

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

As at 31st March 2021



Template 1
Key regulatory ratios - capital and liquidity

Item	As at 31 March 2021	As at 31 December 2020
Regulatory capital (LKR'000)		
Common Equity Tier 1 (CET I) capital	9,311,716	9,295,294
Tier 1 capital	9,311,716	9,295,294
Total capital	12,534,707	12,634,452
Regulatory capital ratio (%)		
Common Equity Tier 1 capital ratio <i>(Minimum requirement - 2021: 6.50%, 2020: 6.50%)</i>	9.44	9.85
Tier 1 Capital Ratio <i>(Minimum requirement - 2021: 8.00%, 2020: 8.00%)</i>	9.44	9.85
Total capital ratio <i>(Minimum requirement - 2021: 12.00%, 2020: 12.00%)</i>	12.71	13.38
Leverage ratio (%) <i>(Minimum requirement - 3%)</i>	6.83	7.17
Regulatory liquidity		
Statutory liquid assets (LKR' 000)	18,908,235	18,886,169
Statutory liquid assets ratio <i>(Minimum requirement - 20%)</i>		
Domestic banking unit (%)	20.70	21.57
Off-shore banking unit (%)	-	-
Total stock of high-quality liquid assets (LKR' 000)	6,651,209	6,796,184
Liquidity coverage ratio (%) <i>(Minimum requirement - 2021: 90%, 2020 - 90%)</i>		
Rupee (%)	152.36	125.21
All currency (%)	152.36	125.21
Net stable funding ratio (%) <i>(Minimum requirement - 100%)</i>	126.47	127.33

Template 2		
Basel III computation of capital ratios		
Item	Amount (LKR' 000)	
	As at 31 March 2021	As at 31 December 2020
Common Equity Tier 1 (CET1) capital after adjustments	9,311,716	9,295,294
Common Equity Tier 1 (CET1) capital	9,923,806	9,925,440
Equity capital (stated capital) /assigned capital	7,727,941	7,727,941
Reserve fund	270,009	270,096
Published retained earnings/(accumulated retained losses)	1,898,251	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Unpublished current year's profit/(losses) and gains reflected in OCI	-	-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	612,090	630,146
Goodwill (net)	-	-
Intangible assets (net)	377,217	395,123
Deferred tax assets (net)	228,634	231,673
Investments in the capital of banking and financial institutions	6,239	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	3,222,990	3,339,158
Tier 2 capital	3,222,990	3,389,158
Qualifying Tier 2 capital instruments	2,450,312	2,650,029
Revaluation gains	-	-
Loan loss provisions	772,678	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	9,311,716	9,295,294
Total Tier 1 capital	9,311,716	9,295,294
Total capital	12,534,707	12,634,452
Total risk weighted assets (RWA)	98,597,561	94,408,504
RWAs for credit risk (Template 7 and 8)	90,823,970	87,119,345
RWAs for market risk (Template 9)	34,555	9,478
RWAs for operational risk (Template 10)	7,739,036	7,279,682
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	9.44	9.85
of which: capital conservation buffer (%)	-	-
of which: countercyclical buffer (%)	-	-
of which: capital surcharge on D-SIBs (%)	-	-
Total Tier 1 capital ratio (%)	9.44	9.85
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	12.71	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 March 2021	As at 31 December 2020
Tier 1 capital	9,311,716	9,295,294
Total exposures	136,409,821	129,595,216
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	135,299,746	128,429,579
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	1,110,075	1,165,637
Basel III leverage ratio (%) (Tier 1/total exposure)	6.83	7.17

Template 4
Basel III computation of liquidity coverage ratio

Item	Amount (LKR' 000)			
	As at 31 March 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)	6,765,946	6,651,209	7,180,610	6,796,184
Total adjusted level 1 assets	4,182,985	4,182,985	4,625,431	4,625,431
Level 1 assets	4,457,262	4,457,262	4,625,431	4,625,431
Total adjusted level 2A assets	2,578,476	2,191,705	2,551,896	2,169,111
Level 2A assets	2,578,476	2,191,705	2,551,896	2,169,111
Total adjusted level 2B assets	4,485	2,242	3,283	1,642
Level 2B assets	4,485	2,242	3,283	1,642
Total cash outflows	95,224,347	17,461,911	92,187,662	17,782,685
Deposits	63,591,785	6,359,179	60,915,388	6,091,539
Unsecured wholesale funding	30,029,588	10,552,484	28,673,618	10,190,426
Secured funding transactions	22,043	22,043	22,415	22,415
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	1,580,931	528,205	2,576,240	1,478,305
Additional requirements	-	-	-	-
Total cash inflows	24,556,475	14,211,482	21,421,994	12,354,809
Maturing secured lending transactions backed by collateral	5,081,951	362,638	4,755,726	362,037
Committed facilities	1,000,000	-	1,850,000	-
Other inflows by counterparty which are maturing within 30 days	15,577,323	12,400,243	12,804,867	10,987,072
Operational deposits	-	-	-	-
Other cash inflows	2,897,201	1,448,601	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		152.36		125.21

