CITIBANK, N. A. SRI LANKA BRANCH

Pillar III Disclosures – Market Discipline

31 December 2020

Key Regulatory Ratios - Capital and Liquidity

Item	Current Reporting Period 31/12/2020	Previous Reporting Period 31/12/2019
Regulatory Capital (LKR in millions)		
Common Equity Tier 1	14,388	12,107
Tier 1 Capital	14,388	12,107
Total Capital	14,425	12,136
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio *(Minimum Requirement – 2020 6.5%; 2019 7%)*	41.2%	30.85%
Tier 1 Capital Ratio *(Minimum Requirement – 2020 8%; 2019 8.5%)*	41.2%	30.85%
Total Capital Ratio *(Minimum Requirement – 2020 12%; 2019 12.5%)*	41.3%	30.92%
Leverage Ratio *(Minimum Requirement – 3%)*	7.70%	7.10%
Regulatory Liquidity		
Statutory Liquid Assets (LKR in millions)	39,213	33,833
Statutory Liquid Assets Ratio *(Minimum Requirement – 20%)*		
Domestic Banking Unit (%)	115.00%	87.01%
Off-Shore Banking Unit (%)	60.63%	158.32%
Liquidity Coverage Ratio (%) – Rupee *(Minimum Requirement – 2020 90%; 2019 100%)*	325.84%	730.91%
Liquidity Coverage Ratio (%) – All Currency *(Minimum Requirement – 2020 90%; 2019 100%)*	553.20%	303.02%

Basel III Computation of Capital Ratios

Item	Amount (LKR '000) Current Reporting Period 31/12/2020 (Audited)	Previous Reporting Period 31/12/2019 (Audited)
Common Equity Tier 1 (CET1) Capital after Adjustments	**14,388,073**	**12,107,419**
Common Equity Tier 1 (CET1) Capital	**13,976,853**	**12,101,398**
Assigned Capital	1,524,250	1,524,250
Reserve Fund	824,321	792,930
Published Retained Earnings	10,983,801	9,153,732
Published Accumulated Other Comprehensive Income (OCI)	639,311	625,316
General and other Disclosed Reserves	5,170	5,170
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-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	**(411,219)**	**(6,021)**
Goodwill (net)	-	
Intangible Assets (net)	-	
Revaluation losses of property, plant and equipment	-	
Deferred tax assets (net)	70,308	26,546
Cash flow hedge reserve	-	-
Unrealised gains on sale related securitisation 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	(481,527)	(439,202)

Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	-	406,635
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	-	-
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	**37,161**	**28,098**
Tier 2 Capital	**37,161**	**28,098**
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
General provisions	37,161	28,098
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	-	-
Total Tier 1 Capital	**14,388,073**	**12,107,419**
Total Capital	**14,425,233**	**12,135,516**

	Amount (LKR '000)	
Item	**Current Reporting Period**	**Previous Reporting Period**
Total Risk Weighted Assets (RWA)	34,967,429	39,246,474
RWAs for Credit Risk	19,593,849	22,540,351
RWAs for Market Risk	10,592,566	11,875,483
RWAs for Operational Risk	4,781,014	4,830,639
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**41.15**	**30.85**
Total Tier 1 Capital Ratio (%)	**41.15**	**30.85**
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**41.25**	**30.92**

Computation of Leverage Ratio

	Amount (LKR '000)	
	Current Reporting Period	**Previous Reporting Period**
Item	**31/12/2020**	**31/12/2019**
Tier 1 Capital	**13,069,606**	**10,840,738**
Total Exposures	**169,734,674**	**152,709,076**
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	50,165,139	51,976,247
Derivative Exposures	115,205,217	94,672,014
Securities Financing Transaction Exposures	112,384	700,123
Other Off-Balance Sheet Exposures	4,251,935	5,360,693
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	**7.7%**	**7.1%**

