

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

Template 1

Key regulatory ratios – Capital and liquidity

Item	As at 31 December 2019	As at 31 December 2018
Regulatory capital (LKR '000)		
Common Equity Tier I (CET I) capital	7,146,580	7,419,999
Tier I capital	7,146,580	7,419,999
Total capital	11,208,615	8,462,226
Regulatory capital ratio (%)		
Common Equity Tier I capital ratio (Minimum requirement – 2019: 7.00%, 2018: 6.375%)	9.43	11.00
Tier I capital ratio (Minimum requirement – 2019: 8.50%, 2018: 7.875%)	9.43	11.00
Total capital ratio (Minimum requirement – 2019: 12.50%, 2018: 11.875%)	14.80	12.54
Leverage ratio (%) (Minimum requirement – 3%)	6.61	7.32
Regulatory liquidity		
Statutory liquid assets (LKR '000)	14,831,478	14,811,217
Statutory liquid assets ratio (Minimum requirement – 20%)		
Domestic banking unit (%)	21.74	23.22
Off-shore banking unit (%)	–	–
Total stock of high-quality liquid assets (LKR '000)	5,822,317	3,460,374
Liquidity coverage ratio (%) (Minimum requirement – 2019: 100%, 2018: 90%)		
Rupee (%)	123.77	142.15
All currency (%)	123.77	142.15
Net stable funding ratio (%) (Minimum requirement – 100%)	130.09	129.48

Template 2

Basel III computation of capital ratios

Item	Amount (LKR '000)	
	As at 31 December 2019	As at 31 December 2018
Common Equity Tier I (CET I) capital after adjustments	7,146,580	7,419,999
Common Equity Tier I (CET I) capital	7,687,506	7,448,727
Equity capital (stated capital)/assigned capital	5,921,538	5,921,538
Reserve fund	228,282	215,612
Published retained earnings/(accumulated retained losses)	1,510,081	1,280,762
Published accumulated other comprehensive income (OCI)	–	–
General and other disclosed reserves	27,605	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Unpublished current year's profit/(losses) and gains reflected in OCI	–	–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 CET 1 capital	540,926	28,728
Goodwill (net)	–	–
Intangible assets (net)	308,445	3,728
Deferred tax assets (net)	232,482	25,000
Investments in the capital of banking and financial institutions	–	–
Additional Tier I (AT I) capital after adjustments	–	–
Additional Tier I (AT I) capital	–	–

Item	Amount (LKR '000)	
	As at 31 December 2019	As at 31 December 2018
Qualifying additional Tier I capital instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to AT I capital	-	-
Investment in own shares	-	-
Others	-	-
Tier II capital after adjustments	4,062,035	1,042,227
Tier II capital	4,112,035	1,067,227
Qualifying Tier II capital instruments	3,479,793	711,628
Revaluation gains	-	-
Loan loss provisions	632,241	355,599
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier II	50,000	25,000
Investment in own shares	-	-
Investments in the capital of banking and financial institutions	50,000	25,000
CET I capital	7,146,580	7,419,999
Total Tier I capital	7,146,580	7,419,999
Total capital	11,208,615	8,462,226
Total risk weighted assets (RWA)	75,757,837	67,474,294
RWAs for credit risk (Templates 7 and 8)	69,464,792	62,660,450
RWAs for market risk (Template 9)	6,013	-
RWAs for operational risk (Template 10)	6,287,032	4,813,844
CET I capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	9.43	11.00
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
Total Tier I capital ratio (%)	9.43	11.00
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	14.80	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 December 2019	As at 31 December 2018
Tier I capital	7,146,580	7,136,608
Total exposures	108,121,304	97,558,072
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	107,242,698	96,878,083
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	878,606	679,989
Basel III leverage ratio (%) (Tier I/total exposure)	6.61	7.32

