Basel III - Disclosures under Pillar 3 as per the Banking Act Direction No. 01 of 2016

Disclosure 1 - Key Regulatory Ratios - Capital and Liquidity

Item	31- Mar- 2020	31- Mar- 2019
Regulatory Capital (LKR '000)		
Common Equity Tier 1	11,059,633.50	10,170,573.23
Tier 1 Capital	11,059,633.50	10,170,573.23
Total Capital	11,198,593.27	10,242,125.23
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.5%)	50.35	61.05
Tier 1 Capital Ratio (Minimum Requirement -8%)	50.35	61.05
Total Capital Ratio (Minimum Requirement -12%)	50.99	61.48
Leverage Ratio (Minimum Requirement - 3%)	35.04	31.67
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	2,933,025.88	5,213,520.00
Statutory Liquid Assets (USD'000)	30,185.10	39,461.00
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (20%)	58.71%	83.60%
Off-Shore Banking Unit (20%)	52.14%	70.54%
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement -90%)	1,235.89%	1,234.37%
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 90%)	405.48%	298.31%

Disclosure 2 - Basel III Computation of Capital Ratios

Item	Amount (LKR '000) 31- Mar- 2020	31- Mar- 2019
Common Equity Tier 1 (CET1) Capital after Adjustments	**11,059,633.50**	**10,170,573.86**
Common Equity Tier 1 (CET1) Capital	**11,097,051.43**	**10,216,162.01**
Equity Capital (Stated Capital)/Assigned Capital	2,442,827.45	2,442,827.45
Reserve Fund	367,839.11	340,923.56
Published Retained Earnings/(Accumulated Retained Losses)	6,660,287.11	6,172,398.00
Published Accumulated Other Comprehensive Income (OCI)	-	-
General and other Disclosed Reserves	1,626,097.75	1,260,013.00
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-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	**37,417.93**	**45,588.16**
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Others	37,417.93	45,588.16
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	**138,959.78**	**71,552.00**
Tier 2 Capital	**138,959.78**	**71,552.00**
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	138,959.78	71,552.00
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	**11,059,633.50**	**10,170,573.23**
Total Tier 1 Capital	**11,059,633.50**	**10,170,573.23**
Total Capital	**11,198,593.27**	**10,242,125.23**
Total Risk Weighted Assets (RWA)	**21,964,015.64**	**16,658,628.50**
RWAs for Credit Risk	18,355,042.72	14,909,115.65
RWAs for Market Risk	1,798,158.58	26,571.33
RWAs for Operational Risk	1,810,814.35	1,722,941.53
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**50.35**	**61.05**
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)		

	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	**50.35**	**61.05**
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**50.99**	**61.48**
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

Disclosure 3 - Computation of Leverage Ratio*

Item	**Amount (LKR '000)**	
	31- Mar- 2020	**31- Mar- 2019**
Tier 1 Capital	11,059,633.50	10,170,573.23
Total Exposures	31,565,214.38	32,110,374.07
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	27,061,022.93	26,382,730.62
Derivative Exposures	-	-
Securities Financing Transaction Exposures	-	-
Other Off-Balance Sheet Exposures	4,541,465.30	5,727,643.45
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	35.04%	31.67%

Disclosure 4 - Basel III Computation of Liquidity Coverage Ratio

Item	Amount (LKR'000)			
	31- Mar- 2020		31- Mar- 2019	
	Total Un-weighted Value	Total Weighted Value	Total Unweighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	**1,072,473.22**	**1,072,473.22**	**2,266,060.46**	**2,266,060.46**
Total Adjusted Level 1A Assets	**1,072,473.22**	**1,072,473.22**	**2,266,060.46**	**2,266,060.46**
Level 1 Assets	**1,072,473.22**	**1,072,473.22**	**2,266,060.46**	**2,266,060.46**
Total Adjusted Level 2A Assets	**-**	**-**	-	-
Level 2A Assets	**-**	**-**	-	-
Total Adjusted Level 2B Assets	**-**	**-**	-	-
Level 2B Assets	**-**	**-**	-	-
Total Cash Outflows	**14,966,075.06**	**1,057,976.14**	**32,867,006.00**	**3,038,485.20**
Deposits	4,810,361.55	481,036.15	6,636,382.00	663,638.20
Unsecured Wholesale Funding	697,610.08	174,402.52	1,615,014.00	1,129,625.25
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	9,457,966.32	402,400.35	24,615,610.00	1,245,221.75
Additional Requirements	137.12	137.12	-	-
Total Cash Inflows	**5,598,337.79**	**4,684,608.54**	**10,862,021.00**	**8,032,863.00**
Maturing Secured Lending Transactions Backed by Collateral	3,063,944.77	3,063,944.77	2,034,261.00	2,034,261.00
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	1,814,225.02	1,620,663.77	8,446,108.00	5,998,602.00

