

# Disclosures as per Schedule III of Banking Act No. 1 of 2016, Capital Requirements under Basel III

## Key regulatory ratios – Capital and Liquidity

Item	As at 31 December 2018	As at 31 December 2017
<b>Regulatory capital (LKR '000)</b>		
Common equity Tier I capital	7,419,999	7,293,936
Tier I capital	7,419,999	7,293,936
Total capital	8,462,226	8,564,260
<b>Regulatory capital ratio (%)</b>		
Common equity Tier I capital ratio (minimum requirement – 2018: 6.375%, 2017: 5.75%)	11.00	12.42
Tier I capital ratio (minimum requirement – 2018: 7.875%, 2017: 7.25%)	11.00	12.42
Total capital ratio (minimum requirement – 2018: 11.875%, 2017: 11.25%)	12.54	14.59
<b>Regulatory liquidity</b>		
Statutory liquid assets (LKR '000)	14,811,217	11,829,936
Statutory liquid assets ratio (minimum requirement – 20%)		
Domestic banking unit (%)	23.22	21.34
Off-shore banking unit (%)	–	–
Total stock of high quality liquid assets (LKR '000)	3,460,374	1,736,506
Liquidity coverage ratio – (%) rupee (minimum requirement – 2018: 90%, 2017 – 80%)	142.15	94.09
Liquidity coverage ratio – (%) all currency (minimum requirement – 2018: 90%, 2017 – 80%)	142.15	94.09

**Basel III computation of capital ratios**

Item	Amount LKR '000	
	As at 31 December 2018	As at 31 December 2017
<b>Common equity Tier I (CET I) capital after adjustments</b>	7,419,999	7,293,936
<b>Common equity Tier I (CET I) capital</b>	7,448,727	7,331,160
Equity capital (stated capital)/assigned capital	5,921,538	5,758,689
Reserve fund	215,612	197,764
Published retained earnings/(accumulated retained losses)	1,280,762	1,340,504
Published accumulated Other Comprehensive Income (OCI)	-	-
General and other disclosed reserves	30,815	34,203
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to CET I capital</b>	28,728	37,224
Goodwill (net)	-	-
Intangible assets (net)	3,728	8,148
Others (investments in the capital of banking and financial institutions)	25,000	29,076
<b>Additional Tier I (AT I) capital after adjustments</b>	-	-
<b>Total Additional Tier I (AT I) capital</b>	-	-
Qualifying additional Tier I capital instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to AT I capital</b>	-	-
Investment in own shares	-	-
Others (specify)	-	-
<b>Tier II capital after adjustments</b>	1,042,227	1,270,324
<b>Tier II capital</b>	1,067,227	1,299,400
Qualifying Tier II capital instruments	711,628	992,970
Revaluation gains	-	-
Loan loss provisions	355,599	306,430
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to Tier II</b>	25,000	29,076
Investment in own shares	-	-
Others (investments in the capital of financial institutions)	25,000	29,076
<b>CET I capital</b>	7,419,999	7,293,936
<b>Total Tier I capital</b>	7,419,999	7,293,936
<b>Total capital</b>	8,462,226	8,564,260
<b>Total Risk Weighted Assets (RWA)</b>	67,474,294	58,717,587
RWAs for credit risk (Table 1)	62,660,450	53,619,752
RWAs for operational risk (Table 2)	4,813,844	5,081,280
RWAs for market risk (Table 3)	-	16,554
<b>CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)</b>	11.00	12.42
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
<b>Total Tier I capital ratio (%)</b>	11.00	12.42
<b>Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)</b>	12.54	14.59
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-

**Table 1 (A): Credit risk under standardised approach – Credit risk exposures and Credit Risk Mitigation (CRM) effects**

