

**Disclosure under Basel III**  
**Sanima Bank Ltd**  
As at Mid Jan 2018 (2<sup>nd</sup> Quarter End of FY 2017/18)

**A. Capital Structure and Capital Adequacy**

• **Tier 1 Capital and a breakdown of its Components**

| <b>Particulars</b>  | <b>Amount</b>        |
|---|----------------------|
| Paid up Equity Share Capital  | 8,001,255,440        |
| Irredeemable Non-cumulative preference shares                       | -                    |
| Share Premium   | -                    |
| Proposed Bonus Equity Shares  | -                    |
| Statutory General Reserves  | 832,540,000          |
| Retained Earnings   | 72,483,627           |
| Un-audited current year cumulative profit                           | 824,783,832          |
| Special Reserve Fund  | 11,922,576           |
| Capital Adjustment Reserves   | 8,265,311            |
| Dividend Equalization Reserves                                      | -                    |
| Capital Redemption Reserves Fund                                    | 105,714,286          |
| Deferred Tax Reserve  | 6,396,470            |
| Less: Goodwill  | -                    |
| Less: Fictitious Assets   | -                    |
| Less: Deferred Tax Assets   | 6,396,470            |
| Less: Investment in equity of licensed Financial Institutions       | -                    |
| Less: Investment in equity of institutions with financial interests | 690,000,000          |
| Less: Investment in equity of institutions in excess of limits      | -                    |
| Less: Investments arising out of underwriting commitments           | -                    |
| Less: Purchase of Land & Building in excess of limit & utilized     | -                    |
| Less: Reciprocal crossholdings                                      | -                    |
| Less: Other Deductions  | -                    |
| <b>Total Tier 1 Capital</b>   | <b>9,166,965,071</b> |

• **Tier 2 Capital and Breakdown of its Components**

|   | <b>Particulars</b>                            | <b>Amount (Rs)</b>   |
|---|---|----------------------|
| a | Cumulative and/or Redeemable Preference Share | -                    |
| b | Subordinated Term Debt                        | 370,000,000          |
| c | Hybrid Capital Instruments                    | -                    |
| d | General loan loss provision                   | 673,449,355          |
| e | Exchange Equalization Reserves                | 6,054,236            |
| f | Investments Adjustment Reserves               | 2,550,000            |
| g | Assets Revaluation Reserves                   | -                    |
| h | Other Reserves                                | -                    |
|   | <b>Total Tier 2 Capital</b>                   | <b>1,052,053,591</b> |

- **Details of Subordinated Term Debt:**

The Bank has issued “7% Sanima Debenture 2079” of face value Rs.1,000 per unit for Rs. 370,000,000 on 20<sup>th</sup> Shrawan 2072. The debentures have maturity of 7 years from issue i.e. 19<sup>th</sup> Shrawan 2079. The bank has created debenture redemption reserve starting from FY 2072-73. The Current balance of Capital Redemption Reserve stands at Rs.105,714,286.

- **Deductions from Capital:**

The Bank has invested Rs. 250,000,000 in its merchant banking subsidiary 'Sanima Capital', Rs. 280,000,000 in 'Sanima Life Insurance', Rs. 12,500,000 in Swet Ganga Hydropower and Construction Ltd (Lower Likhu Hydro Power Project), Rs 25,000,000 in Tamor Sanima Energy Pvt Ltd (Sanima Middle Tamor Hydro Power Project), Rs 22,500,000 in Mathillo Mailun Khola Jalvidhyut Ltd. and Rs 100,000,000 in Sanima Insurance Co. Ltd. Accordingly, Rs. 690,000,000 has been deducted from Core Capital.

