

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

31st March 2019



Template 1
Key Regulatory Ratios - Capital and Liquidity

Item	As at 31.03.2019	As at 31.12.2018
Regulatory Capital (LKR'000)		
Common Equity Tier 1	7,448,895	7,419,999
Tier 1 Capital	7,448,895	7,419,999
Total Capital	8,443,845	8,462,226
Regulatory Capital Ratio (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2019: 7.00%, 2018: 6.375%)	10.87	11.00
Tier 1 Capital Ratio (Minimum Requirement - 2019: 8.50%, 2018: 7.875%)	10.87	11.00
Total Capital Ratio (Minimum Requirement - 2019: 12.50%, 2018: 11.875%)	12.32	12.54
Leverage Ratio (%) (Minimum Requirement - 3%)	7.74	7.32
Regulatory Liquidity		
Statutory Liquid Assets (LKR' 000)	13,624,249	14,811,217
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	20.67	23.22
Off-Shore Banking Unit (%)	-	-
Total Stock of High-Quality Liquid Assets (LKR' 000)	4,091,426	3,460,374
Liquidity Coverage Ratio (%) (Minimum Requirement - 2019: 100%, 2018 - 90%)		
Rupee (%)	162.90	142.15
All Currency (%)	162.90	142.15
Net Stable Funding Ratio (%) (Minimum Requirement - 90%)	129.94	129.48

Template 2		
Basel III Computation of Capital Ratios		
Item	Amount (LKR' 000)	
	As at 31.03.2019	As at 31.12.2018
Common Equity Tier 1 (CET1) Capital after Adjustments	7,448,895	7,419,999
Common Equity Tier 1 (CET1) Capital	7,476,517	7,448,727
Equity Capital (Stated Capital) /Assigned Capital	5,921,538	5,921,538
Reserve Fund	215,612	215,612
Published Retained Earnings/(Accumulated Retained Losses)	1,308,552	1,280,762
Published Accumulated Other Comprehensive Income (OCI)	-	-
General and other Disclosed Reserves	30,815	30,815
Unpublished Current Year's Profit/(Losses) and Gains reflected in OCI	-	-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	-	-
Total Adjustments to CET1 Capital	27,622	28,728
Goodwill (net)	-	-
Intangible Assets (net)	2,622	3,728
Others (Investments in the capital of banking and financial institutions)	25,000	25,000
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	994,949	1,042,227
Tier 2 Capital	1,019,949	1,067,227
Qualifying Tier 2 Capital Instruments	661,980	711,628
Revaluation Gains	-	-
Loan Loss Provisions	357,969	355,599
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	25,000	25,000
Investment in Own Shares	-	-
Others (Investments in the capital of banking and financial institutions)	25,000	25,000
CET 1 Capital	7,448,895	7,419,999
Total Tier 1 Capital	7,448,895	7,419,999
Total Capital	8,443,845	8,462,226
Total Risk Weighted Assets (RWA)	68,530,518	67,474,294
RWAs for Credit Risk (Template 7 and 8)	63,406,512	62,660,450
RWAs for Market Risk (Template 9)	-	-
RWAs for Operational Risk (Template 10)	5,124,006	4,813,844
CET 1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	10.87	11.00
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	10.87	11.00
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	12.32	12.54
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

Template 3	
Computation of Leverage Ratio	
Item	Amount (LKR' 000)
	As at 31.03.2019
Tier 1 Capital	7,448,895
Total Exposures	96,181,846
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	95,499,210
Derivative Exposures	-
Securities Financing Transaction Exposures	-
Other Off-balance Sheet Exposures	682,636
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	7.74

