

PART V - COMPUTATION OF RISK-WEIGHTED AMOUNT FOR OPERATIONAL RISK

1 Overview

1.1 Definition of Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

1.2 The Measurement Methodologies

The Basel II Framework presents three methods for calculating operational risk capital charges in a continuum of increasing sophistication and risk sensitivity:

i) The Basic Indicator Approach **(BIA)**

ii) The Standardised Approach **(TSA)**

iii) Advanced Measurement Approaches **(AMA)**

In comparison with BIA, other approaches are more advanced methods to determine the required capital for covering operational losses. Hence, banks shall with supervisory approval migrate from BIA to other advanced approaches subject to complying with qualifying criteria.

2 Approaches for Calculating Operational Risk

2.1 A bank shall use one of the following approaches to calculate its operational RWA:

i) The BIA in accordance with item 3; or

ii) The TSA in accordance with item 4; or

iii) The Alternative Standardised Approach (ASA) in accordance with item 5.

2.2 A bank which has been allowed to use TSA or ASA shall not use a simpler approach without the prior written approval of the Director of Bank Supervision (DBS) of CBSL.

2.3 Once a bank moves to a simpler approach, such bank cannot use an advanced approach without the approval of DBS. DBS shall grant such approval subject to requiring the bank to comply with other conditions prior to migrating to the respective advanced approach.

2.4 When DBS is not satisfied that a bank which has adopted TSA or ASA complies with the specified requirements, DBS may require the bank to use a simpler approach.

3 The Basic Indicator Approach (BIA)

3.1 Bank shall calculate its operational risk capital requirement as follows:

$$\boldsymbol{K_{BIA} = \frac{[\sum(GI_{1\ldots n} \times \alpha)]}{n}}$$

Where;

K_{BIA}	=	capital charge for operational risk under BIA
GI	=	annual gross income, where positive, over the preceding three years as set out in items 3.2 to 3.4
n	=	Number of years in the preceding three years when annual gross income is positive
α	=	15%, which is set by BCBS

3.2 Banks shall calculate its gross income as the sum of net interest income and non-interest income, taking into account the following adjustments:

i) gross of any provisions/impairments (including unpaid interest);

ii) gross of operating expenses, including fees paid to outsourcing service providers, in contrast to fees paid for services that are outsourced, fees received by banks that provide outsourcing services shall be included in the definition of gross income but excluding-

a) any realized profits/losses arising from the sale of securities in the banking book. Securities in the banking book shall be the securities that are classified as "held to maturity" or "available for sale", in accordance with Sri Lanka Accounting Standard - LKAS 39;

b) any income or expenses not derived from the ordinary activities of the bank and not expected to recur frequently or regularly, i.e., sale of fixed assets, income derived from insurance recoveries, etc.

3.3 If the annual gross income/capital charge for any given year is negative or zero, it should be excluded from both the numerator and denominator when calculating the average capital charge.

3.4 Banks shall calculate its annual gross income for the most recent year by aggregating the gross income of the last four financial quarters and follow same to calculate annual gross income for each of the two years preceding the most recent year. Table 1 provides an illustration of the calculation of the annual gross income for the previous three years, for a bank calculating its operational RWA as at end June 2014.

Table 1 - Illustration of Calculation of Annual Gross Income (GI)

	Third Year	Second Year	First Year
Gross income for financial quarter ending	Jun'16 (GI_{3a})	Jun'15 (GI_{2a})	Jun'14 (GI_{1a})
	Mar'16 (GI_{3b})	Mar'15 (GI_{2b})	Mar'14 (GI_{1b})
	Dec'15 (GI_{3c})	Dec'14 (GI_{2c})	Dec'13 (GI_{1c})
	Sep'15 (GI_{3d})	Sep'14 (GI_{2d})	Sep'13 (GI_{1d})
Total	$GI_3 = GI_{3a} + GI_{3b} + GI_{3c} + GI_{3d}$	$GI_2 = GI_{2a} + GI_{2b} + GI_{2c} + GI_{2d}$	$GI_1 = GI_{1a} + GI_{1b} + GI_{1c} + GI_{1d}$

4 The Standardised Approach (TSA)

4.1 Banks can use TSA for computation of capital charge of operational risk with the prior approval of DBS subject to complying with qualifying criteria set out in item 4.4.

4.2 Banks adopting TSA shall classify their business activities into eight business lines, namely, corporate finance, trading and sales, payment and settlement, agency services, asset management, retail brokerage, retail banking and commercial banking. The definition of these business lines are provided in detail in Table 2.

Table 2 -Mapping of Business Lines

	Level 1	Level 2	Activity Groups
1	Corporate Finance	Corporate Finance	Mergers and acquisitions, underwriting, privatisations, securitisation, research, debt (government, high yield), equity, syndications, Initial Public Offering, secondary private placements.
		Government Finance	
		Merchant Banking	
		Advisory Services	
2	Trading & Sales	Sales	Fixed income, equity, foreign exchange, credit products, funding, own position securities, lending and repos, brokerage, debt, prime brokerage and sale of Government bonds to retail investors.
		Market Making	
		Proprietary Positions	
		Treasury	
3	Payment & Settlement	External Clients	Payments and collections, inter-bank funds transfer (RTGS, EFT, etc.), clearing and settlement.
4	Agency Services	Custody	Escrow, securities lending (customers) corporate actions, depository services.
		Corporate Agency	Issuer and paying agents.
		Corporate Trust	Debenture trustee.

	Level 1	Level 2	Activity Groups
5	Asset Management	Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open, private equity.
		Non-Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open.
6	Retail Brokerage	Retail Brokerage	Execution and full service.
7	Retail Banking	Retail Banking	Retail lending and deposits, banking services, trust and estates.
		Private Banking	Private lending (personal loans) and private (institutional) deposits, banking services, trust and estates, investment advice.
		Card Services	Merchant/commercial/corporate cards, private labels and retail.
8	Commercial Banking	Commercial Banking	Lending including project finance, corporate loans, real estate, trade finance including export and import loans, letter of credit, bills of exchange, leasing, factoring and guarantees. Deposits and other repayable funds

4.3 Banks shall calculate its operational risk capital requirement by taking the three-year average of the simple summation of the operational risk capital requirements across each of the business lines in each year as follows:

$$\boldsymbol{K_{TSA}} = \frac{\left\{\sum_{i=1}^{i=3} \boldsymbol{max}[\sum(\boldsymbol{GI_{1-8}} \times \boldsymbol{\beta_{1-8}}), \mathbf{0}]\right\}}{\mathbf{3}}$$

Where;

K_{TSA} = capital charge for operational risk under TSA

GI_{1-8} = annual gross income in a given year, calculated in accordance with item 3.2 and 3.4 under BIA, for each of the eight business lines set out in Table 2 above

β_{1-8} = fixed beta factor (Table 3 below) as set out by BCBS, relating the level of required capital to the level of the gross income for each of the eight business lines

i = year

Table 3 - Beta (β) factors for each business line

No.	Business Line	β Factors
1	Corporate finance (β_1)	18%
2	Trading and sales (β_2)	18%
3	Payment and settlement (β_3)	18%
4	Agency services (β_4)	15%
5	Asset management (β_5)	12%
6	Retail brokerage (β_6)	12%
7	Retail banking (β_7)	12%
8	Commercial banking (β_8)	15%

4.3.1 In any given year, negative capital charges (resulting from negative gross income) in any business line may be set off against positive capital charges in other business lines. However, where the aggregate operational risk capital charges across all business lines within a given year is negative, then the operational risk capital charges for the bank for that year is deemed to be zero (input to the numerator for that year will be zero).

