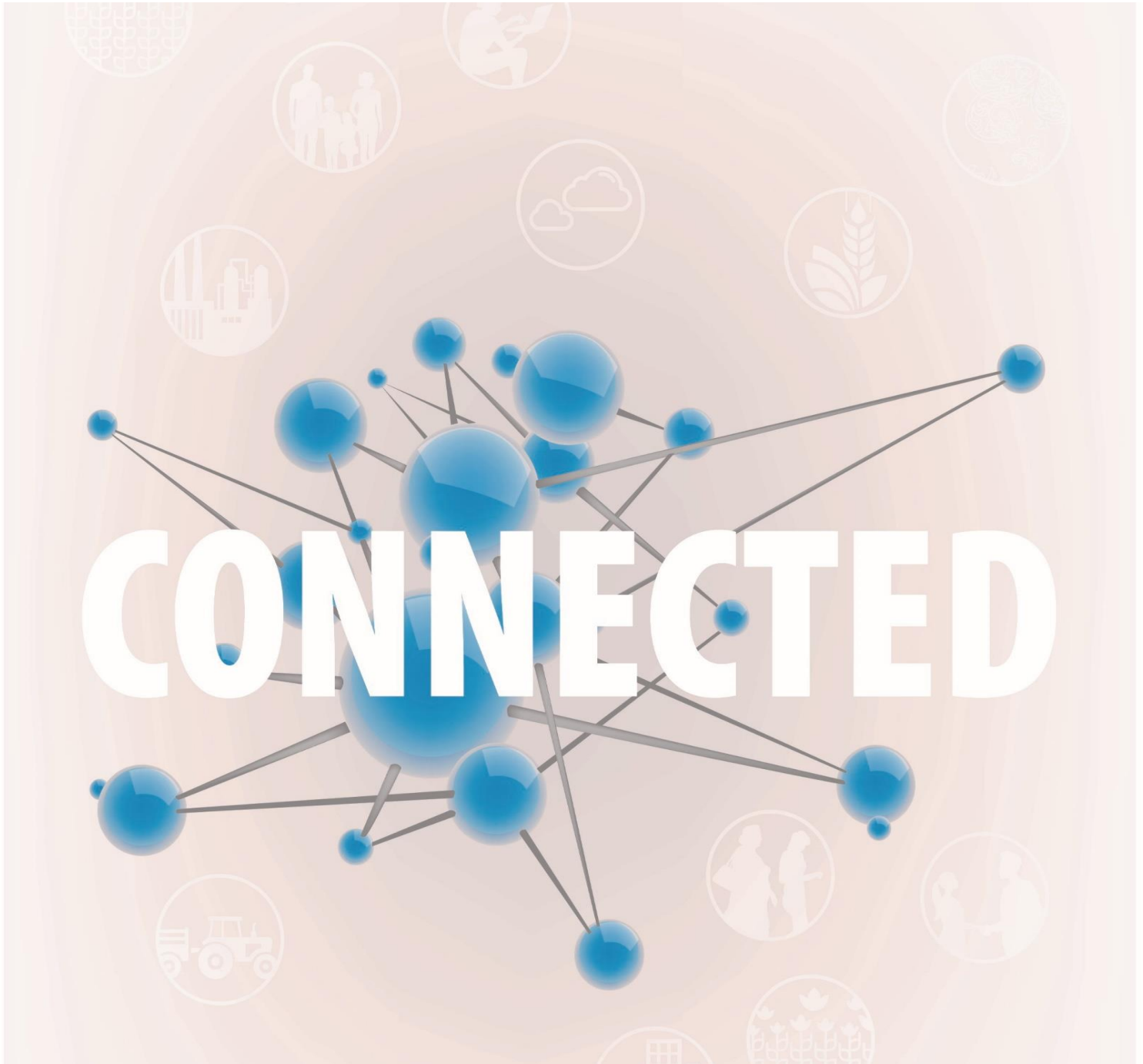


**Disclosures as per Pillar III of Banking Act
No. 1 of 2016,
Capital Requirements under Basel III**

As at 31st December 2021



Template 1
Key regulatory ratios - capital and liquidity

Item	As at 31 December 2021	As at 30 December 2020
Regulatory capital (LKR'000)		
Common Equity Tier 1 (CET I) capital	13,491,315	9,295,294
Tier 1 capital	13,491,315	9,295,294
Total capital	16,174,114	12,634,452
Regulatory capital ratio (%)		
Common Equity Tier 1 capital ratio <i>(Minimum requirement - 2021: 6.50%, 2020: 6.50%)</i>	13.16	9.85
Tier 1 Capital Ratio <i>(Minimum requirement - 2021: 8.00%, 2020: 8.00%)</i>	13.16	9.85
Total capital ratio <i>(Minimum requirement - 2021: 12.00%, 2020: 12.00%)</i>	15.78	13.38
Leverage ratio (%) <i>(Minimum requirement - 3%)</i>	9.11	7.17
Regulatory liquidity		
Statutory liquid assets (LKR' 000)	20,694,877	18,886,169
Statutory liquid assets ratio <i>(Minimum requirement - 20%)</i>		
Domestic banking unit (%)	22.37	21.57
Off-shore banking unit (%)	-	-
Total stock of high-quality liquid assets (LKR' 000)	12,782,663	6,796,184
Liquidity coverage ratio (%) <i>(Minimum requirement - 2021: 90%, 2020 - 90%)</i>		
Rupee (%)	134.82	125.21
All currency (%)	134.82	125.21
Net stable funding ratio (%) <i>(Minimum requirement - 100%)</i>	137.61	127.33