Operational Deposits	720,168.00	-	381,652.00	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		**405.48%**		**298.31%**

Disclosure 5 - Main Features of Regulatory Capital Instruments

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	**NIL**
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	

Disclosure 6 - Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

The strategic plan is reviewed annually with a 5 year planning horizon and holds detailed P&L and balance sheet information. The bank carefully analyses the CAR against increases in risk weighted assets in line with the budget expansion and business volumes.

Currently the Bank is adequately capitalized and its capital adequacy ratio (CAR) is well above the minimum regulatory requirements. The Bank's industry sector exposures are also relatively diverse. Also, Bank's portfolio is not overly exposed to any counter-party. Further, the bank will deliberate on strategically curtailing risk weighted assets exposure if required.

The bank always strives to achieve the reasonable profit growth in line with the banking industry average and profit generated is retained for the future business expansion. Capital generated through retained profit over the years could be considered as one of the primary source of capital to the Bank.

Disclosure 7 - Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

	Amount (LKR'000) as at 31.03.2020					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
Asset Class	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	5,562,088.41	-	5,562,088.41	-	-	-
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	7,510,633.95	8,000,902.52	7,510,633.95	4,000,451.26	4,247,326.19	36.90
Claims on Financial Institutions	451,796.31	-	451,796.31	-	225,898.15	50.00
Claims on Corporates	12,321,169.94	2,220,782.26	12,190,416.42	541,014.04	12,731,430.45	100.00
Retail Claims	339,026.77	-	315,898.64	-	315,898.64	100.00
Claims Secured by Residential Property	42,946.96	-	42,946.96	-	42,946.96	100.00
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	80,703.52	-	80,703.52	-	121,055.28	150.00
Higher-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	746,140.36		746,140.36		670,487.05	89.86
Total	**27,054,506.21**	**10,221,684.78**	**26,900,624.56**	**4,541,465.30**	**18,355,042.72**	

Disclosure 8 - Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	Amount (LKR'000) as at 31.03.2020 (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	5,562,088.41	-	-	-	-	-	-	5,562,088.41
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		5,056,585.16	6,436,981.78		17,518.26			11,511,085.20
Claims on Financial Institutions		-	451,796.31					451,796.31
Claims on Corporates					12,731,430.45			12,731,430.45
Retail Claims					315,898.64			315,898.64
Claims Secured by Residential Property					42,946.96			42,946.96
Claims Secured by Commercial Real Estate								-

Non-Performing Assets (NPAs)						80,703.52		80,703.52
Higher-risk Categories								-
Cash Items and Other Assets	75,653.31				670,487.05			746,140.36
Total	**5,637,741.72**	**5,056,585.16**	**6,888,778.09**	**-**	**13,778,281.36**	**80,703.52**	**-**	**31,442,089.85**

Disclosure 9- Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR'000) as at 31.03.2020
(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	**215,779.00**
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	**1,798,158.58**

Disclosure 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 31.03.2020		
			1 st Year	2 nd Year	3 rd Year
The Basic Indicator Approach	15%		**1,426,629.25**	**1,446,125.02**	**1,473,200.16**
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					**217,297.72**
The Standardised Approach					
The Alternative Standardised Approach					
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach					**1,810,814.35**
The Standardised Approach					
The Alternative Standardised Approach					