Template 4
Basel III Computation of Liquidity Coverage Ratio

Item	Amount (LKR' 000)			
	As at 31.03.2019		As at 31.12.2018	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	4,235,844	4,091,426	3,482,290	3,460,374
Total Adjusted Level 1 Assets	3,273,056	3,273,056	3,336,186	3,336,186
Level 1 Assets	3,273,056	3,273,056	3,336,186	3,336,186
Total Adjusted Level 2A Assets	962,788	818,370	146,103	124,188
Level 2A Assets	962,788	818,370	146,103	124,188
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	70,751,165	10,046,723	68,601,375	9,737,202
Deposits	52,219,891	5,221,989	50,445,248	5,044,525
Unsecured Wholesale Funding	17,406,266	4,351,567	17,085,209	4,271,302
Secured Funding Transactions	43,428	43,428	47,835	47,835
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	1,081,579	429,739	1,023,083	373,539
Additional Requirements	-	-	-	-
Total Cash Inflows	19,825,063	9,274,858	19,479,079	10,518,710
Maturing Secured Lending Transactions backed by Collateral	4,235,844	144,418	3,482,290	21,915
Committed Facilities	1,250,000	-	1,250,000	-
Other Inflows by Counterparty which are Maturing within 30 days	14,189,219	9,130,439	14,746,790	10,496,795
Operational Deposits	-	-	-	-
Other Cash Inflows	150,000	75,000	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash outflows over the Next 30 Calendar Days) * 100		162.90		142.15

Template 5
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 Recognized in Regulatory Capital (in LKR '000 as at Reporting Date)	5,921,538	457,487	204,493
Accounting Classification (Equity/Liability)	Equity	Liability	Liability
Issuer Call subject to Prior Supervisory Approval			
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
Coupons/Dividends			
Fixed or Floating Dividend/Coupon	Floating Dividend	Floating Cupon	Floating Cupon
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-Cummulative	Cumulative	Cumulative
Convertible or 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 cpaital	Fully or Partially subject to a maximum of 15% of the issued share cpaital
If Convertible, Mandatory or Optional	N/A	Optional	Optional
If Convertible, Conversion Rate	N/A	Rs.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	Rs.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

N/A – Not applicable

Template 6
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 1st 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 01st 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 cognizance 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 optimize 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 optimize the Risk Weighted Assets for the purpose of improving the capital allocation of the Bank.

The 18bps breach in total capital ratio will get rectified by the first week of June 2019 with the inclusion of proposed Basel – III compliant Tier – II subordinated term debt of LKR equivalent of USD 10 million to total capital base. The investment will be made by “Stichting fondsbeheer DGGF lokaal MKB”, a foundation formed by Pricewaterhouse Coopers Advisory N.V. (“PWC”) and Triple Jump (“TJ”), the parties managing the fund in a consortium, to receive the relevant funding from the Ministry of Foreign Affairs of the Netherlands.

Template 7
Credit Risk under Standardized Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	Amount (LKR' 000) as at 31.03.2019					
	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	2,812,746	-	2,812,746	-	-	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	9,681,721	-	9,681,721	-	1,947,948	20%
Claims on Financial Institutions	-	-	-	-	-	-
Claims on Corporates	1,176,686	-	1,176,686	-	286,456	24%
Retail Claims	72,761,257	-	66,746,707	-	53,162,033	80%
Claims Secured by Residential Property	4,720,898	-	4,720,898	-	3,004,969	64%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	1,554,415	-	1,554,415	-	2,103,786	135%
Higher-risk Categories	-	-	-	-	-	-
Cash items and Other Assets	3,034,332	682,636	3,034,332	291,623	2,901,320	87%
Total	95,742,054	682,636	89,727,504	291,623	63,406,512	71%

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.