Template 4

Basel III computation of liquidity coverage ratio

Item	Amount (LKR '000)			
	As at 31 December 2019		As at 31 December 2018	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of high-quality liquid assets (HQLA)	5,860,411	5,822,317	3,482,290	3,460,374
Total adjusted Level 1 assets	3,882,941	3,882,941	3,336,186	3,336,186
Level 1 assets	4,141,468	4,141,468	3,336,186	3,336,186
Total adjusted Level 2A assets	1,977,469	1,680,849	146,103	124,188
Level 2A assets	1,977,469	1,680,849	146,103	124,188
Total adjusted Level 2B assets	-	-	-	-
Level 2B assets	-	-	-	-
Total cash outflows	69,964,170	11,844,994	68,601,375	9,737,202
Deposits	48,834,924	4,883,492	50,445,248	5,044,525
Unsecured wholesale funding	19,676,689	6,341,099	17,085,209	4,271,302
Secured funding transactions	66,862	66,862	47,835	47,835
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,385,694	553,541	1,023,083	373,539
Additional requirements	-	-	-	-
Total cash inflows	15,453,640	7,140,921	19,479,079	10,518,710
Maturing secured lending transactions backed by collateral	4,625,498	282,028	3,482,290	21,915
Committed facilities	1,600,000	-	1,250,000	-
Other inflows by counterparty which are maturing within 30 days	7,728,142	6,108,893	14,746,790	10,496,795
Operational deposits	-	-	-	-
Other cash inflows	1,500,000	750,000	-	-
Liquidity coverage ratio (%) (stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) * 100		123.77		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)	Subordinated term debt (2019)	Subordinated term debt (2019)
Issuer	SANASA Development Bank PLC	SBI FMO Emerging Asia Financial Sector Fund PTE. LTD	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	Stichting Fondsbeheer DGGF Lokaal MKB duly represented by Triple Jump B.V.	Belgian Investment Company for Developing Countries NV/SA – (BIO)
Unique identifier	LK0412N00003	N/A	N/A	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, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations, Banking Act Directions
Original date of issuance (agreement signed date for subordinated term debts)	May 2012 to May 2018	December 2016	December 2016	March 2019	September 2019
Par value of instrument (LKR)	100	N/A	N/A	N/A	N/A
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated
Original maturity date, if applicable	N/A	December 2021	December 2021	March 2024	September 2024
Amount recognised in regulatory capital (in LKR '000 as at 31 December 2019)	5,921,538	343,115	158,482	1,552,017	1,426,179
Accounting classification (equity/liability)	Equity	Liability	Liability	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	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends					
Fixed or floating dividend/coupon	Floating dividend	Floating coupon	Floating coupon	Floating coupon	Floating coupon
Coupon rate and any related index (%)	N/A	6 months T-bill rate + 450bps	6 months T-bill rate + 550bps	6 months T-bill Rate + 700bps	6 months LIBOR + 550bps
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible					
If convertible, conversion trigger(s)	N/A	N/A	N/A	Conversion trigger(s) applicable as per Banking Act Direction No. 1 of 2016	Conversion trigger(s) applicable as per Banking Act Direction No. 1 of 2016
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	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	Mandatory upon the occurrence of a trigger event	Mandatory upon the occurrence of a trigger event
If convertible, conversion rate	N/A	LKR 140 or 1.1 x of book value per share which ever is lower in the event if Bank issues new shares to any new investor	LKR 140 or 1.1 x of book value per share which ever is lower in the event if Bank issues new shares to any new investor	Simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the borrower as published by the Colombo Stock Exchange during the three (3) months period, immediately preceding the date of the trigger event	Simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the borrower as published by the Colombo Stock Exchange during the three (3) months period, immediately preceding the date of the trigger event

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, the capital adequacy ratio is a measure used to determine whether the Bank has sufficient capital to withstand unexpected losses arising from various risks during the course of the business. Therefore, it acts as a layer of cushion in absorbing potential losses arising from the course of the business and safeguarding the depositors’ funds. At present, capital adequacy position of the banks are computed based on banking Act Direction No. 01 of 2016 and subsequent amendments thereto issued by Central Bank of Sri Lanka. 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.

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 (2020-2022) Capital Management Plan rolled out has been integrated with the Internal Capital Adequacy Assessment Process (ICAAP) as well as the Bank’s Strategic Plan. Efforts have taken to comply with the Basel III regulations saw the Bank increases its capital levels by issuing Basel III compliant Tier II 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.

Template 7

Credit risk under standardised approach – credit risk exposures and credit risk mitigation (CRM) effects

Asset class	Amount (LKR '000) as at 31 December 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	6,073,691	–	6,073,691	–	–	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	7,719,595	–	7,719,595	–	1,555,523	20
Claims on financial institutions	–	–	–	–	–	–
Claims on corporates	4,340,881	–	4,340,881	–	1,156,248	27
Retail claims	78,938,348	–	73,713,764	–	59,065,806	80
Claims secured by residential property	4,987,399	–	4,987,399	–	3,030,653	61
Claims secured by commercial real estate	–	–	–	–	–	–
Non-performing assets (NPAs)	1,753,459	–	1,753,459	–	1,543,160	88
Higher-risk categories	–	–	–	–	–	–
Cash items and ther assets	3,041,941	878,606	3,041,941	385,977	3,113,401	91
Total	106,855,313	878,606	101,630,729	385,977	69,464,792	68

