

SAPTAKOSHI DEVELOPMENT BANK LIMITED
DISCLOSURES UNDER CAPITAL ADEQUACY FRAMEWORK OF NRB (BASEL II)
AS ON 30 Chaitra 2079 (13 April 2023)

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY
I. TIER-1 CAPITAL AND BREAKDOWN OF ITS COMPONENTS:

		NPR('000)
S.N	Particulars	Amount
1	Paid up Equity Share Capital	834,338.43
2	Irredeemable Non-cumulative preference shares	-
3	Share Premium	-
4	Proposed Bonus Equity Shares	-
5	Statutory General Reserves	64,645.03
6	Retained Earnings	(114,280.33)
7	Un-audited current year cumulative profit/(loss)	(274,950.63)
8	Capital Redemption Reserve	-
9	Capital Adjustment Reserve	-
10	Dividend Equalization Reserves	-
11	Other Free Reserve	-
12	Less: Goodwill	-
13	Less: Deferred Tax Assets	-
14	Less: Fictitious Assets	-
15	Less: Investment in equity in licensed Financial Institutions	-
16	Less: Investment in equity of institutions with financial interests	-
17	Less: Investment in equity of institutions in excess of limits	-
18	Less: Investments arising out of underwriting commitments	-
19	Less: Reciprocal crossholdings	-
20	Less: Purchase of land & building in excess of limit and unutilized	-
21	Less: Other Deductions	-
Total Core Capital		509,752.51

II. TIER-2 CAPITAL AND A BREAKDOWN OF ITS COMPONENTS:

		NPR('000)
S.N	Particulars	Amount
1	Cumulative and/or Redeemable Preference Share	-
2	Subordinated Term Debt	-
3	Hybrid Capital Instruments	-
4	General loan loss provision	89,507.29
5	Exchange Equalization Reserve	-
6	Investment Adjustment Reserve	-
7	Asset Revaluation Reserve	-
8	Other Reserves	-
Total Supplementary Capital		89,507.29

III. INFORMATION ABOUT SUBORDINATE TERM DEBT

The Bank does not have any subordinated Term Debt

IV. DEDUCTION FROM CAPITAL

		NPR('000)
Particulars		Amount
Deferred Tax Assets		-
Purchase of land & building in excess of limit and unutilized		-

V. TOTAL QUALIFYING CAPITAL

		NPR('000)
Particulars		Amount
Total Core Capital(Tier I)		509,752.51
Total Supplementary Capital(Tier II)		89,507.29
Total Capital Fund(Tier I + Tier II)		590,765.87

VI. CAPITAL ADEQUACY RATIO

Particulars	Percentage
Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	10.38%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)	12.03%

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

The bank considers the capital adequacy requirement pursuant to the provision set by NRB. The Tier 1 capital ratio of the bank as at Chaitra end 2079 is 10.38% and the total capital ratio is 12.03%. The bank in its strategic planning cautiously considers the capital adequacy and manage capital adequacy required for the organization's growth.

2. RISK EXPOSURE

i. Risk Weighted Exposure for Credit Risk, Market Risk and Operational Risk

		NPR('000)
S.N	Particulars	Amount
a	Risk Weighted Exposure for Credit Risk	4,251,555.08
b	Risk Weighted Exposure for Operational Risk	376,632.22
c	Risk Weighted Exposure for Market Risk	-
Total Risk Weighted Exposures (Before adjustments of Pillar II)		4,628,187.29
Adjustments under Pillar II		
SRP 6.4a (5)	ALM policies & practices are not satisfactory, add 1% of net interest income to RWE	-
SRP 6.4a (6)	Add.....% of the total deposit due to insufficient Liquid Assets	-
SRP 6.4a (7)	Add RWE equivalent to reciprocal of capital charge of 2% of gross income	50,304.10
SRP 6.4a (9)	If overall risk management policies and procedures are not satisfactory, Add 2% of RWE	185,127.49
SRP 6.4a (10)	If desired level of disclosure requirement has not been achieved, Add 1% of RWE	46,281.87
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)		4,909,900.76

ii. Risk Weighted Exposure under each 11 Categories of Credit Risk

		NPR('000)
Particulars	Amount	
Claims on Government and Central Bank	821,737.07	
Claims on other official entities	-	
Claims on Banks	550,905.37	
Claims on Corporate and Securities Entities	659,950.80	
Claims on Regulatory Retail Portfolio	2,062,269.86	
Claims secured by residential properties	163,258.46	
Claims secured by Commercial real estate	-	