4.3.2 Within each business line, gross income is a broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines.

4.3.3 Each beta factor serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line.

4.3.4 Gross income should be measured for each business line and not for the whole institution, i.e., in commercial banking, the indicator is the gross income generated in the commercial banking business line. However, the sum of the gross income of the eight business lines should be equal to the gross income of the bank.

4.4 **Qualifying criteria**

4.4.1 The Board of Directors and senior management shall actively involve in the oversight of the operational risk management of the bank.

4.4.2 The bank shall have an operational risk management system that is conceptually sound and is implemented with integrity, and with clear responsibilities assigned to an operational risk management function. A bank shall ensure that operational risk management function:

i) develops strategies to identify, assess, monitor, control and mitigate operational risk;

ii) codifies bank-level policies and procedures concerning operational risk management and control; and

iii) designs and implements the operational risk assessment methodology and operational risk-reporting system of the bank.

4.4.3 The bank shall have sufficient resources in the use of TSA in the major business lines as well as the control and audit area.

4.4.4 The bank shall have a system for regular reporting of operational exposures, including material operational losses to management of the business units, senior management and the Board of Directors.

4.4.5 Operational risk management system of the bank should be well documented. It must have a routine in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operational risk management system, which must include policies for the treatment of non-compliance issues.

4.4.6 Operational risk management process and assessment system should be subject to the validation and regular independent review at least annually. These reviews must include both the activities of the business units and of the operational risk management function.

4.4.7 A bank shall develop specific policies and have a prudent documented procedure for mapping its current business activities to the appropriate business lines in accordance with items i), ii), iii) below and Table 2 above.

i) The senior management shall be responsible in developing the mapping policy, which shall be subject to the approval of the Board of Directors. These mapping policies should be reviewed and adjusted in line with new business activities as appropriate.

ii) A bank shall comply with the following principles when mapping its business activities to the appropriate business lines:

a) Subject to item (b) below, each activity or business of a bank shall be mapped into eight Level 1 business lines (refer Table 2) in a mutually exclusive and jointly exhaustive manner.

b) Any banking or non-banking activity or product that cannot be readily mapped into any business line and which is ancillary to and supports a business line shall be allocated to the business line it supports. If the activity supports more than one business line, an objective criterion shall be used to allocate the annual gross income.

c) Any activity which cannot be readily mapped into any business line shall be allocated to the business line with the highest beta factor, i.e., 18%.

d) Banks may use internal pricing methods to allocate gross income between business lines provided that total gross income for the Bank (as would be recorded under BIA) still equals the sum of gross income for the eight business lines.

e) Once an activity has been mapped to a particular business line, the activity shall be mapped to the same business line consistently over time.

f) The mapping of activities into business lines for operational risk capital purposes must be consistent with the definitions of business lines used for regulatory capital calculations in other risk categories, i.e. credit and market risk.

g) Processes must be in place to define the mapping of any new activities or products.

h) The mapping process shall be subject to regular independent reviews by the internal or external auditors of a Bank.

iii) **Supplementary business line mapping guidelines:** There are a variety of valid approaches that banks can use to map their activities to the eight business lines, provided the approach used meets the business line mapping principles. The following is a possible approach that could be used by a bank to map its gross income:

a) Gross income for retail banking consists net interest income on loans and advances to retail customers and SMEs treated as retail, plus fees related to traditional retail activities, net income from swaps and derivatives held to hedge the retail banking book, and income on purchased retail receivables. To calculate net interest income for retail banking, a bank takes the interest earned on its loans and advances to retail customers less the weighted average cost of funding of the loans (from whatever source – retail or other deposits).

b) Similarly, gross income from commercial banking consists net interest income on loans and advances to corporate (plus SMEs treated as corporate), interbank and sovereign customers and income on purchased corporate receivables, plus fees related to traditional commercial banking activities including commitments, guarantees, bills of exchange, net income (e.g. from coupons and dividends) on securities held in the banking book, and profits/losses on swaps and derivatives held to hedge the commercial banking book. Again, the calculation on net interest income is based on interest earned on loans and advances to corporate, interbank and sovereign customers less the weighted average of funding for these loans (from whatever source).

c) For trading and sales, gross income consists, profits/losses on instruments held in the trading book, net of funding cost, plus fees from wholesale broking.

d) For the other five business lines, gross income consists primarily of the net fees/commissions earned in each of these businesses. Payment and settlement consists of fees to cover provision of payment/settlement facilities for wholesale counterparties. Asset management is management of assets on behalf of others.

5 The Alternative Standardised Approach (ASA)

5.1 A bank may, with the prior approval of DBS, use ASA to calculate its operational risk capital requirement. A bank shall not use ASA to calculate its operational risk capital requirement unless it complies with all qualifying criteria set out in item 4.2 under TSA.

5.2 Under ASA, the operational risk capital requirement/methodology is the same as under TSA, except for two business lines, namely, retail banking and commercial banking. For these business lines, use outstanding amount of loans and advances after multiplying by a fixed factor ‘m’ (0.035) as the exposure indicator which replaces gross income.

5.3 A bank which has adopted ASA shall not use TSA or BIA without the prior approval of DBS.

5.4 The Bank shall calculate operational risk capital requirement under ASA as follows:

$$\boldsymbol{K_{ASA}} = \left\{\frac{\sum_{i=1}^{3} \boldsymbol{max}[\sum(\boldsymbol{GI_{1-6}} \times \boldsymbol{\beta_{1-6}}), \mathbf{0}]}{\mathbf{3}}\right\} + (\boldsymbol{\beta_7} \times \boldsymbol{m} \times \boldsymbol{LA_r}) + (\boldsymbol{\beta_8} \times \boldsymbol{m} \times \boldsymbol{LA_c})$$

Where;

K_{ASA}	=	capital charge for operational risk under ASA
GI_{1-6}	=	annual gross income in a given year calculated in accordance with item 3.2 under BIA, for each of the eight business lines set out in Table 2, except for retail banking and commercial banking business lines
β_{1-8}	=	fixed beta factor as set out in Table 3
m	=	0.035
LA_r	=	total outstanding loans and advances of the retail banking business line
LA_c	=	total outstanding loans and advances of the commercial banking business line.
i	=	year

5.5 For the purposes of the ASA, total outstanding loans and advances shall be as follows:

i) Retail banking business line consists of the total on-balance sheet outstanding amount of the retail, SMEs treated as retail, residential mortgages and purchased retail receivables and credit portfolios.

ii) Commercial business line consists of the total on-balance sheet outstanding amount of the corporate, sovereign, bank, specialised lending, SMEs treated as corporate and purchased corporate receivables, credit portfolios and the book value of securities held in the held-to-maturity and available-for-sale categories.

