

MARKET DISCIPLINE – DISCLOSURE REQUIREMENTS UNDER PILLAR III

With the implementation of Basel III directives w.e.f 1st July 2017, all licensed banks are required to disclose pillar III disclosure requirements in order 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.

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

Key Regulatory Ratios - Capital and Liquidity

Item	Bank		Group	
	2017 - Basel III	2016 - Basel II	2017 - Basel III	2016 - Basel II
Regulatory Capital [LKR '000]				
Common Equity Tier 1	92,876,653	N/A	100,246,115	N/A
Tier 1 Capital	92,876,653	65,082,084	100,246,115	71,295,392
Total Capital	115,340,970	88,568,780	122,560,440	95,198,840
Regulatory Capital Ratios [%]				
Common Equity Tier 1 Capital Ratio [Minimum Requirement - 4.5%]	13.72%	N/A	13.74%	N/A
Tier 1 Capital Ratio [Minimum Requirement - 2017 - 6%, 2016-5%]	13.72%	11.22%	13.74%	11.51%
Total Capital Ratio [Minimum Requirement - 2017 - 11.75%, 2016 - 10%]	17.04%	15.27%	16.80%	15.37%
Leverage Ratio [Minimum Requirement - 4%]	8.64%	N/A	8.92%	N/A

Item	Bank	
	2017	2016
Regulatory Liquidity		
Statutory Liquid Assets [LKR'000]	217,431,828	176,366,293
Statutory Liquid Assets Ratio [Minimum Requirement - 20%]		
Domestic Banking Unit [%]	24.06%	23.49%
Off-Shore Banking Unit [%]	46.15%	26.46%
Liquidity Coverage Ratio [%] – Rupee [Minimum Requirement - 2017 - 80%, 2016 - 70%]	182.39%	176.48%
Liquidity Coverage Ratio [%] – All Currency [Minimum Requirement - 2017 - 80%, 2016 - 70%]	124.32%	118.45%

Market Discipline – Disclosure Requirements Under Pillar III

Basel III Computation of Capital Ratios - 2017

Item	Bank (LKR '000)	Group (LKR '000)
Common Equity Tier 1 (CET1) Capital after Adjustments	92,876,653	100,246,115
Common Equity Tier 1 (CET1) Capital	97,545,738	104,187,351
Equity Capital (Stated Capital)/Assigned Capital	31,409,119	31,409,121
Reserve Fund	5,460,000	5,460,000
Published Retained Earnings/(Accumulated Retained Losses)	15,193,585	17,964,806
Published Accumulated Other Comprehensive Income (OCI)	2,289,847	2,320,997
General and other Disclosed Reserves	43,193,187	43,416,458
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-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	-	3,615,969
Total Adjustments to CET1 Capital	4,669,084	3,941,236
Goodwill (net)	-	122,942
Intangible Assets (net)	695,072	915,380
Defined benefit pension fund assets	1,719,510	1,719,510
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	459,285	495,097
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	1,795,218	688,307
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	-	-
Tier 2 Capital after Adjustments	22,464,317	22,314,325
Tier 2 Capital	22,650,694	22,498,854
Qualifying Tier 2 Capital Instruments	17,644,096	17,492,256
Revaluation Gains	2,090,479	2,090,479
General Provisions	2,916,119	2,916,119
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	186,376	184,528
Investment in Own Shares	-	-
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	186,376	184,528
CET1 Capital	-	-
Total Tier 1 Capital	92,876,653	100,246,115
Total Capital	115,340,970	122,560,440
Total Risk Weighted Assets (RWA)	676,946,964	729,522,672
RWAs for Credit Risk	599,411,330	634,182,841
RWAs for Market Risk	2,478,510	2,700,030
RWAs for Operational Risk	75,057,124	92,639,801
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	13.72%	13.74%
of which: Capital Conservation Buffer (%)	1.25%	1.25%
of which: Countercyclical Buffer (%)	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	0.50%	0.50%
Total Tier 1 Capital Ratio (%)	13.72%	13.74%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	17.04%	16.80%
of which: Capital Conservation Buffer (%)	1.25%	1.25%
of which: Countercyclical Buffer (%)	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	0.50%	0.50%