Disclosure 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 31.03.2020				
	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	**27,107,520**	**27,061,026**	**26,910,020**	**-**	**153,881.64**
Cash and Cash Equivalents	795,823	795,823	795,823		
Balances with Central Banks	868,670	868,670	868,670		
Placements with Banks	1,426,456	1,427,000	1,427,000		
Derivative Financial Instruments	-	-	-		
Financial assets recognized through profit or loss	-	-	-		
- measured at fair value	-	-	-		
- designated at fair value	-	-	-		
Financial assets at amortised cost - Loans and Receivables to Other Customers	18,399,122	18,343,376	18,245,240		153,881.64
Financial assets at amortised cost -debt and other instruments	4,596,219	4,576,134	4,576,134		
Financial assets measured at fair value through other comprehensive income	297,730	297,230	297,230		
Investments in Subsidiaries	-	-	-		
Investments in Associates and Joint Ventures	-	-	-		
Property, Plant and Equipment	639,096	639,096	639,096		
Investment Properties	-	-	-		

Goodwill and Intangible Assets	-	-	-		
Deferred Tax Assets	53,014	52,870	-		
Other Assets	31,391	60,827	60,827		
Liabilities	**16,010,469**	**15,884,781**			
Due to Banks	10,725,661	10,686,612			
Derivative Financial Instruments	-	-			
Financial liabilities recognized through profit or loss	-	-			
- measured at fair value					
- designated at fair value					
Financial liabilities at amortised cost					
- due to depositors	4,807,324	4,777,714			
- due to debt security holders					
- Other Borrowers	-	-			
Debt Securities Issued	-	-			
Current Tax Liabilities	129,945	67,896			
Deferred Tax Liabilities	-	-			
Other Provisions	232,476	232,476			
Other Liabilities	115,063	120,083			
Due to Subsidiaries	-				
Subordinated Term Debts	-				
Off-Balance Sheet Liabilities	**18,751,955**	**18,792,874**	**12,560,243**		
Guarantees	8,362,754	8,363,053	8,363,053		
Performance Bonds	-	-			
Letters of Credit	1,491,025	1,492,420	1,492,420		
Other Contingent Items	6,600,536	6,633,582	400,952		

Undrawn Loan Commitments	2,297,640	2,303,819	2,303,819		
Other Commitments					
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital	2,442,827	2,981,969			
of which Amount Eligible for CET1	-	-			
of which Amount Eligible for AT1	-	-			
Retained Earnings	8,286,385	7,767,648			
Accumulated Other Comprehensive Income	-	-			
Other Reserves	367,839	426,624			
Total Shareholders' Equity	**11,097,051**	**11,176,241**			

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

a) Placements with Banks

The placements with Banks considered for regulatory reporting differs with published financial statements since the interest receivable on placements were reported under other assets in regulatory reporting and it is reported with the placements with Banks in the published financial statements. Further the impairment allowances based on expected losses were netted off for publication purposes.

b) Loans and Receivables to other customers

The loans and advances 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 expected losses have been netted off in loans and advances for publication purposes.

c) Debt and Other Instruments

The Debt and other instruments considered for regulatory reporting differs with published financial statements since the interest receivable on Debt instruments were reported under other assets in regulatory reporting and it is reported with the Debt and other instruments in the published financial statements. The details of Debt and Other Instruments have been disclosed in Note 23 to the financial statements.

d) **Other Assets**

The other assets considered for regulatory reporting differs with published financial statements since interest receivable on placements and debt instruments were reported under other assets in regulatory reporting whereas it is reported with the relevant financial assets in the published financial statements

e) **Due to Banks**

Vostro Bank account balances and borrowings from banks are recognised along with the respective interest payable amounts in published financial statements whereas the amount considered for regulatory reporting is net of interest payable amounts. Further the said interest payable is recognised under other liabilities of regulatory exposure.

f) **Financial liabilities at amortised cost - Due to Depositors**

Deposit liability is recognised along with the relevant interest payable amounts in the published financials and while reporting the regulatory exposure, interest payable amounts of deposits have been netted off. Further the said interest payable is recognised under other liabilities of regulatory reporting.

g) **Off Balance Sheet Liabilities**

Contingencies and commitments are recognised net of impairment allowances based on expected losses for publication purposes. However, in regulatory reporting, these contingencies and commitments have been reported excluding the impairment allowances.

The methodologies and measurement basis have been disclosed in detail in Note 3 to the financial statements.

