

**Nepal SBI Bank Ltd.**  
**DISCLOSURE UNDER CAPITAL ADEQUACY FRAMEWORK OF NRB (BASEL II)**  
**As on 31 Ashad 2072 (16 July 2015)**

**I. CAPITAL STRUCTURE & CAPITAL ADEQUACY**

<b>i. Core Capital (Tier I)</b>		<i>(Amount in Lacs)</i>
	<b>Particulars</b>	<b>Amount</b>
A	Paid-up Equity Share Capital	30,581
B	Share Premium	792
C	Statutory General Reserve	13,238
D	Proposed Bonus Equity Shares	-
E	Accumulated Profit/(Loss)	8,073
F	Capital Adjustment Reserve	-
G	Debenture Redemption Reserve	2,594
H	Other Free Reserve	1,472
I	Less: Deferred Tax Assets	(1,472)
J	Less: Purchase of land & building in excess of limit and unutilized	(2,592)
<b>Total Core Capital (Tier I)</b>		<b>52,686</b>

<b>ii. Supplementary Capital (Tier II)</b>		<i>(Amount in Lacs)</i>
	<b>Particulars</b>	<b>Amount</b>
A	Subordinate Term Debt	10,000
B	General Loan Loss Provision	4,178
C	Investment Adjustment Reserve	4
D	Exchange Equalization Reserve	140
<b>Total Supplementary Capital (Tier II)</b>		<b>14,322</b>

**iii. Information about Subordinate Term Debt** *(Amount in Lacs)*

1.	12.5% Nepal SBI Bank Debentures 2078 of Rs.1,000 each (Unsecured) issued on 12.02.2012 and maturing on 11.02.2022 of Rs. 4,000.00 lacs;	
2.	8% Nepal SBI Bank Debentures 2079 of Rs.1,000 each (Unsecured) issued on 03.02.2013 and maturing on 02.02.2023 of Rs. 4,000.00 lacs and	
3.	7.9% Nepal SBI Bank Debentures 2080 of Rs. 1,000 each (Unsecured) issued on 20.04.2014 and maturing on 19.04.2024 of Rs. 2,000.00 lacs.	
-	Outstanding Amount	10,000
	Fixed Maturity Period of 10 Years	
	Interest Payment - Half Yearly	
	At the time of liquidation, right of claims will be only after depositors	
	Redeemable and Non-Convertible	
-	Outstanding Balance of Redemption Reserve	2,595
-	Amount raised during the year	
-	Amount released during the year due to maturity	-
-	Amount Eligible to be reckoned as Capital Fund	10,000

<b>iv. Deduction Form Capital</b>		
	<b>Particulars</b>	<b>Amount</b>
	Deferred Tax Assets	1,472
	Purchase of land & building in excess of limit and unutilized	2,592
	<b>Total</b>	<b>4,064</b>

<b>v. TOTAL QUALIFYING CAPITAL</b>		
<i>(Amount in Lacs)</i>		
	<b>Particulars</b>	<b>Amount</b>
	Total Core Capital (Tier I)	52,686
	Total Supplementary Capital (Tier II)	14,322
	<b>Total Capital Fund (Tier I + Tier II)</b>	<b>67,008</b>

<b>vi. Capital Adequacy Ratio</b>		
	Capital Adequacy Ratio (Percentage)	13.34%

**vii. Summary of the bank's internal approach to assess the adequacy of capital to support current and future activities**

The Bank has Internal Capital Adequacy Assessment Process (ICAAP) Policy , which is revised every year to support current and future activities. The ICAAP review process is intended to ensure that we have adequate capital to support all the risks in business, to improve upon them over time and achieve better risk management techniques in monitoring and managing risks. ICAAP Committee meets at monthly intervals to review the internal capital assessment commensurate with the risk profile and review the portfolios which require capital charge. ICAAP Committee also reviews strengthening of risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls.

