

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

As at 30th June 2020

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Template 1
Key regulatory ratios - capital and liquidity

Item	As at 30 June 2020	As at 30 March 2020
Regulatory capital (LKR'000)		
Common Equity Tier 1 (CET I) capital	6,934,396	6,938,362
Tier 1 capital	6,934,396	6,938,362
Total capital	10,681,944	10,831,849
Regulatory capital ratio (%)		
Common Equity Tier 1 capital ratio (<i>Minimum requirement - 2020: 6.50%, 2019: 7.00%</i>)	8.28	8.81
Tier 1 Capital Ratio (<i>Minimum requirement - 2020: 8.00%, 2019: 8.50%</i>)	8.28	8.81
Total capital ratio (<i>Minimum requirement - 2020: 12.00%, 2019: 12.50%</i>)	12.76	13.75
Leverage ratio (%) (<i>Minimum requirement - 3%</i>)	6.02	6.23
Regulatory liquidity		
Statutory liquid assets (LKR' 000)	17,057,508	15,301,583
Statutory liquid assets ratio (<i>Minimum requirement - 20%</i>)		
Domestic banking unit (%)	22.71	21.57
Off-shore banking unit (%)	-	-
Total stock of high-quality liquid assets (LKR' 000)	5,881,213	6,213,211
Liquidity coverage ratio (%) (<i>Minimum requirement - 2020: 100%, 2019 - 100%</i>)		
Rupee (%)	102.12	136.22
All currency (%)	102.12	136.22
Net stable funding ratio (%) (<i>Minimum requirement - 100%</i>)	130.58	130.55

Template 2
Basel III computation of capital ratios

Item	Amount (LKR' 000)	
	As at 30 June 2020	As at 31 March 2020
Common Equity Tier 1 (CET1) capital after adjustments	6,934,396	6,938,362
Common Equity Tier 1 (CET1) capital	7,687,506	7,687,506
Equity capital (stated capital) /assigned capital	5,921,538	5,921,538
Reserve fund	228,282	228,282
Published retained earnings/(accumulated retained losses)	1,510,081	1,510,081
Published accumulated other comprehensive income (OCI)	-	-
General and other disclosed reserves	27,605	27,605
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-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	753,111	749,144
Goodwill (net)	-	-
Intangible assets (net)	446,386	456,165
Deferred tax assets (net)	306,725	292,979
Investments in the capital of banking and financial institutions	-	-
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	-	-
Tier 2 capital after adjustments	3,747,549	3,893,487
Tier 2 capital	3,797,549	3,943,487
Qualifying Tier 2 capital instruments	3,059,761	3,269,777
Revaluation gains	-	-
Loan loss provisions	737,788	673,710
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier 2	50,000	50,000
Investment in own shares	-	-
Investments in the capital of banking and financial institutions	50,000	50,000
CET 1 capital	6,934,396	6,938,362
Total Tier 1 capital	6,934,396	6,938,362
Total capital	10,681,944	10,831,849
Total risk weighted assets (RWA)	83,705,130	78,764,785
RWAs for credit risk (Template 7 and 8)	77,140,131	72,208,506
RWAs for market risk (Template 9)	18,884	10,164
RWAs for operational risk (Template 10)	6,546,115	6,546,115
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	8.28	8.81
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
Total Tier 1 capital ratio (%)	8.28	8.81
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	12.76	13.75
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 30 June 2020	As at 31 March 2020
Tier 1 capital	6,934,396	6,938,362
Total exposures	115,216,015	111,327,063
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	114,320,719	110,376,011
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	895,295	951,052
Basel III leverage ratio (%) (Tier 1/total exposure)	6.02	6.23

Template 4
Basel III computation of liquidity coverage ratio

Item	Amount (LKR' 000)			
	As at 30 June 2020		As at 31 March 2020	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of high-quality liquid assets (HQLA)	5,974,156	5,881,213	6,084,472	6,213,211
Total adjusted level 1 assets	3,867,945	3,867,945	4,069,579	4,069,579
Level 1 assets	4,090,934	4,090,934	4,500,553	4,500,553
Total adjusted level 2A assets	2,106,211	1,790,279	2,014,893	1,712,659
Level 2A assets	2,106,211	1,790,279	2,014,893	1,712,659
Total adjusted level 2B assets	-	-	-	-
Level 2B assets	-	-	-	-
Total cash outflows	79,689,543	14,068,727	74,047,509	12,654,278
Deposits	54,461,578	5,446,158	54,311,054	5,431,105
Unsecured wholesale funding	23,773,528	7,960,277	17,843,148	6,234,065
Secured funding transactions	65,750	65,750	66,964	66,964
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,388,687	596,543	1,826,343	922,144
Additional requirements	-	-	-	-
Total cash inflows	14,116,254	8,309,607	18,157,888	8,093,002
Maturing secured lending transactions backed by collateral	3,757,231	300,395	6,315,482	282,028
Committed facilities	350,000	-	1,600,000	-
Other inflows by counterparty which are maturing within 30 days	9,215,902	7,612,651	9,826,326	7,602,934
Operational deposits	-	-	-	-
Other cash inflows	793,121	396,561	416,080	208,040
Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflows over the next 30 calendar days) * 100		102.12		136.22

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	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 30 June 2020)	5,921,538	274,492	127,808	1,376,317	1,281,144
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	Non-convertible	Convertible	Convertible	Convertible or write off	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

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 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.

