Indian Bank Sri Lanka

Basel III - Pillar 3 Disclosures

As at 31st December 2024

Registered Address: Indian Bank Sri Lanka
No. 356, Galle Road, Colombo-03,
Sri Lanka

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Pillar 3 Disclosures
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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 29th December 2016.As per the direction, Capital Requirements applicable for a Licensed Commercial Bank from 1st July 2017 onwards consist of three pillars.

Pillar 1	• Minimum Capital Requirements and Buffers - Credit Risk, Market Risk & Operational Risk
Pillar 2	• Maintain Adequate Capital above the Minimum Requirement (ICAAP) - Additional Risks
Pillar 3	• Disclosure Requirements - Regular disclosure to the market covering both qualitative and quantitative disclosures on Capital, Liquidity and Risk Management

PILLAR 1 - MINIMUM CAPITAL REQUIREMENTS AND BUFFERS

Commencing from 01st 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%

However in view of adverse impact caused by current economic downturn, CBSL has permitted licensed banks to drawdown the Capital Conservation Buffer (CCB) up to 2.5% subject to conditions stipulated in Basel III directions.

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

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 1st 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.

Computation of Capital and Liquidity Ratios	**31.12.2024**
Common Equity Tier 1 Capital	12,335,896
Total Tier 1 Capital	12,335,896
Total Capital	12,393,752
Total Risk Weighted Amount	20,751,606
Risk Weighted Amount for Credit Risk	17,715,202
Risk Weighted Amount for Market Risk	53,796
Risk Weighted Amount for Operational Risk	2,982,608
Common Equity Tier 1 Capital Ratio	59.45%
Capital conservation buffer	518,790
Capital surcharge on D-SIBs	-
Total Tier 1 Capital Ratio	59.45%
Total Capital Ratio	59.72%
Leverage Ratio (Minimum Requirement 3%)	**33.51%**
Net Stable Funding Ratio (Minimum Requirement 100%)	**117%**
Liquidity Coverage Ratio-All Currency (Minimum Requirement 100%)	**185.62%**

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

Item	Amount
Common Equity Tier I (CETI) Capital after Adjustments	**12,335,896**
Total Common Equity Tier I (CET1) Capital	**14,216,213**
Equity capital or stated capital/assigned capital	1,740,883
Reserve fund	935,130
Published retained earnings/(Accumulated retained losses)	12,445,935
Accumulated other comprehensive income (OCI)	(905,734)
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	-
Total Adjustments to CET1 Capital	**1,880,318**
Goodwill (net)	
Other intangible assets (net)	
Revaluation losses of property, plant and equipment	
Deferred tax assets (net)	-
Cash flow hedge reserve	
Unrealized gains on sale related securitization transactions	
Shortfall of the cumulative impairment to specific provisions	
Changes in own credit risk	
Defined benefit pension fund assets	
Investment in own shares	
Reciprocal cross holdings in the capital of banking and other financial institutions	
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	
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	
Shortfall of capital in financial subsidiaries	
Regulatory adjustments applied to CET1 Capital due to insufficient AT1 and Tier 2 Capital to cover adjustments	
Amount due from head office & branches outside Sri Lanka in Sri Lanka Rupees	
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	(1,658)
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	1,881,976.38
Additional Tier 1 (AT1) Capital after Adjustments	-
Total Additional Tier 1 (ATI) 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	
Reciprocal cross holdings in AT1 capital instruments	
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	-
Significant investments in the capital of banking and financial institutions where the bank own more than 10 per cent of the issued ordinary share capital of the entity	
Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	
Tier 2 Capital after Adjustments	**57,856**
Total Tier 2 Capital	**57,856**

Qualifying Tier 2 Capital Instruments	
Revaluation gains	
General provisions	57,856
Instruments issued by consolidated banking and financial subsidiaries of the bank and held by third parties	
Total Adjustments to Tier 2 Capital	**-**
Investment in own shares	
Reciprocal cross holdings in Tier 2 capital instruments	
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	**-**
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	
Total Tier 1 Capital	**12,335,896**
Total Capital	**12,393,752**

Part I – Computation of Capital Ratios	
As at 31st of December 2024	**Amount**
Common Equity Tier 1 Capital	**12,335,896**
Total Tier 1 Capital	**12,335,896**
Total Capital	**12,393,752**
Total Risk Weighted Amount	**20,751,606**
Risk Weighted Amount for Credit Risk	17,715,202
Risk Weighted Amount for Market Risk	53,796
Risk Weighted Amount for Operational Risk	2,982,608
Common Equity Tier 1 Capital Ratio	**59.45%**
Capital conservation buffer	518,790
Capital surcharge on D-SIBs	-
Total Tier 1 Capital Ratio	**59.45%**
Total Capital Ratio	**59.72%**

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 28th December 2018. Minimum Leverage Ratio requirement for licensed banks is 3%.