**2. RISK EXPOSURE**

<b>i. Risk Weighted Exposure for Credit Risk, Market Risk and Operational Risk</b>		
<i>(Amount in Lacs)</i>		
	<b>Particulars</b>	<b>Amount</b>
A	Risk Weighted Exposure for Credit Risk	452,945
B	Risk Weighted Exposure for Operational Risk	30,099
C	Risk Weighted Exposure for Market Risk	4,558
D	Add: 2% of the total RWE as per NRB Direction.	9,752
E	Add: 2% of the Gross Income as per NRB Direction	4,775
	<b>Total Risk Weighted Exposure (A+B+C+D)</b>	<b>502,129</b>

**ii. Risk Weighted Exposure under each 11 Categories of Credit Risk** *(Amount in Lacs)*

S.No.	Categories	Amount
1	Claims on Government and Central Bank	-
2	Claims on Other Official Entities	-
3	Claims on Banks	18,665
4	Claims on Corporate and Securities Entities	251,614
5	Claims on Regulatory Retail Portfolio	76,231
6	Claims Secured by Residential Properties	11,066
7	Claims Secured by Commercial Real Estate	300
8	Past Due Claims	901
9	High Risk Claims	13,569
10	Other Assets	12,948
11	Off Balance Sheet Items	67,278
<b>Total</b>		<b>452,572</b>

**iii. Amount of Non Performing Assets (Gross and Net Amount)** *(Amount in Lacs)*

Particulars	Gross Amount	Provision	Net Amount
A Restructured	1	1	-
B Sub-standard	1	1	-
C Doubtful	145	145	-
D Loss	602	602	-
<b>Total</b>	<b>749</b>	<b>749</b>	<b>-</b>

**iv. Non Performing Assets (NPA) Ratios**

NPA Ratios	Percentage (%)
- Gross NPA to Gross Advances	0.19%
- Net NPA to Net Advances	0.00%

**v. Movement of Non Performing Assets** *(Amount in Lacs)*

S.No.	Particulars	Opening Balance (Ashad End 2071)	Closing Balance (Ashad End 2072)	Movement
<b>Non Performing Loan</b>				
1	Restructured Loan	271	1	(270)
2	Sub-Standard	94	1	(93)
3	Doubtful	115	145	30
4	Loss	432	602	170

**vi. Write Off Of Loans and Interest Suspense:**

Nil

**vii. Movement Of Loan Loss Provison and Interest Suspense****Loan Loss Provision***(Amount in Lacs)*

S.No.	Particulars	Opening Balance (Ashad End 2071)	Closing Balance (Ashad End 2072)	Movement
1	Pass	3,562	3,902	340
2	Watch List	-	276	276
3	Restructure	271	1	(270)
4	Sub-Standard	23	1	(22)
5	Doubtful	58	145	87
6	Loss	433	602	169
<b>Total Loan Loss Provision</b>		<b>4,347</b>	<b>4,927</b>	<b>580</b>

**viii. Interest Suspense***(Amount in Lacs)*

S.No.	Particulars	Opening Balance (Ashad End 2071)	Closing Balance (Ashad End 2072)	Movement
1	Interest Suspense	681	739	58

**ix. Details of Additional Loan Loss Provision***(Amount in Lacs)*

S.No.	Particulars	Ashad End 2072
1	Pass	339
2	Watch List	276
3	Restructure	-
4	Sub-Standard	1
5	Doubtful	145
6	Loss	341
<b>Total</b>		<b>1,102</b>

**x. Segregation of the Bank's Investment portfolio**

Investments are segregated as per NRB Directives under categories are follows:

**A. Investment Held for Trading**

(Amount in Lacs)

S.No.	Particulars	Cost Price	Previous Market Price (A)	Current Market Price (B)	This Year Profit /Loss (B-A) Rs.	Previous Year Profit /Loss Rs.	Remarks
<b>Mutual Fund Investments:</b>							
1	1,043,347 Units NIBL Sambridhi Fund - Mutual Fund of Rs 10 each fully paid	104	104	105	1		
2	782,999 Units NMB Sulav Fund - Mutual Fund of Rs. 10 each fully paid	78	78	78	-	-	-
<b>Total Investment</b>		<b>182</b>	<b>182</b>	<b>183</b>	<b>1</b>	<b>-</b>	<b>-</b>

**B. Investment Held to Maturity**

(Amount in Lacs)

S.No.	Particulars	Cost Price (a) Rs.	Impairment Till Date (b) Rs.	Impairment This Year (c) Rs.	This Year Profit /Loss (a-b-c) Rs.	Previous Year Profit /Loss Rs.	Remarks
1	Nepal Government Treasury Bills	21,024	-	-	-	-	
2	Nepal Government Other securities	4,546	-	-	-	-	
3	Foreign Bank Investment (Placement)	54,289	-	-	-	-	
4	Deposit Collection into NRB	11,900	-	-	-	-	
5	Placement into local Banks	1,016	-	-	-	-	
<b>Total Investment</b>		<b>92,775</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

