

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

30th September 2019



Template 1		
Key Regulatory Ratios - Capital and Liquidity		
Item	As at 30.09.2019	As at 30.06.2019
Regulatory Capital (LKR'000)		
Common Equity Tier 1	7,265,760	7,259,808
Tier 1 Capital	7,265,760	7,259,808
Total Capital	10,054,056	10,070,580
Regulatory Capital Ratio (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2019: 7.00%, 2018: 6.375%)	9.98	10.24
Tier 1 Capital Ratio (Minimum Requirement - 2019: 8.50%, 2018: 7.875%)	9.98	10.24
Total Capital Ratio (Minimum Requirement - 2019: 12.50%, 2018: 11.875%)	13.81	14.21
Leverage Ratio (%) (Minimum Requirement - 3%)	7.12	7.38
Regulatory Liquidity		
Statutory Liquid Assets (LKR' 000)	14,750,356	13,962,472
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	21.96	20.74
Off-Shore Banking Unit (%)	-	-
Total Stock of High-Quality Liquid Assets (LKR' 000)	4,574,239	2,553,131
Liquidity Coverage Ratio (%) (Minimum Requirement - 2019: 100%, 2018 - 90%)		
Rupee (%)	164.41	111.56
All Currency (%)	164.41	111.56
Net Stable Funding Ratio (%) (Minimum Requirement - 90%)	125.82	111.70

Template 2
Basel III Computation of Capital Ratios

Item	Amount (LKR' 000)	
	As at 30.09.2019	As at 30.06.2019
Common Equity Tier 1 (CET1) Capital after Adjustments	7,265,760	7,259,808
Common Equity Tier 1 (CET1) Capital	7,476,518	7,476,518
Equity Capital (Stated Capital) /Assigned Capital	5,921,538	5,921,538
Reserve Fund	215,612	215,612
Published Retained Earnings/(Accumulated Retained Losses)	1,308,553	1,308,553
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Unpublished Current Year's Profit/(Losses) and Gains reflected in OCI	-	-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	210,757	216,710
Goodwill (net)	-	-
Intangible Assets (net)	141,343	147,295
Deferred Tax Assets (net)	69,415	69,415
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	2,788,295	2,810,773
Tier 2 Capital	2,838,295	2,860,773
Qualifying Tier 2 Capital Instruments	2,191,112	2,323,499
Revaluation Gains	-	-
Loan Loss Provisions	647,183	537,274
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	7,265,760	7,259,808
Total Tier 1 Capital	7,265,760	7,259,808
Total Capital	10,054,056	10,070,580
Total Risk Weighted Assets (RWAs)	72,790,082	70,882,013
RWAs for Credit Risk (Template 7 and 8)	66,784,449	65,135,602
RWAs for Market Risk (Template 9)	-	-
RWAs for Operational Risk (Template 10)	6,005,633	5,746,411
CET 1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	9.98	10.24
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	9.98	10.24
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	13.81	14.21
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 30.09.2019
Tier 1 Capital	7,265,760
Total Exposures	102,030,308
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	101,280,039
Derivative Exposures	-
Securities Financing Transaction Exposures	-
Other Off-balance Sheet Exposures	750,269
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	7.12

Template 4

Basel III Computation of Liquidity Coverage Ratio

Item	Amount (LKR' 000)			
	As at 30.09.2019		As at 30.06.2019	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	4,708,601	4,574,239	2,650,049	2,553,131
Total Adjusted Level 1 Assets	2,768,140	2,768,140	1,460,270	1,460,270
Level 1 Assets	2,924,847	2,924,847	1,579,617	1,579,617
Total Adjusted Level 2A Assets	1,940,460	1,649,391	1,189,778	1,011,311
Level 2A Assets	1,940,460	1,649,391	1,189,778	1,011,311
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	68,018,449	10,090,898	65,713,799	9,153,953
Deposits	47,936,895	4,793,690	49,781,015	4,978,102
Unsecured Wholesale Funding	18,757,801	4,689,450	14,702,680	3,675,670
Secured Funding Transactions	67,512	67,512	43,286	43,286
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	1,256,240	540,246	1,186,818	456,895
Additional Requirements	-	-	-	-
Total Cash Inflows	15,107,360	7,308,760	13,047,215	7,496,096
Maturing Secured Lending Transactions backed by Collateral	4,296,167	282,028	2,639,900	178,467
Committed Facilities	1,600,000	-	1,250,000	-
Other Inflows by Counterparty which are Maturing within 30 days	8,311,193	6,576,733	9,157,315	7,317,629
Operational Deposits	-	-	-	-
Other Cash Inflows	900,000	450,000	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash outflows over the Next 30 Calendar Days) * 100		164.41		111.56