Basel III Computation of Liquidity Coverage Ratio

	Amount (LKR '000)			
	Current Reporting Period		Previous Reporting Period	
		31/12/2020		31/12/2019
Item	**Total Un-weighted Value**	**Total Weighted Value**	**Total Un-weighted Value**	**Total Weighted Value**
Total Stock of High-Quality Liquid Assets (HQLA)	**23,951,515**	**23,951,515**	**16,706,883**	**16,706,883**
Total Adjusted Level 1A Assets	**23,956,510**	**23,956,510**	**17,400,785**	**17,400,785**
Level 1 Assets	**23,951,515**	**23,951,515**	**16,706,883**	**16,706,883**
Total Adjusted Level 2A Assets	**-**	**-**	**-**	**-**
Level 2A Assets	**-**	**-**	**-**	**-**
Total Adjusted Level 2B Assets	**-**	**-**	**-**	**-**
Level 2B Assets	**-**	**-**	**-**	**-**
Total Cash Outflows	**135,036,294**	**17,318,406**	**132,352,861**	**22,054,154**
Deposits				
Unsecured Wholesale Funding	34,249,341	16,281,069	37,785,913	19,998,917
Secured Funding Transactions	107,389			
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	100,086,899	444,673	94,566,948	2,055,237
Additional Requirements	592,665	592,665		
Total Cash Inflows	**25,957,305**	**14,482,938**	**30,667,227**	**16,865,197**
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	5,617,500		5,442,600	-
Other Inflows by Counterparty which are Maturing within 30 Days	19,472,346	14,376,745	22,662,791	16,698,211
Operational Deposits	761,266	-	7,670,466	-
Other Cash Inflows	106,193	106,193	333,971	166,985
Liquidity Coverage Ratio (%) (Stock of High-Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		**553.2%**		**303.02%**

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Accounting Classification	Current Reporting Period	Previous Reporting Period
Assigned Capital Relates to capital assigned to the branch by the Head Office at the time setting up the branch in Sri Lanka.	Equity	1,524,250	1,524,250
Reserve Fund Comprise of mandatory appropriations made out of profit after tax, per the Banking Act requirements.	Equity	824,321	792,930
Retained Earnings Comprise of un-remitted profits (after tax) of the branch, after making statutory appropriations to the Statutory Reserve.	Equity	10,983,801	9,153,732
Accumulated Other Comprehensive Income (OCI) Comprise of gains/(losses) arising from fair valuation of assets faired valued through OCI, actuarial valuation of defined benefit schemes and exchange gains/(losses) arising from the translation of OBU net assets. The amounts are net of deferred tax where relevant.	Equity	639,311	625,316
General and other Disclosed Reserves Exchange gains/(losses) arising from foreign currency translation	Equity	5,170	5,170

Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

The main objectives of managing banks' capital are as follows:

- maintain sufficient capital to meet minimum regulatory capital requirement.
- hold sufficient capital to support branch risk appetite
- allocate capital to business to support the branch's strategic objectives.

The Branch manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka ("CBSL") sets and monitors capital requirements for licensed banks in Sri Lanka based on the Basel Framework. Thus, the Branch's operations are directly supervised by the CBSL and the Bank is required to comply with the provisions of the Basel III framework in respect of regulatory capital. Accordingly, licensed banks in Sri Lanka with assets less than Rs. 500 billion need to maintain a Total Capital Adequacy Ratio ("CAR") of 12.5% and a Total Tier 1 Capital Ratio of at least 8.5%.

Extraordinary regulatory measures taken by the Central Bank of Sri Lanka to provide flexibility to licensed banks to support businesses and individuals affected by the outbreak of coronavirus disease permitted non-D-SIBS to drawdown the Capital Conservation Buffer ("CCB") by 50bps out of total of 250bps with effect from 27 March 2020. Accordingly, as at 31 December 2020, the regulatory Total Capital adequacy ratio requirement was 12% and Tier 1 Capital Ratio was 8% respectively.

The Branch computes CAR% as a ratio of its capital to its risk weighted assets. Calculations of the risk weightings defined under credit risk and market risk are based on the standardized approach whereas operational risk is computed by using the basic indicator approach.

As of 31 December 2020, Branch reported a Tier 1 ratio of 41.2% and a total CAR of 41.3% which remain comfortably above the CBSL's capital requirements.