**C. Investment Available for Sale**

(Amount in Lacs)

SN	Particulars	Cost Price Rs.	Previous Market Price(a) Rs.	Current Market Price (b) Rs.	This Year Investment Adjustment Reserve (b-a) Rs.	Previous Year Profit /Loss Rs.	Remarks
1	Shares, Debentures and Bond of Domestic Entity						
	Listed	188.95	-	1,361.38	-	-	
	Not Listed*	110.61	-	-	61.25	-	
<b>Total Investment</b>		<b>299.56</b>	<b>-</b>	<b>1,361.38</b>	<b>-</b>	<b>-</b>	

\* No Investment Adjustment Reserve has been maintained for investment in Karja Suchana Kendra Ltd., Nepal Clearing House Ltd., and National Banking Institute as NRB Directive No 8/ 2072 has exempted maintenance of such reserve against such investments.

### **3. RISK MANAGEMENT FUNCTION**

#### **i. Strategies and Policies**

Credit risk process is a joint effort between its marketing and credit areas. Credit officers are engaged in analyzing inherent risks in the customer's business, ability to repay and structure a facility that simultaneously accommodates the financing needs, while assuring seniority, protection and control of the bank's assets and collateral.

#### **ii. The Structure and Organization of the Relevant Risk Management Function**

A comprehensive Risk Management System has been ensured to deal with various types of risks. The risk management function is overseen by the Board of Directors through the Risk Management Committee of the Board (RMCB) and Audit Committee of the Board (ACB). Besides, there are Credit Risk Management Committee (CRMC), Asset Liability Management Committee (ALCO), Market Risk Management Committee (MRMC) and Operational Risk Management Committee (ORMC) for formulating and reviewing the risk management policies and monitoring their implementation in the matters related to credit, market and operational risks. The progress of the action implementation is reviewed by the Bank's Board, including review of the decisions of the Central Management Committee. The Bank has already migrated to Basel-II norms and the Capital to Risk Weighted Assets Ratio (CRAR) is also being worked out as per the guidelines of Basel-II. The Bank also plans to go for Operational Risk Management Solution software in near future for assessing the Operational Risk on an ongoing basis. To control, obviate and mitigate the operational risk, the Bank has put in place comprehensive operational guidelines and has also issued various manuals, such as Cash Module Manual, IT manual, Finacle Job cards, TFCPC manual, Internet Banking guidelines, Mobile Banking operational guidelines, Credit assessment and process guidelines for the operating units.

The Risk structures are being revisited at frequent intervals and the requisite policies, systems are being introduced and kept updated. For both credit and market risks, stress testing is being done regularly. With all branches on Core Banking Solution (CBS), Credit Information and MIS works on a robust platform. The Bank has direct access to the CIB database which have been allocated to our operating units/offices, enabling them to generate Credit Information Report on borrowers / prospective borrowers from this database. An MIS website is maintained by your Bank to provide easy access to the central database, which is being extensively used by the operating units. Various returns to be submitted to regulatory agencies are now being centrally generated at Corporate office level, thus enabling branches to focus more on business development and customer services.

The Bank has Integrated Risk Management Department headed by Chief Risk Officer (CRO) to strengthen the Risk Management structure, which includes assessing, identifying, monitoring and reducing pertinent business risk that could interface with the Bank's objectives and goal.

#### **iii. The Scope and Nature of Risk Reporting and / or Measurement Systems**

Risk reporting / measurement system is done through regular customer interactions, site inspections & annual reviews. These are continuous processes. Further, review of the bank's performance is conducted every quarter and findings are reported to the BOD.

#### **iv. Policies for Hedging and / or the mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigates**

Policies for mitigating risks & strategies are as outlined in the respective manuals and as discussed at various levels after customer interactions / visits, during annual reviews, quarterly reviews and at meetings at various levels.

#### **v. Eligible CRM (Credit Risk Mitigants)**

<b>Particulars</b>	<b>Eligible CRM</b>
Deposits with Bank	14,226
Govt. & NRB Securities	-
G'tee of domestic banks	418
G'tee of foreign banks	865
<b>Total</b>	<b>15,509</b>