Past due claims	478,719.76
High Risk claims	799,960.72
Other Assets	357,140.63
Off Balance Sheet Exposures	55,437.43
TOTAL	5,949,380.10

iii. Total Risk Weighted Exposure Calculation Table:

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	A	B	c	d=a-b-c	e	f=d*e
Cash Balance	109,139.03			109,139.03	0%	-
Balance With Nepal Rastra Bank	230,730.20			230,730.20	0%	-
Gold	-			-	0%	-
Investment in Nepalese Government Securities	271,006.87			271,006.87	0%	-
All Claims on Government of Nepal	320,000.00			320,000.00	0%	-
Investment in Nepal Rastra Bank securities				-	0%	-
All claims on Nepal Rastra Bank	-			-	0%	-
Claims on Foreign Government and Central Bank (ECA 0-1)	-			-	0%	-
Claims on Foreign Government and Central Bank (ECA - 2)	-		-	-	20%	-

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	A	B	c	d=a-b-c	e	f=d*e
Claims on Foreign Government and Central Bank (ECA - 3)	-		-	-	50%	-
Claims on Foreign Government and Central Bank (ECA-4-6)	-		-	-	100%	-
Claims on Foreign Government and Central Bank (ECA - 7)	-		-	-	150%	-
Claims On BIS, IMF, ECB, EC and MDB's recognized by the framework	-			-	0%	-
Claims on Other Multilateral Development Banks	-		-	-	100%	-
Claims on Domestic Public Sector Entities	-		-	-	100%	-
Claims on Public Sector Entity (ECA 0-1)	-		-	-	20%	-
Claims on Public Sector Entity (ECA 2)	-		-	-	50%	-
Claims on Public Sector Entity (ECA 3-6)	-		-	-	100%	-
Claims on Public Sector Entity (ECA 7)	-		-	-	150%	-

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	A	B	c	d=a-b-c	e	f=d*e
Claims on domestic banks that meet capital adequacy requirements	550,905.37		-	550,905.37	20%	110,181.07
Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	-		-	-	20%	-
Claims on foreign bank (ECA Rating 2)	-		-	-	50%	-
Claims on foreign bank (ECA Rating 3-6)	-		-	-	100%	-
Claims on foreign bank (ECA Rating 7)	-		-	-	150%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	-		-	-	20%	-
Claims on Domestic Corporates	659,950.80		-	659,950.80	100%	659,950.80
Claims on Foreign Corporates (ECA 0-1)	-		-	-	20%	-

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	A	B	c	d=a-b-c	e	f=d*e
Claims on Foreign Corporates (ECA 2)	-		-	-	50%	-
Claims on Foreign Corporates (ECA 3-6)	-		-	-	100%	-
Claims on Foreign Corporates (ECA 7)	-		-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	2,062,269.86		253,394.50	1,808,875.36	75%	1,356,656.52
Claims fulfilling all criterion of regularity retail except granularity	-		-	-	100%	-
Claims secured by residential properties	142,626.70		-	142,626.70	60%	85,576.02
Claims not fully secured by residential properties	-		-	-	150%	-
Claims secured by residential properties (Overdue)	20,631.76	8,027.89	-	12,603.87	100%	12,603.87
Claims secured by Commercial real estate	-		-	-	100%	-
Past due claims (except for claims secured by residential properties)	478,719.76	202,791.91	-	275,927.85	150%	413,891.77
High Risk claims	799,960.72		-	799,960.72	150%	1,199,941.07

