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# **Pan Asia Banking Corporation PLC**

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

### **As at 31st March 2024**

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Company Registration No. PQ 48

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

**Pan Asia Banking Corporation PLC**  
**Pillar 3 Disclosures**  
**31st March 2024**

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## **BASEL III DISCLOSURE REQUIREMENTS**

### **INTRODUCTION**

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

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

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

### **SCOPE OF BASEL III FRAMEWORK**

The Basel Committee on Bank Supervision (BCBS) has implemented a set of capital, liquidity and funding reforms known as "Basel III". The objectives of reforms are to increase the quality, consistency and transparency of capital to enhance the risk management framework of Licensed Banks.

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

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

## PILLAR 1 - MINIMUM CAPITAL REQUIREMENTS AND BUFFERS

Commencing from 01<sup>st</sup> July 2017, every LCB & LSB need to comply with minimum capital ratios and the buffers as prescribed in the direction. According to the latest regulatory requirements enforced by CBSL, the Bank is required to maintain the capital in 3 tiers as mentioned below.

### Minimum Capital Ratio Requirement

| Components of Capital                                                    | Minimum Requirement |
|--------------------------------------------------------------------------|---------------------|
| Common Equity Tier 1 Capital Ratio Including Capital Conservation Buffer | 7.00%               |
| Total Tier 1 Capital Ratio Including Capital Conservation Buffer         | 8.50%               |
| Total Capital Ratio Including Capital Conservation Buffer                | 12.50%              |

### CAPITAL BUFFERS

All banks are required to hold additional capital buffers over & above the minimum CET I, Total Tier I & Total Capital Adequacy levels.

- Capital Conservation Buffer (CCB)
- High Loss Absorbency (HLA) requirement for Domestic Systemically Important Banks (D-SIBs)
- Countercyclical Buffer

### Higher Loss Absorbency (HLA) Requirements for Domestic Systemically Important Banks (D-SIBs)

Monetary Board of Central Bank has issued Banking Act Direction No 10 of 2019 “Framework for Dealing with Domestic Systemically Important Banks” on 20<sup>th</sup> December 2019.

This framework attempts to identify the banks whose failure has a larger impact on the financial system due to size, interconnectedness, lack of substitutability and complexity and require maintaining higher loss absorbency (HLA) by such banks.

Primary objective of the implementation of the D-SIBs framework is D-SIBs to hold higher capital buffers and to provide incentives to reduce their systemic importance on the domestic economy.

The minimum capital surcharge on D-SIBs is as follows:

| Bucket | HLA Requirement<br>(CET 1 as a % of Risk-Weighted Assets) |
|--------|-----------------------------------------------------------|
| 3      | 2.0                                                       |
| 2      | 1.5                                                       |
| 1      | 1.0                                                       |

Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs), from time to time have to maintain additional Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1 Capital.

However as per eligible criteria defined in the direction to be categorized as D-SIB, it is likely that additional HLA capital requirements will not be applicable for our Bank given the total exposure measure coming under Leverage Ratio is account for below the minimum exposure value of Rs.400 billion specified by the regulator under disclosure requirements in the directions.

The Bank's Total exposures coming under Basel III leverage ratio was Rs. 243.3 billion as at 31st March 2024.

## **PILLAR 2 - MAINTAIN ADEQUATE CAPITAL ABOVE THE MINIMUM REQUIREMENT (ICAAP)**

The Bank needs to maintain adequate capital buffers to safeguard itself from the exposure to risk as specified in the direction. Under Pillar 2, a Board approved ICAAP document needs to be submitted to the Central Bank for supervisory review process. ICAAP lets banks to identify, analyze and quantify its risk exposures using different methodologies, techniques and to quantify required level of capital to absorb the risks.

Further under pillar 2, banks are instructed to scrutinize different types of risks which are not covered/fully captured under Pillar 1. Accordingly, following risk categories also need to be quantified and allocation of capital needs to be done in computing the Pillar 2 Capital Ratios.