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

	Amount (LKR'000) as at 31/12/2020					
	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	32,289,705	-	32,289,705	-	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	1,753,562	-	1,753,562	-	350,712	**0.20**
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	100,721	57,482,905	100,721	2,398,433	544,226	**0.22**
Claims on Financial Institutions	-	7,874,247	-	227,490	227,490	**1.00**
Claims on Corporates	13,952,022	27,178,799	13,952,022	3,739,868	17,522,565	**0.99**
Retail Claims	-	-	-	-	-	-
Claims Secured by Residential Property	-	-	-	-	-	-
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)[i]	-	-	-	-	-	-
Higher-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets (includes Undrawn Credit Lines in Off Balance sheet)	2,098,756	-	2,098,756	-	948,856	**0.46**
Total	**50,194,766**	**92,535,951**	**50,194,766**	**6,365,790**	**19,593,849**	**0.35**

Notes:

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

a. Exposures by Asset Classes and Risk Weights

Description / Risk weight / Asset class	Amount (Post CCF & CRM) (Rs.'000)							
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**>150%**	**Total Credit Exposure**
Claims on Central Government and Central Bank of Sri Lanka	32,289,705	-	-	-	-	-		**32,289,705**
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	**-**
Claims on Public Sector Entities	-	1,753,562	-	-	-	-	-	**1,753,562**
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	**-**
Claims on Banks Exposures	-	2,351,310	147,928	-	-	-	-	**2,499,238**
Claims on Financial Institutions	-	-	-	-	227,490	-	-	**227,490**
Claims on Corporates	-	211,656	-	-	17,480,234	-	-	**17,691,890**
Retail Claims	-	-	-	-	-	-	-	**-**
Claims Secured by Residential Property	-	-	-	-	-	-	-	**-**
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	**-**
Non-Performing Assets (NPAs)	-	-	-	-	-	-	-	**-**
Higher-risk Categories	-	-	-	-	-	-	-	**-**
Cash Items and Other Assets	1,147,351	3,186	-	-	948,219	-	-	**2,098,756**
Total	**33,437,056**	**4,319,714**	**147,928**		**18,655,943**	**-**	**-**	**56,560,641**

Market Risk under Standardized Measurement Method

Item	RWA Amount (LKR'000) as at 31/12/2020
(a) RWA for Interest Rate Risk	**181,185**
General Interest Rate Risk	181,185
(i) Net Long or Short Position	181,185
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
(i) General Equity Risk	-
(ii) Specific Equity Risk	-
Foreign Exchange & Gold = (e)	**1,142,886**
(c) RWA for Foreign Exchange & Gold	**1,324,071**
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	**10,592,566**

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

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31/12/2020		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	**15%**		3,695,640	3,887,577	4,369,317
The Standardized 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 Standardized 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	597,627				
The Standardized Approach	-				
The Alternative Standardized Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	4,781,014				
The Standardized Approach	-				
The Alternative Standardized Approach	-				

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

	Amount (LKR '000) as at 31/12/2020				
	a	**b**	**c**	**d**	**e**
Item	**Carrying Values as Reported in Published Financial Statements**	**Carrying Values under Scope of Regulatory Reporting**	**Subject to Credit Risk Framework**	**Subject to Market Risk Framework**	**Not subject to Capital Requirements or Subject to Deduction from Capital**
Assets					
Cash and cash equivalents	4,795,376	1,167,709	100,721	674,531	-
Balances with central banks	9,557,875	276,731	276,731	-	-
Placements with banks	-	9,280,000	9,280,973	-	-
Derivative financial instruments	564,987	-	-	-	-
Financial assets recognized through profit or loss	-	-	-	-	-
- measured at fair value	12,839,478	22,560,317	12,839,478	12,839,478 -	-
- designated at fair value	-	-	-	-	-
Financial assets at amortized cost					
- loans and advances	15,665,115	15,705,584	15,705,584	7,482,983	-
- debt and other instruments	-	-	-	-	-
Financial assets measured at fair value through other comprehensive Income	9,893,392	-	9,893,392	9,893,392	-
Investment in subsidiaries	-	-	-	-	-
Investments in associates and joint ventures	-	-	-	-	-
Property, plant and equipment	351,054	581,634	355,081	-	-
Investment properties	-	-	-	-	-
Goodwill and intangible assets	-	-	-	-	-
Deferred tax assets	70,308	39,361	-	-	39,361
Other assets	47,336	782,469	610,853	581,629	-