Disclosure 13 - Bank Risk Management Approach & Risk Culture

We promote a strong risk culture where employees at all levels are responsible for the management and escalation. We expect employees to exhibit behaviors that support a strong risk culture in line with our Code of Business Conduct and ethics. It is the responsibility of Senior Management of SBI SL to establish a robust and extensive risk culture and clear policies.

Further, in line with bank's global procedure and practices, the bank has developed an integrated framework in order to assess and appropriately manage various risk exposures of SBI SL.

The Risk Management & Compliance functions are independent from business lines and reporting directly to the DGM Risk & DGM (Regulatory Compliance) at International Banking Group, Corporate Centre, Mumbai, India.

Risk Management Committee (RCOM) & Escalation Mechanism

The RCOM has the overall responsibility for monitoring the risk management processes in State Bank of India –Sri Lanka Operations (SBI SL). The objectives of RCOM is to derive the most appropriate strategy for SBI SL in terms of the risk taken, expectation of the future and the potential consequences of PILLAR I & II risks. The Committee supervises broad risk categories i.e. credit, credit concentration, market, operational, country, residual, liquidity, interest rate, reputational, strategic, compliance and IT/IS risks and have the power to determine the risk appetite as well as the risk management strategies for SBI SL. The Committee take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee and keep Corporate Centre ,India informed. Also, RCOM ensures that all strategies conform to the bank's risk appetite and the level of exposure.

A comprehensive Policy Framework

The Bank has set up a comprehensive Integrated Risk Management Framework with the aim to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank within its risk appetite while facilitating achievement of strategic goals in the long run preserving and safeguarding the capital of the bank. Risk Management Framework takes into account all plausible risks and uncertainties the Bank is exposed to. The components of the Bank's IRMF include risk governance comprising Board oversight, Management and respective committees, well defined risk capacity, appetite and tolerance levels, Risk and Control Self- Assessment (RCSA), system of internal control, infrastructure, risk culture and contingency planning for business continuity, disaster recovery and contingency funding etc. IRMF is subject to an annual review or more frequently if the circumstances so warrant, taking into account changes in the regulatory and operating environments.