Asset Class	Amount (LKR '000) as at 31 December 2018					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density (%)
Claims on Central Government and CBSL	3,225,200	-	3,225,200	-	-	0
Claims on foreign sovereigns and their Central Banks	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-
Claims on banks exposures	13,280,750	-	13,280,750	-	2,690,254	20
Claims on financial institutions	-	-	-	-	-	-
Claims on corporates	209,639	-	209,639	-	92,757	44
Retail claims	71,824,374	-	66,469,118	-	52,840,130	79
Claims secured by residential property	4,723,711	-	4,723,711	-	3,040,257	64
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	1,106,108	-	1,106,108	-	1,330,472	120
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	2,838,899	679,989	2,838,899	285,099	2,666,580	85
<b>Total</b>	<b>97,208,682</b>	<b>679,989</b>	<b>91,853,426</b>	<b>285,099</b>	<b>62,660,450</b>	<b>68</b>

Note:

- (i) NPAs – As per Banking Act Directions on classification of loans and advances, income recognition, and provisioning.
- (ii) RWA Density – Total RWA/Exposures post CCF and CRM.

**Table 1 (B): Credit risk under standardised approach – Exposures by asset classes and risk weights**

Description	Risk weight	Amount (LKR '000) as at 31 December 2018 (Post CCF and CRM)							Total credit exposures amount
		0%	20%	50%	75%	100%	150%	>150%	
Asset classes									
Claims on Central Government and CBSL	3,225,200	-	-	-	-	-	-	-	3,225,200
Claims on foreign sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-	-	-	-
Claims on banks exposures	-	13,167,070	113,680	-	-	-	-	-	13,280,750
Claims on financial institutions	-	-	-	-	-	-	-	-	-
Claims on corporates	-	146,103	-	-	63,536	-	-	-	209,639
Retail claims	82,576	1,077,164	-	50,738,720	14,570,657	-	-	-	66,469,118
Claims secured by residential property	-	-	3,366,908	-	1,356,802	-	-	-	4,723,711
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	-	-	10,916	-	635,546	459,645	-	-	1,106,108
Higher-risk categories	-	-	-	-	-	-	-	-	-
Cash items and other assets	424,504	41,143	-	-	2,658,351	-	-	-	3,123,998
<b>Total</b>	<b>3,732,281</b>	<b>14,431,480</b>	<b>3,491,505</b>	<b>50,738,720</b>	<b>19,284,893</b>	<b>459,645</b>	<b>-</b>	<b>-</b>	<b>92,138,525</b>

**Table 2: Operational risk under basic indicator approach**

Business lines	Capital charge factor	Gross income (LKR '000) as at 31 December 2018			Amount
		1st year	2nd year	3rd year	
The basic indicator approach	15%	4,209,531	3,587,217	3,636,133	
Capital charges for operational risk (LKR '000) the basic indicator approach					571,644
Risk-weighted amount for operational risk (LKR '000) the basic indicator approach					4,813,844

**Table 3: Market risk under standardised measurement method**

Business lines	RWA Amount as at 31 December 2018 (LKR '000)
(a) RWA for interest rate risk	-
General interest rate risk	-
(i) Net long or short position	-
(ii) Horizontal disallowance	-
(iii) Vertical disallowance	-
(iv) Options	-
Specific interest rate risk	-
(b) RWA for equity	-
(i) General equity risk	-
(ii) Specific equity risk	-
(c) RWA for foreign exchange and gold	-
Capital charge for market risk {(a) +(b) + (c)} * CAR	-

**Summary discussion on adequacy/meeting current and future capital requirements****Overview**

A proper "Capital Management Process" is vital in ensuring the long-term stability of the business, SANASA Development Bank has continued to maintain Capital Adequacy Ratios at healthy levels by keeping a significant margin over and above the regulatory minimum requirements. The Basel III Capital Standards introduced by the CBSL with effect from 1 July 2017 provides stringent framework for banks to enhance the quality, consistency, and the transparency of their "capital" through the introduction of new capital buffers, new mandatory disclosure requirements and revised definitions for capital instruments. Under the new directive, minimum Regulatory Requirements for Tier I Capital Ratio (5%) and Total Capital Ratio (10%) have been increased significantly to 8.50% and 12.50% respectively, with banks required to comply with these requirements over a period of 18 months, to meet the 1 January 2019 international time line for the implementation of Basel III.