	Amount (LKR '000) as at 31/12/2020				
	a	b	c	d	e
Item	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
Liabilities					
Due to banks	5,592,204	2,818,536	-	2,623,578	-
Derivative financial instruments	308,183	-	-	-	-
Financial liabilities recognized through profit or loss					
- measured at fair value	-	-	-	-	-
- designated at fair value	-	-	-	-	-
Financial liabilities at amortized cost					
- due to depositors	31,285,804	31,560,134	-	13,036,193	-
- due to debt securities holders	-	-	-	-	-
- due to other borrowers	107,399	107,389	-	-	-
Retirement benefit obligations	274,775	-	-	-	-
Current tax liabilities	398,697	430,532	-	93,138	-
Deferred tax liabilities	-	-	-	-	-
Other provisions	18,220	-	-	-	-
Other liabilities	1,102,226	1,566,570	-	427,523	-
Off-Balance Sheet Liabilities					
Guarantees	6,206,855	6,206,855	-	4,668,676	-
Performance Bonds	231,331	231,331	-	-	-
Letters of Credit	3,280,702	3,280,702	-	-	-
Other Contingent Items	83,638,217	82,817,063	-	-	-
Undrawn Loan Commitments	88,771,382	88,771,382	-	-	-
Other Commitments	-	-	-	-	-
Shareholders' Equity					
Assigned Capital	1,524,250	1,524,250	-	-	-
of which Amount Eligible for CET1	*1,524,250*	*1,524,250*	-	-	-
Retained Earnings	10,837,849	12,334,477	-	-	-
Accumulated OCI	3,024	-	-	-	-
Other Reserves	2,315,416	792,930	-	-	-
Total Shareholders' Equity	**14,680,540**	**14,651,657**	-	-	-

Bank Risk Management Approach

Citi is a leading global bank with over 200 years of industry experience and approximately 200 million customer accounts in more than 160 countries and jurisdictions equipped with well-seasoned and time-tested systems and processes for effective risk management. Citi provides consumers, corporations, governments, and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management. Since its incorporation in 1979, Citibank N.A. Sri Lanka ("the Branch") has extended client centric banking services to Multinational Corporations, Top tier local Corporates, Financial Institutions and Public Sector clients within its Institutional Clients Group ("ICG") framework.

Bank's mission, value proposition, its clients and overall strategy are articulated at a higher level. The mission is to serve as a trusted partner for our clients by responsibly providing financial services that enable growth and economic progress. All Citi staff are required to ensure that their decisions pass through three tests: (a) they are in our client's interests, (b) create economic value and (c) are always systemically responsible.

Ability of Citi to leverage on its global presence and diverse range products to cater to global needs of the clients is one of its key client strategies.

Risk Governance, Appetite and Culture

Risk management functions are organized along the key risks it monitors e.g. credit, market, operational, liquidity, interest rate, compliance risk, and each risk family reporting into regional lines. An overall risk coordinator is designated in the Branch to ensure a holistic view of the exposures. However, as the process of risk management is critical to the Branch's continuing profitability, everyone within the Branch is accountable as the first line of defense for the risk exposures relating to his or her responsibilities.

From a risk management perspective, all quantifiable risks (such as credit, operational, market, price, interest rate and liquidity risks) are measured, monitored and escalated at varying frequencies by independent risk measurement units separate from any business interests. The reputational, strategic, compliance risks that are qualitative in nature are tracked through various committees, the Internal Capital Adequacy Process ("ICAAP") and through clearly established escalation processes including whistleblowing. Strong lines of defenses exist for risk monitoring where the Risk Management and Compliance units act as the second line of defense while the internal and external auditors' function as the third line of defense.

The Branch has clearly articulated policies, procedures, and risk tolerance limits for management of key risks while adhering to local regulatory directives. Tolerance limits are set for each key risk types e.g. credit, market, liquidity risks and breaches of any such limits are viewed seriously and actions taken where necessary e.g. issuance of trade violation tickets. The risk policies require that all exposures are recorded and reported in a timely manner by individuals independent from the business units.

The risk appetite framework is enterprise-wide covering all quantitative and qualitative risks and applies to all businesses, functions, and geographies. The quantitative component is expressed as a function of capital and earnings wherein the capital is monitored through the Comprehensive Capital Analysis and Review ("CCAR") process adopted in the USA for the entity as a whole and the Internal Capital Adequacy Assessment Process ("ICAAP") adopted in-country. Earnings power is measured through a risk appetite ratio in which risk taking must be relative to its gross earnings power and expense base such that the potential losses arising from a moderate stress event can be covered by the expected pre-tax earnings. The ICAAP document encompassing analysis of all material risks both on base case and under stress conditions is prepared and submitted to the local regulator annually. The qualitative component forming part of the risk appetite framework revolves around Citi's risk culture, defined roles, and responsibilities, supporting

policies, procedures, and processes. A strong risk culture is inculcated through clearly articulated approval processes, continuous learning, and development, and through top-down updates, meetings, town halls, policies, and procedures.