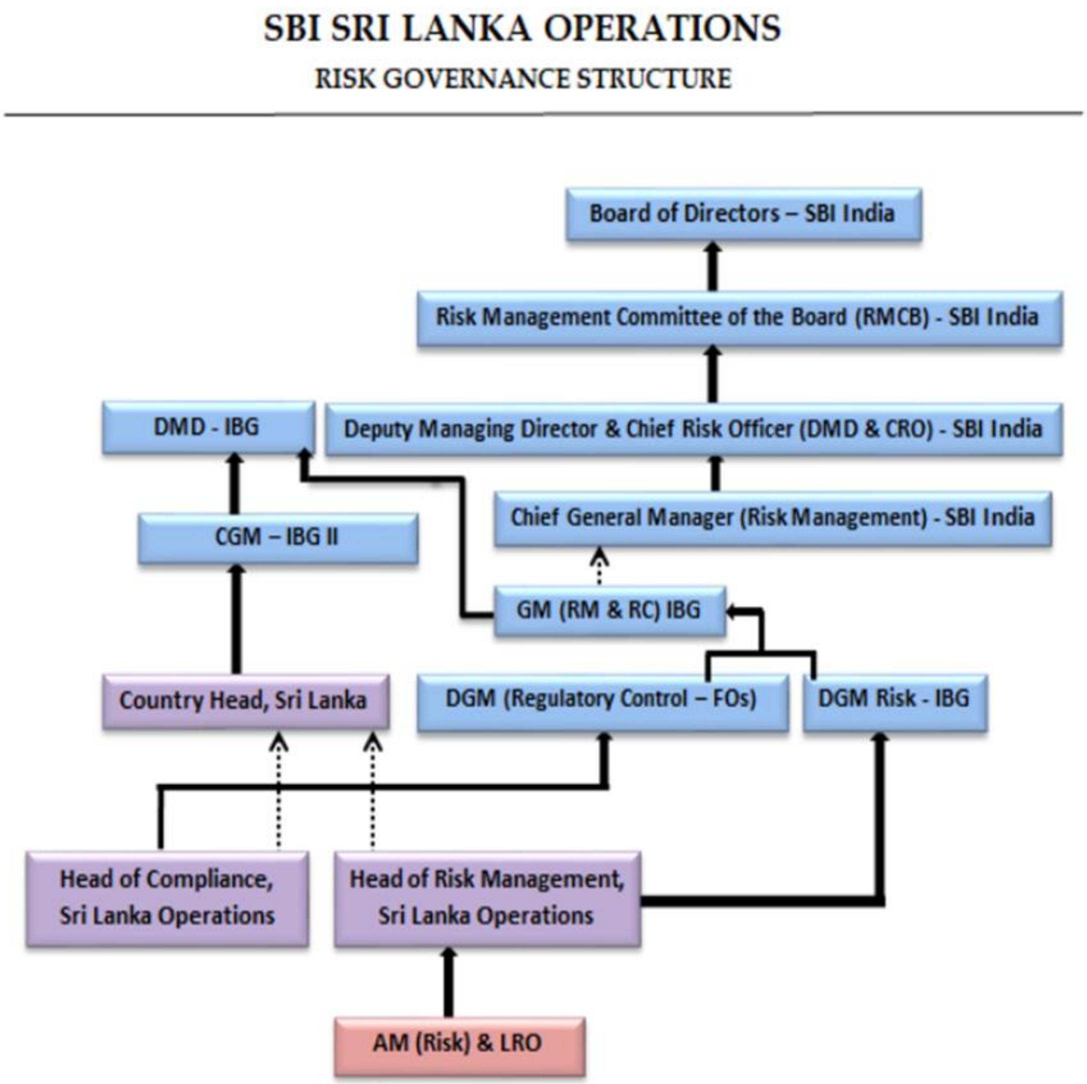
Risk Appetite

The bank has clearly defined Risk Appetite and it clearly communicates its tolerance levels for its material risks in both qualitative and quantitative terms and is a key component of the risk management framework. Aided by the solid Integrated Risk Management Framework, the bank monitors its risk profile using risk dashboard monthly for each risk categories on an ongoing basis and takes remedial action for any deviations to ensure that it is kept within the risk appetite.

Risk Governance

The Risk Management function is independent from business lines and reporting directly to the DGM Risk at International Banking Group, India. DGM Risk –IBG reports to GM (RM & RC) IBG who in turn reports to CGM (Risk Management). CGM Risk Management reports to Deputy Managing Director &

Chief Risk Officer (DMD & CRO). DMD & CRO reports to MD (Risk, IT & Subsidiaries) who in turn reports to Risk Management Committee of the Bank (Board Sub-Committee), thereby making risk management an independent function.



Credit Risk

Credit risk refers to the potential loss resulting from the failure of a customer/ borrower or counterparty to honor its financial or contractual obligations to the Bank. Credit risk can arise from both on and off balance sheet activities consisting of commitments and contingencies. The total credit risk of the Bank constitutes counterparty risk, concentration risk, residual risk and settlement risk. It is managed in line with the Loan policy which is reviewed on an annual basis. For regulatory capital computation purposes, SBI SL uses Basel Standardized Approach. The Bank has adopted stringent credit risk management process to mitigate the risk associated with the loan book by way of following strategic initiatives:

- The SBI Sri Lanka manages credit risk carefully by applying a strict set of criteria while dealing with institutions and individuals of credit worthiness and ensuring exposure to counterparties are appropriately secured. Risk tolerance limits for SBI SL's activities in credit risks are outlined in the Loan policy. A consistent standard have been adapted for the origination, documentation and maintenance of the documents for extension of credit.

- Bank uses a sophisticated Loan Life Cycle Management System (LLMS) which generate credit proposal and Customer Risk Rating against specified parameters. The ratings lie on a scale between SB 1 (zero risk) to SB 16 (default grade) and these ratings are validated Independently by Credit Rating Assessment Validation Committee.

- The Bank has in place a scheme of delegation of Financial Powers for Foreign offices which has a graded authority structure. All sanctions are subject to report to the next higher authority for control. The Executive Committee of the Central Board (ECCB) has full powers for sanctioning credit facilities. The sanction powers have been delegated down the line to committees of officials at various administrative offices and to individual line functionaries based on total indebtedness and whether the facility is secured or unsecured.

- Prudential risk limits have been stipulated for various risk parameters. Credit risk limits are set by obligator, concentration, industry, and geography/ country. Bank considers bench mark ratios, with flexibility for deviation in deserving cases. The conditions subject to which deviation are permitted and the authority for permitting such deviation should be clearly spelt out in the loan policy.