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 (2016)	Subordinated term debt (2019)	Subordinated term debt (2019)
Issuer	Sanasa Development Bank PLC	SBI Emerging Asia Financial Sector Fund PTE. LTD	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	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	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	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	December 2016	December 2016	March 2019	September 2019
Par value of instrument (LKR)	100	N/A	N/A	N/A	N/A	N/A
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated
Original maturity date, if applicable	N/A	December 2021	December 2021	December 2021	March 2024	September 2024
Amount recognised in regulatory capital (in LKR '000 as at 31st March 2021)	7,727,941	90,458	81,099	102,397	1,112,767	1,063,591
Accounting classification (equity/liability)	Equity	Liability	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	N/A
Subsequent call dates, if applicable	N/A	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	Floating coupon
Coupon rate and any related index (%)	N/A	6 months T-bill rate + 450bps	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	Cumulative
Convertible or non-convertible	Non-convertible	Convertible	Convertible	Convertible	Convertible or write off	Convertible
If convertible, conversion trigger(s)	N/A	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	Fully or partially subject to a maximum of 15% of the issued share capital
If convertible, mandatory or optional	N/A	Optional	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	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 March 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	5,287,617	-	5,287,617	-	-	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	12,003,503	-	12,003,503	-	2,400,701	20%
Claims on financial institutions	-	-	-	-	-	-
Claims on corporates	5,543,214	-	5,543,214	-	1,158,957	21%
Retail claims	99,578,051	-	94,677,464	-	77,719,758	82%
Claims secured by residential property	5,095,826	-	5,095,826	-	2,391,659	47%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-performing assets (NPAs)	2,416,112	-	2,416,112	-	2,113,055	87%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	5,102,842	1,110,075	5,102,842	492,737	5,039,839	90%
Total	135,027,165	1,110,075	130,126,578	492,737	90,823,970	70%

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 March 2021 (Post CCF & CRM)											
	Asset classes	Risk weight	0%	20%	35%	50%	60%	75%	100%	150%	>150%	Total credit exposures amount
Claims on Central Government and CBSL			5,287,617	-	-	-	-	-	-	-	-	5,287,617
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			-	12,003,503	-	-	-	-	-	-	-	12,003,503
Claims on financial institutions			-	-	-	-	-	-	-	-	-	-
Claims on corporates			-	5,480,321	-	-	-	-	62,893	-	-	5,543,214
Retail claims			149,051	2,537,546	-	-	-	59,114,472	32,876,395	-	-	94,677,464
Claims secured by residential property			-	-	4,160,257	-	-	-	935,570	-	-	5,095,826
Claims secured by commercial real estate			-	-	-	-	-	-	-	-	-	-
Non-performing assets (NPAs)			-	-	-	630,437	-	-	1,761,351	24,324	-	2,416,112
Higher-risk categories			-	-	-	-	-	-	-	-	-	-
Cash items and other assets			507,170	60,713	-	-	-	-	5,027,696	-	-	5,595,579
Total			5,943,839	20,082,082	4,160,257	630,437	-	59,114,472	40,663,905	24,324	-	130,619,316

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

Item	RWA amount (LKR' 000) As at 31st March 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	4,319
(i) General equity risk	4,095
(ii) Specific equity risk	224
(c) RWA for foreign exchange and gold	-
Capital charge for market risk $\{(a) + (b) + (c)\} * CAR$	34,555

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

Business lines	Capital charge factor	Gross income (LKR' 000) as at 31 March 2021			Amount (LKR' 000)
		1 st Year	2 nd Year	3 rd Year	
The basic indicator approach	15%	7,565,956	6,319,378	5,462,256	
Capital charges for operational risk (LKR' 000)					
The basic indicator approach					967,379
Risk-weighted amount for operational risk (LKR' 000)					
The basic indicator approach					7,739,036

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 March 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	9,612,781	9,596,255	9,596,255	-	-	Impairment of financial assets under SLFRS 9.
Placements with banks	3,105,200	2,974,139	2,974,139	-	-	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	5,690,940	5,688,807	5,490,836	197,971		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	108,019,106	108,857,602	107,089,989	-	(772,678)	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	5,302,354	5,287,617	5,287,617	-	-	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	794,811	791,930	791,930	-	-	
Right of use assets	642,008	-	-	-	-	In regulatory reporting Right of use asset as per SLFRS 16 is not recognised.
Investment properties	19,959	19,959	19,959	-	-	
Intangible assets	377,217	377,217			377,217	
Differed tax assets	248,255	228,634	-	-	228,634	In regulatory reporting differed tax assets are recorded in other assets.
Other assets	2,036,105	1,410,160	3,719,502	-		The difference is due to recognition of interest receivable on investments in regulatory reporting and SLFRS 9 adjustments.
Total assets	135,911,836	135,295,421	135,027,165	197,971	(166,828)	
Liabilities						
Due to banks						
Due to other customers	97,250,604	93,635,588	-	-	-	Interest payable on deposits are stated under other liabilities in regulatory reporting.
Other borrowings	21,765,220	21,699,465	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Subordinated term debts	4,209,275	4,141,701	-	-	-	Interest payable on borrowings are stated under other liabilities in regulatory reporting.
Retirement benefit obligations	588,789	588,642	-	-	-	
Current tax liabilities	210,570	124,204	-	-	-	Taxes are computed based on different profits under each reporting method.
Other liabilities	1,669,011	4,882,961	-	-	-	Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting.
Total liabilities	125,693,469	125,072,561	-	-	-	

			-	-	-	
Off-balance sheet liabilities						
Guarantees	207,668	207,668	207,668			
Undrawn loan commitments		902,407	902,407	-	-	
	-			-	-	
Shareholders' equity						
Equity capital (stated capital)/ assigned capital	7,727,941	7,727,941				
of which amount eligible for CET 1	7,727,941	7,727,941	-	-	-	
of which amount eligible for AT 1	-	-	-	-	-	
Retained earnings	2,192,811	2,239,029	-	-	-	Due to differences which arise in profits computed in regulatory reporting and SLFRSs.
Accumulated other comprehensive income	(19,052)	-	-	-	-	
Other reserves	316,666	255,890	-	-	-	
Total shareholders' equity	10,218,367	10,222,860	-	-	-	
			-	-	-	