

CAPITAL ADEQUACY

Capital adequacy is a measure of the financial strength of a Bank expressed as a ratio of its capital to its risk weighted assets. This ratio indicates a Bank's ability to maintain adequate capital in the form of equity and subordinated debts to meet any unexpected losses. The ICAAP Framework in line with Basel requirements sets out the process for assessing total overall capital adequacy in relation to its risk profile. Internal limits which are more stringent than the regulatory requirement provide early warnings with regard to capital adequacy.

Capital Management Process

The Bank manages its capital with the objective of maintaining sufficient capital for its regulatory requirements, business needs, and requirements identified through stress testing. The Internal Capital Adequacy Assessment Process (ICAAP) Framework in line with Basel II requirements implemented in the Bank in 2012 introduced a process for assessing total overall capital adequacy in relation to its risk profile.

ICAAP plays a pivotal role in supporting the supervisory review process, offering valuable insights for evaluating the required capital in alignment with the Bank's future business plans. It facilitates the integration of strategic focus and risk management plans with the capital plan, incorporating inputs from various levels within the organization including Senior Management, Management Committees, Board Committees and the Board itself. The process also considers the potential risks associated with capital inadequacy under stressed conditions, ensuring a holistic and forward-looking approach to capital management.

In terms of capital adequacy under stress, the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and regular stress-testing frameworks play a key role. These include periodic capital stress scenarios and sensitivity analyses which assess resilience against adverse market, credit and liquidity shocks. The outcomes indicate that even under conservative stress assumptions, capital ratios remain well above regulatory thresholds, reaffirming that the Bank's capital base is sufficient to withstand severe downside scenarios and maintain business continuity.

In addition to its role in assessing capital adequacy, the ICAAP also serves to support profit optimization through proactive decision-making on both current and potential exposures. The process involves measuring vulnerabilities through stress testing and scenario-based analysis enabling the Bank to identify areas that may require attention in managing both qualitative and quantitative aspects of reputational and strategic risks. Notably, these aspects are not covered under Pillar 1 of Basel III.

Basel III Minimum Capital Requirements and Buffers

The Banking Act Direction No. 01 of 2016 mandated licensed commercial banks to adhere to the capital requirements outlined in Basel III commencing from July 01, 2017. The directive established specific timelines for progressively elevating minimum capital ratios, culminating in full implementation by January 01, 2019. This framework also included a Higher Loss Absorbency component for Domestic Systemically Important Banks (D-SIBs) reflecting their critical role in financial system stability.

During the year ended 31 December 2024, the Bank experienced a substantial increase in Risk-Weighted Assets (RWAs), with total RWAs rising to Rs. 1.574Tn from Rs. 1.371Tn in the prior year, a growth of 14.86%. This uptick primarily reflects enhanced business volumes, especially in the Bank's lending portfolio, where net loans and advances grew by 17.70%, supported by improving macroeconomic conditions and increased demand for credit. The growth in RWAs was largely driven by this expansion in core asset categories that attract higher risk weights under Basel III regulatory parameters, rather than material shifts in regulatory classification.

Amid this expansion in risk exposures, the Bank has been proactive in strengthening its capital foundation to ensure sustainability and resilience. Reflecting this focus, the Bank successfully implemented a rights issue raising Rs. 22.544Bn during 2024, and also issued Basel III-compliant Tier II subordinated debentures of Rs. 20Bn, initiatives designed specifically to enhance capital buffers to support continued growth while protecting against potential credit and market stress. These capital augmentation measures underscore the Bank's strategic intent to maintain healthy capital ratios in the face of rising RWAs, particularly from credit risk exposure.

Public

The comparison of the Bank's capital status as of December 31, 2024, significantly surpasses the minimum capital requirement stipulated by the Central Bank of Sri Lanka (CBSL) effective from January 01, 2019, underscores the robust capital strength of the Bank even amidst ongoing economic challenges. The Bank's capacity to consistently meet and exceed the stringent regulatory requirements demonstrates its commitment to maintaining a solid capital foundation.

Capital Ratios of the Bank	Regulatory minimum %	Goal (internal requirement) %	2024 %	2023 %
Common Equity Tier 1	8.50	>8.50	14.227	11.442
HLA	1.50	> 1.50		
Tier I Capital	10.00	>10.00	14.227	11.442
Total Capital	14.00	> 14.00	18.142	15.151

The Bank has established dedicated "Basel Workgroup" comprising members from various business and support units. This workgroup actively assesses capital adequacy in alignment with the Bank's strategic direction taking into account the evolving regulatory and economic landscape. While ICAAP serves as a foundational element for this assessment, the Basel Workgroup is committed to continuous refining of its approach, offering actionable recommendations to the Asset Liability Committee (ALCO), offering insights on current and future capital requirements, anticipated capital expenditure, and desirable-capital levels.

In the capital-intensive banking business, the Bank recognizes the significance of capital. The Bank benefits from a dedicated shareholder base that holds a long-term perspective on the Bank. Prudent dividend policies and the retention of profits over the years contribute to this loyalty. To achieve an optimised level of capital allocation, the Bank continuously seeks ways to improve the judicious allocation of capital for its day-to-day operations, while retaining the flexibility to explore external sources for capital enhancement when necessary. This balanced approach provides the Bank with the agility to support growth initiative and navigate market uncertainties effectively.

Capital Adequacy Computation

Computation of Ratios - Group

	December 31, 2024	December 31, 2023
	Rs. '000	Rs. '000
Total Risk-Weighted Assets (RWA)		
Total risk-weighted assets for credit risk	1,492,194,560	1,330,800,123
Total risk-weighted assets for market risk	104,976,721	35,042,071
Total risk-weighted assets for operational risk	84,834,481	81,670,069
Sub Total	1,682,005,762	1,447,512,263
Total Capital Available		
Common Equity TIER I Capital	234,946,503	166,649,326
TIER I Capital	234,946,503	166,649,326
Total Capital	296,922,313	218,423,196
Common Equity TIER I Capital Ratio (Minimum Requirement 8.50%)		
Common Equity TIER I Capital	234,946,503	166,649,326

Public

	December 31, 2024 Rs. '000	December 31, 2023 Rs. '000
Total risk-weighted assets	1,682,005,762	1,447,512,263
	13.968%	11.513%
Total TIER I Capital Ratio (Minimum Requirement 10.00%)		
Total TIER I Capital	234,946,503	166,649,326
Total Risk-Weighted Assets	1,682,005,762	1,447,512,263
	13.968%	11.513%
Total Capital Ratio (Minimum Requirement 14.00%)		
Total capital	296,922,313	218,423,196
Total Risk-Weighted Assets	1,682,005,762	1,447,512,263
	17.653%	15.090%

The Comparison of Capital Adequacy Ratios