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	A	B	c	d=a-b-c	e	f=d*e
Lending Against Securities (Bonds)			-		100%	
Lending Against Shares(upto Rs. 2.5 Million)	3,169.27			3,169.27	100%	3,169.27
Investments in equity and other capital instruments of institutions listed in stock exchange	17,653.47	(2,099.93)	-	19,753.40	100%	19,753.40
Investments in equity and other capital instruments of institutions not listed in the stock exchange						
Staff loan secured by residential property	39,187.11			39,187.11	50%	19,593.56
Interest Receivable/claim on government securities	-			-	0%	-
Cash in transit and other cash items in the process of collection		-		-	20%	-
Other Assets (as per attachment)	357,140.63	-	-	357,140.63	100%	357,140.63
TOTAL (A)	6,063,091.55	208,719.87	253,394.50	5,600,977.18		4,238,457.99

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments				-	0%	-
Bills Under Collection				-	0%	-
Forward Exchange Contract Liabilities			-	-	10%	-
LC Commitments With Original Maturity Upto 6 months domestic counterparty			-	-	20%	-
Foreign counterparty (ECA Rating 0-1)			-	-	20%	-
Foreign counterparty (ECA Rating 2)			-	-	50%	-
Foreign counterparty (ECA Rating 3-6)			-	-	100%	-
Foreign counterparty (ECA Rating 7)			-	-	150%	-
LC Commitments With Original Maturity Over 6 months domestic counterparty			-	-	50%	-
Foreign counterparty (ECA Rating 0-1)			-	-	20%	-
Foreign counterparty (ECA Rating 2)			-	-	50%	-
Foreign counterparty (ECA Rating 3-6)			-	-	100%	-
Foreign counterparty (ECA Rating 7)			-	-	150%	-

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Bid Bond, Performance Bond and Counter guarantee domestic counterparty					50%	
Foreign counterparty (ECA Rating 0-1)			-	-	20%	-
Foreign counterparty (ECA Rating 2)			-	-	50%	-
Foreign counterparty (ECA Rating 3-6)			-	-	100%	-
Foreign counterparty (ECA Rating 7)			-	-	150%	-
Underwriting commitments			-	-	50%	-
Lending of Bank's Securities or Posting of Securities as collateral			-	-	100%	-
Repurchase Agreements, Assets sale with recourse			-	-	100%	-
Advance Payment Guarantee	-		-		100%	-
Financial Guarantee	2,512.00		-	2,512.00	100%	2,512.00
Acceptances and Endorsements			-	-	100%	-
Unpaid portion of Partly paid shares and Securities			-	-	100%	-
Irrevocable Credit commitments (short term)	52,925.43		-	52,925.43	20%	52,925.43
Irrevocable Credit commitments (long term)			-	-	50%	-

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement				-	20%	-
Other Contingent Liabilities	-		-	-	100%	-
Unpaid Guarantee Claims			-	-	200%	-
TOTAL (B)	55,437.43	-	-	55,437.43		13,097.09
Risk Weighted Exposure for Credit Risk	6,118,528.98	208,719.87	253,394.50	5,656,414.61		4,251,555.08
Risk Weighted Exposure for Operational Risk	-	-	-	-	-	376,632.22
Total Risk Weighted Exposures (Before adjustments of Pillar II)	-	-	-	-	-	4,628,187.29
<u>Adjustments under Pillar II</u>						
SRP 6.4a(7) - Add RWE equivalent to reciprocal of capital charge of 2 % of gross income.						50,304.10
SRP 6.4a(9) - Overall risk management policies and procedures are not satisfactory. Add 4% of RWE						185,127.49
SRP 6.4a(10) - Desired level of disclosure requirement has not been achieved. Add 1% of RWE						46,281.87
Total RWE for Credit Risk after Bank's adjustments under Pillar II	6,118,528.98	208,719.87	253,394.50	5,656,414.61		4,909,900.76