- Risks not fully captured under Pillar 1 - Concentration risk (credit risk), interest rate/rate of return risk in the Banking book (market risk) etc.
- Risk types not covered under Pillar 1 - Liquidity risk, concentration risk, reputational risk, compliance risk, strategic and business risk, residual risk. etc. (risks which are not specifically addressed under Pillar 1)

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

## **PILLAR 3 - DISCLOSURE REQUIREMENTS**

Commencing from 1<sup>st</sup> July 2017, the Bank needs to disclose the regulator prescribed key information in relation to regulatory capital, liquidity and risk management with the published financial statements, in the annual report and in the web site.

Pillar 3 aims to provide consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

The Bank has implemented a Pillar 3 policy and procedure framework to address the requirements laid down for pillar 3 disclosures.

The complete disclosure report of information regarding capital management in accordance with Basel III- Pillar 3 is provided of which quantitative information regarding capital structure, capital adequacy and monitoring of liquidity standards is disclosed on a quarterly basis. The disclosures on the Bank's risk management approach and risk management related to key risk exposures are disclosed on an annual basis.

| Key Regulatory Ratios - Capital and Liquidity                            |            |            |
|--------------------------------------------------------------------------|------------|------------|
| As at                                                                    | 31.03.2024 | 31.12.2023 |
| <b>Regulatory Capital (Rs '000)</b>                                      |            |            |
| Total Common Equity Tier 1 Capital                                       | 21,285,740 | 21,285,740 |
| Common Equity Tier 1 Capital                                             | 18,613,974 | 18,785,214 |
| Tier 1 Capital                                                           | 18,613,974 | 18,785,214 |
| Total Capital                                                            | 21,048,227 | 21,155,676 |
| <b>Regulatory Capital Ratios (%)</b>                                     |            |            |
| Common Equity Tier 1 Capital Ratio ( <i>Minimum Requirement -7.00%</i> ) | 15.11%     | 16.45%     |
| Tier 1 Capital Ratio ( <i>Minimum Requirement -8.50%</i> )               | 15.11%     | 16.45%     |
| Total Capital Ratio ( <i>Minimum Requirement -12.50%</i> )               | 17.09%     | 18.52%     |
| Leverage Ratio ( <i>Minimum Requirement -3%</i> )                        | 7.65%      | 7.60%      |
| <b>Regulatory Liquidity</b>                                              |            |            |
| Statutory Liquid Assets (Rs'000)                                         | 72,272,154 | 76,120,892 |
| Statutory Liquid Assets Ratio ( <i>Minimum Requirement - 20%</i> )       | 35.75      | 38.55      |
| Liquidity Coverage Ratio (%)                                             |            |            |
| Rupee ( <i>Minimum Requirement -100%</i> )                               | 445.37     | 520.84     |
| All Currency ( <i>Minimum Requirement -100%</i> )                        | 354.62     | 458.18     |
| Net Stable Funding Ratio (%) ( <i>Minimum Requirement -100%</i> )        | 145.08     | 152.97     |

## CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank's capital structure according to the Banking Act Direction No. 01 of 2016 on Capital Requirement under Basel III for Licensed Commercial Banks (LCB) and Licensed Specialized Banks (LSB) is revised in to Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

Common Equity Tier 1 (CET 1) Capital of the Bank comprises;

- Stated Capital
- Retained Earnings after appropriation.
- Statutory Reserve Fund

At present Bank has no instrument eligible for Additional Tier 1 (AT1) Capital.

