# Salapa Bikas Bank Limited

## Disclosure under Basel II

### As of Ashwin End 2078

Capital Adequacy Framework, 2007 (Updated in July 2008) requires the Bank to make a set of disclosures on the Capital Adequacy and Risk Management framework of the Bank. Information pursuant to Pillar III, disclosure requirement of the framework based on unaudited standalone financial information are as follows:

**A. Capital Structure and Capital Adequacy**

**1. Tier 1 Capital and Breakdown of its Components**

| S.N. | Particulars | NPR in 000's |
|---|---|---|
| i. | Paid up Equity Share Capital | 28,000.00 |
| ii. | Share Premium | - |
| iii. | Statutory General Reserves | 3,985.85 |
| iv. | Retained Earnings | 7,684.44 |
| v. | Un-audited current year cumulative profit/(loss) | (11,569.44) |
| vi. | Capital Redemption Reserve | - |
| vii. | Capital Adjustment Reserve | 177,487.10 |
| viii. | Dividend Equalization Reserves | - |
| ix. | Other Free Reserve | - |
| x. | Less: Goodwill | - |
| xi. | Less: Deferred Tax Assets | (2,000.23) |
| xii. | Less: Fictitious Assets | - |
| xiii. | Less: Investment in equity in licensed Financial Institutions | - |
| xiv. | Less: Investment in equity of institutions with financial interests | - |
| xv. | Less: Investment in equity of institutions in excess of limits | - |

| | | |
|---|---|---|
| xvi. | Less: Investments arising out of underwriting commitments | - |
| xvii. | Less: Reciprocal crossholdings | - |
| xviii. | Less: Purchase of land & building in excess of limit and unutilized | - |
| xix. | Less: Other Deductions | - |
| **Total Tier 1 Capital** | | **203,587.72** |

**2. Tier 2 Capital and Breakdown of its Components:**

| S.No. | Particulars | NPR in 000's |
|---|---|---|
| i. | Cumulative and/or Redeemable Preference Share | **-** |
| ii. | Subordinated Term Debt | **-** |
| iii. | Hybrid Capital Instruments | **-** |
| iv. | General loan loss provision | 11,618.58 |
| v. | Exchange Equalization Reserve | **-** |
| vi. | Investment Adjustment Reserve | **-** |
| vii. | Asset Revaluation Reserve | **-** |
| viii. | Other Reserves | **-** |
| **Total Tier 2 Capital** | | **11,618.58** |

**3. Information on Subordinatrd Term Debt:**

The Bank has not raised any funds through subordinate term debt.

**4. Deductions from Capital:**

| S.N. | Particulars | NPR in 000's |
|---|---|---|
| i. | Investment in equity of institutions with financial interests | - |
| ii | Investment in equity of institutions in excess of limits | - |
| **Total Deductions** | | - |

The Bank has not made any investments in equity of institutions.

**5. Capital Adequacy Ratio:**

| S.N. | Particulars | Percentage |
|---|---|---|
| i. | Tier I Capital to RWE | 22.66% |
| ii. | Tier I +Tier II Capital to RWE | 23.95% |

**6. Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments.**

The Bank has not raised any funds through subordinate term debt including any hybrid capital instruments.

**6. Summary of Bank's internal approach to assess the adequacy of capital to suport current and future activities**

The Bank has formulated Internal Capital Adequacy Assessment Process (‘ICAAP’) which has a sound and comprehensive policy and process for evaluating the Bank's capital commensurate with the overall risk profile, business projections and capital management strategies.

It covers the capital management policy of the Bank, sets out the process for assessment of the adequacy of capital to meet regulatory requirements, support current and future activities and meet the Pillar I and material Pillar II risks to which the bank is exposed to.

The Banks develops its strategic, business and capital plans covering five year horizon. Based on this long term strategy, the annual budget of the bank is prepared considering the current economic and business outlook. These two long and short term plans ensure that adequate levels of capital and optimum mix are maintained by the Bank to support its strategy and business requirements

The Risk Management Policy along with the Liquidity Management Framework of the Bank provides the comprehensive stress testing guidelines for credit, liquidity and other risk faced by the Bank. Stress testing takes into account extreme but plausible scenarios to assess the bank's resilience to adverse circumstances and resultant impact on the Bank's risk profile and capital position. This ensures that the bank has robust and forward looking capital planning and risk management process. Scenario assessment such as the fall in the financial markets, a falling trend in the assets quality, volatile liquidity condition, negative changes in macroeconomic factors etc., are taken into consideration while carrying out the stress testing.