Computation of Leverage Ratio as at 31st December 2024	**Amount (Rs.000)**
Tier 1 Capital After Adjustments	**12,335,896**
Exposure Measure	36,812,057
On balance Sheet Exposure	**28,967,930**
Derivative Exposures	**410,410**
Replacement cost associated with all derivative transactions	**293,150**
Security Financing Transactions (SFT) Exposures	**-**
Agent Transaction Exposures	-
Other Off-Balance Sheet Exposures	**7,433,717**
Leverage Ratio	**33.51%**

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 -

Assets	Principal Amount of On-Balance Sheet Items	Credit Equivalent of Off-Balance Sheet Items	Total	Risk Weight %	Risk weighted Assets Amount
Total Risk-weighted Amount for Credit Risk	27,087,612	3,510,927	30,598,539		17,715,202
Claims on Banks Exposures	6,552,472				1,577,069
Claims on Financial Institutions	3,397,272		3,557,638		1,829,934
Claims in Financial Institutions Regulated by CBSL	3,397,272	-	3,397,272		1,669,568
Claims on Corporates	10,391,870	3,350,561	13,742,430		13,167,507
Retail Claims	884,113	-	884,113		663,085
Claims Secured by Residential Property	135,790		135,790		47,526
Claims Secured by Commercial Real Estate	311,226		311,226	1.00	311,226
Non-Performing Assets (NPAs)	66,587		66,587		66,587
Cash Items and Other Assets	77,798		77,798		52,268

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.

Substitute of high risk weighted assets from low risk weighted assets led for overall drop in total risk weighted assets of the Bank.

MARKET RISK

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

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

Item	Capital Charge Amount
Total Capital Charge for Market Risk = (20.4.1.1.0.0 + 20.4.1.2.0.0 + 20.4.1.3.0.0)	**6,725**
Capital Charge for Interest Rate = (20.4.1.1.1.0 + 20.4.1.1.2.0)	**-**
General Interest Rate Risk	**-**
Net Long or Short Position	**-**
Horizontal Disallowance	**-**
Vertical Disallowance	**-**
Options	**-**
Specific Interest Rate Risk	**-**
Capital Charge for Equity = (20.4.1.2.1.0 + 20.4.1.2.2.0)	**1,976**
General Equity Risk	**1,976**
Specific Equity Risk	**-**
Capital Charge for Foreign Exchange & Gold	**4,748.73**
Total Risk-weighted Amount for Market Risk = (20.4.1.0.0.0/20.4.3.0.0.0)	**53,796**

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 31st 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

Computation of Liquidity Coverage Ratio-All Currency	Amount as at 31.12.2024 (LKR'000)
Total Stock of High-Quality Liquid Assets = X.2.1.0.0.0.0 of Part II	5,101,695.48
Total Cash Outflows = X.3.1.0.0.0.0 of Part III	9,467,912.45
Total Cash Inflows = X.4.1.0.0.0.0 of Part IV	6,719,418.90
Net Cash Outflows = X.1.2.0.0.0.0 - MIN(X.1.3.0.0.0.0, 75%*X.1.2.0.0.0.0)	2,748,493.54
Liquidity Coverage Ratio,% = (X.1.1.0.0.0.0/X.1.4.0.0.0.0)*100	185.62

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 21st November 2018. The minimum ratio requirement is 100%

Computation of Net Stable Funding Ratio as at 31st December2024	Amount in (LKR '000)
Total Available Stable Funding (Liabilities & Capital)	17,152,829.84
Required Stable Funding – On Balance Sheet Assets	14,655,657.28
Required Stable Funding – Off Balance Sheet Items	53,517.10
Total Required Stable Funding (Assets)	14,709,174.30
NSFR	**117%**

OPERATIONAL RISK

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

Operational Risk under Basic Indicator Approach

Business Lines As at 31.12.2024	Capital Charge Factor (Alpha and Beta)	Fixed Factor 'm'	Gross Income			Capital Charges		
			1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
The Basic Indicator Approach	**15%**		**2,679,290**	**2,647,458**	**2,129,754**	**401,894**	**397,119**	**319,463**
The Standardized Approach			-	-	-	-	-	-
Corporate Finance	**18%**		-	-	-	-	-	-
Trading and Sales	**18%**		-	-	-	-	-	-
Payment and Settlement	**18%**		-	-	-	-	-	-
Agency Services	**15%**		-	-	-	-	-	-
Asset Management	**-**		-	-	-	-	-	-
Retail Brokerage	**12%**		-	-	-	-	-	-
Retail Banking	**12%**		-	-	-	-	-	-
Commercial Banking	**15%**		-	-	-	-	-	-
The Alternative Standardised Approach			-	-	-	-	-	-
Sub Total			-	-	-	-	-	-
Corporate Finance	**18%**		-	-	-	-	-	-
Trading and Sales	**18%**		-	-	-	-	-	-
Payment and Settlement	**18%**		-	-	-	-	-	-
Agency Services	**15%**		-	-	-	-	-	-
Asset Management	**12%**		-	-	-	-	-	-
Retail Brokerage	**12%**		-	-	-	-	-	-
Sub Total			-	-	-	-	-	-
Retail Banking	**12%**	**0.035**	-	-	-	-	-	-
Commercial Banking	**15%**	**0.035**	-	-	-	-	-	-
Capital Charges for Operational Risk								**372,825**
The Basic Indicator Approach								**372,825**
The Standardized Approach								**-**
The Alternative Standardized Approach								**-**
Risk-Weighted Amount for operational Risk								**2,982,608**
The Basic Indicator Approach								**2,982,608**