Template 7
Credit risk under standardized approach - credit risk exposures and credit risk mitigation (CRM) effects

Asset class	Amount (LKR' 000) as at 30 June 2020					
	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	5,225,055	-	5,225,055	-	-	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	8,782,527	-	8,782,527	-	1,768,109	20%
Claims on financial institutions	-	-	-	-	-	-
Claims on corporates	3,259,314	-	3,259,314	-	787,288	24%
Retail claims	83,979,901	-	79,095,880	-	63,947,734	81%
Claims secured by residential property	4,973,878	-	4,973,878	-	2,996,401	60%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	2,048,319	-	2,048,319	-	1,863,987	91%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	6,015,191	895,295	6,015,191	391,840	5,776,612	90%
Total	114,284,183	895,295	109,400,163	391,840	77,140,131	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 30 June 2020 (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		5,225,055	-	-	-	-	-	-	-	5,225,055
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		-	8,743,847	38,680	-	-	-	-	-	8,782,527
Claims on financial institutions		-	-	-	-	-	-	-	-	-
Claims on corporates		-	2,902,533	300,000	-	-	56,781	-	-	3,259,314
Retail claims		106,724	1,767,294	-	-	54,510,348	22,711,514	-	-	79,095,880
Claims secured by residential property		-	-	3,954,952	-	-	1,018,925	-	-	4,973,878
Claims secured by commercial real estate		-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)		-	-	466,728	-	-	1,483,527	98,064	-	2,048,319
Higher-risk categories		-	-	-	-	-	-	-	-	-
Cash items and other assets		591,547	48,590	-	-	-	5,766,894	-	-	6,407,031
Total		5,923,326	13,462,264	4,760,360	-	54,510,348	31,037,641	98,064	-	109,792,004

109,792,004

Template 9
Market risk under standardised measurement method

Item	RWA amount (LKR' 000) As at 30 June 2020
(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	2,360
(i) General equity risk	2,360
(ii) Specific equity risk	-
(c) RWA for foreign exchange and gold	-
Capital charge for market risk {(a) +(b) + (c) } * CAR	18,884

Template 10
Operational risk under basic indicator approach

Business lines	Capital charge factor	Gross income (LKR' 000) as at 30 June 2020			Amount (LKR' 000)
		1 st Year	2 nd Year	3 rd Year	
The basic indicator approach	15%	6,335,946	5,462,256	4,567,085	
Capital charges for operational risk (LKR' 000)					
The basic indicator approach					818,264
Risk-weighted amount for operational risk (LKR' 000)					
The basic indicator approach					6,546,115

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 30 June 2020)					
	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	5,079,586	5,269,204	5,269,204	-	-	Impairment of financial assets under SLFRS 9.
Placements with banks	4,195,263	4,114,780	4,114,780	-	-	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	2,957,680	2,957,680	2,902,375	55,304	-	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	93,119,908	94,227,578	91,002,097	-	(737,788)	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	5,662,495	5,613,735	5,563,735	-	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	56,939	56,939	-	-	
Investment in subsidiaries	6,163	6,163	-	-	-	
Property, plant and equipment	648,804	648,804	648,804	-	-	
Right of use assets	644,447	-	-	-	-	In regulatory reporting Right of use asset as per SLFRS 16 is not recognised.
Investment properties	20,751	20,751	20,751	-	-	
Intangible assets	446,386	446,386	-	-	-	
Differed tax assets	303,651	306,725	-	-	306,725	In regulatory reporting differed tax assets are recorded in other assets.
Other assets	1,931,757	1,450,898	4,705,499	-	446,386	This difference is due to recognition of interest receivable on investments in regulatory reporting and SLFRS 9 adjustments.
Total assets	115,073,830	115,119,643	114,284,183	55,304	65,323	
Liabilities						
Due to banks	-	-	-	-	-	
Due to other customers	81,590,980	79,110,572	-	-	-	Interest payable on deposits are stated under other liabilities in regulatory reporting.
Other borrowings	17,770,494	17,625,861	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Debt securities issued	1,013,363	964,560	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Subordinated term debts	4,286,166	4,239,250	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Retirement benefit obligations	522,816	522,816	-	-	-	
Current tax liabilities	310,937	310,937	-	-	-	Taxes are computed based on different profits under each reporting method.
Other liabilities	1,580,830	3,963,422	-	-	-	Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting.
Total liabilities	107,075,585	106,737,418	-	-	-	

			-	-	-	
Off-balance sheet liabilities						
Guarantees	186,024	186,024	186,024			
Undrawn loan commitments	-	709,272	709,272	-	-	
	-			-	-	
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	1,820,820	2,204,799	-	-	-	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	(19,052)	-	-	-	-	
Other reserves	274,939	255,887	-	-	-	
Total shareholders' equity	7,998,244.74	8,382,224.18	-	-	-	