Tier 2 Capital Consist of,

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

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

## Basel III Computation of Capital Ratios

| Basel III Computation of Capital Ratios                                                                         |                      |                      |
|-----------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| As at                                                                                                           | 31.03.2024<br>Rs'000 | 31.12.2023<br>Rs'000 |
| <b>Common Equity Tier 1 (CET1) Capital after Adjustments</b>                                                    | <b>18,613,974</b>    | <b>18,785,214</b>    |
| <b>Common Equity Tier 1 (CET1) Capital</b>                                                                      | <b>21,235,203</b>    | <b>21,235,203</b>    |
| Stated Capital                                                                                                  | 3,614,253            | 3,614,253            |
| Reserve Fund                                                                                                    | 987,738              | 987,738              |
| Published Retained Earnings                                                                                     | 16,683,749           | 16,683,749           |
| Published Accumulated Other Comprehensive Income (OCI)                                                          | (50,537)             | (50,537)             |
| General and other Disclosed Reserves                                                                            | -                    | -                    |
| Unpublished Current Year's Profit/Losses and Gains reflected in OCI                                             | -                    | -                    |
| Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties | -                    | -                    |
| <b>Total Adjustments to CET1 Capital</b>                                                                        | <b>2,621,229</b>     | <b>2,449,989</b>     |
| Goodwill (net)                                                                                                  | -                    | -                    |
| Intangible Assets (net)                                                                                         | 309,135              | 321,561              |
| Others                                                                                                          | 2,312,094            | 2,128,428            |
| <b>Additional Tier 1 (AT1) Capital after Adjustments</b>                                                        | <b>-</b>             | <b>-</b>             |
| <b>Additional Tier 1 (AT1) Capital</b>                                                                          | <b>-</b>             | <b>-</b>             |
| Qualifying Additional Tier 1 Capital Instruments                                                                | -                    | -                    |
| Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties     | -                    | -                    |
| <b>Total Adjustments to AT1 Capital</b>                                                                         | <b>-</b>             | <b>-</b>             |
| Investment in Own Shares                                                                                        | -                    | -                    |
| Others                                                                                                          | -                    | -                    |
| <b>Tier 2 Capital after Adjustments</b>                                                                         | <b>2,434,253</b>     | <b>2,370,463</b>     |
| <b>Tier 2 Capital</b>                                                                                           | <b>2,434,253</b>     | <b>2,370,463</b>     |
| Qualifying Tier 2 Capital Instruments                                                                           | 205,000              | 246,000              |
| Revaluation Gains                                                                                               | 906,762              | 869,159              |
| Stage 1 & 50% of stage 2 impairment provision                                                                   | 1,322,491            | 1,255,304            |
| Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties     | -                    | -                    |
| <b>Total Adjustments to Tier 2 Capital</b>                                                                      | <b>-</b>             | <b>-</b>             |
| Investment in Own Shares                                                                                        | -                    | -                    |
| Others                                                                                                          | -                    | -                    |
| <b>CET1 Capital</b>                                                                                             | <b>18,613,974</b>    | <b>18,785,214</b>    |
| <b>Total Tier 1 Capital</b>                                                                                     | <b>18,613,974</b>    | <b>18,785,214</b>    |
| <b>Total Capital</b>                                                                                            | <b>21,048,227</b>    | <b>21,155,676</b>    |
| <b>Total Risk Weighted Assets (RWA)</b>                                                                         | <b>123,151,010</b>   | <b>114,226,419</b>   |
| RWAs for Credit Risk                                                                                            | 105,799,285          | 100,424,313          |
| RWAs for Market Risk                                                                                            | 3,881,866            | 544,688              |
| RWAs for Operational Risk                                                                                       | 13,469,859           | 13,257,418           |
| <b>CET1 Capital Adequacy Ratio (including Capital Conservation Buffer) (%)</b>                                  | <b>15.11</b>         | <b>16.45</b>         |
| of which: Capital Conservation Buffer (%)                                                                       | 2.50                 | 2.50                 |
| <b>Total Tier 1 Capital Adequacy Ratio (%)</b>                                                                  | <b>15.11</b>         | <b>16.45</b>         |
| <b>Total Capital Adequacy Ratio (including Capital Conservation Buffer) (%)</b>                                 | <b>17.09</b>         | <b>18.52</b>         |
| of which: Capital Conservation Buffer (%)                                                                       | 2.50                 | 2.50                 |

## LEVERAGE RATIO

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

The Central Bank of Sri Lanka has issued Direction No 12 of 2018 on “Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialized Banks” on 28<sup>th</sup> December 2018. Minimum Leverage Ratio requirement for licensed banks is 3%.