5.6 For the purpose of determining LA_r and LA_c, a Bank shall take a simple average of the total outstanding loans and advances of the relevant business line over the 12 most recent financial quarters without gross of any provisions/impairment charges.

PART V(A) - COMPUTATION OF RISK-WEIGHTED AMOUNT FOR OPERATIONAL RISK

<table>
<tr><th>We Based Return Code</th><th>Description</th></tr>
<tr><td>20.5.1.7.0.0</td><td>
Gross Income/ Loans and Advances
Gross Income: The value of gross income for each year in respect of BIA (WBRC 20.5.1.1.0.0), business lines of TSA (WBRC 20.5.1.2.1.0 to 20.5.1.2.8.0) and business lines of ASA (WBRC 20.5.1.3.1.1 to 20.5.1.3.1.6) is automatically shown based on the data provided in the Part V(B) as follows:
Gross Income = Interest Income (WBRC 20.5.2.3.0.0) - Interest Expenses (WBRC 20.5.2.4.0.0) + Non Interest Income (WBRC 20.5.2.5.0.0) (+/-) Realised Profits/losses from the Sale of Securities in the Banking Book (WBRC 20.5.2.6.0.0) (+/-) Extraordinary/Irregular Items of Income (WBRC 20.5.2.7.0.0)
Example:
Illustration of Calculation of Annual Gross Income (Rs. ‘000)
<table>
<tr><th>Item</th><th>Amount</th><th>Amount</th></tr>
<tr><td>Interest Income</td><td>200,000</td><td>200,000</td></tr>
<tr><td>Less: Interest Expense</td><td>(100,000)</td><td>(100,000)</td></tr>
<tr><td>Net Interest Income</td><td>100,000</td><td>100,000</td></tr>
<tr><td>Non-interest Income</td><td></td><td></td></tr>
<tr><td>Fee and Commission Income</td><td>50,000</td><td>50,000</td></tr>
<tr><td>Dividend Income</td><td>30,000</td><td>30,000</td></tr>
<tr><td>Gain on sale of fixed assets</td><td>40,000</td><td></td></tr>
<tr><td>Profit/loss from Trading</td><td>20,000</td><td>20,000</td></tr>
<tr><td>Realised gains/losses from sale of banking book securities</td><td>50,000</td><td></td></tr>
<tr><td>Others</td><td>10,000</td><td>10,000</td></tr>
<tr><td>Non-interest Income</td><td>200,000</td><td>110,000</td></tr>
<tr><td>Operating Income</td><td>300,000</td><td>210,000</td></tr>
<tr><td>Less: Operating expenses</td><td>(100,000)</td><td></td></tr>
<tr><td>Less: Allowances</td><td>(50,000)</td><td></td></tr>
<tr><td>Less: Taxes</td><td>(30,000)</td><td></td></tr>
<tr><td>Profit/loss for the period</td><td>120,000</td><td></td></tr>
<tr><td>Gross Income for the purpose of operational risk capital requirement</td><td></td><td>210,000</td></tr>
</table>
Loans and Advances: The values of loans and advances in respect of retail banking (WBRC 20.5.1.3.2.1) and commercial banking (WBRC 20.5.1.3.2.2) should be filled in accordance with the item 5.6.
</td></tr>
</table>

We Based Return Code	Description
20.5.1.8.0.0	**Capital Charges** The value of capital charges for each year in respect of BIA, TSA and ASA is calculated as follows:
20.5.1.1.0.0	**The Basic Indicator Approach (BIA)** Multiply the gross income for each year by α (15%).
20.5.1.2.0.0	**The Standardised Approach (TSA)** Multiply the gross income of individual business line (WBRC 20.5.1.2.1.0 to 20.5.1.2.8.0) for each year by β assigned to each business line.
20.5.1.3.0.0	**The Alternative Standardised Approach (ASA)**
20.5.1.3.1.0	i) Sub Total Multiply the gross income of individual business line (WBRC 20.5.1.3.1.1 to 20.5.1.3.1.6) for each year by β assigned to each business line.
20.5.1.3.2.0	ii) Sub Total Multiply yearly average outstanding amount of loans and advances of retail banking business line (WBRC 20.5.1.3.2.1) and commercial banking business line (WBRC 20.5.1.3.2.2), by a fixed factor 'm' (20.5.1.6.0.0), i.e., 0.035 with the respective β of 12% and 15%, respectively.
20.5.1.9.0.0	**Capital Charges for Operational Risk**
(1)	The value of capital charges for operational risk in respect of BIA, TSA and ASA is automatically shown as follows:
20.5.1.9.1.0	**The Basic Indicator Approach** Aggregate the capital charges for the 3 years as reported under WBRC 20.5.1.8.0.0 and 20.5.1.1.0.0 of BIA and divide by 3 (number of years). The number of years may change in accordance with the item 3.3.
20.5.1.9.2.0	**The Standardised Approach** Aggregate the capital charges for the 3 years as reported under WBRC 20.5.1.8.0.0 and 20.5.1.2.0.0 of TSA and divide by 3 (number of years).
20.5.1.9.3.0	**The Alternative Standardised Approach** Aggregate the capital charges for the 3 years as reported under WBRC 20.5.1.8.0.0 and 20.5.1.3.0.0 of ASA and divide by 3 (number of years).
(2)	Negative capital charge recorded in a given year/s of the these 3 years, shall be considered as a zero value and not used to offset the positive capital charge recorded in other year/s.

We Based Return Code	Description
20.5.1.10.0.0	**Risk-weighted Amount for Operational Risk** The value of risk-weighted amount for operational risk in respect of BIA, TSA and ASA is the value arrived by multiplying the capital charge for operational risk under each approach by the reciprocal of required total capital ratio including buffers, separately.
20.5.1.10.1.0	The Basic Indicator Approach (20.5.1.9.1.0 * reciprocal of required total capital ratio)
20.5.1.10.2.0	The Standardized Approach (20.5.1.9.2.0 * reciprocal of required total capital ratio)
20.5.1.10.3.0	The Alternative Standardized Approach (20.5.1.1.9.3 * reciprocal of required total capital ratio)

