

The Central Bank of Sri Lanka (CBSL) has prescribed the minimum risk sensitive capital, and effective from 1 January 2008, required the Bank to compute the minimum capital in accordance with the 'International Convergence of Capital Measurement and Capital Standards - a Revised Framework' (BASEL II). The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb credit, market & operational losses in the foreseeable future.

The core capital ratio is expressed as total Tier I capital as a percentage of total risk weighted assets.

The total capital adequacy ratio is expressed as total Tier I capital and Tier II capital as a percentage of total risk-weighted assets.

## Basis of Computation

The composition of capital and risk weights assigned to the on and off balance sheet assets are as prescribed by the Central Bank of Sri Lanka.

The Tier I capital of the Bank consists of the stated capital, retained earnings and other reserves after deducting intangible assets, 50 % of the investments in unconsolidated banking and financial subsidiaries and 50% investments in capital of other banks and financial institutions.

The Tier II capital of the Bank includes CBSL approved subordinated term debts, 50% of the revaluation reserve and the general loan loss provision after deducting 50% of the investments in unconsolidated banking and financial subsidiaries and 50% investments in capital of other banks and financial institutions.

In arriving at the Risk-Weighted Assets (RWA) of the Bank, the Standardized Approach for credit risk, Standardized Measurement Method for market risk and the Basic Indicator Approach for operational risk have been used.

Capital Base as at 31 December	BANK	
	2014 LKR '000	2013 LKR '000
<b>Tier I: Core Capital</b>		
Capital	1,225,162	1,172,904
Statutory Reserve Fund	1,010,785	958,527
Investment Fund Account	–	1,706,751
Available-For-Sale Reserve	105,250	106,669
Share Based Payment Reserve	20,243	22,367
Cash Flow Hedge Reserve	397,852	–
Revaluation Reserve net of tax	853,456	–
Retained Earnings	18,625,444	15,653,260
<b>Total Equity</b>	<b>22,238,192</b>	<b>19,620,478</b>
Less: Reserves not eligible for Tier I and charges to Statement of Comprehensive Income	1,201,649	74,598
<b>Total equity considered for Tier I Capital</b>	<b>21,036,543</b>	<b>19,545,880</b>
<b>Deductions - Tier I</b>		
Intangible assets	253,132	260,425
50% investments in unconsolidated banking and financial subsidiaries	886,070	904,717
50% investments in capital of other banks and financial institutions	9,263	30,984
	<b>1,148,465</b>	<b>1,196,126</b>
<b>Total Tier I Capital</b>	<b>19,888,078</b>	<b>18,349,754</b>

Capital Base as at 31 December	BANK	
	2014 LKR '000	2013 LKR '000
<b>Tier II: Supplementary Capital</b>		
General loan loss provision	786,362	641,815
Approved Revaluation Reserve	542,092	–
Approved subordinated term debts	8,610,732	9,163,692
	9,939,186	9,805,507
<b>Deductions - Tier II</b>		
50% investments in unconsolidated banking and financial subsidiaries	886,070	904,717
50% investments in capital of other banks and financial institutions	9,263	30,984
	895,333	935,701
<b>Eligible Tier II Capital</b>	9,043,853	8,869,806
<b>Capital Base (Tier I + Tier II)</b>	28,931,931	27,219,560

	BANK				
	Assets for Credit Risk		Risk Weights	Risk-Weighted Assets	
	2014 LKR '000	2013 LKR '000	%	2014 LKR '000	2013 LKR '000
<b>Risk-Weighted Assets and Off-Balance Sheet Exposure</b>					
Cash and claims on Central Government and Central Bank of Sri Lanka	57,012,321	43,974,128	0	–	–
Claims secured by cash deposits, gold and guarantees	16,178,539	11,507,606	0	–	–
Claims on banks	8,103,229	2,602,746	20-100	3,235,305	836,820
Claims on financial institutions	9,210,855	9,244,553	50-100	5,223,618	4,916,134
Loans secured by residential property	7,047,969	5,360,620	50	3,523,984	2,680,310
Past due loans	2,236,918	1,702,511	50-150	3,071,530	2,304,397
Retail claims and corporate claims	162,166,523	129,441,089	20-150	151,514,624	119,745,877
Property, plant and equipment	1,927,494	872,890	100	1,927,494	872,890
<b>Other assets</b>	3,573,443	2,554,940	100	3,573,443	2,554,940
<b>Total Assets considered for Credit Risk</b>	267,457,291	207,261,083		172,069,998	133,911,368