- **Total Qualifying Capital:**

| Particulars                    | Amount (Rs)           |
|--------------------------------|-----------------------|
| Core Capital (Tier 1)          | 9,166,965,071         |
| Supplementary Capital (Tier 2) | 1,052,053,591         |
| <b>Total Capital Fund</b>      | <b>10,219,018,662</b> |

- **Capital Adequacy Ratio: 13.10%**

**Risk Exposures**

- **Risk weighted exposures for credit Risk, Market Risk and Operational Risk:**

| RISK WEIGHTED EXPOSURES  | Amount (Rs)           |
|--|-----------------------|
| Risk Weighted Exposure for Credit Risk                                       | 71,165,093,011        |
| Risk Weighted Exposure for Operational Risk                                  | 3,350,734,475         |
| Risk Weighted Exposure for Market Risk                                       | 1,367,298,227         |
| <b>Total Risk Weighted Exposures (Before Bank's adjustment of Pillar II)</b> | <b>75,883,125,714</b> |

- **Risk Weighted exposures under each 11 categories of Credit Risk:**

| S.N. | Categories   | Amount (Rs)    |
|------|--|----------------|
| 1    | Claims on Government and Central Bank                          | -              |
| 2    | Claims on Other Financial Entities                             | -              |
| 3    | Claims on Banks  | 1,525,300,120  |
| 4    | Claims on Domestic Corporate and Securities Firms              | 28,899,436,967 |
| 5    | Claims on Regulatory Retail Portfolio & Other Retail Portfolio | 11,464,253,373 |
| 6    | Claims secured by residential properties                       | 2,976,491,426  |
| 7    | Claims secured by Commercial real estate                       | 2,309,850,724  |

|              |                         |                       |
|--------------|-------------------------|-----------------------|
| 8            | Past due claims         | 95,746,940            |
| 9            | High Risk claims        | 11,568,158,549        |
| 10           | Other Assets            | 3,702,749,112         |
| 11           | Off Balance Sheet Items | 8,623,105,800         |
| <b>Total</b> |                         | <b>71,165,093,011</b> |

- **Total Risk Weight Exposures calculation Table:**

|   |                       |
|---|-----------------------|
| <b>RISK WEIGHTED EXPOSURES</b>  | <b>Amount (Rs)</b>    |
| Risk Weighted Exposure for Credit Risk                                      | 71,165,093,011        |
| Risk Weighted Exposure for Operational Risk                                 | 3,350,734,475         |
| Risk Weighted Exposure for Market Risk                                      | 1,367,298,227         |
| Add: 2% of the total RWE add by Supervisory Review                          | 590,600,000           |
| Add: RWE equivalent to reciprocal of capital charge of 2% of Gross Income   | 1,517,662,514         |
| <b>Total Risk Weighted Exposures (After Bank's adjustment of Pillar II)</b> | <b>77,991,388,228</b> |
| <b>Total Core Capital</b>   | <b>9,166,965,071</b>  |
| <b>Total Capital</b>  | <b>10,219,018,662</b> |

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

| Particulars  | Gross Amount (Rs) | Loan Loss Provision (Rs) | Net NPL (Rs)     |
|--------------|-------------------|--------------------------|------------------|
| Restructured | -                 | -                        | -                |
| Sub-Standard | 6,413,996         | 1,603,499                | 4,810,497        |
| Doubtful     | 2,061,244         | 1,030,622                | 1,030,622        |
| Loss         | 7,880,460         | 7,880,460                | -                |
| <b>Total</b> | <b>16,355,700</b> | <b>10,514,581</b>        | <b>5,841,119</b> |

- **NPA Ratios:**

| NPA Ratios                  | (%)  |
|-----------------------------|------|
| Gross NPA to Gross Advances | 0.03 |
| Net NPA to Net Advances     | 0.01 |

- **Movement in Non-Performing Assets:**

| Particulars               | This Quarter (Rs) | Previous Quarter (Rs) | Change (%) |
|---------------------------|-------------------|-----------------------|------------|
| Non-Performing Assets     | 16,355,700        | 80,960,206            | -79.80%    |
| Non-Performing Assets (%) | 0.03              | 0.14                  | -78.57%    |

- **Write off Loans and Interest Suspense:**

| Particulars                         | Amount   |
|-------------------------------------|----------|
| Write off loans during the quarter  | -        |
| Write off Interest Suspense quarter | -        |
| <b>Total</b>                        | <b>-</b> |