| Computation of Leverage Ratio                                                                                  |                      |                      |
|----------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| As at                                                                                                          | 31.03.2024<br>Rs'000 | 31.12.2023<br>Rs'000 |
| <b>Tier 1 Capital</b>                                                                                          | <b>18,613,974</b>    | 18,785,214           |
| <b>Total Exposures</b>                                                                                         | <b>243,312,337</b>   | <b>247,200,135</b>   |
| On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral) | 226,721,883          | 228,073,239          |
| Derivative Exposures                                                                                           | 296,630              | 225,575              |
| Securities Financing Transaction Exposures                                                                     | 12,501,903           | 15,153,017           |
| Other Off-Balance Sheet Exposures                                                                              | 3,791,920            | 3,748,305            |
| <b>Basel III Leverage Ratio (%) (Tier 1/Total Exposure)</b>                                                    | <b>7.65</b>          | <b>7.60</b>          |

## MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

|                                                                                       | Ordinary Shares                  | Subordinated Debt                                             |
|---------------------------------------------------------------------------------------|----------------------------------|---------------------------------------------------------------|
| Issuer                                                                                | Pan Asia Banking Corporation PLC | Pan Asia Banking Corporation PLC                              |
| CSE Security Code                                                                     | PABC N0000                       | N/A                                                           |
| Governing Law(s) of the Instrument                                                    | Companies Act No.7 of 2007       | Companies Act No.7 of 2007<br>Monetary Law Act No. 58 of 1949 |
| Original Date of Issuance                                                             | Multiple                         | 17.07.2020                                                    |
| Par Value of Instrument (Rs.)                                                         | N/A                              | 100                                                           |
| Perpetual or Dated                                                                    | Perpetual                        | Dated                                                         |
| Original Maturity Date                                                                | N/A                              | 16.07.2025                                                    |
| <b>Regulatory Treatment</b>                                                           |                                  |                                                               |
| Instrument Type                                                                       | Common Equity Tier 1             | Tier 2 Capital                                                |
| Amount recognized in Regulatory Capital (in Rs. Mn as at 31 <sup>st</sup> March 2024) | 3,614                            | 205                                                           |
| Accounting Classification (Equity/Liability)                                          | Shareholders' Equity             | Liability (Debenture Issued)                                  |

|                                                                 |                                                         |                                                                                                                                                                                                     |
|-----------------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issuer Call subject to Prior Supervisory Approval               | No                                                      | Yes                                                                                                                                                                                                 |
| Optional Call Date, Contingent Call Dates and Redemption Amount | N/A                                                     | Early repayment or redemption shall not be made without the prior consent from CBSL. The redemption amount of the debentures equal to total outstanding principal (Rs.820 Mn) plus accrued interest |
| <b>Coupons/Dividends</b>                                        |                                                         |                                                                                                                                                                                                     |
| Fixed or Floating Dividend/Coupon                               | Discretionary dividend amount                           | Fixed Rate                                                                                                                                                                                          |
| Coupon Rate and any Related Index                               | Distributable profit that has been declared as dividend | 14% (Semi Annual Interest Payment)                                                                                                                                                                  |
| Non-Cumulative or Cumulative                                    | Non Cumulative                                          | Non Cumulative                                                                                                                                                                                      |
| <b>Convertible or Non-Convertible</b>                           | Non-Convertible                                         | Convertible                                                                                                                                                                                         |
| If Convertible, Conversion Trigger (s)                          | N/A                                                     | Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016                                          |
| If Convertible, Fully or Partially                              | N/A                                                     | Fully                                                                                                                                                                                               |
| If Convertible, Mandatory or Optional                           | N/A                                                     | Mandatory                                                                                                                                                                                           |
| If Convertible, Conversion Rate                                 | N/A                                                     | Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event. |

## RISK WEIGHTED ASSETS

### CREDIT RISK

The Bank computes risk weighted assets on credit exposures using the Standardized Approach Method. In assigning risk weights for calculation of risk weighted assets using the standardized approach under Basel III, the Bank uses credit ratings from External Credit Assessment Institutions (ECAIs) who meet the qualifications specified by the CBSL. The credit ratings from External Credit Assessment institutions are applied to risk weight the claims on Banks, financial institutions and corporate customers. Claims on Retail and SME customers are risk weighted based on the criteria's specified in the directions.