Template 8									
Credit Risk under Standardized Approach - Exposures by asset Classes and Risk Weights									
Description	Amount (LKR' 000) as at 31.03.2019 (Post CCF & CRM)								
Asset Classes / Risk Weight	0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and CBSL	2,812,746	-	-	-	-	-	-	-	2,812,746
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	-	9,643,041	38,680	-	-	-	-	-	9,681,721
Claims on Financial Institutions	-	-	-	-	-	-	-	-	-
Claims on Corporates	-	1,112,788	-	-	-	63,898	-	-	1,176,686
Retail Claims	88,358	1,107,774	-	-	50,440,389	15,110,186	-	-	66,746,707
Claims Secured by Residential Property	-	-	3,431,857	-	-	1,289,041	-	-	4,720,898
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	9,648	-	-	436,378	1,108,389	-	1,554,415
Higher-risk Categories	-	-	-	-	-	-	-	-	-
Cash items and Other Assets	388,604	45,039	-	-	-	2,892,312	-	-	3,325,955
Total	3,289,707	11,908,641	3,480,185	-	50,440,389	19,791,815	1,108,389	-	90,019,127

Template 9
Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR' 000) as at 31.03.2019
(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 & Gold	-
Capital Charge for Market Risk {(a) +(b) + (c) } * CAR	-

Template 10
Operational Risk under Basic Indicator Approach

Business Lines	Capital Charge Factor	Gross Income (LKR' 000) as at 31.03.2019			Amount
		1 st Year	2 nd Year	3 rd Year	
The Basic Indicator Approach	15%	5,006,683	4,224,684	3,578,649	
Capital Charges for Operational Risk (LKR' 000)					
The Basic Indicator Approach					640,501
Risk-Weighted Amount for Operational Risk (LKR' 000)					
The Basic Indicator Approach					5,124,006

Template 11						Template 12
Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories						Explanation for differences between accounting and regulatory reporting
Item	Amount (LKR '000 as at 31.03.2019)					
	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	
Assets						
Cash and cash equivalents	1,866,222	1,951,184	1,951,184			Impairment of financial assets under SLFRS 9.
Placements with banks	8,269,011	8,125,500	8,125,500			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	1,212,977	1,212,148	1,112,788	99,360		In regulatory reporting these investments are classified as investments - trading account. Interest receivable on these investments is classified as other assets in regulatory reporting.
Financial assets at amortised cost						
- loans and receivables to other customers	78,801,116	79,679,912	80,037,882		(357,969)	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	2,914,946	2,901,426	2,851,426		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	63,898	63,898			Impairment of financial assets under SLFRS 9.
Property, plant and equipment	700,087	700,087	700,087			
Investment properties	22,071	22,071	22,071			
Intangible assets	2,623	2,623	-		2,623	
Differed tax assets	69,415	-	-			In regulatory reporting differed tax assets are recorded in other assets.
Other assets	1,401,632	867,983	867,983			The difference is due to interest receivable on investments recognition.
Total assets	95,320,246	95,526,833	95,732,819	99,360	(305,347)	
Liabilities						
Due to banks	-	-	-	-	-	
Due to other customers	69,569,372	66,036,380	-	-	-	Interest payable on deposits are stated under other liabilities in regulatory reporting
Other borrowings	14,956,454	14,649,835	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting
Debt securities issued	988,759	964,560	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting
Subordinated term debts	1,041,429	992,970	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting
Retirement Benefit Obligations	375,588	335,002	-	-	-	
Current tax liabilities	106,632	137,583	-	-	-	Taxes are computed based on different profits under each reporting method.
Other liabilities	806,571	4,852,179	-	-	-	Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting.
Total liabilities	87,844,806	87,968,509	-	-	-	

Off-balance sheet liabilities						
Guarantees	165,649	165,649	165,649	-	-	
Undrawn loan commitments	-	516,987	516,987	-	-	
Shareholders' equity						
Equity capital (stated capital)/ assigned Capital	5,921,538	5,921,538	-	-	-	
of which amount eligible for CET 1	5,921,538	5,921,538	-	-	-	
of which amount eligible for AT 1	-	-	-	-	-	
Retained earnings	1,307,476	1,404,818	-	-	-	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	-	-	-	
Total shareholders' equity	7,475,440	7,558,324	-	-	-	