## B. Risk Exposures

### 1. Risk weighted exposures for Credit Risk, Market Risk and Operational Risk

| S.N. | Particulars | NPR in 000's |
|---|---|---|
| i. | Risk Weighted Exposure for Credit Risk | 736,989.27 |
| ii. | Risk Weighted Exposure for Operational Risk | 93,570.72 |
| iii. | Risk Weighted Exposure for Market Risk | - |
| **Total Risk Weighted Exposures before Pillar II adjustment** | | **830,559.99** |

### 2. Risk weighted exposures under each 11 categories of Credit Risk

| S.N. | Particulars | NPR in 000's |
|---|---|---|
| i. | Claims on Government & Central Bank | 404,466.13 |
| ii. | Claims on Other Official Entities | - |
| iii. | Claims on Banks | - |
| iv. | Claims on Corporate and Securities Firms | - |
| v. | Claims on Regulatory Retail Portfolio | 161,092.68 |
| vi. | Claims secured by Residential Properties | |

| | | |
|---|---|---|
| | | 422,616.57 |
| vii. | Claims secured by Commercial Real Estate | - |
| viii. | Past Due Claims | 64,044.55 |
| ix. | High Risk Claims | |
| x. | Other Assets | 70,108.17 |
| xi. | Off Balance- Sheet Items | - |
| **Total Credit Risk Weighted Exposures** | | **1,122,328.09** |

**3. Types of eligible credit risk mitigants used and the benefits availed under CRM**

| S.N. | Particulars | NPR in 000's |
|---|---|---|
| i. | Deposits with Banks | 12,087.90 |
| ii. | Deposits with other banks/financial institutions | - |
| iii. | Gold | - |
| iv. | Government and NRB Securities | - |
| v. | Guarantee of Government of Nepal | - |
| vi. | Securities/Guarantee of other Sovereigns | - |
| vii. | Guarantee of Domestic Banks | - |
| viii. | Guarantee of Multilateral Development Banks | - |
| ix. | High Risk Claims | - |
| x. | Guarantee of Foreign Banks | - |
| **Total Credit Risk Mitigants** | | **12,087.90** |

**4. Total Risk Weighted Exposure calculation table**

| S.N. | Particulars | NPR in 000's |
|---|---|---|

| | | |
|---|---|---|
| i. | Risk Weighted Exposure for Credit Risk | 736,989.27 |
| ii. | Risk Weighted Exposure for Oparational Risk | 93,570.72 |
| iii. | Risk Weighted Exposure for Market Risk | - |
| iv. | Adjustments under Pillar-II | - |
| | 4% of gross income for Operational Risk | 9,823.45 |
| | 3% of RWE for risk management policies and procedures | 33,222.40 |
| | 3% of RWE for disclosure requirement | 24,916.80 |
| **Total Risk Weighted Exposure** | | **898,522.64** |

**5. Capital Adequacy Ratio:**

| S.N. | Particulars | Percentage |
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| **Total Risk Weighted Exposure** | | **898,522.64** |

**5. Amount of Non-Performing Assets (both Gross and Net)**

| S.N. | Particulars | Gross (in 000's) | Provision (in 000's) | Net (in 000's) |
|---|---|---|---|---|
| i. | Restructured and Rescheduled | - | - | - |
| ii. | Sub-Standard | 37,539.39 | 9,384.85 | 28,154.54 |
| iii. | Doubtful | 15,743.84 | 7,871.92 | 7,871.92 |
| iv. | Loss | 10,761.32 | 10,761.32 | - |
| | **Total Non-Performing Assets** | **64,044.55** | **28,018.09** | **36,026.46** |

### 6. NPA Ratios

| S.N. | Particulars | NPR in 000's |
|---|---|---|
| i. | Gross NPA to Gross Advances | 9.89% |
| ii. | Net NPA to Net Advances | 5.92% |

### 7. Movement of Non-Performing Assets (Gross)

**(in 000's)**

| S.N. | Particulars | This Qtr. | Previous Qtr. | Change |
|---|---|---|---|---|
| i. | Non-Performing Assets (In Amt) | 64,044.55 | 39,350.68 | 24,693.87 |
| ii. | Non-Performing Assets (In %) | 9.89% | 6.70% | 3.19% |

### 8. Write off of Loans and Interest Suspense

| S.N. | Particulars | NPR in 000's |
|---|---|---|
| i. | Loan written off during the reporting period | - |
| ii. | Interest written off during the reporting period | - |
| | **Total amount written off** | **-** |