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

| Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects |                                                         |                          |                            |                          |                     |                                 |
|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------|----------------------------|--------------------------|---------------------|---------------------------------|
| Asset Class                                                                                              | Amount (Rs'000) as at 31.03.2024                        |                          |                            |                          |                     |                                 |
|                                                                                                          | Exposures before Credit Conversion Factor (CCF) and CRM |                          | Exposures post CCF and CRM |                          | RWA and RWA Density |                                 |
|                                                                                                          | On-Balance Sheet Amount                                 | Off-Balance Sheet Amount | On-Balance Sheet Amount    | Off-Balance Sheet Amount | RWA                 | RWA Density (%) <sup>(ii)</sup> |
| Claims on Central Government and Central Bank of Sri Lanka                                               | 78,105,070                                              | -                        | 73,593,479                 | -                        | 1,169,912           | 2%                              |
| Claims on Bank's Exposures                                                                               | 3,684,761                                               | 32,901,794               | 3,684,761                  | 658,036                  | 4,021,595           | 93%                             |
| Claims on Financial Institutions                                                                         | 3,893,855                                               | 782,047                  | 3,893,855                  | 4,912                    | 2,236,346           | 57%                             |
| Claims on Corporates                                                                                     | 19,736,079                                              | 3,242,757                | 18,986,129                 | 765,478                  | 18,916,119          | 96%                             |
| Retail Claims                                                                                            | 94,535,912                                              | 15,619,549               | 80,763,408                 | 2,650,779                | 65,264,323          | 78%                             |
| Claims Secured by Gold                                                                                   | 13,498,453                                              | -                        | 13,498,453                 | -                        | 18,701              | 0%                              |
| Claims Secured by Residential Property                                                                   | 2,604,627                                               | -                        | 2,604,627                  | -                        | 1,577,405           | 61%                             |
| Net Stage 3 Loans <sup>(i)</sup>                                                                         | 6,379,294                                               | -                        | 6,379,294                  | -                        | 7,006,889           | 110%                            |
| Higher-risk Categories                                                                                   | 3,752                                                   | -                        | 3,752                      | -                        | 5,628               | 150%                            |
| Cash Items and Other Assets                                                                              | 7,917,946                                               | -                        | 7,917,946                  | -                        | 5,582,367           | 71%                             |
| <b>Total Assets</b>                                                                                      | <b>230,359,749</b>                                      | <b>52,546,147</b>        | <b>211,325,704</b>         | <b>4,079,204</b>         | <b>105,799,285</b>  | <b>49%</b>                      |

Notes:

(i) Stage 3 Loans- As per Banking Act Direction No. 13 and 14 of 2021 (as amended subsequently) on Classification, Recognition and Measurement of Credit Facilities and Classification, Recognition and Measurement of Financial Assets other than credit facilities in LCBs

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

Increase in total assets resulted in an increase in Risk weighted assets during Q1 2024.

## MARKET RISK

The Bank follows the 'Standardized Measurement Method' for computing the capital charge for exposures capture under market risk.

### Market Risk under Standardized Measurement Method

| <b>Market Risk under Standardised Measurement Method</b>                                      |                              |
|-----------------------------------------------------------------------------------------------|------------------------------|
| <b>As at 31st March 2024</b>                                                                  | <b>RWA Amount<br/>Rs'000</b> |
| <b>(a) RWA for Interest Rate Risk</b>                                                         | <b>83,849</b>                |
| General Interest Rate Risk                                                                    | 83,849                       |
| (i) Net Long or Short Position                                                                | 83,849                       |
| (ii) Horizontal Disallowance                                                                  | -                            |
| (iii) Vertical Disallowance                                                                   | -                            |
| (iv) Options                                                                                  | -                            |
| Specific Interest Rate Risk                                                                   | -                            |
| <b>(b) RWA for Equity</b>                                                                     | <b>252,343</b>               |
| (i) General Equity Risk                                                                       | 252,343                      |
| (ii) Specific Equity Risk                                                                     | -                            |
| <b>(c) RWA for Foreign Exchange &amp; Gold</b>                                                | <b>149,041</b>               |
| <b>Risk Weighted Amount for Market Risk ((a+b+c) *<br/>Reciprocal of Total Capital Ratio)</b> | <b>3,881,866</b>             |

