

## CAPITAL ADEQUACY

### Basis of Computation

The Bank's capital adequacy ratio is computed based on Basel II - Pillar I requirements. 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, approved 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 Adequacy Computation of the Bank

Capital Base as at 31 December	BANK	
	2015 LKR '000	2014 LKR '000
<b>Tier I: Core Capital</b>		
Capital	1,242,772	1,225,162
Statutory reserve fund	1,242,772	1,010,785
Published retained profits	13,706,561	12,974,648
General and other reserves	5,820,297	5,825,950
<b>Total equity considered for Tier I Capital</b>	<b>22,012,402</b>	<b>21,036,545</b>
<b>Deductions – Tier I</b>		
Intangible assets	240,234	253,132
50% investments in unconsolidated banking and financial subsidiaries	937,984	886,070
50% investments in capital of other banks and financial institutions	815,997	9,263
	<b>1,994,215</b>	<b>1,148,465</b>
<b>Eligible Tier I Capital</b>	<b>20,018,187</b>	<b>19,888,080</b>
<b>Tier II: Supplementary Capital</b>		
General loan loss provision	830,100	786,362
Approved revaluation reserve	542,092	542,092
Approved subordinated term debts	9,977,543	8,610,732
	<b>11,349,735</b>	<b>9,939,186</b>
<b>Deductions – Tier II</b>		
50% investments in unconsolidated banking and financial subsidiaries	937,984	886,070
50% investments in capital of other banks and financial institutions	815,997	9,263
	<b>1,753,981</b>	<b>895,333</b>
<b>Eligible Tier II Capital</b>	<b>9,595,754</b>	<b>9,043,853</b>
<b>Capital Base (Tier I + Tier II)</b>	<b>29,613,941</b>	<b>28,931,933</b>

	BANK				
	Assets for Credit Risk		Risk Weights	Risk-Weighted Assets	
	2015 LKR '000	2014 LKR '000	%	2015 LKR '000	2014 LKR '000
<b>Risk-Weighted Assets and Off Balance Sheet Exposure</b>					
Cash and claims on Central Government and Central Bank of Sri Lanka	35,798,265	57,012,321	0 - 20	8,092	-
Claims secured by cash deposits, gold and guarantees	20,280,019	16,178,539	0	-	-
Claims on banks	15,648,215	8,103,229	20 - 100	5,195,269	3,235,305
Claims on financial institutions	25,705,335	9,210,855	50 - 100	14,863,928	5,223,618
Loans secured by residential property	9,055,452	7,047,969	50	4,527,726	3,523,984
Past due loans	2,146,571	2,236,918	50 - 150	2,328,523	3,071,530
Retail claims and corporate claims	189,008,802	162,166,523	20 - 150	175,243,262	151,514,624
Property, plant and equipment	2,030,002	1,927,494	100	2,030,002	1,927,494
Other assets	3,313,600	3,573,443	100	3,313,600	3,573,443
<b>Total Assets Considered for Credit Risk</b>	<b>302,986,261</b>	<b>267,457,291</b>		<b>207,510,402</b>	<b>172,069,998</b>

	BANK				
	Principal Amount of Off Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off Balance Sheet Items	
	2015 LKR '000	2014 LKR '000	%	2015 LKR '000	2014 LKR '000
General guarantees of indebtedness	13,247,956	11,215,680	100	13,247,956	11,215,680
Standby letters of credit relating to particular transactions	64,800	65,950	50	32,400	32,975
Performance bonds and bid bonds	8,614,302	6,503,688	50	4,307,151	3,251,844
Trade related acceptances and advance documents endorsed	8,584,926	8,014,553	20	1,716,985	1,602,911
Shipping guarantees	1,352,796	1,167,685	20	270,559	233,537
Documentary letters of credit	8,067,461	7,455,645	20	1,613,492	1,491,129
Undrawn term loans	6,803,723	10,120,524	0, 20 & 50	3,386,562	5,060,262
Foreign exchange contracts	81,168,189	97,569,796	2, 5 & 8	2,336,935	2,673,123
Undrawn overdrafts and credit lines	14,836,720	10,745,652	0	-	-
Other unutilized facilities	89,009,483	73,070,852	0, 20 & 50	114,862	51,643
<b>Total Credit Equivalent of Off Balance Sheet Items</b>	<b>231,750,356</b>	<b>225,930,025</b>		<b>27,026,902</b>	<b>25,613,104</b>

	BANK	
	2015 LKR '000	2014 LKR '000
<b>Capital Charge for Market Risk</b>		
Capital charge for interest rate risk	448,997	362,267
Capital charge for equity securities and unit trusts	503,478	450,602
Capital charge for foreign exchange and gold	63,668	146,740
Total Capital Charge for Market Risk	1,016,143	959,609
<b>Total Risk-Weighted Assets Equivalent for Market Risk</b>	<b>10,161,436</b>	<b>9,596,087</b>
<b>Capital Charge for Operational Risk</b>		
Gross Income:		
Year 1	10,842,463	8,216,803
Year 2	11,901,793	10,842,463
Year 3	12,237,313	11,901,793
Average gross income	11,660,523	10,320,353
Total Capital Charge for Operational Risk at 15%	1,749,078	1,548,053
<b>Total Risk-Weighted Assets Equivalent for Operational Risk</b>	<b>17,490,784</b>	<b>15,480,529</b>
<b>Total Risk-Weighted Assets</b>	<b>235,162,622</b>	<b>197,146,615</b>
<b>Capital Adequacy Ratios</b>		
Tier I (Required statutory minimum ratio is 5%)	8.51%	10.09%
Tier I & Tier II (Required statutory minimum ratio is 10%)	12.59%	14.68%