The local management team, also referred to as the Country Coordinating Committee maintains an effective control environment within the overarching risk appetite framework. It is supported by various sub committees such as Integrated Risk Management Committee, Assets & liabilities committee, Business risk, Compliance & Control Committee, Third Party Risk Management Committee and Local Regulatory Reporting Governance Committee to identify, measure, monitor and report risks. The Country Coordinating Committee meets monthly at minimum.

Risk measurement systems and reporting

Each key risk type has its own risk measurement systems. There are a number of exception reports circulated on a daily basis for monitoring risks e.g. temporary overdrafts and line excess reports, legal lending limits, loans maturities report for credit risk; Net open position, DV01, VAR and position limits for market risk; and highly stressed market disruption scenario for liquidity risk management. A global end-to-end integrated control platform 'Citi Risk & Controls' supports Compliance, Operational Risk, Operations and Technology Risk & Controls and Internal Audit. It identifies, assesses, reports, and mitigates risk across business lines, products & functions, legal entities, and jurisdictions. All identified exceptions are escalated to the senior management for review, actions, and remedial purposes. The key risks are also reported and discussed at the forums mentioned above.

Credit impairments are measured through a system developed in line with IFRS9 guidelines. The local accounting and regulatory requirements are captured in this system to arrive at the final impairment numbers.

Stress testing

The Branch conducts regular stress tests as a preemptive measure to curb or circumvent 'fat tail risk' or excessive losses due to unanticipated or overly volatile markets. In this regard, a complete stress test is undertaken for all material risks identified during the annual ICAAP review. In addition, quarterly stress tests are conducted for accrual and price risks and daily stress tests are conducted for liquidity risk. The annual ICAAP begins with a probable 1 in 25-year severe macroeconomic stress scenario forecasting, impact of which tests the Sri Lanka's credit portfolio in full. Accounts that attract higher impairment costs at downside are evaluated for risk mitigation and /or monitored closely through quarterly or semi-annual tripwires/triggers. The output of this model was back tested against actual impairments costs of year 2020 (widely viewed as a server stress year) and the results assured the conservativeness of the impairment costs applied in the ICAAP. The finalized ICAAP is filed with the Central Bank within five months from the close of the financial year. Further to the ICAAP, the Bank conducts a global stress test annually titled CCAR which tests a sample of credit portfolio of its branches against global stress events, and results presented to the US regulator.

Apart from stress tests, the Branch adopts a risk-based approach to mitigate and manage risks of the portfolio. Depending on the risk ratings and classifications of credit facilities, tripwires/triggers are established and monitored on pre-agreed frequencies e.g. monthly, quarterly, and semi-annual basis. In instances where triggers are breached, the account may be further downgraded or reclassified with higher review frequencies, or reduce exposures, down sell, or call up for additional collateral as appropriate.

Hedging and risk mitigation

Hedging and mitigating credit risk is done through eligible collateral, corporate guarantees, targeted exposure reduction, loan sales and derivatives. Hedges and risk mitigation are subject to applicable credit policies. Determination on whether a margin can function as a legally recognizable risk mitigating factor against exposure and thereby decrease the Branch's exposure is made on a counterparty by counterparty,

agreement by agreement basis, giving consideration to such factors as the place of organization of the counterparty, the insolvency laws applicable, the location of the margin, and the relevant documentation. Margining are covered by an ISDA, Credit Support Agreement (where appropriate) or equivalent Master Agreements if required by local law and/or as required by Legal. Branch enters into master netting agreements /collateral arrangements with counterparties, and where necessary, limits the duration of exposures.

Collateral and other secured assets are perfected with legally enforceable first priority security interest or at least rank pari-passu with other lenders. An approved technology system for collateral data collection and aggregation is used to track current collateral values for regulatory capital treatment. Collateral is reviewed annually or more often as deemed appropriate. Risk from collateral is mitigated by accepting only approved assets.