Computation of Leverage Ratio

Item	Amount [LKR '000]	
	Bank	Group
	2017 [LKR '000] Basel III	2017 [LKR '000] Basel III
Tier 1 Capital	92,876,653	100,246,115
Total Exposures	1,074,726,780	1,124,326,843
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	944,292,662	993,120,723
Derivative Exposures	3,135,706	3,135,706
Securities Financing Transaction Exposures	5,472,978	6,244,980
Other Off-Balance Sheet Exposures	121,825,434	121,825,434
Basel III Leverage Ratio [%] (Tier 1/Total Exposure)	8.64%	8.92%

Basel III Computation of Liquidity Coverage Ratio All Currency

Item	Amount [LKR'000]			
	2017		2016	
	Total		Total	
	Un-weighted Value	Total Weighted Value	Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	114,870,080	111,415,311	89,391,522	86,517,716
Total Adjusted Level 1A Assets	102,603,924	102,603,924	84,348,965	84,348,965
Level 1 Assets	102,085,442	102,085,442	83,643,909	83,643,909
Total Adjusted Level 2A Assets	8,393,000	7,134,050	-	-
Level 2A Assets	8,393,000	7,134,050	-	-
Total Adjusted Level 2B Assets	4,391,638	2,195,819	5,747,613	2,873,807
Level 2B Assets	4,391,638	2,195,819	5,747,613	2,873,807
Total Cash Outflows	821,254,637	135,594,004	744,842,723	117,488,542
Deposits	549,003,929	54,900,393	504,198,077	50,419,808
Unsecured Wholesale Funding	145,289,624	55,172,692	113,439,571	43,226,791
Secured Funding Transactions	4,020,888	-	8,402,826	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	122,940,196	14,651,873	118,802,249	14,082,831
Additional Requirements	-	10,869,046	-	9,759,112
Total Cash Inflows	92,294,506	45,972,734	92,588,214	44,446,193
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	3,000,000	-	3,000,000	-
Other Inflows by Counterparty which are Maturing within 30 Days	80,997,232	42,086,367	82,870,410	41,435,205
Operational Deposits	936,154	-	695,829	-
Other Cash Inflows	7,361,120	3,886,367	6,021,975	3,010,988
Liquidity Coverage Ratio [%] (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		124.32%		118.45%

Market Discipline – Disclosure Requirements Under Pillar III

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Stated Capital	Debtentures - 2007	Debtentures - 2006 Type E	Debtentures - 2006 Type F	Debtentures - 2011	Debtentures - 2013	Debtentures - 2016	Debtentures - 2016	Debtentures - 2016	Debtentures - 2013	Debtentures - 2014 Type B	Debtentures - 2014 Type C	Foreign Borrowing
Issuer	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	German Development Financial Institution
Unique Identifier													
Governing Law of the Instrument	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	German
Original Date of Issuance	N/A	August 1, 2007	April 1, 2006	April 1, 2006	September 5, 2011	June 13, 2013	March 28, 2016	November 1, 2016	November 1, 2016	September 5, 2011	December 15, 2014	December 15, 2014	June 12, 2012
Par Value of Instrument	N/A	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	N/A
Perpetual or Dated	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	31,409,119	700,000	366,598	700,268	2,000,000	4,000,000	7,000,000	2,000,000	4,000,000	1,533,373	2,757,240	84,040	3,831,250
Accounting Classification (Equity/Liability)	Equity	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability
Issuer Call subject to Prior Supervisory Approval	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends	Dividends	Coupons	Coupons	Coupons	Coupons	Coupons	Coupons	Coupons	Coupons	Coupons	Coupons	Coupons	Coupons
Fixed or Floating Dividend/Coupon	N/A	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Floating
Coupon Rate and any Related Index	N/A	16.75%	11.00%	11.25%	11.50%	14.00%	11.25%	11.75%	13.00%	8.00%	7.75%	8.33%	6 Month LIBOR + 4.25% p.a.
Non-Cumulative or Cumulative													
Convertible or Non-Convertible	N/A	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Conversion Trigger (s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If Convertible, Fully or Partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If Convertible, Mandatory or Optional	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If Convertible, Conversion Rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Item	Amount (LKR'000) as at December 31, 2017					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density [%]	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density
Claims on Central Government and CBSL	282,235,307	-	282,235,307	-	-	-
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	6,838,851	-	6,838,851	-	5,490,889	0.80
Claims on Financial Institutions	23,350,237	-	23,350,237	-	14,017,953	0.60
Claims on Corporates	241,422,105	313,929,704	233,732,990	110,431,645	328,188,046	0.95
Retail Claims	296,665,542	66,053,606	258,587,537	13,447,121	187,647,359	0.69
Claims Secured by Residential Property	38,144,780	-	38,144,780	-	24,480,400	0.64
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	7,937,085	-	7,937,085	-	9,330,201	1.18
Higher-risk Categories	946,719	-	946,719	-	2,366,797	2.50
Cash Items and Other Assets	47,614,478	-	47,614,478	-	27,889,685	0.59
Total	945,155,104	379,983,310	899,387,984	123,878,766	599,411,330	-