## Capital Adequacy Computation of the Group

	GROUP	
	2015 LKR '000	2014 LKR '000
Capital Base as at 31 December		
<b>Tier I: Core Capital</b>		
Capital	1,162,964	1,145,353
Statutory reserve fund	1,242,772	1,010,785
Published retained profits	19,213,211	18,585,817
General and other reserves	5,886,805	5,865,854
Non-controlling interest	1,011,046	920,752
<b>Total Equity Considered for Tier I Capital</b>	<b>28,516,798</b>	<b>27,528,561</b>
<b>Deductions – Tier I</b>		
Intangible assets	274,747	297,070
50% investments in the capital of other banks and financial institutions	1,087,623	279,762
	1,362,370	576,832
<b>Eligible Tier I Capital</b>	<b>27,154,428</b>	<b>26,951,729</b>
<b>Tier II: Supplementary Capital</b>		
General loan loss provision	830,100	786,362
Approved Revaluation Reserve	542,092	542,092
Approved subordinated term debt	9,977,543	8,610,732
	11,349,735	9,939,186

GROUP

Capital Base as at 31 December	2015 LKR '000	2014 LKR '000
<b>Deductions – Tier II</b>		
50% investments in the capital of other banks and financial institutions	1,087,623	279,762
<b>Eligible Tier II Capital</b>	<b>10,262,112</b>	<b>9,659,424</b>
<b>Capital Base (Tier I + Tier II)</b>	<b>37,416,540</b>	<b>36,611,153</b>

GROUP

	Assets for Credit Risk		Risk Weights	Risk-Weighted Assets	
	2015 LKR '000	2014 LKR '000	%	2015 LKR '000	2014 LKR '000
<b>Risk-Weighted Assets and Off-Balance Sheet Exposure</b>					
Cash and claims on Central Government and Central Bank of Sri Lanka	35,798,378	57,012,415	0 - 20	8,092	–
Claims secured by cash deposits, gold and guarantees	20,280,019	16,178,539	0	–	–
Claims on banks	16,057,734	8,386,190	20 - 100	5,373,130	3,332,205
Claims on financial institutions	27,523,393	9,936,776	20 - 100	16,164,584	5,566,363
Loans secured by Primary Mortgage	9,055,452	7,047,969	50	4,527,726	3,523,984
Past due loans	2,146,571	2,236,918	50 - 150	2,328,523	3,071,530
Retail claims and corporate claims	189,654,725	163,634,509	20 - 150	175,373,279	152,755,397
Property, plant & equipment	4,126,881	3,798,342	100	4,126,881	3,798,342
Other assets	3,922,896	3,996,044	100	3,922,896	3,996,044
<b>Total Assets Considered for Credit Risk</b>	<b>308,566,049</b>	<b>272,227,702</b>		<b>211,825,111</b>	<b>176,043,865</b>

GROUP

	Principal Amount of Off Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off Balance Sheet Items	
	2015 LKR '000	2014 LKR '000	%	2015 LKR '000	2014 LKR '000
General guarantees of indebtedness	12,412,956	11,217,699	100	12,412,956	11,217,699
Standby letters of credit relating to particular transactions	64,800	65,950	50	32,400	32,975
Performance bonds and bid bonds	8,614,302	6,503,688	50	4,307,151	3,251,844
Trade related acceptances and advance documents endorsed	8,584,926	8,014,553	20	1,716,985	1,602,911
Shipping guarantees	1,352,796	1,167,685	20	270,559	233,537
Documentary letters of credit	8,067,461	7,455,645	20	1,613,492	1,491,129
Undrawn term loans	6,803,723	10,120,524	0, 20 & 50	3,386,562	5,060,262
Foreign exchange contracts	81,168,189	97,569,796	2, 5 & 8	2,336,935	2,673,123
Undrawn overdrafts and credit lines	14,836,720	10,745,651	0	–	–
Other unutilized facilities	90,685,643	73,074,062	0, 20 & 50	952,942	53,248
<b>Total Credit Equivalent of Off-Balance Sheet items</b>	<b>232,591,516</b>	<b>225,935,253</b>		<b>27,029,982</b>	<b>25,616,728</b>

	GROUP	
Capital Base as at 31 December	2015 LKR '000	2014 LKR '000
<b>Capital Charge for Market Risk</b>		
Capital charge for interest rate risk	448,997	362,267
Capital charge for equity securities and unit trusts	899,542	1,009,140
Capital charge for foreign exchange and gold	63,668	146,740
<b>Total Capital Charge for Market Risk</b>	<b>1,412,207</b>	<b>1,518,147</b>
<b>Total Risk-Weighted Assets Equivalent for Market Risk</b>	<b>14,122,076</b>	<b>15,181,466</b>
<b>Capital Charge for Operational Risk</b>		
Gross Income:		
Year 1	12,001,151	9,255,352
Year 2	13,588,231	12,001,151
Year 3	13,226,127	13,588,231
Average gross income	12,938,503	11,614,911
<b>Total Capital Charge for Operational Risk – 15%</b>	<b>1,940,755</b>	<b>1,742,237</b>
<b>Total Risk-Weighted Assets Equivalent for Operational Risk</b>	<b>19,407,755</b>	<b>17,422,367</b>
<b>Total Risk-Weighted Assets</b>	<b>245,354,942</b>	<b>208,647,698</b>
<b>Capital Adequacy Ratios</b>		
Tier I (Required statutory minimum ratio is 5%)	11.07%	12.92%
Tier I & Tier II (Required statutory minimum ratio is 10%)	15.25%	17.55%