

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

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**As at 30th September 2020**



**Template 1**
**Key regulatory ratios - capital and liquidity**

Item	As at 30 September 2020	As at 30 June 2020
<b>Regulatory capital (LKR'000)</b>		
Common Equity Tier 1 (CET I) capital	7,315,739	6,934,396
Tier 1 capital	7,315,739	6,934,396
Total capital	10,810,275	10,681,944
<b>Regulatory capital ratio (%)</b>		
Common Equity Tier 1 capital ratio <i>(Minimum requirement - 2020: 6.50%, 2019: 7.00%)</i>	8.15	8.28
Tier 1 Capital Ratio <i>(Minimum requirement - 2020: 8.00%, 2019: 8.50%)</i>	8.15	8.28
Total capital ratio <i>(Minimum requirement - 2020: 12.00%, 2019: 12.50%)</i>	12.04	12.76
<b>Leverage ratio (%) (Minimum requirement - 3%)</b>		
	5.89	6.02
<b>Regulatory liquidity</b>		
Statutory liquid assets (LKR' 000)	17,686,955	17,057,508
Statutory liquid assets ratio <i>(Minimum requirement - 20%)</i>		
Domestic banking unit (%)	21.71	22.71
Off-shore banking unit (%)	-	-
Total stock of high-quality liquid assets (LKR' 000)	5,706,241	5,881,213
Liquidity coverage ratio (%)		
<i>(Minimum requirement - 2020: 100%, 2019 - 100%)</i>		
Rupee (%)	105.87	102.12
All currency (%)	105.87	102.12
Net stable funding ratio (%) <i>(Minimum requirement - 100%)</i>	128.13	130.58

<b>Template 2</b>		
<b>Basel III computation of capital ratios</b>		
<b>Item</b>	<b>Amount (LKR' 000)</b>	
	<b>As at 30 September 2020</b>	<b>As at 30 June 2020</b>
<b>Common Equity Tier 1 (CET1) capital after adjustments</b>	<b>7,315,739</b>	<b>6,934,396</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>7,967,642</b>	<b>7,687,506</b>
Equity capital (stated capital) /assigned capital	6,201,674	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Unpublished current year's profit/(losses) and gains reflected in OCI	-	-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	-	-
<b>Total adjustments to CET1 capital</b>	<b>651,903</b>	<b>753,111</b>
Goodwill (net)	-	-
Intangible assets (net)	428,910	446,386
Deferred tax assets (net)	222,994	306,725
Investments in the capital of banking and financial institutions	-	-
<b>Additional Tier 1 (AT1) capital after adjustments</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>
Qualifying additional Tier 1 capital Instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to AT1 capital</b>	<b>-</b>	<b>-</b>
Investment in own shares	-	-
Others	-	-
<b>Tier 2 capital after adjustments</b>	<b>3,494,536</b>	<b>3,747,447</b>
<b>Tier 2 capital</b>	<b>3,544,536</b>	<b>3,797,447</b>
Qualifying Tier 2 capital instruments	2,849,745	3,059,761
Revaluation gains	-	-
Loan loss provisions	694,791	737,788
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to Tier 2</b>	<b>50,000</b>	<b>50,000</b>
Investment in own shares	-	-
Investments in the capital of banking and financial institutions	50,000	50,000
<b>CET 1 capital</b>	<b>7,315,739</b>	<b>6,934,396</b>
<b>Total Tier 1 capital</b>	<b>7,315,739</b>	<b>6,934,396</b>
<b>Total capital</b>	<b>10,810,275</b>	<b>10,681,944</b>
<b>Total risk weighted assets (RWA)</b>	<b>89,782,801</b>	<b>83,705,130</b>
RWAs for credit risk (Template 7 and 8)	82,817,675	77,140,131
RWAs for market risk (Template 9)	5,087	18,884
RWAs for operational risk (Template 10)	6,960,038	6,546,115
<b>CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)</b>	<b>8.15</b>	<b>8.28</b>
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
<b>Total Tier 1 capital ratio (%)</b>	<b>8.15</b>	<b>8.28</b>
<b>Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)</b>	<b>12.04</b>	<b>12.76</b>
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-