- **Movement in Loan Loss Provision and Interest Suspense:**

| Particulars                 | This Quarter (Rs) | Previous Quarter (Rs) | Change (%) |
|-----------------------------|-------------------|-----------------------|------------|
| Loan Loss Provision (Total) | 683,985,695       | 673,518,711           | 1.55%      |
| Interest Suspense           | 170,773,240       | 196,597,734           | -13.14%    |

- **Details of Additional Loan Loss Provision during the year:**

| Particulars  | Amount (Rs)        |
|--------------|--------------------|
| Pass         | 86,620,653         |
| Watch List   | 10,204,036         |
| Restructured | -                  |
| Sub-Standard | 923,511            |
| Doubtful     | 683,620            |
| Loss         | 6,891,242          |
| <b>Total</b> | <b>105,323,062</b> |

- **Segregation of Investment Portfolio:**

| Particulars             | Amount (Rs)          |
|-------------------------|----------------------|
| Held for Trading        | 77,099,166           |
| Held to Maturity        | 9,100,970,080        |
| Available for sale      | 574,802,600          |
| <b>Total Investment</b> | <b>9,752,871,845</b> |

- **Eligible Credit Risk Mitigates (CRM) as on Poush End 2074 (14<sup>th</sup> Jan 2018)**

| Particulars        | Amount (Rs.)         |
|--------------------|----------------------|
| Deposits with Bank | 1,034,728,406        |
| Gold               | 264,085,197          |
| <b>Total</b>       | <b>1,298,813,603</b> |

- **Summary of term conditions and main feature of all capital instrument, especially in case of subordinated term debts including hybrid capital instrument :**

The Bank has issued "7% Sanima Debenture 2079" of face value NRs.1,000 per unit for Rs 370,000,000 on 20<sup>th</sup>Shrawan 2072. The main features of this capital instrument are as follows:

|                             |                          |
|-----------------------------|--------------------------|
| Instrument:                 | 7% Sanima Debenture 2079 |
| Interest Rate:              | 7%                       |
| Maturity period:            | 7 Years                  |
| Interest Payment Frequency: | Half yearly              |

- **Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable:**

Sanima Bank adopts healthy risk management framework. The bank follows Internal Capital Adequacy Assessment Process (ICAAP) and Risk Management Guideline while taking decision on any business. It has always taken note of ICAAP and has taken steps accordingly in ensuring soundness of capital position and sustainability of the business. The bank's policies and procedures are approved by the Board of Directors and these documents provide guidance on independent identification, measurement and management of risks across various businesses. Bank's different committees like Audit Committee, Risk Management Committee review the business and risks periodically and take account of stress test results, scenario analysis so as to align risk, return and capital in sustainable manner.

The bank also defines risk aspects, considering domestic economic scenario, and puts in place the system to minimize and remove such risk. The risk appetite and approach towards risk taking is well discussed in management level and board level. It is always aligned with the business, its return and capital. Basel disclosures have been complied with, addressing the risks and adopting measures to minimize their impact. Increasing complexities in risks, weakness of businesses and fast changing world with intense competition pose a threat to sustainability.

Capital planning is an integral part of the bank's medium term strategic planning and annual budget formulation process. Total risk weighted exposures for the projected level of business operations is calculated, the required capital level is projected, and a plan is formulated to retain the required capital. The bank is well capitalized and able to maintain the required capital through internal generation, and equally through capital markets if needed.

## **B. Risk Management Functions & BASEL Disclosure**

Nepal Rastra Bank has directed the Banks to develop own internal policy, procedures and structures to manage all material risk inherent in business for assessing capital adequacy in relation to the risk profiles as well as strategies for maintaining capital levels. This includes basic requirements of having good governance, efficient process of managing all material risks and an effective regime for assessing and maintaining adequate capital. The Bank has various BODs approved risk management policies for proper governance.

### **Chief Risk Officer (CRO)**

Chief Risk Officer (CRO), along with his team, is responsible for overall risk management of the Bank which includes managing, assessing, identifying, monitoring and reducing pertinent global, macro and micro-economic level business risks that could interfere with Bank's objective and goals and whether the Bank is in substantial compliance with its internal operating policies and other applicable regulations and procedures, external, legal, regulatory or contractual requirements on a continuous basis. Further, CRO ensures integration of all major risk in capital assessment process.