## LIQUIDITY COVERAGE RATIO

The Liquidity Coverage Ratio (LCR) ensures Banks maintaining sufficient unencumbered High-Quality Liquid Assets (HQLA) to survive a significant liquidity stress scenario over 30 days horizon. The Central Bank of Sri Lanka issued Banking Act Direction No. 01 of 2015 on "Liquidity Coverage Ratio under Basel III Liquidity Standards for Licensed Commercial Banks" on 31<sup>st</sup> March 2015. The Bank monitors its LCR position on a daily basis, ensuring a sufficient buffer is maintained over the minimum regulatory requirement and the Bank's risk appetite. The Bank holds a diverse mix of High Quality Liquid Assets (HQLA), consisting primarily of cash, excess balances held with Central Bank above Statutory Reserve, Government of Sri Lanka securities (Level 1 Liquid Assets).

## LCR Disclosure template

| Basel III Computation of Liquidity Coverage Ratio - All Currency                                                                     |                                   |                                |                                   |                                |
|--------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| As at                                                                                                                                | 31.03.2024                        |                                | 31.12.2023                        |                                |
|                                                                                                                                      | Total Un-weighted Value<br>Rs'000 | Total Weighted Value<br>Rs'000 | Total Un-weighted Value<br>Rs'000 | Total Weighted Value<br>Rs'000 |
| Total Stock of High-Quality Liquid Assets (HQLA)                                                                                     | 71,606,862                        | 70,650,619                     | 73,646,714                        | 72,903,051                     |
| Total Adjusted Level 1 Assets                                                                                                        | 65,231,913                        | 65,239,705                     | 68,694,040                        | 68,694,040                     |
| Level 1 Assets                                                                                                                       | 65,231,913                        | 65,231,913                     | 68,688,961                        | 68,688,961                     |
| Total Adjusted Level 2A Assets                                                                                                       | 6,374,949                         | 5,418,707                      | 4,957,753                         | 4,214,090                      |
| Level 2A Assets                                                                                                                      | 6,374,949                         | 5,418,707                      | 4,957,753                         | 4,214,090                      |
| Total Adjusted Level 2B Assets                                                                                                       | -                                 | -                              | -                                 | -                              |
| Level 2B Assets                                                                                                                      | -                                 | -                              | -                                 | -                              |
| Total Cash Outflows                                                                                                                  | 59,598,494                        | 28,805,241                     | 197,086,886                       | 25,191,111                     |
| Deposits                                                                                                                             | 12,147,601                        | 14,490,139                     | 157,029,364                       | 14,635,338                     |
| Unsecured Wholesale Funding                                                                                                          | 25,989,343                        | 13,870,485                     | 19,269,566                        | 10,288,459                     |
| Secured Funding Transactions                                                                                                         | 145,550                           | -                              | 52,009                            | -                              |
| Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations                                       | 21,032,339                        | 160,957                        | 20,596,901                        | 128,267                        |
| Additional Requirements                                                                                                              | 283,660                           | 283,660                        | 139,047                           | 139,047                        |
| Total Cash Inflows                                                                                                                   | 20,063,428                        | 8,882,438                      | 21,518,547                        | 9,279,549                      |
| Maturing Secured Lending Transactions Backed by Collateral                                                                           | -                                 | -                              | -                                 | -                              |
| Committed Facilities                                                                                                                 | -                                 | -                              | -                                 | -                              |
| Other Inflows by Counterparty which are Maturing within 30 Days                                                                      | 16,374,286                        | 8,882,438                      | 17,828,273                        | 9,279,549                      |
| Operational Deposits                                                                                                                 | 3,689,141                         | -                              | 3,690,274                         | -                              |
| Other Cash Inflows                                                                                                                   | -                                 | -                              | -                                 | -                              |
| Liquidity Coverage Ratio (%)<br>(Stock of High Quality Liquid Assets/Total net Cash Outflows over the Next 30 Calendar Days)<br>*100 |                                   | 354.62%                        |                                   | 458.18%                        |