PART V(B) - COMPUTATION OF GROSS INCOME UNDER OPERATIONAL RISK

<table>
<tr><th>Code</th><th colspan="2">Description</th></tr>
<tr><td></td><td colspan="2">The reporting of income and expenses items referred to in this Part should be in accordance with the item 3.4</td></tr>
<tr><td>20.5.2.1.0.0</td><td colspan="2">The Basic Indicator Approach</td></tr>
<tr><td>20.5.2.2.0.0</td><td colspan="2">The Standardised Approach/The Alternative Standardised Approach</td></tr>
<tr><td>20.5.2.2.1.0</td><td>Corporate Finance</td><td rowspan="6">Applicable for both TSA and ASA</td></tr>
<tr><td>20.5.2.2.2.0</td><td>Trading and Sales</td></tr>
<tr><td>20.5.2.2.3.0</td><td>Payment and Settlement</td></tr>
<tr><td>20.5.2.2.4.0</td><td>Agency Service</td></tr>
<tr><td>20.5.2.2.5.0</td><td>Asset Management</td></tr>
<tr><td>20.5.2.2.6.0</td><td>Retail Brokerage</td></tr>
<tr><td>20.5.2.2.7.0</td><td>Retail Banking</td><td rowspan="2">Applicable only for TSA</td></tr>
<tr><td>20.5.2.2.8.0</td><td>Commercial Banking</td></tr>
<tr><td>20.5.2.3.0.0</td><td colspan="2">Add: Interest Income</td></tr>
<tr><td>20.5.2.4.0.0</td><td colspan="2">Less: Interest Expenses</td></tr>
<tr><td>20.5.2.5.0.0</td><td colspan="2">Add: Non-Interest Income</td></tr>
<tr><td>20.5.2.6.0.0</td><td colspan="2">Add/(Less): Realized Profits from the Sale of Securities in the Banking Book</td></tr>
<tr><td>20.5.2.7.0.0</td><td colspan="2">Add/(Less): Extraordinary/ Irregular Items of Income</td></tr>
</table>

SCHEDULE II

PILLAR II
SUPERVISORY REVIEW PROCESS

REGULATORY FRAMEWORK ON SUPERVISORY REVIEW PROCESS

PART I – OVERVIEW

1 Introduction

1.1 The Supervisory Review Process (SRP) of licensed commercial banks (LCBs) and licensed specialised banks (LSBs) (hereinafter referred to as "banks") is conducted to assess their capital adequacy and to determine whether banks should hold additional capital to cover risks that are not covered or adequately covered by the minimum capital requirements under Pillar I.

2 Objectives of SRP

2.1 Encourage banks to utilise better risk management techniques – the level of risks a bank is exposed to, and the control environment that will determine the level of capital required to be maintained by banks.

2.2 Enhance the risk-based supervision of banks in order to assess the capital adequacy relative to risks.

2.3 Evaluate the bank's Internal Capital Adequacy Assessment Process (ICAAP) that determines the level of capital to be maintained against all risks and ensure that banks have adequate capital to support all risks.

2.4 Ensure that banks use ICAAP in more general business decisions and budgets, in more specific decisions such as allocating capital to business units and when evaluating individual credit decision process.

3 Principles governing SRP

3.1 SRP is conducted based on the following four key principles:

a) **Principle 1** - Banks shall have a process for assessing their overall capital adequacy in relation to their risk profiles and a strategy for maintaining their capital levels.

b) **Principle 2** - The Central Bank of Sri Lanka (CBSL) as the regulator will review and evaluate bank's ICAAP and strategies, as well as its ability to monitor and ensure compliance with regulatory capital ratios.

c) **Principle 3** - CBSL expects banks to operate above the minimum regulatory capital ratios and requires banks to hold capital in excess of the minimum.

d) **Principle 4** - CBSL will intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank.

4 Scope and Applicability

Regulatory Framework on Supervisory Review Process shall be applicable to banks on both standalone ("Solo") level, as well as on the consolidated ("Group") level.

PART II - INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

5 Developing and Maintaining ICAAP

5.1 Every bank shall develop and maintain a rigorous and well-documented ICAAP proportional to its operations and risk profile and consistent with prudential requirements.

5.2 ICAAP of a bank shall include the following six main features.

a) Board and senior management oversight
b) Comprehensive assessment of risks
c) Sound capital assessment
d) Monitoring and reporting
e) Internal controls and independent review
f) Stress testing

5.3 A bank shall design its ICAAP according to the size, complexity and business strategies of the respective bank.

6 The Board of Directors and Senior Management Oversight

6.1 Board responsibilities for ICAAP

a) The Board shall ensure that the bank has in place a strategic plan which clearly outlines its current and future capital needs, anticipated capital expenditure, desirable capital level, and external capital sources.

b) The Board shall review and approve the target level and composition of capital, and the process for setting and monitoring such targets at least, annually.

c) The Board shall ensure that the senior management:

i) performs an analysis of the current and future capital requirements of the bank in relation to its strategic objectives;

ii) establishes frameworks for assessing the categories of risks faced by the bank and develops systems related to these risks to the capital level of the bank;

iii) establishes a method for monitoring compliance with internal policies on risk assessment and the processes related to risks to capital levels;

iv) establishes a strong internal control culture throughout the bank; and

v) effectively communicate all relevant policies and procedures throughout the bank.

d) The Board shall approve and exercise effective oversight over the bank's stress testing processes.

e) The Board shall review ICAAP of the bank periodically, at least annually, to:

i) assess the level and trend of material risks and their effects on capital levels;

ii) evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment measurement system;

iii) determine that the bank holds adequate capital against the various risks and is in compliance with established capital adequacy goals; and

iv) assess the bank's future capital requirements based on its reported risk profile and make necessary adjustments to the strategic plan, accordingly.

f) The Board shall ensure that public disclosures are made in the bank's audited annual report/audited financial statements, both qualitative and quantitative information, to assist in assessing the adequacy of bank's capital commensurate with all material risks the bank is exposed to in relation to its current and future activities.

g) The Board shall approve the annual ICAAP document.

6.2 Senior management's responsibilities for ICAAP

a) Ensure the appropriateness of ICAAP on an ongoing basis

b) Have a good understanding of the design and operation of ICAAP

c) Be responsible for developing a risk management framework that is appropriate in light of the risk profile and business strategy of a bank and integrating ICAAP with the capital planning and management processes of the bank. In this regard, senior management shall, at a minimum:

i) establish robust policies and procedures to be approved by the Board to identify, measure and report all material risks;

ii) evaluate the level and trend of material risks and their effects on capital levels;

iii) evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment and measurement system;

iv) determine if the bank holds adequate capital against the risks faced by the bank;

v) assess future capital needs based on the risk profile of the bank and propose necessary adjustments to its strategic plan; and

vi) ensure that ICAAP is subject to annual independent review for robustness and integrity.

d) establish comprehensive and adequate written policies and procedures, to be approved by the Board, on its stress testing processes taking an active interest in the development and operation of stress-testing and, allocating sufficient skilled and competent resources to the modeling function.

e) ensure regular reporting of bank's ICAAP to the Board.

f) prepare the annual ICAAP document in accordance with the specified format given in Appendix I; and

g) submit the Board approved annual document of ICAAP to the Director of Bank Supervision within five months from the end of the financial year of the respective bank.

7 Comprehensive Assessment of Risks

7.1 Bank's ICAAP shall identify all material risks, which are arising from both on balance sheet and off-balance sheet exposures, faced by the bank and measure these risks that can be reliably quantified under both normal and stressed conditions. ICAAP shall, therefore, address the following risks.

a) Risks captured under Pillar 1: credit, market and operational risks;

b) Risks not fully captured under Pillar 1; concentration risk (credit risk), interest rate/rate of return risk in the banking book (market risk) and

c) Risk types not covered by Pillar 1: risks which are not specifically addressed under Pillar 1, which includes liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk.

