

This term is used to describe the adequacy of the Bank's aggregate capital in relation to the risks which arise from its assets and its off-balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. Central Bank of Sri Lanka 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 foreseeable future credit, market and operational losses.

Basis of Computation

The risks weights assigned to the On and Off-Balance Sheet assets and the composition of capital are prescribed by Central Bank of Sri Lanka.

Capital Base as at 31 December	BANK	
	2013 LKR '000	2012 LKR '000
Tier I: Core Capital		
Capital	1,172,904	1,093,095
Statutory reserve fund	958,527	878,718
Investment fund account	1,706,751	924,332
Available-for-sale reserve	106,669	-
Share based payment reserve	22,367	-
Retained earnings	15,653,260	12,046,256
Total equity	19,620,478	14,942,401
Less: Available-for-sale reserve and charges to other comprehensive income	74,598	-
Total equity considered for Tier I capital	19,545,880	14,942,401
Deductions - Tier I		
Intangible assets	260,425	272,314
50% investments in unconsolidated banking and financial subsidiaries	904,717	1,206,514
50% investments in capital of other banks and financial institutions	30,984	9,263
Eligible Tier I Capital	18,349,754	13,454,310
Tier II: Supplementary Capital		
General provision	641,815	528,401
Approved subordinated term debt	9,163,692	2,188,350
	9,805,507	2,716,751
Deductions - Tier II		
50% investments in unconsolidated banking and financial subsidiaries	904,717	1,206,514
50% investments in capital of other banks and financial institutions	30,984	9,263
	935,701	1,215,777
Eligible Tier II Capital	8,869,806	1,500,974
Capital Base (Tier I + Tier II)	27,219,560	14,955,284

	BANK				
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk-Weighted Assets	
	2013 LKR '000	2012 LKR '000	%	2013 LKR '000	2012 LKR '000
Risk-Weighted Assets and Off-Balance Sheet Exposure					
Cash, Treasury Bills and other securities with Central Bank	43,908,753	29,542,462	0	-	-
Loans against cash deposits, gold and guarantees	11,091,809	11,847,144	0	-	-
Claims on banks	2,002,596	6,719,738	20 - 100	836,820	1,673,817
Claims on financial institutions	9,201,018	10,811,311	50 - 100	4,916,134	7,156,750
Loans secured by primary mortgage	5,360,620	5,446,713	50	2,680,310	2,723,356
Other claims	112,381,172	89,027,408	20 - 150	102,578,786	82,465,798
Property, plant & equipment	872,890	856,194	100	872,890	856,194
Other assets	2,554,940	738,471	100	2,554,940	738,471
Total On-Balance Sheet Assets Considered for Credit Risk	187,373,798	154,989,441		114,439,880	95,614,386

	BANK				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent Off-Balance Sheet Items	
	2013 LKR '000	2012 LKR '000	%	2013 LKR '000	2012 LKR '000
General guarantees of indebtedness	11,587,079	6,304,827	100	11,587,079	6,304,827
Stand by LCs relating to particular transactions	35,168	36,193	50	17,584	18,096
Performance bonds and bid bonds	3,909,259	2,784,498	50	1,954,630	1,392,249
Trade related acceptances and advance documents endorsed	8,301,839	7,370,072	20	1,660,368	1,474,014
Shipping guarantees	678,659	1,186,614	20	135,732	237,323
Documentary letter of credit	6,986,428	7,124,801	20	1,397,286	1,424,960
Undrawn term loans	2,882,331	1,399,849	0, 20 & 50	1,385,899	693,022
Foreign exchange contracts	62,235,214	64,384,677	2 & 5	1,244,704	1,300,125
Undrawn overdrafts and credit lines	7,004,968	5,838,596	0	-	-
Other unutilized facilities	54,112,275	43,473,820	0, 20 & 50	88,206	130,335
Total Off-Balance Sheet Exposure	157,733,220	139,903,947		19,471,488	12,974,951

	2013 LKR '000	2012 LKR '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	85,493	12,544
Capital charge for equity securities and unit trusts	321,015	–
Capital charge for foreign exchange and gold	131,679	158,255
Total capital charge for market risk	538,187	170,799
Total risk-weighted assets equivalent for market risk	5,381,870	1,707,988
Capital Charge for Operational Risk		
Gross Income:		
Year 1	7,015,947	5,682,271
Year 2	8,216,803	7,015,947
Year 3	10,842,463	8,216,803
Average gross income	8,691,737	6,971,674
Total capital charge for operational risk at 15%	1,303,761	1,045,751
Total risk-weighted assets equivalent for operational risk	13,037,606	10,457,510
Total risk-weighted assets and Off-Balance Sheet exposure	152,330,844	120,754,835
Risk-Weighted Capital Ratios		
Tier I (Required statutory minimum ratio is 5%)	12.05%	11.14%
Tier I & Tier II (Required statutory minimum ratio is 10%)	17.87%	12.38%