<b>Template 3</b>
<b>Computation of leverage ratio</b>

Item	Amount (LKR' 000)	
	As at 30 September 2020	As at 30 June 2020
<b>Tier 1 capital</b>	<b>7,315,739</b>	<b>6,934,396</b>
<b>Total exposures</b>	<b>124,134,172</b>	<b>115,216,015</b>
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	122,983,955	114,320,719
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	1,150,216	895,295
<b>Basel III leverage ratio (%) (Tier 1/total exposure)</b>	<b>5.89</b>	<b>6.02</b>

**Template 4**  
**Basel III computation of liquidity coverage ratio**

Item	Amount (LKR' 000)			
	As at 30 September 2020		As at 30 June 2020	
	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>6,071,671</b>	<b>5,706,241</b>	<b>5,974,156</b>	<b>5,881,213</b>
Total adjusted level 1 assets	3,184,177	3,184,177	3,867,945	3,867,945
Level 1 assets	3,583,457	3,583,457	4,090,934	4,090,934
Total adjusted level 2A assets	2,887,494	2,454,370	2,106,211	1,790,279
Level 2A assets	2,887,494	2,454,370	2,106,211	1,790,279
Total adjusted level 2B assets	-	-	-	-
Level 2B assets	-	-	-	-
<b>Total cash outflows</b>	<b>87,123,003</b>	<b>16,097,020</b>	<b>79,689,543</b>	<b>14,068,727</b>
Deposits	58,248,638	5,824,864	54,461,578	5,446,158
Unsecured wholesale funding	27,169,055	9,649,120	23,773,528	7,960,277
Secured funding transactions	22,944	22,944	65,750	65,750
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,682,367	600,093	1,388,687	596,543
Additional requirements	-	-	-	-
<b>Total cash inflows</b>	<b>19,542,058</b>	<b>10,707,034</b>	<b>14,116,254</b>	<b>8,309,607</b>
Maturing secured lending transactions backed by collateral	5,456,825	412,895	3,757,231	300,395
Committed facilities	1,500,000	-	350,000	-
Other inflows by counterparty which are maturing within 30 days	11,335,233	9,669,139	9,215,902	7,612,651
Operational deposits	-	-	-	-
Other cash inflows	1,250,000	625,000	793,121	396,561
<b>Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflows over the next 30 calendar days) * 100</b>		<b>105.87</b>		<b>102.12</b>

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 September 2020)	5,921,538	240,180	112,471	1,288,467	1,208,627
Accounting classification (equity/liability)	Equity	Liability	Liability	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	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
<b>Coupons/Dividends</b>					
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
<b>Convertible or non-convertible</b>	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

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 September 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	5,464,684	-	5,464,684	-	-	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	10,371,122	-	10,371,122	-	2,085,828	20%
Claims on financial institutions	-	-	-	-	-	-
Claims on corporates	4,201,238	-	4,201,238	-	885,751	21%
Retail claims	90,236,740	-	85,520,317	-	69,873,248	82%
Claims secured by residential property	4,986,926	-	4,986,926	-	2,982,483	60%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	2,116,870	-	2,116,870	-	1,902,400	90%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	5,387,160	1,150,216	5,387,160	517,596	5,087,966	86%
<b>Total</b>	<b>122,764,741</b>	<b>1,150,216</b>	<b>118,048,318</b>	<b>517,596</b>	<b>82,817,675</b>	<b>70%</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.



Template 8

Credit risk under standardized approach - exposures by asset classes and risk weights

Description		Amount (LKR' 000) as at 30 September 2020 (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		5,464,684	-	-	-	-	-	-	-	5,464,684
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		-	10,332,442	38,680	-	-	-	-	-	10,371,122
Claims on financial institutions		-	-	-	-	-	-	-	-	-
Claims on corporates		-	4,144,359	-	-	-	56,879	-	-	4,201,238
Retail claims		124,965	1,925,782	-	-	55,925,916	27,543,655	-	-	85,520,317
Claims secured by residential property		-	-	4,008,887	-	-	978,039	-	-	4,986,926
Claims secured by commercial real estate		-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)		-	-	489,285	-	-	1,567,241	60,344	-	2,116,870
Higher-risk categories		-	-	-	-	-	-	-	-	-
Cash items and other assets		733,329	104,327	-	-	-	5,067,100	-	-	5,904,756
<b>Total</b>		<b>6,322,978</b>	<b>16,506,910</b>	<b>4,536,852</b>	<b>-</b>	<b>55,925,916</b>	<b>35,212,914</b>	<b>60,344</b>	<b>-</b>	<b>118,565,914</b>