iv. Amount of Non-Performing Assets (Gross and Net Amount)**(NPR'000)**

Particulars	Gross Amount	Provision	Net Amount
Substandard	308,454.93	77,113.73	231,341.2
Doubtful	357,255.51	185,284.9	171,970.61
Loss	107,058.93	107,058.93	-
Total	772,769.37	369,457.56	403,311.81

v. Non-Performing Assets (NPA) Ratios

Particulars	Percentage
Gross NPA to Gross Advances	18.54
Net NPA to Net Advances	10.88

vi. Movement of Non-Performing Assets**(NPR'000)**

Particulars	Closing Balance (Poush 2079)	Closing Balance (Chaitra 2079)	Movement
Substandard	161,720.71	308,454.93	146,734.22
Doubtful	463,132.52	357,255.51	(105,877.01)
Loss	69,054.63	107,058.93	38,004.30
Total	693,907.88	772,769.37	78,861.51

vii. Write off loans and Interest Suspend

The bank has not written off any loans & advances during the third quarter of fiscal year 2079/80.

viii. Movement in Loan Loss Provision

Particulars	(NPR'000)		
	Closing Balance (Poush 2079)	Closing Balance (Chaitra 2079)	Movement
Pass	43,430.60	30,928.56	12,502.04
Watch list	46,754.07	58,578.72	(11,824.65)
Substandard	40,430.17	77,113.73	(36,683.55)
Doubtful	238,223.40	185,284.90	52,938.51
Loss	69,054.63	107,058.93	(38,004.30)
Total	437,892.89	458,964.84	(21,071.95)

ix. Movement in Interest Suspense

Particulars	(NPR'000)		
	Closing Balance (Poush 2079)	Closing Balance (Chaitra 2079)	Movement
Interest Suspense	112,674.94	127,214.39	14,539.45

x. Details of Additional Loan Loss Provision

Particulars	(NPR'000)
	Movement
Pass	-
Watch list	-
Substandard	-
Doubtful	-
Loss	-
Total	-

xi. Segregation of the Bank's Investment portfolio

Investments are segregated as under:

Particulars	(NPR'000)
	Amount
Investment securities measured at amortized cost	591,006.87
Investment in equity measured at FVTOCI	18,324.8
Investment in unquoted associates	-
Other Trading Assets	-
Total	609,331.67

3. Risk Management Function

The bank has a risk management system to identify, assess, monitor the risk inherent in banking operation such as credit risk, market risk, liquidity risk, operation risk, capital adequacy and provide appropriate directions and guidelines to the management for mitigation of risk. A risk management system incorporating every area has been formed for effective risk management.

i. Credit Risk

The bank has Risk Management Policy, Credit policy Guidelines and standardized form for analyzing the risk and credit worthiness. The bank's Credit Risk Unit is structured for inspection and supervision of loan proposals before the loan approval. Furthermore, delegation of approving authority to various level and compliance of NRB directive is ensured. Risk Weighted Exposure for Credit Risk has been calculated as per NRB Capital Adequacy Framework.

ii. Operation Risk

The bank has formed various policies for mitigating the operation risk like Financial Administration bylaws, Employee Bylaws, Operation Manual, AML/CFT policy. Risk Weighted Exposure for Operation Risk has been calculated as per NRB Capital Adequacy Framework.

iii. Market Risk

Finance Department act proactively to cope up with the market risk. Risk Weighted Exposure for market risk has been calculated as per the NRB capital Adequacy Framework.

iv. Liquidity Risk

To mitigate the liquidity risk, the bank daily monitors the liquidity position. Similarly, periodic review of gap over the assets and liabilities is also performed.

v. Reputational Risk

The management team along with all staffs are responsible for protecting the bank's reputation and ensures bank does not take any activity that may cause material damage to reputation of the bank. Further, the bank also has appointed the information officer.