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Capital Base as at 31 December	GROUP	
	2013 LKR '000	2012 LKR '000
Tier I: Core Capital		
Capital	943,746	863,937
Statutory reserve fund	958,527	878,718
Investment fund account	1,706,751	924,332
Available-for-sale reserve	150,614	-
Share based payment reserve	22,367	-
Retained earnings	20,731,801	22,216,054
Non-controlling interest	847,848	826,411
Total equity	25,361,654	25,709,452
Less: Available-for-sale reserve and charges to other comprehensive income	129,169	21,784
Total equity considered for Tier I capital	25,232,485	25,687,668
Deductions - Tier I		
Intangible assets	296,678	318,723
50% investments in the capital of other banks and financial institutions	199,153	88,943
Eligible Tier I Capital	24,736,654	25,280,002
Tier II: Supplementary Capital		
General provision	641,815	528,401
Approved subordinated term debt	9,163,692	2,188,350
	9,805,507	2,716,751
Deductions - Tier II		
50% investments in the capital of other banks and financial institutions	199,153	88,943
Eligible Tier II Capital	9,606,354	2,627,808
Capital base (Tier I + Tier II)	34,343,008	27,907,810

Risk-Weighted Assets and Off-Balance Sheet Exposure	GROUP				
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk-Weighted Assets	
	2013 LKR '000	2012 LKR '000	%	2013 LKR '000	2012 LKR '000
Cash, Treasury Bills & other securities with Central Bank	43,916,468	29,542,538	0	-	-
Loans against cash deposits and gold	11,091,809	11,847,144	0	-	-
Claims on banks	2,175,349	6,874,251	20 - 100	909,136	1,722,775
Claims on financial institutions	10,131,860	11,171,411	20 - 100	5,281,526	7,370,650
Loans secured by primary mortgage	5,360,620	5,446,713	50	2,680,310	2,723,356
Other claims	113,056,556	99,252,404	20 - 150	102,889,804	92,690,794
Property, plant & equipment	2,612,330	2,515,678	100	2,612,330	2,515,678
Other assets	2,812,925	1,086,268	100	2,812,925	1,086,268
Total On-Balance Sheet Assets Considered for Credit Risk	191,157,917	167,736,407		117,186,031	108,109,521

	GROUP				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent Off Balance Sheet Items	
	2013 LKR '000	2012 LKR '000	%	2013 LKR '000	2012 LKR '000
General guarantees of indebtedness	11,587,079	6,304,827	100	11,587,079	6,304,827
Stand by LCs relating to particular transactions	35,168	36,193	50	17,584	18,096
Performance bonds and bid bonds	3,909,259	2,784,498	50	1,954,630	1,392,249
Trade related acceptances and advance documents endorsed	8,301,839	7,370,072	20	1,660,368	1,474,014
Shipping guarantees	678,659	1,186,614	20	135,732	237,323
Documentary letter of credit	6,986,428	7,124,801	20	1,397,286	1,424,960
Undrawn term loans	2,882,331	1,399,849	0, 20 & 50	1,385,899	693,022
Foreign exchange contracts	62,235,214	64,384,677	2 & 5	1,244,704	1,300,125
Undrawn overdrafts and credit lines	7,004,968	5,838,596	0	-	-
Other unutilized facilities	54,112,275	43,473,820	0, 20 & 50	88,206	130,335
Total Off-Balance Sheet Exposure	157,733,220	139,903,947		19,471,488	12,974,951

	2013 LKR '000	2012 LKR '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	85,493	12,544
Capital charge for equity securities and unit trusts	969,583	13,268
Capital charge for foreign exchange and gold	131,679	158,255
Total capital charge for market risk	1,186,755	184,067
Total risk-weighted assets equivalent for market risk	11,867,554	1,840,666
Capital Charge for Operational Risk		
Gross Income:		
Year 1	8,264,211	6,773,117
Year 2	9,255,352	8,264,211
Year 3	11,917,874	9,255,352
Average gross income	9,812,479	8,097,560
Total capital charge for operational risk at 15%	1,471,872	1,214,634
Total risk-weighted assets equivalent for operational risk	14,718,719	12,146,340
Total risk-weighted assets and Off-Balance Sheet exposure	163,243,792	135,071,478
Risk-Weighted Capital Ratios		
Tier I (Required statutory minimum ratio is 5%)	15.15%	18.72%
Tier I & Tier II (Required statutory minimum ratio is 10%)	21.04%	20.66%