7.2 A bank shall be able to identify other external risk factors that may arise from the regulatory, economic or business environment. In addition, adequate corporate governance and proper risk management including internal control arrangements constitute the foundation of an effective ICAAP.

7.3 The risk measurement systems shall be sufficiently comprehensive and rigorous to capture the nature and magnitude of the risks faced by the bank.

7.4 The risks that are not easily quantifiable shall be evaluated using qualitative assessment and management judgment.

7.5 When measuring risks, comprehensive and rigorous stress tests shall be performed to identify possible events or market changes that could have serious adverse effects or significant impact on the bank's capital and operations.

7.6 In assessing risks, banks shall also consider the applicable Directions issued under the Banking Act.

8 Sound Capital Assessment

Internal capital allocation and assessment process shall meet the following requirements.

8.1 Banks shall have an explicit Board approved capital plan which states the objectives and the time period for achieving those objectives, and in broad terms the capital planning process and the responsibilities for that process.

8.2 The plan shall also lay out how the bank will comply with capital requirements in the future related to the level of risk, and a general contingency plan for dealing with divergences and unexpected events such as raising additional capital, restricting business activities or using risk mitigation techniques.

8.3 The bank shall set capital targets which are consistent with their risk profile, stage of the business cycle in which the bank is operating, and business plans.

8.4 An internal strategy for maintaining capital levels which should not only reflect the desired level of risk coverage but also incorporate factors such as loan growth expectations, future sources and uses of funds, and dividend policy.

8.5 The amount of capital held shall reflect not only the measured amount of risks but also an additional amount to account for potential uncertainties in risk measurement.

8.6 In assessing capital, a bank shall also evaluate the quality and capacity of its capital to absorb losses.

8.7 The bank shall demonstrate to CBSL that its capital assessment approach is conceptually sound and that outputs and results are reasonable.

9 Monitoring and Reporting

9.1 The bank shall establish an adequate system for monitoring and reporting risk exposures and, assessing how the bank's changing risk profile affects the capital requirements.

9.2 The bank's Board and the senior management shall:

a) receive reports on the bank's risk profile and capital needs in a manner appropriate to facilitate the conduct of their responsibilities
b) evaluate the level and trend of material risks and their effects on capital levels
c) evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment measurement system
d) determine that the bank holds adequate capital against the risks and is in compliance with established capital adequacy goals
e) assess its future capital requirements based on the bank's reported risk profile and make necessary adjustments to the bank's strategic plan, accordingly

10 Internal Controls and Independent Review

10.1 The bank's internal control structure is essential to the capital assessment process. Effective control of the capital assessment process includes an independent review, and where appropriate, with the involvement of internal or external audits.

10.2 The person(s) responsible for the development or implementation of ICAAP shall not be involved in the independent review.

10.3 The bank shall conduct periodic independent reviews of its risk management processes to ensure their integrity, accuracy, and reasonableness. Areas that shall be reviewed include:

a) appropriateness of the bank's capital assessment process given the nature, scope and complexity of its activities;
b) identification of large exposures and risk concentrations;
c) accuracy and completeness of data inputs into the bank's assessment process;
d) reasonableness and validity of scenarios used in the assessment process; and
e) stress testing and analysis of assumptions and inputs.

11 Stress Testing

11.1 Stress testing is a technique used to evaluate the potential effects on a bank's financial condition due to changes in specified risk factors by adverse scenarios.

11.2 A forward-looking stress test should reasonably identify possible events or changes in market conditions that could adversely impact the bank' financial condition and capital position.

11.3 Banks may follow the Guidelines on Stress Testing of Licensed Commercial Banks and Licensed Specialised Banks issued by Bank Supervision Department in September 2014.

PART III - SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

12 Key Components

SREP, which consists of the following key components, shall be carried out by the Director of Bank Supervision or examiners of the Bank Supervision Department.

a) Review of the bank's ICAAP
b) Review of the bank's risk profile
c) Review of the levels and quality of capital held
d) Communication of SREP results to the bank

13 Review Methodologies

SREP shall involve a combination of:

a) periodic examinations or inspections;
b) continuous supervision;
c) discussions with the bank management;
d) review of work of internal and external auditors; and
e) periodic reporting.

14 Objectives

The objective of the review is to:

a) evaluate the adequacy of bank's internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure compliance with regulatory capital ratios;
b) ensure that the bank operates above the minimum regulatory capital ratios and composition of capital is appropriate for the nature and scale of the bank's business;
c) identify existing or potential problems and key risks faced by the bank, deficiencies in their internal control and risk management frameworks, and the degree of reliance that can be placed on the outputs of ICAAP;

d) intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of the bank;

e) take appropriate supervisory action and regulatory measures if results of this process are not satisfactory.

15 Coverage

SREP will cover a quantitative review of bank's Pillar 1 inherent risk exposures and Pillar 2 inherent risk exposures.

16 Qualitative Assessment

If Pillar 2 risks are not readily quantifiable, the supervisory judgment is to be used with respect to qualitative assessments of the bank's ability to contain actual risk exposures within prudent, planned levels through effective risk governance, oversight, management and control practices.

17 Dialogue with the bank

17.1 SREP involves an active dialogue with the bank regarding ICAAP, through which CBSL seeks to:

a) gain deeper insights into the bank's overall control and risk management framework;

b) establish a closer understanding of how the bank approaches the risks that are not covered under the minimum capital requirements and the amount of internal capital allocated to them;

c) understand the mechanisms the bank has maintained for identifying, measuring, monitoring, controlling, mitigating and reporting its risks; and

d) understand whether additional capital on top of that assessed is necessary to cover the banks 'existing risk exposures, as well as future planned sources of capital.

17.2 The dialogue will provide an opportunity for the bank to make appropriate changes to its ICAAP.

17.3 Communication of SREP results:

a) After completion of the SREP, the Director of Bank Supervision may conduct discussions with the bank based on the results of the assessment, including any areas of concern which may lead to an increase in bank's minimum CAR.

b) The Director of Bank Supervision will explain the outcome of the assessment and recommend the prompt corrective actions to address the concerns of the bank, if any. If there is a proposed increase in the capital, the bank will be notified (with the opportunity to make representations) before the decision is finalised.

PART IV – SUPERVISORY INTERVENTION

18 Based on the outcome of SREP, CBSL shall intervene at an early stage to:

a) prevent capital from falling below the minimum requirement of the respective bank; and

b) prevent potential impact to the stability of the financial system.

19 Depending on the capital level, a range of supervisory actions including the following shall be initiated.

a) moral suasion to encourage the bank to improve their capital positions and levels;

b) improve the bank's ICAAP including risk management systems and controls;

c) require the bank to submit a capital restoration plan;

d) impose restrictions on the payment of dividends, business activities, acquisitions, investments etc.; and

e) require the replacement of the Board and/or the senior management.