	BANK				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off-Balance Sheet Items	
	2014 LKR '000	2013 LKR '000		2014 LKR '000	2013 LKR '000
General guarantees of indebtedness	11,215,680	11,587,079	100	11,215,680	11,587,079
Standby Letters of credit relating to particular transactions	65,950	35,168	50	32,975	17,584
Performance bonds and bid bonds	6,503,688	3,909,259	50	3,251,844	1,954,630
Trade related acceptances and advance documents endorsed	8,014,553	8,301,839	20	1,602,911	1,660,368
Shipping guarantees	1,167,685	678,659	20	233,537	135,732
Documentary letters of credit	7,455,645	6,986,428	20	1,491,129	1,397,286
Undrawn term loans	10,120,524	2,882,331	0, 20 & 50	5,060,262	1,385,899
Foreign exchange contracts	97,569,796	62,235,214	2, 5 & 8	2,673,123	1,244,704
Undrawn overdrafts and credit lines	10,745,652	7,004,968	0	–	–
Other unutilized facilities	73,070,852	54,112,275	0, 20 & 50	51,643	88,206
<b>Total Credit Equivalent of Off-Balance Sheet Items</b>	<b>225,930,025</b>	<b>157,733,220</b>		<b>25,613,104</b>	<b>19,471,488</b>

	2014 LKR '000	2013 LKR '000
<b>Capital Charge for Market Risk</b>		
Capital charge for interest rate risk	362,267	85,493
Capital charge for equity securities and unit trusts	450,602	321,015
Capital charge for foreign exchange and gold	146,740	131,679
Total Capital Charge for Market Risk	959,609	538,187
<b>Total Risk-Weighted Assets Equivalent for Market Risk</b>	<b>9,596,090</b>	<b>5,381,870</b>
<b>Capital Charge for Operational Risk</b>		
Gross Income:		
Year 1	8,216,803	7,015,947
Year 2	10,842,463	8,216,803
Year 3	11,901,793	10,842,463
Average gross income	10,320,353	8,691,737
Total Capital Charge for Operational Risk at 15%	1,548,053	1,303,761
<b>Total Risk-Weighted Assets Equivalent for Operational Risk</b>	<b>15,480,530</b>	<b>13,037,606</b>
<b>Total Risk-Weighted Assets</b>	<b>197,146,618</b>	<b>152,330,844</b>
<b>Capital Adequacy Ratios</b>		
Tier I (Required statutory minimum ratio is 5%)	10.09%	12.05%
Tier I & Tier II (Required statutory minimum ratio is 10%)	14.68%	17.87%

Capital Base as at 31 December	GROUP	
	2014 LKR '000	2013 LKR '000
<b>Tier I: Core Capital</b>		
Capital	1,145,353	943,746
Statutory Reserve Fund	1,010,785	958,527
Investment Fund Account	–	1,706,751
Available-For-Sale Reserve	162,355	150,614
Share-Based Payment Reserve	60,148	22,367
Cash Flow Hedge Reserve	397,852	–
Revaluation Reserve net of tax	853,456	–
Retained Earnings	24,245,824	20,731,801
Non-controlling interests	922,646	847,848
<b>Total Equity</b>	<b>28,798,419</b>	<b>25,361,654</b>
Less: Reserves not eligible for Tier I and charges to the Statement of Comprehensive Income	1,269,861	129,169
<b>Total Equity Considered for Tier I Capital</b>	<b>27,528,558</b>	<b>25,232,485</b>
<b>Deductions - Tier I</b>		
Intangible assets	297,070	296,678
50% investments in the capital of other banks and financial institutions	279,762	199,153
	576,832	495,831
<b>Eligible Tier I Capital</b>	<b>26,951,726</b>	<b>24,736,654</b>
<b>Tier II: Supplementary Capital</b>		
General loan loss provision	786,362	641,815
Approved Revaluation Reserve	542,092	–
Approved subordinated term debts	8,610,732	9,163,692
	9,939,186	9,805,507
<b>Deductions - Tier II</b>		
50% investments in the capital of other banks and financial institutions	279,762	199,153
<b>Eligible Tier II Capital</b>	<b>9,659,424</b>	<b>9,606,354</b>
<b>Capital base (Tier I + Tier II)</b>	<b>36,611,150</b>	<b>34,343,008</b>