Template 2		
Basel III computation of capital ratios		
Item	Amount (LKR' 000)	
	As at 31 December 2021	As at 31 December 2020
Common Equity Tier 1 (CET1) capital after adjustments	13,491,315	9,295,294
Common Equity Tier 1 (CET1) capital	14,129,697	9,925,440
Equity capital (stated capital) /assigned capital	11,287,765	7,727,941
Reserve fund	314,173	270,096
Published retained earnings/(accumulated retained losses)	2,500,153	1,899,797
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Unpublished current year's profit/(losses) and gains reflected in OCI	-	-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	638,381	630,146
Goodwill (net)	-	-
Intangible assets (net)	338,933	395,123
Deferred tax assets (net)	299,448	231,673
Investments in the capital of banking and financial institutions	-	3,350
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	2,682,799	3,339,158
Tier 2 capital	2,682,799	3,389,158
Qualifying Tier 2 capital instruments	1,763,878	2,650,029
Revaluation gains	-	-
Loan loss provisions	918,921	739,129
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier 2	-	50,000
Investment in own shares	-	-
Investments in the capital of banking and financial institutions	-	50,000
CET 1 capital	13,491,315	9,295,294
Total Tier 1 capital	13,491,315	9,295,294
Total capital	16,174,114	12,634,452
Total risk weighted assets (RWA)	102,517,659	94,408,504
RWAs for credit risk (Template 7 and 8)	94,318,069	87,119,345
RWAs for market risk (Template 9)	25,975	9,478
RWAs for operational risk (Template 10)	8,173,615	7,279,682
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	13.16	9.85
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
Total Tier 1 capital ratio (%)	13.16	9.85
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	15.78	13.38
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 2021	As at 31 December 2020
Tier 1 capital	13,491,315	9,295,294
Total exposures	148,090,672	129,595,216
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	147,180,535	128,429,579
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	910,137	1,165,637
Basel III leverage ratio (%) (Tier 1/total exposure)	9.11	7.17

Template 4
Basel III computation of liquidity coverage ratio

Item	Amount (LKR' 000)			
	As at 31 December 2021		As at 31 December 2020	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of high-quality liquid assets (HQLA)	12,833,982	12,782,663	7,180,610	6,796,184
Total adjusted level 1 assets	12,520,743	12,520,743	4,625,431	4,625,431
Level 1 assets	12,520,743	12,520,743	4,625,431	4,625,431
Total adjusted level 2A assets	300,858	255,730	2,551,896	2,169,111
Level 2A assets	300,858	255,730	2,551,896	2,169,111
Total adjusted level 2B assets	12,381	6,190	3,283	1,642
Level 2B assets	12,381	6,190	3,283	1,642
Total cash outflows	95,959,343	16,449,004	92,187,662	17,782,685
Deposits	66,115,337	6,611,534	60,915,388	6,091,539
Unsecured wholesale funding	28,163,505	9,019,801	28,673,618	10,190,426
Secured funding transactions	27,140	27,140	22,415	22,415
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,653,361	790,530	2,576,240	1,478,305
Additional requirements	-	-	-	-
Total cash inflows	14,580,754	6,967,439	21,421,994	12,354,809
Maturing secured lending transactions backed by collateral	3,196,417	51,190	4,755,726	362,037
Committed facilities	2,100,000	-	1,850,000	-
Other inflows by counterparty which are maturing within 30 days	9,109,337	6,828,748	12,804,867	10,987,072
Operational deposits	-	-	-	-
Other cash inflows	175,000	87,500	2,011,400	1,005,700
Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflows over the next 30 calendar days) * 100		134.82		125.21