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

Description	Risk Weight	Amount (LKR'000) as at December 31, 2017 (Post CCF & CRM)								Total Credit Exposures Amount
		0%	20%	50%	60%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka		282,235,307	-	-	-	-	-	-	-	282,235,307
Claims on Foreign Sovereigns and their Central Banks		-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities		-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks		-	-	-	-	-	-	-	-	-
Claims on Banks Exposures		-	1,678,125	12,550	-	-	5,146,551	1,625	-	6,838,851
Claims on Financial Institutions		-	541,802	17,797,685	-	-	5,010,750	-	-	23,350,237
Claims on Corporates		-	13,883,845	9,739,025	-	-	320,541,764	-	-	344,164,634
Retail Claims		-	-	-	118,437,363	96,933,177	41,389,782	-	-	256,760,322
Claims Secured by Gold		2,797,951	12,476,386	-	-	-	-	-	-	15,274,337
Claims Secured by Residential Property		-	-	27,328,760	-	-	10,816,020	-	-	38,144,780
Claims Secured by Commercial Real Estate		-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)		-	-	361,768	-	-	4,427,317	3,148,000	-	7,937,085
Higher-risk Categories		-	-	-	-	-	-	-	946,719	946,719
Cash Items and Other Assets		19,724,794	-	-	-	-	27,889,685	-	-	47,614,479
Total		-	-	-	-	-	-	-	-	1,023,266,751

Market Discipline – Disclosure Requirements Under Pillar III

Market Risk under Standardised Measurement Method

Item	Amount [LKR '000]
	As at December 31, 2017
[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	141,677
(i) General Equity Risk	74,077
(ii) Specific Equity Risk	67,600
[c] RWA for Foreign Exchange & Gold	1,653,532
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	210,937

Operational Risk under Basic Indicator Approach

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income [LKR'000] as at December 31, 2017		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%	-	34,873,532	43,114,218	49,769,056
Capital Charges for Operational Risk [LKR'000]	-	-	-	-	6,387,840
Risk Weighted Amount for Operational Risk [LKR'000]	-	-	-	-	75,057,124

Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

Item	Amount (LKR '000) as at December 31, 2017				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
Assets	954,877,581	947,796,924	897,249,308	120,486	50,427,130
Cash and Cash Equivalents	21,739,800	21,739,800	21,739,800	-	-
Balances with Central Banks	38,610,940	38,610,940	38,610,940	-	-
Placements with Banks	3,182,377	3,175,500	3,175,500	-	-
Derivative Financial Instruments	615,357	-	-	-	-
Financial investments - Loans and receivables	122,199,048	120,036,816	120,036,816	-	-
Financial investments - Fair value through profit or loss	120,486	120,486	-	120,486	-
Loans and Receivables to Banks	-	-	-	-	-
Loans and Receivables to Customers	639,102,061	642,021,628	596,254,508	-	45,767,120
Financial Investments - Available-For-Sale	95,403,820	89,288,612	87,243,268	-	2,045,344
Financial Investments - Held-To-Maturity	-	-	-	-	-
Investments in Subsidiaries	3,017,285	3,017,285	1,973,000	-	1,044,285
Investments in Joint Ventures	755,000	755,000	-	-	755,000
Property, Plant and Equipment	17,905,320	17,905,320	17,905,320	-	-
Investment Properties	327,464	327,464	327,464	-	-
Goodwill and Intangible Assets	815,381	815,381	-	-	815,381
Deferred Tax Assets	-	-	-	-	-
Other Assets	11,083,242	9,982,692	9,982,692	-	-
Liabilities	846,729,982	847,764,594	-	-	-
Due to Banks	62,463,497	60,809,685	-	-	-
Derivative Financial Instruments	1,305,900	-	-	-	-
Securities sold under repurchase agreements	5,064,360	5,037,090	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	701,519,297	686,412,415	-	-	-
Dividends payable	975,371	975,371	-	-	-
Other Borrowings	27,258,006	27,093,696	-	-	-
Debt Securities Issued	4,540,259	4,374,653	-	-	-
Current Tax Liabilities	3,974,624	4,211,246	-	-	-
Deferred Tax Liabilities	5,082,636	6,447,032	-	-	-
Other Provisions	3,015,875	22,893,589	-	-	-
Other Liabilities	5,720,896	4,911,702	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	25,809,261	24,598,116	-	-	-
Off-Balance Sheet Liabilities	598,364,726	598,364,726	-	-	-
Guarantees	124,389,833	124,389,833	124,389,833	-	-
Performance Bonds	-	-	-	-	-
Letters of Credit	28,291,149	28,291,149	28,291,149	-	-
Other Contingent Items	136,891,225	136,891,225	136,891,225	-	-
Undrawn Loan Commitments	308,792,519	308,792,519	308,792,519	-	-
Other Commitments	-	-	-	-	-
Shareholders' Equity					
Equity Capital [Stated Capital]/Assigned Capital	31,409,119	31,409,119	-	-	-
of which Amount Eligible for CET1	-	-	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	15,193,585	11,660,698	-	-	-
Accumulated Other Comprehensive Income	4,166,167	-	-	-	-
Other Reserves	57,378,728	57,285,541	-	-	-
Total Shareholders' Equity	108,147,599	100,032,330	-	-	-

Market Discipline – Disclosure Requirements Under Pillar III

EXPLANATION OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY EXPOSURE AMOUNTS

[a] Derivative financial instruments

Derivatives are financial instruments which derive values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices.

The fair value of these derivative financial instruments are determined using forward pricing models. The positive fair value changes of these financial instruments as at the balance sheet date are reported as assets while the negative fair value changes are reported as liabilities. The details of derivative financial instruments have been disclosed in Note 28 to the financial statements.

[b] Loans and receivables to other customers

The loans and receivables to customers considered in regulatory reporting differs with the published financial statements since CBSL time based provisions were netted off when arriving at loans and receivables for regulatory reporting purposes, while impairment allowances based on incurred losses have been netted off in loans and receivables for publication purposes. The impairment allowance has been computed using established processes with judgments being exercised when determining the presence of objective evidences of impairment. The process used in determining the impairment provision has been described in detail in Note 31 (b) to the financial statements.

[c] Financial investments - Available for sale

Financial investments - Available for sale have been measured at fair value in published financial statements while these investments have been measured at cost for regulatory reporting purpose. The details of financial investments - available for sale have been disclosed in Note 33 to the financial statements.

COMPUTATION OF CAPITAL ADEQUACY RATIO UNDER BASEL II - 2016

CAPITAL BASE

	Bank Rs Mn	Group Rs Mn
TIER 1		
Voting ordinary shares	12,339	12,339
Non-voting ordinary shares	3,001	3,001
Statutory reserve fund	4,560	4,560
Published retained earnings [Note1]	10,628	13,871
General & other reserves	37,247	37,056
Non - controlling Interest	-	2,939
Less: Deductions from Tier 1 capital [Note 2]	(2,693)	(2,471)
Eligible Tier 1 Capital	65,082	71,295
TIER II		
50% of approved asset revaluation reserves [Note 3]	2,091	2,091
General provision for loan losses	2,756	2,756
Approved subordinated term debt	21,333	21,305
Tier II Capital	26,180	26,152
Less: Deductions from Tier II capital[Note 2]	(2,693)	(2,248)
Eligible Tier II capital	23,487	23,904
Capital Base	88,569	95,199
Risk Adjusted capital ratios		
Tier 1 [Eligible Tier 1 capital / Total risk adjusted balance] *	11.22	11.51
Total [Capital base / Total risk adjusted balance] **	15.27	15.37

* Statutory minimum 5%

** Statutory minimum 10%