APPENDIX I

FORMAT FOR THE PREPARATION OF ICAAP DOCUMENT

1 General

1.1 The purpose of ICAAP document is to inform the Board/senior management and the CBSL of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

1.2 Annual document of ICAAP of a bank shall be prepared in accordance with the contents given in paragraph 2 below.

1.3 However, CBSL expects there to be a fair degree of variation in the length and format of submissions since banks' business and risk profiles differ from each other and ICAAP document should be proportional to the size, nature and complexity of a bank's business.

1.4 Use of this format may, therefore, make the review process more efficient for both the bank and CBSL.

1.5 Base period and financial data of ICAAP document shall be in accordance with the audited financial data as at the end of the preceding financial year.

1.6 The projected financial data of ICAAP document should be at least for three financial years.

2 Contents

a) Executive Summary
b) Background
c) Board and Senior Management Oversight
d) Risk Governance
e) Sound stress testing processes
f) Capital Planning
g) Projected financial data and assessment of capital

3 Executive Summary

This section will present an overview of ICAAP methodology and results. This overview will include:

a) The purpose of the report and the group entities which are covered by ICAAP
b) Financial forecasts, including the strategic position of the bank, its balance sheet strength, and future profitability

c) Regulatory capital management

d) Regulatory capital assessment - Pillar 1

e) Internal capital assessment - Pillar 2

f) Ratio management: How much and what composition of internal capital the bank considers it should hold as compared with the capital adequacy requirement under Pillar 1

g) Risk management processes and assessment

h) Descriptions of the capital and dividend plan; the manner in which the bank intends to manage capital going forward and for what purposes

i) Stress testing approach

j) Details of the approval

4 Background

This section will include the relevant organization structure and business lines, group structure (legal and operations) and financial data of the bank largely including the profit, dividends, equity, capital resources held and as compared with regulatory requirements, total assets, total loan and advances, total deposits, and any conclusions that can be drawn from trends in the data which may have implications for the bank's future.

5 Board and Senior Management Oversight

This section would provide the following information:

a) Corporate governance structure

b) Board and senior management oversight

c) ICAAP governance structure

d) Monitoring and controls

e) Internal controls and independent review

6 Risk Governance

This section will provide the following;

a) Risk appetite

b) Risk management framework

c) Regulatory risk assessment (Pillar 1)

   i) Credit risk

   ii) Market risk

iii) Operational risk

d) Internal risk assessment (Pillar 2)

i) Concentration risk

ii) Interest rate risk in the banking book

iii) Settlement risk

iv) Liquidity risk

v) Compliance risk

vi) Strategic/business risk

vii) Reputational risk

viii) Residual risk

ix) Off-balance sheet exposures and securitization risk

7 Sound Stress Testing Processes

This section will provide the following details of bank's stress testing practices:

a) Overview of the stress testing process

b) Stress scenario/types

c) discuss the results of stress tests and its impact to the bank capital

d) risk mitigation or contingency plans across a range of stressed conditions

8 Capital Planning

This section will provide details of bank's capital planning and management processes, which, at a minimum, includes:

a) the bank's short-term and long-term capital adequacy goals in relation to its risk profile, taking into account its strategic focus and business plan

b) the approved capital targets that are consistent with the bank's overall risk profile and financial position

c) the approach for determining the bank's overall capital adequacy to its risk profile

d) Conclusion

9 Projected Financial Position and Assessment of Capital

This section will explain Pillar 1 and 2 capital requirements, in respect to

a) the expected changes to the business profile of the bank, the environment in which it expects to operate, its projected business plans (by appropriate lines of business), and projected financial position for the next, three to five years; and

b) given these business plans, this section would also discuss the bank's assessment as to whether additional capital is necessary on top of that assessed to cover their existing risk exposures, as well as future planned sources of capital.

SCHEDULE III

PILLAR III

MARKET DISCIPLINE

MARKET DISCIPLINE – MINIMUM DISCLOSURE REQUIREMENTS UNDER PILLAR III

1 Introduction

1.1 Pillar III aims to complement the minimum capital requirements and supervisory review process by developing a set of disclosure requirements which will allow the market participants to gauge the capital adequacy and risk exposures of licensed banks.

1.2 These requirements will improve the comparability and consistency of disclosures among licensed banks and facilitate assessment of the bank by others, including investors, analysts, customers, other banks and rating agencies, which leads to good corporate governance.

1.3 Disclosures under these requirements broadly include; the regulatory capital requirements and liquidity, risk weighted assets, linkages between financial statements and regulatory exposures, risk management and a discussion on adequacy/meeting current and future capital requirements of banks.

2 Responsibility of the Management

2.1 The Board of Directors and Senior Management are responsible for establishing and maintaining effective internal controls over the disclosure of financial information, including Pillar III disclosures. The information provided by licensed banks under Pillar III must be at a minimum and be subject to the same level of internal review and internal control processes as in financial reporting.

3 Scope, Frequency and Reporting Location of Disclosures

3.1 All licensed banks shall make the required disclosures:

i) on a both solo and group basis with comparative information

ii) in the press, annual reports and websites, in the frequencies as set out in tables below.

4 Implementation Date

4.1 Shall be effective from financial reporting periods beginning on or after 01.07.2017.

MARKET DISCIPLINE - DISCLOSURE REQUIREMENTS

Area	Template Reference		Frequency & Publication Location	
	No	Name	Quarterly	Annually
Regulatory Requirements on Capital and Liquidity	1	Key Regulatory Ratios - Capital and Liquidity	P, W	P, A, W
	2	Basel III Computation of Capital Ratios	W	A, W
	3	Basel III Computation of Leverage Ratio*	W	A, W
	4	Basel III Computation of Liquidity Coverage Ratio	W	A, W
	5	Main Features of Regulatory Capital Instruments	W	A, W
Risk Weighted Assets (RWA)	6	Summary discussion on adequacy/meeting current and future capital requirements		A, W
	7	Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	W	A, W
	8	Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights		A, W
	9	Market Risk under Standardised Measurement Method	W	A, W
	10	Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach	W	A, W
Linkages Between Financial Statements & Regulatory Exposures	11	Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only	W	A, W
	12	Explanations of Differences Between Accounting and Regulatory Exposure Amounts		A, W
Risk Management	13	Bank Risk Management Approach		A, W
	14	Risk Management related to Key Risk Exposures		A, W

A - Annual Report | P – Press | W – Website

*Disclosure requirements will commence with the implementation of Leverage Ratio

Template 1

Key Regulatory Ratios - Capital and Liquidity

Item	Reporting Period	Previous Reporting Period
Regulatory Capital (LKR ’000)		
Common Equity Tier 1		
Tier 1 Capital		
Total Capital		
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio *(Minimum Requirement - …)*		
Tier 1 Capital Ratio *(Minimum Requirement - …)*		
Total Capital Ratio *(Minimum Requirement - …)*		
Leverage Ratio *(Minimum Requirement - …)*		
Regulatory Liquidity		
Statutory Liquid Assets (LKR’000)		
Statutory Liquid Assets Ratio *(Minimum Requirement - …)*		
Domestic Banking Unit (%)		
Off-Shore Banking Unit (%)		
Liquidity Coverage Ratio (%) – Rupee *(Minimum Requirement - …)*		
Liquidity Coverage Ratio (%) – All Currency *(Minimum Requirement - …)*		