**Capital management process**

In order to comply with the new Basel III guidelines, SANASA Development Bank's Capital Management Process is under supervision of Board Strategic Planning Committee. The three year (2018-2020) Capital Management Plan rolled out has been integrated with the Internal Capital Adequacy Assessment Process (ICAAP) as well as the Bank's Strategic Plan, taking cognisance of the estimated negative impact to the Bank's capital structure arising from changes in new regulations such as SLFRS 9, Inland Revenue Act, etc. Efforts taken to comply with the Basel III regulations saw the Bank increases its capital levels by issuing Basel III compliant debt instruments. Steps were also taken to optimise the capital ratios by rebalancing the Risk Weighted Assets (RWA).

**Moving Forward**

Moving forward with the Capital Management Plan, the Bank will execute specific medium-term and long-term strategies to raise both Tier I and Tier II capital in line with Basel III minimum regulatory requirements. In addition, timely actions have been identified and will be executed during the coming years to optimise the Risk Weighted Assets for the purpose of improving the capital allocation of the Bank.

**Basel III computation of liquidity coverage ratio**

Item	Amount (LKR '000)			
	As at 31 December 2018		As at 31 December 2017	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
<b>Total stock of high-quality liquid assets (HQLA)</b>	<b>3,482,290</b>	<b>3,460,374</b>	4,869,546	1,736,506
Total adjusted Level 1 assets	3,336,186	3,336,186	1,041,904	1,041,904
Level 1 assets	3,336,186	3,336,186	1,041,904	1,041,904
Total adjusted Level 2A assets	146,103	124,188	3,815,227	3,242,943
Level 2A assets	146,103	124,188	3,815,227	3,242,943
Total adjusted Level 2B assets	-	-	12,415	6,208
Level 2B assets	-	-	12,415	6,208
<b>Total cash outflows</b>	<b>68,601,375</b>	<b>9,737,202</b>	57,993,974	3,165,395
Deposits	50,445,248	5,044,525	54,580,495	1,513,777
Unsecured wholesale funding	17,085,209	4,271,302	2,659,335	1,063,734
Secured funding transactions	47,835	47,835	55,530	55,530
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,023,083	373,539	698,614	532,354
Additional requirements	-	-	-	-
<b>Total cash inflows</b>	<b>19,479,079</b>	<b>10,518,710</b>	6,131,699	1,319,898
Maturing secured lending transactions backed by collateral	3,482,290	21,915	1,041,904	-
Committed facilities	1,250,000	-	2,450,000	-
Other inflows by counterparty which are maturing within 30 days	14,746,790	10,496,795	2,639,795	1,319,898
Operational deposits	-	-	-	-
Other cash inflows	-	-	-	-
<b>Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar Days)* 100</b>	-	142.15	-	94.09

### Main features of regulatory capital instruments

Description of the capital instrument	Stated capital	Subordinated term debt (2016)	Subordinated term debt (2016)
Issuer	SANASA Development Bank PLC	SBI FMO Emerging Asia Financial Sector Fund PTE. LTD	Nederlandse Financierings – Maatschappij Voor Ontwikkelingslanden N.V. (FMO)
Unique identifier	LK0412N00003	N/A	N/A
Governing Law of the Instrument	Companies Act, No. 07 of 2007, Colombo Stock Exchange Regulations	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations
Original date of issuance	May 2012 to May 2018	December 2016	December 2016
Par value of instrument (LKR)	100	N/A	N/A
Perpetual or dated	Perpetual	Dated	Dated
Original maturity date, if applicable	N/A	December 2021	December 2021
Amount recognised in regulatory capital (in LKR '000 as at reporting date)	5,758,689	491,798	219,830
Accounting classification (equity/liability)	Equity	Liability	Liability
<b>Issuer call subject to prior supervisory approval</b>			
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A
<b>Coupons/dividends</b>			
Fixed or floating dividend/coupon	Floating dividend	Floating coupon	Floating coupon
Coupon rate and any related index (%)	N/A	6 Months T-Bill Rate+450bps	6 Months T-Bill Rate+550bps
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
<b>Convertible or Non-convertible</b>			
Non-convertible	Non-convertible	Convertible	Convertible
If convertible, conversion trigger (s)	N/A	N/A	N/A
If convertible, fully or partially	N/A	Fully or partially subject to a maximum of 15% of the issued share capital	Fully or partially subject to a maximum of 15% of the issued share capital
If convertible, mandatory or optional	N/A	Optional	Optional
If convertible, conversion rate	N/A	LKR 140 or 1.1x of book value per share which ever is lower in the event if Bank issues new shares to any new investor	LKR 140 or 1.1x of book value per share which ever is lower in the event if Bank issues new shares to any new investor