	GROUP				
	Assets for Credit Risk		Risk Weights	Risk-Weighted Assets	
	2014 LKR '000	2013 LKR '000	%	2014 LKR '000	2013 LKR '000
Cash and claims on Central Government and Central Bank of Sri Lanka	57,012,415	43,981,843	0	–	–
Claims secured by cash deposits, gold and guarantees	16,178,539	11,507,606	0	–	–
Claims on banks	8,386,190	2,775,499	20-100	3,332,205	909,136
Claims on financial institutions	9,936,776	10,175,395	20-100	5,566,363	5,281,526
Loans secured by residential property	7,047,969	5,360,620	50	3,523,984	2,680,310
Past due loans	2,236,918	1,702,511	50-150	3,071,530	2,304,397
Retail claims and corporate claims	163,634,509	130,116,473	20-150	152,755,397	120,056,895
Property, plant & equipment	3,798,342	2,612,330	100	3,798,342	2,612,330
Other assets	3,996,044	2,812,925	100	3,996,044	2,812,925
<b>Total Assets considered for credit risk</b>	<b>272,227,702</b>	<b>211,045,202</b>		<b>176,043,865</b>	<b>136,657,519</b>

### Risk-Weighted Assets and Off-Balance Sheet Exposure

	GROUP				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off-Balance Sheet Items	
	2014 LKR '000	2013 LKR '000		2014 LKR '000	2013 LKR '000
General guarantees of indebtedness	11,217,699	11,587,079	100	11,217,699	11,587,079
Standby letters of credit relating to particular transactions	65,950	35,168	50	32,975	17,584
Performance bonds and bid bonds	6,503,688	3,909,259	50	3,251,844	1,954,630
Trade-related acceptances and advance documents endorsed	8,014,553	8,301,839	20	1,602,911	1,660,368
Shipping guarantees	1,167,685	678,659	20	233,537	135,732
Documentary letters of credit	7,455,645	6,986,428	20	1,491,129	1,397,286
Undrawn term loans	10,120,524	2,882,331	0, 20 & 50	5,060,262	1,385,899
Foreign exchange contracts	97,569,796	62,235,214	2, 5 & 8	2,673,123	1,244,704
Undrawn overdrafts and credit lines	10,745,652	7,004,968	0	–	–
Other unutilized facilities	73,074,062	54,112,275	0, 20 & 50	53,248	88,206
<b>Total Off-Balance Sheet Exposure</b>	<b>225,935,254</b>	<b>157,733,220</b>		<b>25,616,728</b>	<b>19,471,488</b>

	2014 LKR '000	2013 LKR '000
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#### Capital Charge for Market Risk

Capital charge for interest rate risk	362,267	85,493
Capital charge for equity securities and unit trusts	1,009,140	969,583
Capital charge for foreign exchange and gold	146,740	131,679
Total Capital charge for Market Risk	1,518,147	1,186,755
<b>Total Risk-Weighted Assets Equivalent for Market Risk</b>	<b>15,181,470</b>	<b>11,867,554</b>

#### Capital Charge for Operational Risk

Gross Income:		
Year 1	9,255,352	8,180,934
Year 2	12,001,151	9,255,352
Year 3	13,588,231	12,001,151
Average gross income	11,614,911	9,812,479
Total Capital Charge for Operational Risk at 15%	1,742,237	1,471,872
<b>Total Risk-Weighted Assets Equivalent for Operational Risk</b>	<b>17,422,370</b>	<b>14,718,719</b>
<b>Total Risk-Weighted Assets</b>	<b>208,647,705</b>	<b>163,243,792</b>

#### Capital Adequacy Ratios

Tier I (Required statutory minimum ratio is 5%)	12.92%	15.15%
Tier I & Tier II (Required statutory minimum ratio is 10%)	17.55%	21.04%