- Emphasis is given on maintaining a diversified portfolio of risk assets in line with capital desired to support such a portfolio.

- Apart from the above, there are various credit risk mitigating techniques adopted by the Bank viz post sanction loan review mechanism by Loan Review Officer attached to Risk Management department of SBI SL, analysis of various MIS reports, periodical post disbursement monitoring on insurance, revaluation, inspection, offsite credit audit, home office audit, Internal audit, etc.

- SBI SL has a separate guideline on NPA Management which is incorporated in the Credit Policy. It describes Bank's policy on NPA management, recovery and proactive initiatives to contain net NPAs in conformity with international standards.

- Bank takes a consistent approach towards early problem recognition, classification of problems exposure and remedial action has been adapted.

- Risk based pricing: Pricing is linked to grade of the risk in the exposure. When a borrower's credit risk increases, the Bank demands a higher credit risk premium by way of increasing the interest rate.

- Stress testing for Bank credit portfolio will be conducted at quarterly intervals and results to be analyzed for chalking out appropriate remedial action for risk mitigation.

- Impairment on the potential delinquents by way of reviewing objective evidence assessments by the business units and adequacy of impairment provisions to absorb credit risk of the lending book.

- Bank follows the 90 day overdue norm for asset classification and provisioning which is more stringent than CBSL guidelines.

Credit Concentration Risk

The concentration risk denotes the risk arising from uneven distribution of counterparties, business sectors (Sectorial concentration) or geographical regions (geographical concentration), which is capable of generating losses large enough to affect the solvency.

Concentration risk arises in Bank's assets, liabilities, and off-balance sheet items as well. SBI SL recognizes that there are two types of concentration risks that are pertinent to SBI SL namely, Borrower Concentration and Economic Sector Concentration. Apart from commonly used methods of economic sector and borrower concentration mentioned above, the SBI SL reviews Borrower rating distributions, Age analysis, geographical distribution, country risk, funding concentration etc. for portfolio level monitoring.

The exposure to single borrowers, group borrowers and large borrowers are such exposure limits that are monitored by SBI SL against the prudential limits set by regulators. In addition to the prudential exposure limits, the substantial exposure norms which are in-house limits set within the prudential norms are intended to further help in monitoring credit concentrations. The exposure ceiling is fixed in relation to the Bank's Capital funds. Frequent monitoring and stringent control mechanisms are in place to ensure that the risk of concentrations on different types of exposure tables above are within the tolerance level of the Bank. SBI SL has not exceeded the various tolerance limits set under concentration risk categories. Reports on all substantial exposures are submitted to ALCO or RCOM if there is a deviation from these limits. No breaches have been reported in substandard exposure norms during past one year.

Country Risk

Country risk is the risk that an occurrence within a particular country could have an adverse effect on the Bank directly by impairing the value of the exposures purchased / underwritten or indirectly through an obligor's inability to meet its obligations to the Bank.

The Bank assesses country exposure of countries where the bank has funded and non-funded exposures. The Bank has set maximum exposure limits on all the countries where the Bank has funded and non-funded exposures. These limits are reviewed at regular intervals and all foreign offices are advised accordingly.

The country wise exposure limits and utilization levels are monitored centrally and at foreign office levels through an automated system.

The Board of the Bank has formulated a policy on Country Risk Management and adopted a model for computation of country risk limits across the Bank. The Country Risk evaluation is being reviewed quarterly by the Board (SBI –India) with a provision to review the rating of specific country, based on any major events in that country. Also, country limits and the policy are being renewed every year on the basis of experience gained and requirements.

The country risk is being examined along with credit and other **risks** by the respective sanctioning authority/ committee which take a holistic view of the credit/ investment proposals at the sanctioning stage.

SBI Sri Lanka has not breached any country risk exposure limits for past 12 months.

Market Risk

Market Risk is the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in market interest, currency exchange rates, equity & commodity prices. The associated market risks and measurement techniques are given below.