### Differences between accounting and regulatory scopes and mapping of Financial Statement categories with regulatory risk categories

Item	Amount (LKR '000 as at 31 December 2018)					Explanation for differences between accounting and regulatory reporting
	a	b	c	d	e	
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory reporting	Subject to credit Risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital	
<b>Assets</b>						
Cash and cash equivalents	4,171,939	4,257,217	4,257,217			Impairment of financial assets under SLFRS 9
Placements with banks	9,528,426	9,375,500	9,375,500			Interest receivable on placements with banks is classified as other assets in regulatory reporting. Impairment of financial assets under SLFRS 9
Financial assets fair value through profit or loss	146,103	146,103	146,103			In regulatory reporting these investments are classified as investments – trading account
Financial assets at amortised cost						
– Loans and receivables to other customers	77,507,021	78,219,982	78,575,582		(355,599)	In regulatory reporting loans and receivables to customers arrived after netting off CBSL time based provisions. However, in published Financial Statements loans and receivables to customers arrived after netting off impairment allowances as per SLFRS 9
– Debt and other instruments	3,405,600	3,388,880	3,338,880		50,000	Interest receivable on debt and other instruments is classified as other assets in regulatory reporting. Impairment of financial assets under SLFRS 9
Financial assets measured at fair value through other comprehensive income	60,148	63,536	63,536			Impairment of financial assets under SLFRS 9
Property, plant and equipment	704,738	705,516	705,516			
Investment properties	22,335	22,335	22,335			
Intangible assets	3,728	3,728	–		3,728	
Deferred tax assets	69,415	–	–			
Other assets	1,198,314	724,013	724,013			The difference is due to audit adjustments and interest receivable on investments recognition
<b>Total assets</b>	<b>96,817,767</b>	<b>96,906,810</b>	<b>97,208,682</b>	<b>–</b>	<b>(301,871)</b>	
<b>Liabilities</b>						
Due to banks	–	–	–			
Due to other customers	67,474,822	64,337,626	–			Interest payable on deposits are stated under other liabilities in regulatory reporting
Other borrowings	15,420,968	15,075,069	–			Interest payable on borrowings are stated under other liabilities in regulatory reporting
Debt securities issued	4,198,548	4,000,000	–			Interest payable on borrowings are stated under other liabilities in regulatory reporting
Subordinated term debts	1,008,028	992,970	–			Interest payable on borrowings are stated under other liabilities in regulatory reporting
Current tax liabilities	143,988	141,270	–			Taxes are computed based on different profits under each reporting method
Deferred tax liabilities	–	58,000	–			Due to deferred tax adjustments defined benefit obligation and audit adjustments
Other liabilities	1,122,688	5,087,239	–			Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting
<b>Total liabilities</b>	<b>89,369,040</b>	<b>89,692,174</b>	<b>–</b>			
<b>Off-balance sheet liabilities</b>						
Guarantees	182,986	182,986	182,986			
Undrawn loan commitments	–	497,003	497,003			
<b>Shareholders' equity</b>						
Equity capital (stated capital)/ assigned capital	5,921,538	5,921,538	–			
of which amount eligible for CET I	5,921,538	5,921,538	–			
of which amount eligible for AT I	–	–	–			
Retained earnings	1,280,762	1,260,402	–			Due to differences which arise in profits computed in previous GAAP and SLFRSs
Accumulated other comprehensive income	(15,842)	–	–			
Other reserves	262,268	231,967	–			
<b>Total shareholders' equity</b>	<b>7,448,727</b>	<b>7,413,907</b>	<b>–</b>			