### 9. Movements in Loan Loss Provisions and Interest Suspense:

| S.No | Particulars | This Qtr. | Previous Qtr. | Change |
|---|---|---|---|---|
| i. | Loan Loss Provisions | 39,636.67 | 27,556.05 | 12,080.62 |
| ii. | Interest Suspense | 12,241.93 | 7,882.08 | 4,359.85 |

### 10. Details of Additional Loan Loss Provisions

| S.No. | Particulars | NPR in 000's |
|---|---|---|
| i. | Provisioning for Pass Loans | - |
| ii. | Provisioning for Watchlist Loans | - |
| iii. | Provisioning for Restructured/Rescheduled Loans | - |
| iv. | Provisioning for Sub-standard Loans | - |
| v. | Provisioning for Doubtful Loans | - |
| vi. | Provisioning for Bad Loans | - |
| | **Total amount of additional loan loss provision** | - |

**11. Segregation of Investment Portfolio:**

| S.N. | Particulars | NPR in 000's |
|---|---|---|
| i. | Held for Trading | - |
| ii. | Held to Maturity | - |
| iii. | Available for sale | - |
| | **Total Investment** | **-** |

## C. Risk Management Function

The Bank is exposed to various types of risks including credit, market, liquidity, operational, legal, compliance and reputation risks. The objective of the risk management framework at the Bank is to ensure that various risks are understood, measured and monitored and that the policies and procedures established to address these risks are strictly adhered to. The Bank has set up a strong control and monitoring environment for comprehensive risk management at all levels of operation.

### Measurement of Risks for Capital Adequacy Purpose:

Under Pillar 1 of the specific NRB guidelines, the bank currently follows Simplified Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Net Open Position approach for Market risk.

### A. Credit Risk

**Strategies and Process:**

All credit related aspects are governed by Operation Manual of Bank. These documents outline the type of products that can be offered, customer categories, credit approval process and limits. These documents are approved by the Board of directors.

The bank’s main emphasis is on SME credit. Different limits of lending power have been assigned at branch level, department head level and the credit committee level. Every aspect relating to credit such as procedure, documentation etc. is clearly defined in the Operation Manual and the Credit Policy of the bank.

**Pre-Sanction:**

The branch managers have the authority to approve the credit within their permissible limits after due scrutiny of background of the promoter, nature of business, turnover in the account, other financial indicators, income, collateral and security. Loans above the authority of branch are recommended to head office for further decision.

**Credit Risk Assessment Process:**

Risk Management Department carries out a comprehensive credit risk assessment process that encompasses analysis of relevant quantitative and qualitative information to ascertain credit rating of the borrower. The credit rating process involves assessment of risk emanating from various sources such as market risk, management risk, environmental risk, financial risk and security risk taking into consideration as much as 30 sub-parameters under each of these categories. Credit thresholds have been set for forwarding the credit files for risk rating before they are submitted for approval in the credit committee by the concerned credit units.

**Post Sanction Monitoring/ Follow up:**

Concerned branch are required to obtain regular information of the business. In case of revolving loans, the drawing power is checked commensurate with the existing level of stocks and working capital checked and verified at regular interval. The credit units at the Head Office are also required to prepare quarterly credit report to submit at higher level as a part of formal monitoring process.

**B. Operation Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is inherent in the bank's business activities.

The board level committee that undertakes supervision and review of operational risk aspects are the Risk Management Committee and Audit Committee. The board and the risk committee review the operational risk level and the material operational risk exposure. The Audit committee supervises audit and compliance related aspects. Internal Audit department on the other hand carries out audit according to the audit plan and reports findings to the audit committee.

**Risk Arising from breakdown of Information and Operating System:**

The bank has introduced new centralized software PUMORI IV and has improved in its MIS infrastructure in order to ensure the associated operational risks being brought down to an acceptably low level.

To safeguard the probable losses resulting from system failure or natural disaster, the bank has taken following policies to minimize the risk:

a. Back up – Daily back up of all balances are taken at the end of the day. The bank is developing a system of auto back up in the near future.

b. Disaster Recovery Site – The bank has established disaster recovery site.

c. Validation of Entry and Password control – There is a system of maker and checker for entry validation before posting. Access authority for data entry, update, modification and validation has been given on the basis of levels of staffs.

d. Exception Reporting – The system creates exception report as and when required.

**Risk Arising from Procedural Lapses and Internal control:**

The company has defined banking procedures in the Operation Manual related to banking transactions. Internal circulars are issued whenever required. Reporting by branches is regular.

**Corporate Governance:**

NRB Guidelines with respect to Corporate Governance are duly complied with.

**C. Market Risk**

**Investments**

Currently the Bank has not made any investment for trading purpose.