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)
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
Unique Identifier	LK0412N00003	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	Companies Act, No. 07 of 2007, Colombo Stock Exchange Regulations
Original date of Issuance (Agreement signed Date)	May 2012 to May 2018	December 2016	December 2016	March 2019
Par value of Instrument (LKR)	100	N/A	N/A	N/A
Perpetual or Dated	Perpetual	Dated	Dated	Dated
Original Maturity Date, if Applicable	N/A	December 2021	December 2021	March 2024
Amount Recognized in Regulatory Capital (in LKR '000 as at 30.09.2019)	5,921,538	377,426	173,819	1,639,867
Accounting Classification (Equity/Liability)	Equity	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
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A
Coupons/Dividends				
Fixed or Floating Dividend/Coupon	Floating Dividend	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
Non-Cumulative or Cumulative	Non-Cumulative	Cumulative	Cumulative	Cumulative
Convertible or Non-Convertible	Non-Convertible	Convertible	Convertible	Convertible or Write off
If Convertible, Conversion Trigger (s)	N/A	N/A	N/A	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
If Convertible, Mandatory or Optional	N/A	Optional	Optional	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 as published by the Colombo Stock Exchange during the three months (03) period, immediately preceding the date of the Trigger Event

N/A – Not applicable

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 30.09.2019					
	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	4,894,173	-	4,894,173	-	-	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	7,257,220	-	7,257,220	-	1,463,048	20%
Claims on Financial Institutions	-	-	-	-	-	-
Claims on Corporates	2,901,774	-	2,901,774	-	628,473	22%
Retail Claims	77,032,506	-	71,596,917	-	57,272,604	80%
Claims Secured by Residential Property	4,913,795	-	4,913,795	-	3,024,199	62%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)	1,432,043	-	1,432,043	-	1,351,991	94%
Higher-risk Categories	-	-	-	-	-	-
Cash items and Other Assets	3,122,059	750,269	3,122,059	323,261	3,044,135	88%
Total	101,553,570	750,269	96,117,982	323,261	66,784,449	69%

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 30.09.2019 (Post CCF & CRM)								Total Credit Exposures Amount		
	Asset Classes	Risk Weight	0%	20%	50%	60%	75%	100%		150%	>150%
Claims on Central Government and CBSL			4,894,173	-	-	-	-	-	-	-	4,894,173
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			-	7,218,540	38,680	-	-	-	-	-	7,257,220
Claims on Financial Institutions			-	-	-	-	-	-	-	-	-
Claims on Corporates			-	2,841,626	-	-	-	60,148	-	-	2,901,774
Retail Claims			97,369	1,328,845	-	-	52,655,474	17,515,229	-	-	71,596,917
Claims Secured by Residential Property			-	-	3,779,193	-	-	1,134,602	-	-	4,913,795
Claims Secured by Commercial Real Estate			-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)			-	-	172,849	-	-	1,246,448	12,745	-	1,432,043
Higher-risk Categories			-	-	-	-	-	-	-	-	-
Cash items and Other Assets			367,048	42,672	-	-	-	3,035,600	-	-	3,445,320
Total			5,358,590	11,431,683	3,990,722	-	52,655,474	22,992,028	12,745	-	96,441,242

Template 9

Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR' 000) as at 30.09.2019
(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 30.09.2019			Amount LKR' 000
		1 st Year	2 nd Year	3 rd Year	
The Basic Indicator Approach	15%	5,788,893	5,082,681	4,142,507	
Capital Charges for Operational Risk (LKR' 000)					
The Basic Indicator Approach					750,704
Risk-Weighted Amount for Operational Risk (LKR' 000)					
The Basic Indicator Approach					6,005,633

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 30.09.2019)					
	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	2,061,697	2,252,760	2,252,760	-	-	Impairment of financial assets under SLFRS 9.
Placements with banks	5,442,776	5,375,500	5,375,500	-	-	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	2,841,626	2,841,626	2,841,626	-	-	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	83,478,057	84,847,717	83,378,344	-	(638,807)	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	5,003,523	4,982,853	4,932,853	-	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	60,148	60,148	-	-	
Property, plant and equipment	689,615	689,615	689,615	-	-	
Investment properties	21,719	21,719	21,719	-	-	
Intangible assets	141,343	141,343	-	-	141,343	
Differed tax assets	204,867	69,415	-	-	69,415	In regulatory reporting differed tax assets are recorded in other assets.
Other assets	1,545,426	940,914	2,001,005	-	-	The difference is due to recognition of interest receivable on investments in regulatory reporting and SLFRS 9 adjustments.
Total assets	101,490,796	102,223,610	101,553,570	-	(378,050)	
Liabilities						
Due to banks	-	-	-	-	-	
Due to other customers	70,452,103	67,454,321	-	-	-	Interest payable on deposits are stated under other liabilities in regulatory reporting.
Other borrowings	18,371,085	18,089,759	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Debt securities issued	989,297	964,560	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Subordinated term debts	2,869,782	2,749,970	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Retirement benefit obligations	409,698	409,698	-	-	-	
Current tax liabilities	42,348	86,494	-	-	-	Taxes are computed based on different profits under each reporting method.
Other liabilities	856,847	4,533,473	-	-	-	Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting.
Total liabilities	93,991,161	94,288,275	-	-	-	

Off-balance sheet liabilities						
Guarantees	172,913	172,913	172,913	-	-	
Undrawn loan commitments	-	577,356	577,356	-	-	
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	1,331,671	1,767,370	-	-	-	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	(15,842)	-	-	-	-	
Other reserves	262,268	246,426	-	-	-	
Total shareholders' equity	7,499,636	7,935,334	-	-	-	