### **Risk Management Committee (RMC)**

Board level risk management committee has been set up under NRB Directive for ensuring/reviewing bank's risk appetite are in line with the policies and CRO acts as member secretary. CRO closely monitors and report on credit related risks in ALCO & RMC meeting.

### **Operational Risk**

Board and senior management of the bank places high priority on effective operational risk management and adherence to sound operating controls.

- Policies/Guidelines explicitly supports the identification, assessment, control and reporting of key risks.
- Emphasizes on dual controls,
- Effective monitoring and internal reporting,
- Contingency and business continuity plans,
- High standards of ethics and integrity,
- Commitment to good corporate governance and
- Segregation of duties and clear lines of management responsibility, accountability and reporting.

### **Market Risk**

Sanima has Market Risk Management Policy developed in line with Risk Management Guidelines issued by NRB to assess and actively manage all material market risks, wherever they arise throughout the bank and a capital charge is provided for such risks. Stress testing technique also covers the capital requirement on market shock. Foreign Currency peak position, interest rate risk, stock position is discussed in ALCO meetings on monthly basis.

For interest risk management, appropriate assets and liability mismatch (GAP analysis) is measured as per policy so as to minimize sudden fall in NII. Investments in stock are revalued at the end of every month and Open positions in foreign currencies are monitored daily. Prompt Action is taken to keep open positions and foreign currency exchange risk to a minimum level. Regulatory limits are ensured at all time.

Adequate care is taken to ensure the maturity of deposits to match with assets maturity. Adequate liquidity is ensured even in stressed scenarios. Various ratios as per liquidity risk management policy are assessed. Treasury department plays the vital role for monitoring same and report to ALCO.

### **Compliance**

Compliance officer has been entrusted with the responsibility of assessment, identification and reporting to CRO the Operational, Liquidity & Market Risk in conformity with risk management policies of Sanima.

### **Assets and Liability Committee (ALCO)**

The ALCO, chaired by Chief Executive Officer, ensures functioning of the banking business in line with the set procedures and processes and recommends for necessary steps to address the risk associated with liquidity, movement in interest rate, exchange rate and equity price and other risks.

### **Stress Testing**

Stress Testing is a risk management technique used to evaluate the potential effects on an institution's financial condition, of a set of specified changes in risk factors, corresponding to exceptional but plausible events. The Bank conducts the stress test on quarterly basis and reports to senior management as well as to Nepal Rastra Bank.

### **Internal Capital Adequacy Assessment Process (ICAAP)**

The Bank has developed a comprehensive ICAAP document. The ICAAP has two major components; first is an internal process to identify measure, manage and report risks to which the bank is exposed or could be exposed in the future; and second is an internal process to plan and manage a bank's capital so as to ensure adequate capital. The Bank also conducts the stress test on quarterly basis and reports to senior management. The Bank in line with BASEL provisions and ICAAP document assesses risk exposures and allocated sufficient capital/cushion for perceived risks. The adequacy of capital is main agenda of any ALCO, Man-Com and board meetings.

### **Maker-Checker Policy**

The Bank has adopted Maker-Checker Policy in all of the transactions. Each and every transaction is entered and authorized in CBS by two different individuals for better control and any deviations are closely monitored. The activities of any personnel can be monitored centrally through an integrated system which helps in minimizing the risk of misconduct

### **Information Technology**

The Bank has maintained in-house cold site for disaster recovery. The disaster recovery site and production server site have been kept in well-maintained separate buildings. Periodic drill is conducted to assess the functioning of DRS. Also, the desktops are implemented with Active Directory System (ADS) which does not allow users to replicate or bring the data in/from any unauthorized removable devices.

### **Internal Audit**

Internal audit of the Bank is independent from the management and directly reports to Audit Committee, a board level committee. Audit functions are carried out by experienced staffs and regular observations are being communicated to the related departments/branches/staffs.