Template 2

Basel III Computation of Capital Ratios

Item	Amount (LKR '000) Reporting Period	Amount (LKR '000) Previous Reporting Period
Common Equity Tier 1 (CET1) Capital after Adjustments		
Common Equity Tier 1 (CET1) Capital		
Equity Capital (Stated Capital)/Assigned Capital		
Reserve Fund		
Published Retained Earnings/(Accumulated Retained Losses)		
Published Accumulated Other Comprehensive Income (OCI)		
General and other Disclosed Reserves		
Unpublished Current Year's Profit/Loss and Gains reflected in OCI		
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to CET1 Capital		
Goodwill (net)		
Intangible Assets (net)		
Others (specify)		
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 held by Third Parties		
Total Adjustments to AT1 Capital		
Investment in Own Shares		
Others (specify)		
Tier 2 Capital after Adjustments		
Tier 2 Capital		
Qualifying Tier 2 Capital Instruments		
Revaluation Gains		
Loan Loss Provisions		
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to Tier 2		
Investment in Own Shares		
Others (specify)		
CET1 Capital		
Total Tier 1 Capital		
Total Capital		

Item	Amount (LKR '000)	
	Reporting Period	**Previous Reporting Period**
Total Risk Weighted Assets (RWA)		
RWAs for Credit Risk		
RWAs for Market Risk		
RWAs for Operational Risk		
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)		
of which: Capital Conservation Buffer (%)		
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		
Total Tier 1 Capital Ratio (%)		
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)		
of which: Capital Conservation Buffer (%)		
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		

Note: Banks are expected to supplement the template with a narrative commentary to explain any significant change over the reporting period and the key drivers of such changes.

Template 3

Computation of Leverage Ratio*

Item	Amount (LKR '000)	
	Reporting Period	**Previous Reporting Period**
Tier 1 Capital		
Total Exposures		
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)		
Derivative Exposures		
Securities Financing Transaction Exposures		
Other Off-Balance Sheet Exposures		
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)		

***** Disclosure will commence with implementation

Template 4

Basel III Computation of Liquidity Coverage Ratio

Item	**Amount (LKR'000)**			
	Reporting Period		**Previous Reporting Period**	
	Total Un-weighted Value	**Total Weighted Value**	**Total Un-weighted Value**	**Total Weighted Value**
Total Stock of High-Quality Liquid Assets (HQLA)				
Total Adjusted Level 1A Assets				
Level 1 Assets				
Total Adjusted Level 2A Assets				
Level 2A Assets				
Total Adjusted Level 2B Assets				
Level 2B Assets				
Total Cash Outflows				
Deposits				
Unsecured Wholesale Funding				
Secured Funding Transactions				
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations				
Additional Requirements				
Total Cash Inflows				
Maturing Secured Lending Transactions Backed by Collateral				
Committed Facilities				
Other Inflows by Counterparty which are Maturing within 30 Days				
Operational Deposits				
Other Cash Inflows				
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100				

Template 5

Main Features of Regulatory Capital Instruments

Must be provided for each type of capital instrument separately

Description of the Capital Instrument	
Issuer	
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	
Governing Law(s) of the Instrument	
Original Date of Issuance	
Par Value of Instrument	
Perpetual or Dated	
Original Maturity Date, if Applicable	
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	
Accounting Classification (Equity/Liability)	
Issuer Call subject to Prior Supervisory Approval	
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	
Subsequent Call Dates, if Applicable	
Coupons/Dividends	
Fixed or Floating Dividend/Coupon	
Coupon Rate and any Related Index	
Non-Cumulative or Cumulative	
Convertible or Non-Convertible	
If Convertible, Conversion Trigger (s)	
If Convertible, Fully or Partially	
If Convertible, Mandatory or Optional	
If Convertible, Conversion Rate	

Template 6

Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

Item
Provide qualitative information on capital planning to meet current and future capital requirements including: (a) Overview of capital planning and assessment process; (b) Material risk exposures in line with strategic plan; (c) Current and future capital needs, anticipated capital expenditure and desirable capital level; (d) Discussion on possible internal and external capital sources; (e) Assessment of the adequacy of bank's capital commensurate with all material risks and other capital needs in relation to its current and future activities; General contingency plan for dealing with divergences and unexpected events such as raising additional capital, restricting business activities or using risk mitigation techniques

Template 7

Credit Risk under Standardised Approach –

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	**Amount (LKR'000) as at ……………………..**					
	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 CBSL						
Claims on Foreign Sovereigns and their Central Banks						
Claims on Public Sector Entities						
Claims on Official Entities and Multilateral Development Banks						
Claims on Banks Exposures						
Claims on Financial Institutions						
Claims on Corporates						
Retail Claims						
Claims Secured by Residential Property						
Claims Secured by Commercial Real Estate						
Non-Performing Assets (NPAs)(i)						
Higher-risk Categories						
Cash Items and Other Assets						
Total						

Note:

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

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

(iii) Banks are expected to supplement the template with a narrative commentary to explain any significant change over the reporting period and the key drivers of such changes.

Template 8

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	**Amount (LKR'000) as at ……………. (Post CCF & CRM)**							
Risk Weight / **Asset Classes**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**>150%**	**Total Credit Exposures Amount**
Claims on Central Government and Central Bank of Sri Lanka								
Claims on Foreign Sovereigns and their Central Banks								
Claims on Public Sector Entities								
Claims on Official Entities and Multilateral Development Banks								
Claims on Banks Exposures								
Claims on Financial Institutions								
Claims on Corporates								
Retail Claims								
Claims Secured by Residential Property								
Claims Secured by Commercial Real Estate								
Non-Performing Assets (NPAs)								
Higher-risk Categories								
Cash Items and Other Assets								
Total								

Note: Banks are expected to supplement the template with a narrative commentary to explain any significant change over the reporting period and the key drivers of such changes.

Template 9

Market Risk under Standardised Measurement Method

Item	**RWA Amount (LKR'000) as at ……………**
(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	
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	

Note: Banks are expected to supplement the template with a narrative commentary to explain any significant change over the reporting period and the key drivers of such changes.