The Bank is exposed to Market Risk because of positions held in its trading portfolio (Trading Book) as well as their non-trading business including the treasury operations (Banking Book).SBI SL's market risk arises mainly from non-trading portfolio (Banking Book) since trading book is negligible and consists only limited forex exposures. Exposure to market risk arises mainly from Interest Rate Risk and Forex risk as the Bank has negligible exposure to commodity related price risk and equity price risk.

Bank has a comprehensive market risk management policy and limit management framework. Bank monitors market risk against various limits, risk assessments and Management Action Triggers (MATs). Bank use Value at Risk, sensitivity analysis and stress testing on open positions, mark to market on daily basis to identify the exposure at risk.

Treasury plays an important role in managing both banking/ trading book and asset and liability position of the Bank and duties are segregated in line with the best practices in to front office, middle office and back office. Treasury Middle Office (TMO) ensures that the treasury front office deals within its limits set out as per Bank's risk appetite treasury back office reconciles and escalates key issues promptly.

The TMO of Risk Department independently measures, monitors and reports on market risk exposures using market risk dashboards and assists in review of the Bank's market risk related policies and exposure limits supporting ALCO for decision making. ALCO manages market risk exposures and profitability ensuring that risks taken are commensurate with the rewards and managed within the risk appetite of the Bank. The Risk Management Committee is responsible for setting up policies and other standards for managing market risk.

SBI SL has adopted the Standardized Measurement Method (SMM) for calculation of the Market Risk capital charge.

Operational Risk

Operational Risk Management Framework enables the Bank to identify, measure, monitor and control the inherent risks of the business / operations units to mitigate losses. SBI SL collects data through Loss events, KRIs,

RCSAs, Whistle blowing; prepare and analyze various MIS including monthly KRI reports against three levels of thresholds, loss data & near-miss events, Risk registers through RCSA process and KRI trend analysis.

As part of the Bank's initiative to migrate from manual reporting of operational risk loss data / near miss events to system based reporting, the Bank has rolled-out the Incident Management Module (IMM) which enable the Bank to capture various attributes of operational loss incidents to timely & consistently report, document, analyze and monitor the Bank's operational events, losses and near miss events. Thus, the structured approach towards operational risk incidents and management thereof would bring in an overall integrity besides standardization of collection and accounting process.

The BCP of the Bank covers all arrears of banking operations with agreed arrangements for brining events under control. The BCP & DR testing are carried out semi- annually to ensure the business resilience in an event of a major system disruption.

Also, all the main processes are covered through separate Standard Operating Procedures (SOPs) .In addition to the above, a committee namely 'Preventive Vigilance Committee' is conducted on quarterly basis by each branch to serve as an effective tool for creating vigilance awareness amongst the members of the staff leading to prevention of frauds at the Branch Level.

The Capital Charge for Operational Risk is computed using the Basic Indicator Approach (BIA) for SBI SL.

Liquidity Risk Review

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of the Bank.

For liquidity management, SBI SL currently follows a combination of the stock approach and the flow approach. Under the Stock Approach, certain standard ratios are computed and prudential limits are set for standard ratios. In addition to the key ratios monitored under stock approach, bank monitors liquidity risk in bank's balance sheet via prudential liquidity ratios defined by the regulators, i.e. Statutory Liquid Asset Ratio (SLAR), Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) etc.

Under the Flow approach, Bank conducts gap analysis in two methods viz. behavioral and actual. In the actual method, SBI SL considers contractual residual maturity of assets and liabilities. Under behavioral analysis, 'assets & liabilities are categorized according to the behavioral study'. The maturity gap limits are calculated and monitored against both negative and positive gap limits. Levels of compliance to these limits are monitored monthly by Risk department and the exceptions are reported to the Risk Management Committee of SBI Sri Lanka for corrective actions and for information. All exceptions are subsequently reported to the Chief General Manager-International Banking Group, India. SBI SL has not reported any breaches both in positive and negative gaps for the period from April 2019 to March 2020.

The Bank also conducts stress tests to gauge the impact under different intensities of liquidity stress. Liquidity Risk is monitored by ALCO. SBI Sri Lanka has also formulated a Contingency Funding Plan (CFP) as part of the ALM Policy to meet the gap between asset and liability under stressed scenarios.

Interest Rate Risk

Interest Rate Risk (IRR) arises due to the difference in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses and its economic value.

SBI SL manages the above risk using following tools / methodologies.