<b>Template 9</b>
<b>Market risk under standardised measurement method</b>

Item	RWA amount (LKR' 000) As at 30 September 2020
<b>(a) RWA for interest rate risk</b>	-
General interest rate risk	-
(i) Net long or short position	-
(ii) Horizontal disallowance	-
(iii) Vertical disallowance	-
(iv) Options	-
Specific interest rate risk	-
<b>(b) RWA for equity</b>	<b>636</b>
(i) General equity risk	587
(ii) Specific equity risk	48
<b>(c) RWA for foreign exchange and gold</b>	-
<b>Capital charge for market risk <math>\{(a) + (b) + (c)\} * CAR</math></b>	<b>5,087</b>

Template 10

Operational risk under basic indicator approach

Business lines	Capital charge factor	Gross income (LKR' 000) as at 30 September 2020			Amount (LKR' 000)
		1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year	
The basic indicator approach	15%	6,528,521	5,788,893	5,082,681	
Capital charges for operational risk (LKR' 000)					
The basic indicator approach					870,005
Risk-weighted amount for operational risk (LKR' 000)					
The basic indicator approach					6,960,038

<b>Template 11</b>	<b>Template 12</b>
<b>Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories</b>	<b>Explanation for differences between accounting and regulatory reporting</b>

Item	Amount (LKR '000 as at 30 September 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	
<b>Assets</b>						
Cash and cash equivalents	7,854,558	7,863,316	7,863,316	-	-	Impairment of financial assets under SLFRS 9.
Placements with banks	3,405,392	3,306,780	3,306,780	-	-	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	4,157,020	4,152,103	4,139,401	12,702		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	98,655,335	99,414,498	97,340,537	-	(694,791)	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	5,587,549	5,558,263	5,508,263	-	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	683,713	683,713	683,713	-	-	
Right of use assets	603,335	-	-	-	-	In regulatory reporting Right of use asset as per SLFRS 16 is not recognised.
Investment properties	20,487	20,487	20,487	-	-	
Intangible assets	428,910	428,910			428,910	
Differed tax assets	222,994	222,994	-	-	222,994	In regulatory reporting differed tax assets are recorded in other assets.
Other assets	1,953,465	1,405,637	3,845,304	-		The difference is due to recognition of interest receivable on investments in regulatory reporting and SLFRS 9 adjustments.
<b>Total assets</b>	<b>123,635,859</b>	<b>123,119,802</b>	<b>122,764,740</b>	<b>12,702</b>	<b>7,112</b>	
<b>Liabilities</b>						
Due to banks						
Due to other customers	89,264,415	86,345,635	-	-	-	Interest payable on deposits are stated under other liabilities in regulatory reporting.
Other borrowings	18,208,393	18,139,609	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Debt securities issued	989,230	964,560	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Subordinated term debts	4,343,745	4,231,250	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Retirement benefit obligations	556,655	556,655	-	-	-	
Current tax liabilities	156,727	155,727	-	-	-	Taxes are computed based on different profits under each reporting method.
Other liabilities	1,958,483	4,595,068	-	-	-	Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting.
<b>Total liabilities</b>	<b>115,477,647</b>	<b>114,988,503</b>	<b>-</b>	<b>-</b>	<b>-</b>	

<b>Off-balance sheet liabilities</b>			-	-	-	
Guarantees	191,707	191,707	191,707			
Undrawn loan commitments				-	-	
	-			-	-	
<b>Shareholders' equity</b>						
Equity capital (stated capital)/ assigned capital	6,201,674	6,201,674				
of which amount eligible for CET 1	6,201,674	6,201,674	-	-	-	
of which amount eligible for AT 1	-	-	-	-	-	
Retained earnings	1,700,650	1,673,738	-	-	-	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	27,605	-	-	-	-	
Other reserves	228,282	255,887	-	-	-	
<b>Total shareholders' equity</b>	<b>8,158,211</b>	<b>8,131,299</b>	-	-	-	