Template 10

Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at ………………		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%				
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					
The Standardised Approach					
The Alternative Standardised Approach					
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach					
The Standardised Approach					
The Alternative Standardised Approach					

Template 11
Differences between Accounting and Regulatory Scopes and
Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

Item	Amount (LKR '000) as at ……………………				
	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
Assets					
Cash and Cash Equivalents					
Balances with Central Banks					
Placements with Banks					
Derivative Financial Instruments					
Other Financial Assets Held-For-Trading					
Financial Assets Designated at Fair Value through Profit or Loss					
Loans and Receivables to Banks					
Loans and Receivables to Other Customers					
Financial Investments - Available-For-Sale					
Financial Investments - Held-To-Maturity					
Investments in Subsidiaries					
Investments in Associates and Joint Ventures					
Property, Plant and Equipment					
Investment Properties					
Goodwill and Intangible Assets					
Deferred Tax Assets					
Other Assets					
Liabilities					
Due to Banks					
Derivative Financial Instruments					
Other Financial Liabilities Held-For-Trading					
Financial Liabilities Designated at Fair Value Through Profit or Loss					
Due to Other Customers					
Other Borrowings					
Debt Securities Issued					
Current Tax Liabilities					
Deferred Tax Liabilities					

Item	Amount (LKR '000) as at ……………………				
	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
Other Provisions					
Other Liabilities					
Due to Subsidiaries					
Subordinated Term Debts					
Off-Balance Sheet Liabilities					
Guarantees					
Performance Bonds					
Letters of Credit					
Other Contingent Items					
Undrawn Loan Commitments					
Other Commitments					
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital					
of which Amount Eligible for CET1					
of which Amount Eligible for AT1					
Retained Earnings					
Accumulated Other Comprehensive Income					
Other Reserves					
Total Shareholders' Equity					

Notes:
Where a single item attracts capital charges according to more than one risk category, it should be reported in all columns that it attracts a capital charge. As a consequence, the sum of amounts in columns (c) to (e) may be greater than the amount in column (b). An explanation note must be provided for such reporting for reconciliation purpose.

Template 12

Explanations of Differences between Accounting and Regulatory Exposure Amounts

Provide qualitative explanations on the differences observed between accounting carrying value and amounts considered for regulatory purposes: (a) Explain the origins of any significant differences between the amounts in columns (a) and (b) in Template 11. (b) Describe systems and controls to ensure that the valuation estimates are prudent and reliable: • Valuation methodologies, including an explanation of how far mark-to-market methodologies are used. • Description of the independent price verification process. • Procedures for valuation adjustments or reserves, including a description of the process and the methodology for valuing trading positions by type of instrument.

Template 13
Bank Risk Management Approach

Provide a description of the bank's strategy and how the board of directors and senior management assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

(a) How the business model determines and interacts with the overall risk profile, how the business model translates into key risk profiles (credit, market, operational, liquidity, interest rate risk in the banking book etc.) and how the risk profile of the bank interacts with the risk tolerance approved by the board.

(b) Criteria and approach for risk management objectives, strategies, policies, risk appetites and tolerance limits for key types of risks.

(c) The risk governance structure (overall and by key types of risks): Responsibilities attributed throughout the bank (e.g. oversight and delegation of authority, breakdown of responsibilities, business unit etc.), relationships between the structures involved in risk management processes (e.g. board of directors, integrated risk management committee, executive management, separate risk committees, risk management structure, compliance function, internal audit function).

(d) Channels to communicate and enforce the risk culture within the bank (e.g. code of conduct, manuals containing operating limits or procedures to treat violations or breaches of risk thresholds, procedures to raise and share risk issues between business lines and risk functions).

(e) The scope and main features of risk measurement systems for key risks (e.g.: methods, techniques, measuring frequencies, assumptions etc.).

(f) Process of risk information reporting provided to the board and senior management, in particular the scope and main content of reporting on risk exposure (overenroll and by key types of risks).

(g) Qualitative information on stress testing (e.g. portfolios and risks subject to stress testing, scenarios adopted and methodologies used and use of stress testing in risk management).

(h) The strategies and processes to manage, hedge and mitigate risks that arise from the bank's business model and the processes for monitoring the continuing effectiveness of hedges and mitigants, overenroll and by key types of risks, including the following:.

- **Credit Risk Mitigation Techniques**
  Policies and processes for collateral evaluation and management, policies and processes for and an indication of the extent to which the bank makes use of on- and off-balance sheet netting, main types of guarantor/credit derivative counterparty and their creditworthiness, information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral type and credit derivative providers) and any other.
- **Liquidity Risk Mitigation Techniques**
  Details of liquidity contingency plans in place to bridge unforeseen liquidity difficulties and any other.
- **Operational Risk Mitigation Techniques**
  Description of the use of insurance for the purpose of mitigating operational risk, details of contingency plans in place to handle failure and situations, information technology and any other.
- **Any Other**

Template 14
Risk Management Related to Key Risk Exposures

i) **Credit Risk**

a) Breakdown of exposures subject to credit risk by major types, geographical areas, sectors and residual maturity.

b) Description of policies, process, methods and key definitions on impairment/classification of exposures subject to credit risk.

c) Breakdown of exposures subject to credit risk (both on and off-balance sheet) in to impaired and non-impaired (as per financial reporting) with related details on collateral/cash flows, impairment allowances, write-offs and net exposure, by type-wise and age analysis-wise.

d) Breakdown of exposures subject to credit risk (both on and off-balance sheet) in to performing and non-performing (as per regulatory reporting) with related details on collateral value, specific provision, write-offs and net exposure, by type-wise and age analysis-wise.

e) The extent of non-performing loans, that are not considered to be impaired and the reasons for this.

ii) **Market Risk**

a) **Interest Rate Risk -** Interest rate sensitivity gap analysis for contractual and behavioural maturities (up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years) to cover both on and off-balance sheet interest rate sensitive assets and liabilities by currency-wise (local and major currencies).

b) **Equity Position Risk -** Type, carrying value, fair value, realised gains/(losses) and unrealised gains/(losses) for the reporting period and amounts included in capital adequacy calculation.

c) **Foreign Exchange Risk** - Foreign currency denominated assets and liabilities (both on and off-balance sheet) broken down by maturity bands (for up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years), illustrating currency-wise maturity gaps, cumulative maturity gaps and net open position.

iii) **Liquidity Risk**

a) Trend in key liquidity ratios including, SLAR, LCR, net loans to total assets, loans to customer deposits, liquid assets to short term liabilities, commitments to liquid assets.

b) Currency-wise (local and major currencies) maturity gaps of assets and liabilities (contractual and behavioural maturities for up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years) to cover both on and off-balance sheet assets and liabilities.

c) Measurement tools/metrics that assess the structure of balance sheet, as well as metrics that project cash flows and future liquidity positions, taking into account off-balance sheet risks which specific to the bank.

d) Key metrics that management monitors liquidity, including, but not limited to, concentration limits and sources of funding (both products and counterparties), liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity.

iv) **Operational Risk**

a) Major operational viz. system or human, failures and financial losses incurred by the bank due to such failures during the reporting period.

b) Details of activities that have been outsourced together with parties and basis for payment for such services.

c) Details of due diligence tests of third party service providers.

v) **Interest Rate risk in the Banking Book (IRRBB)**

The increase/(decrease) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currencies (for major currencies) and maturity bands (for up to 1 month, 1 - 3 months, 3 - 6 months, 6 - 12 months, 1 - 3 years, 3 - 5 years and over 5 years).