## NET STABLE FUNDING RATIO

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

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

| Computation of Net Stable Funding Ratio           |                      |                      |
|---------------------------------------------------|----------------------|----------------------|
| As at                                             | 31.03.2024<br>Rs'000 | 31.12.2023<br>Rs'000 |
| Total Available Stable Funding                    | 178,430,865          | 179,703,329          |
| Required Stable Funding – On Balance Sheet Assets | 122,830,448          | 117,356,347          |
| Required Stable Funding – Off Balance Sheet Items | 154,811              | 121,621              |
| Total Required Stable Funding                     | 122,985,259          | 117,477,967          |
| <b>NSFR</b>                                       | <b>145.08%</b>       | <b>152.97%</b>       |

## OPERATIONAL RISK

The Bank computes capital charges for operational risk based on the Basic Indicator Approach (BIA).

### Operational Risk under Basic Indicator Approach

| Operational Risk under Basic Indicator Approach            |                             |                 |                                |                                |                                |
|------------------------------------------------------------|-----------------------------|-----------------|--------------------------------|--------------------------------|--------------------------------|
| As at 31st March 2024<br>Business Lines                    | Capital<br>Charge<br>Factor | Fixed<br>Factor | Gross Income                   |                                |                                |
|                                                            |                             |                 | 1 <sup>st</sup> Year<br>Rs'000 | 2 <sup>nd</sup> Year<br>Rs'000 | 3 <sup>rd</sup> Year<br>Rs'000 |
| <b>The Basic Indicator Approach</b>                        | 15%                         | -               | 13,526,431                     | 8,092,543                      | 12,055,674                     |
| <b>The Standardised Approach</b>                           |                             |                 |                                |                                |                                |
| Corporate Finance                                          | 18%                         | -               | -                              | -                              | -                              |
| Trading and Sales                                          | 18%                         | -               | -                              | -                              | -                              |
| Payment and Settlement                                     | 18%                         | -               | -                              | -                              | -                              |
| Agency Services                                            | 15%                         | -               | -                              | -                              | -                              |
| Asset Management                                           | 12%                         | -               | -                              | -                              | -                              |
| Retail Brokerage                                           | 12%                         | -               | -                              | -                              | -                              |
| Retail Banking                                             | 12%                         | -               | -                              | -                              | -                              |
| Commercial Banking                                         | 15%                         | -               | -                              | -                              | -                              |
| <b>The Alternative Standardised Approach</b>               |                             |                 |                                |                                |                                |
| Corporate Finance                                          | 18%                         | -               | -                              | -                              | -                              |
| Trading and Sales                                          | 18%                         | -               | -                              | -                              | -                              |
| Payment and Settlement                                     | 18%                         | -               | -                              | -                              | -                              |
| Agency Services                                            | 15%                         | -               | -                              | -                              | -                              |
| Asset Management                                           | 12%                         | -               | -                              | -                              | -                              |
| Retail Brokerage                                           | 12%                         | -               | -                              | -                              | -                              |
| Retail Banking                                             | 12%                         | 0.035           | -                              | -                              | -                              |
| Commercial Banking                                         | 15%                         | 0.035           | -                              | -                              | -                              |
| <b>Capital Charges for Operational Risk (LKR'000)</b>      |                             |                 |                                |                                |                                |
| The Basic Indicator Approach                               |                             |                 |                                |                                | 1,683,732                      |
| <b>Risk Weighted Amount for Operational Risk (LKR'000)</b> |                             |                 |                                |                                |                                |
| The Basic Indicator Approach                               |                             |                 |                                |                                | 13,469,859                     |