- Maturity Gap Analysis, where the interest sensitive assets (RSA) and liabilities (RSL) are categorized under different time buckets and the impact on Net Interest Income for a determined change in rate movement is assessed in the short term, i.e. up to one year.
- Bank has adopted the Modified Duration Gap approach for analyzing the changes in Economic Value of Equity, which requires the mapping of assets and liabilities into different time buckets based on their Maturity.

The Bank's tolerance limits, in respect of gaps for re-pricing maturity time buckets are not breached during the year under review. Also, SBI Sri Lanka's duration of assets is more than the duration of liabilities thereby implying that the assets are more sensitive to changing interest rates than liabilities. As per the modified duration calculations, drop in economic value of equity for a 200 basis point change in interest rate are within the prudential tolerance limits.

Periodical stress testing are performed to assess the impact on sudden rate movements on the portfolio.

ALCO has been delegated with powers to decide the interest rate on deposits and benchmark lending rate or base rate on advances. ALCO has also been delegated with powers to set various risk parameters to manage the interest rate risk like prudential limit for rate sensitive gaps, earnings at risk limits, and duration of investment portfolio etc.

Reputation Risk

Reputation risk refers to the potential adverse effects which can arise from the Bank's reputation being tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction, complaints, and adverse publicity, unable to meet obligations.

The Bank remains committed to continuously strive to maintain and improve its reputation in all the businesses it operates. Reputation Risk Management Framework has been developed for enhanced Reputation Risk Management in the Bank. Reputation Risk Events within the bank, there would be a two tier reporting structure for assessment and reporting of events. As part of this, Reputation Risk Working Group (RRWG) comprising senior officials, has been constituted for centralized and regular review of reputation risk related incidents in the Bank.

Compliance Risk

SBI SL has robust policy and processes for management of compliance risk and has a well-functioning compliance department to manage compliance aspects on a day to day basis. SBI SL is within the compliance risk appetite set i.e. “Amount of regulatory fines and penalties paid with respect to non-compliance with laws, standards, clauses, and statutes applicable to the functioning of the Bank”. No incidences have been observed with regard to the regulatory fines and penalties paid with respect to non-compliance with laws, standards, clauses, statutes applicable to the functioning of the Bank for the year ended 31.03.2020.

Stress Testing

Stress testing is an important part of risk management function in the Bank and is considered as an integral part of ICAAP under Pillar II. SBI SL has a robust Stress Testing Policy which describes the procedure for identifying principal risk factors, frequency, methodology for constructing stress tests, procedure for setting risk tolerance limits and process of monitoring stress loss limits adopted by SBI SL to set the remedial actions and delegation of authority for remedial actions to manage the risks which the Bank is exposed. The Stress Testing Policy is subject to annual review.

Credit Risk Stress Testing

With respect to Credit Risk, the SBI SL has undertaken stress testing considering stress situations of Baseline, Medium and Severe intensity to assess the impact on the Capital Adequacy Ratio (CAR) and the profitability of SBI SL.

The stress test for Credit Risk assesses the following:

- the impact of asset quality downgrade
- the impact of large borrowers defaults
- the impact of Increase in Non-Performing Advances (NPA) in Top Industry Sectors
- the impact of Increase in NPA in Specific Industry Sectors
- movements in NPAs with negative change in Gross Domestic Production (GDP)

Foreign Exchange Risk Stress Testing

The stress test for foreign exchange (FX) risk assesses the impact of changes in the exchange rate movements on the Bank’s open positions including reserves and consequently, its capital requirements. The aggregate position is stressed by 10%, 15%, and 20% under baseline, medium to high stress scenarios in adverse scenario of the currency positions held by the Bank.

Liquidity Risk Stress Testing

The Bank's Liquidity position is gauged under potential deposit runs, and Loan Roll-overs (Different Products) for Baseline, Medium and Severe Stress scenarios. SBI SL conducts a stress test to monitor its Liquid Asset Ratio. Also, stress tests are conducted to evaluate the resilience of the Bank towards the fall in liquid liabilities.

Interest Rate Risk in Banking Book Stress Testing

The change of interest rate scenarios are constructed for the purpose of stress testing. The rate shocks are applied across all buckets for gauging the impact on earnings at risk (EaR) and economic value of equity (EVE).