Template 5				
Main features of regulatory capital instruments				
Description of the capital instrument	Stated capital	Subordinated term debt (2016)	Subordinated term debt (2019)	Subordinated term debt (2019)
Issuer	Sanasa Development Bank PLC	SBI Emerging Asia Financial Sector Fund PTE. LTD	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
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
Original date of issuance (agreement signed date for subordinated term debts)	May 2012	December 2016	March 2019	September 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	March 2024	September 2024
Amount recognised in regulatory capital (in LKR '000 as at 31st December 2021)	11,287,765	68,623	849,217	846,038.67
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 + 700bps	6 months LIBOR + 550bps
Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Convertible	Convertible or write off	Convertible
If convertible, conversion trigger(s)	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
If convertible, mandatory or optional	N/A	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	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 31 December 2021					
	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	11,834,035	-	11,834,035	-	-	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	17,505,858	-	17,505,858	-	3,502,541	20%
Claims on financial institutions	-	-	-	-	-	-
Claims on corporates	574,329	-	574,329	-	165,151	29%
Retail claims	103,877,580	-	98,545,032	-	80,228,233	81%
Claims secured by residential property	5,061,303	-	5,061,303	-	2,303,481	46%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	2,543,272	-	2,543,272	-	2,223,912	87%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	5,945,336	910,137	5,945,336	394,127	5,894,752	93%
Total	147,341,713	910,137	142,009,165	394,127	94,318,069	66%

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 December 2021 (Post CCF & CRM)									Total credit exposures amount
Asset classes	Risk weight	0%	20%	35%	50%	60%	75%	100%	150%	>150%	
Claims on Central Government and CBSL		11,834,035	-	-	-	-	-	-	-	-	11,834,035
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		-	17,501,293	-	4,565	-	-	-	-	-	17,505,858
Claims on financial institutions		-	-	-	-	-	-	-	-	-	-
Claims on corporates		-	511,472	-	-	-	-	62,857	-	-	574,329
Retail claims		172,924	2,722,194	-	-	-	63,864,482	31,785,432	-	-	98,545,032
Claims secured by residential property		-	-	4,242,804	-	-	-	818,499	-	-	5,061,303
Claims secured by commercial real estate		-	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)		-	-	-	685,491	-	-	1,811,012	46,769	-	2,543,272
Higher-risk categories		-	-	-	-	-	-	-	-	-	-
Cash items and other assets		416,878	34,791	-	-	-	-	5,887,794	-	-	6,339,463
Total		12,423,837	20,769,750	4,242,805	690,056	-	63,864,482	40,365,594	46,769	-	142,403,293

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Template 9**Market risk under standardised measurement method**

Item	RWA amount (LKR' 000) As at 31 December 2021
(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	3,247
(i) General equity risk	2,628
(ii) Specific equity risk	619
(c) RWA for foreign exchange and gold	-
Capital charge for market risk {(a) +(b) + (c) } * CAR	25,975

Template 10**Operational risk under basic indicator approach**

Business lines	Capital charge factor	Gross income (LKR' 000) as at 31 December 2021			Amount (LKR' 000)
		1 st Year	2 nd Year	3 rd Year	
The basic indicator approach	15%	7,458,891	6,845,630	6,129,518	
Capital charges for operational risk (LKR' 000)					
The basic indicator approach					1,021,702
Risk-weighted amount for operational risk (LKR' 000)					
The basic indicator approach					8,173,615

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 December 2021)				
	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	3,117,485	3,117,216	3,117,216	-	-
Placements with banks	15,108,410	14,851,274	14,851,274	-	-
Financial assets fair value through profit or loss	727,787	718,596	515,792	202,804	
Financial assets at amortised cost					
- Loans and receivables to other customers	111,891,256	112,979,154	111,482,155	-	(918,921)
- Debt and other instruments	12,031,302	11,934,035	11,934,035	-	-
Financial assets measured at fair value through other comprehensive income	56,939	56,939	56,939	-	-
Investment in subsidiaries	6,163	6,163	6,163	-	-
Property, plant and equipment	952,104	952,104	952,104	-	-
Right of use assets	565,477	-	-	-	-
Investment properties	19,167	19,167	19,167	-	-
Intangible assets	338,933	338,933	-	-	338,933
Differed tax assets	299,448	271,914	-	-	299,448
Other assets	2,704,446	2,209,939	4,406,869	-	-
Total assets	147,818,916	147,455,433	147,341,713	202,804	(280,539)
Liabilities					
Due to banks					
Due to other customers	93,902,939	90,817,025	-	-	-
Other borrowings	33,569,838	25,435,189	-	-	-
Subordinated term debts	3,752,578	11,729,788	-	-	-
Retirement benefit obligations	571,665	647,972	-	-	-
Current tax liabilities	293,250	303,236	-	-	-
Other liabilities	1,598,949	4,345,409	-	-	-
Total liabilities	133,689,220	133,278,619	-	-	-

			-	-	-	
Off-balance sheet liabilities						
Guarantees	203,139	206,139	206,139			
Undrawn loan commitments	-	706,998	706,998	-	-	
	-			-	-	
Shareholders' equity						
Equity capital (stated capital)/ assigned capital	11,287,765	11,235,844				
of which amount eligible for CET 1	11,287,765	11,235,844	-	-	-	
of which amount eligible for AT 1	-	-	-	-	-	
Retained earnings	2,500,153	2,596,995	-	-	-	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	(19,052)	-	-	-	-	
Other reserves	360,830	343,976	-	-	-	
Total shareholders' equity	14,129,697	14,176,814	-	-	-	