Introduction

This term is used to describe the adequacy of Bank's aggregate capital in relation to the risks, which arise from its assets and 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.

Capital to Risk Weighted Assets Ratio

(Based on audited consolidated financial statements)

	Minimum Requirement	Actual 31.03.2011	Actual 31.03.2010
Tier I (%)	5.0	30.2	32.7
Deductions - Tier I (%)		3.5	6.5
		26.7	26.2
Tier II (%)		2	2.9
Deductions - Tier II (%)		2.9	6.0
		(0.9)	(3.1)
Capital base (%)	10.0	25.8	23.1

Details of Computation

Capital Base	31.03.2011 Rs 000	31.03.2010 Rs 000
Tier I: Core Capital		
Paid-up ordinary shares	2,648,838	1,323,753
Share premium	2,054,546	3,375,410
Statutory reserve fund	1,015,000	961,929
Published retained profits	6,530,865	2,075,577
General & other reserves	11,119,693	12,895,944
Minority interests	486,666	427,427
	23,855,608	21,060,040
Less: Deductions		
Goodwill	226,411	156,225
Net deferred tax assets	1,781	806
Other intangible assets	173,042	160,034
50% Investments in the capital of other banks and financial institutions	2,323,196	3,852,315
Total Tier I Capital	21,131,178	16,890,660
Tier II: Supplementary Capital		
Revaluation reserve (as approved by the Central Bank of Sri Lanka)	134,129	134,129
Approved subordinated term debt	872,000	1,154,000
General provision	588,607	563,122
	1,594,736	1,851,251
Less: Deductions		
50% Investments in the capital of other banks and financial institutions	2,323,196	3,852,315
Eligible Tier II Capital	(728,460)	(2,001,064)
Capital base	20,402,718	14,889,596

Risk Weighted Assets and Off-Balance Sheet Exposure

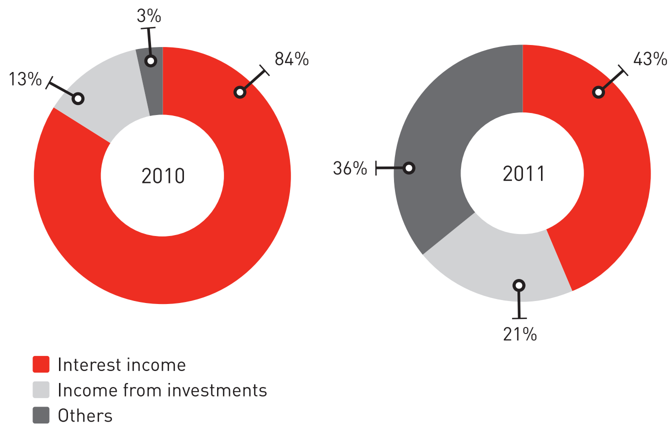
Assets Exposures	Balance 31.03.2011 Rs 000	Balance 31.03.2010 Rs 000	Risk Weights %	Risk Weighted Balance 31.03.2011 Rs 000	Risk Weighted Balance 31.03.2010 Rs 000
To Central Government and CBSL	21,319,519	25,546,966	0	0	0
To Banks	2,498,038	3,470,682	20-150	603,661	839,423
To Financial Institutions	1,387,551	892,547	20-150	784,452	558,350
To Corporates	46,496,233	39,525,161	20-150	45,883,397	37,859,650
Secured by Residential Property	433,064	211,325	50-100	252,353	114,520
Secured by Commercial Real Estate	4,427,832	4,004,961	100	4,427,832	4,004,961
Classified as Non-Performing Advances	1,570,410	3,303,647	50-150	1,999,224	4,561,259
Cash Items	948,895	706,987	0-20	1,164	2,460
Other Assets	2,537,452	2,150,270	100	2,537,452	2,150,270
Total assets	81,618,994	79,812,546		56,489,535	50,090,893

Off-Balance Sheet Exposure	Credit Conversion Factor %	31.03.2011 Rs 000	31.03.2010 Rs 000	Risk Weights %	Risk Weighted Credit Equivalent 31.03.2011 Rs 000	Risk Weighted Credit Equivalent 31.03.2010 Rs 000
General guarantee of indebtness	100	903,361	914,388	20-100	903,361	914,338
Performance bonds, bid bonds and warranties	50	995,522	707,582	20-100	496,704	353,791
Shipping guarantees	20	598,546	281,144	20-100	119,709	56,229
Documentary letters of credit	20	2,876,297	816,032	20-100	574,982	163,206
Trade related acceptances	20	1,895,066	821,988	20-100	379,013	164,398
Undrawn overdraft facilities & others	0	1,693,805	1,209,755	100	0	0
Undrawn term loans	50	13,430,665	6,988,015	100	6,715,333	3,494,008
Others - undrawn lease facilities	50	505,292	107,524	100	252,646	53,762
Forward foreign excahnge contracts - Orginal Maturity less than one year	2	5,917,274	7,345,641	100	118,346	146,913
Forward foreign excahnge contracts - Orginal Maturity more than one year	5	110,400	0	100	5,520	0
Total off balance sheet exposure		28,926,228	19,192,069		9,565,614	5,346,645
Total risk weighted assets and off-balance sheet exposure for credit risk					66,055,149	55,437,538
Total risk weighted assets equivalent for market risk (Note 1)					2,933,690	820,590
Total risk weighted assets equivalent for operational risk (Note 2)					9,908,670	8,141,560
Total risk weighted assets					78,897,509	64,399,688

	Capital Charge 31.03.2011 Rs 000	Capital Charge 31.03.2010 Rs 000	Risk Weighted Assets Equivalent 31.03.2011 Rs 000	Risk Weighted Assets Equivalent 31.03.2010 Rs 000
Market Risk (Note 1)				
Interest rate	19,772	4,954	197,720	49,540
Equity	14,901	9,885	149,010	98,850
Foreign Exchange & Gold	258,696	67,220	2,586,960	672,200
	293,369	82,059	2,933,690	820,590
Operational Risk (Note 2)				
Average gross income	6,605,779	5,427,705		
15% of average gross income	990,867	814,156		
	990,867	814,156	9,908,670	8,141,560

For the year ended 31 March Rupees million	2007	2008	2009	2010	2011
Sources of Income					
Interest income	6,018	8,491	8,529	7,416	6,206
Income from investments	436	687	913	1,138	2,911
Others	433	458	446	289	5,074
	6,887	9,636	9,888	8,843	14,191
Distribution of Income					
To employees as emoluments	612	672	708	715	791
To lenders as interest	3,537	5,815	5,624	4,224	2,786
To providers of supplies and services	335	340	359	383	487
To Government as taxation	1,113	1,100	1,203	1,348	2,629
To shareholders as dividends	454	654	654	794	2,649
Retained in the business:					
Depreciation set aside	128	133	124	104	117
Provision of losses	37	258	510	356	244
Reserves	671	664	706	919	4,488
	6,887	9,636	9,888	8,843	14,191

SOURCES OF INCOME



DISTRIBUTION OF INCOME