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 standardised approach – exposures by asset classes and risk weights

Description	Risk weight	Amount (LKR '000) as at 31 December 2019 (Post CCF & CRM)								Total credit exposures amount
		0%	20%	50%	60%	75%	100%	150%	>150%	
Asset classes										
Claims on Central Government and CBSL	6,073,691	-	-	-	-	-	-	-	-	6,073,691
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	-	7,680,915	38,680	-	-	-	-	-	-	7,719,595
Claims on financial institutions	-	-	-	-	-	-	-	-	-	-
Claims on corporates	-	3,480,791	800,000	-	-	60,090	-	-	-	4,340,881
Retail claims	107,644	1,495,769	-	-	53,374,792	18,735,559	-	-	-	73,713,764
Claims secured by residential property	-	-	3,913,492	-	-	1,073,907	-	-	-	4,987,399
Claims secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)	-	-	444,910	-	-	1,284,238	24,311	-	-	1,753,459
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Cash items and other assets	272,257	52,825	-	-	-	3,102,836	-	-	-	3,427,918
Total	6,453,592	12,710,299	5,197,082	-	53,374,792	24,256,630	24,311	-	-	102,016,706

Template 9

Market risk under standardised measurement method

Item	RWA amount (LKR '000) As at 31 December 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	752
(i) General equity risk	752
(ii) Specific equity risk	-
(c) RWA for foreign exchange and gold	-
Capital charge for market risk {(a) +(b) + (c) } * CAR	6,013

Template 10

Operational risk under basic indicator approach

Business lines	Capital charge factor	Gross income (LKR '000) as at 31 December 2019			Amount (LKR '000)
		1 st year	2 nd year	3 rd year	
The basic indicator approach	15%	6,103,802	5,206,861	4,406,918	
Capital charges for operational risk (LKR '000)					
The basic indicator approach					785,879
Risk-weighted amount for operational risk (LKR '000)					
The basic indicator approach					6,287,032

Template 11

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories

Template 12

Explanation for differences between accounting and regulatory reporting

Item	Amount (LKR '000 as at 31 December 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	2,429,791	2,430,144	2,430,144	–	–	Impairment of financial assets under SLFRS 9.
Placements with banks	5,628,095	5,575,852	5,575,852	–	–	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	3,527,310	3,526,931	3,526,931	–	–	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	85,823,335	86,644,597	85,679,206	–	(632,241)	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	6,998,925	6,962,371	6,866,173	46,198	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	56,939	60,148	60,148	–	–	
Property, plant and equipment	645,231	645,231	645,231	–	–	
Right-of-use assets	651,271	–	–	–	–	In regulatory reporting Right-of-use asset as per SLFRS 16 is not recognised.
Investment properties	21,279	21,279	21,279	–	–	

Item	Amount (LKR '000 as at 31 December 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	
Intangible assets	308,445	308,445	-	-	308,445	
Deferred tax assets	232,482	219,859	-	-	232,482	In regulatory reporting deferred tax assets are recorded in other assets.
Other assets	1,460,524	980,403	2,050,349	-	-	The difference is due to recognition of interest receivable on investments in regulatory reporting and SLFRS 9 adjustments.
Total assets	107,783,624	107,375,259	106,855,313	46,198	(41,315)	
Liabilities						
Due to banks	-	-	-	-	-	
Due to other customers	72,431,923	69,233,918	-	-	-	Interest payable on deposits are stated under other liabilities in regulatory reporting.
Other borrowings	20,299,718	20,040,017	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Debt securities issued	1,014,034	964,560	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Subordinated term debts	4,210,566	4,200,322	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Retirement benefit obligations	479,575	429,860	-	-	-	
Current tax liabilities	187,070	168,920	-	-	-	Taxes are computed based on different profits under each reporting method.
Other liabilities	1,491,759	4,518,490	-	-	-	Interest payable on borrowings and deposits added to the other liabilities in regulatory reporting.
Total liabilities	100,114,645	99,556,086	-	-	-	
Off-balance sheet liabilities						
Guarantees	177,752	177,752	177,752	-	-	
Undrawn loan commitments	-	700,854	700,854	-	-	
Shareholders' equity						
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	1,491,554	1,651,208	-	-	-	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	(19,052)	-	-	-	-	
Other reserves	274,939	246,426	-	-	-	
Total shareholders' equity	7,668,979	7,819,172	-	-	-	