सनराइज बैंक लिमिटेड SUNRISE BANK LIMITED | YOU & US Together We Can Build

Disclosure under BASEL III
As at Mid July 2017 (4th Quarter End of FY 2016/17)

1. CAPITAL STRUCTURE & CAPITAL ADEQUACY OF THE BANK

i. Tier 1 Capital and breakdown of its Components

The core capital of the bank with its detailed breakdown is detailed below:

SN	Particulars	Amount (In NPR 000)
a	Paid up capital	7,018,105
b	Share Premium / Capital Reserve	-
c	Proposed Bonus Shares	1063377
d	Statutory General Reserve	1,157,526
e	Retained Earnings	13,700
f	Un-audited Current Year Cumulative Profit	-
g	Other Free Reserves	29732
h	Less: Deferred Tax Assets	(29,732)
i	Less: Other Deductions	(134,934)
	Core (Tier-1) Capital	**9,117,774**

ii. Tier 2 Capital and Breakdown of its Components

The supplementary capital of the bank with its detailed breakdown is detailed below:

SN	Particulars	Amount (In NPR 000)
a	General Loan Loss Provision	563,840
b	Exchange Equalization Reserve	22,968
c	Investment Adjustment Reserve	150,130
	Suplementary (Tier-2) Capital	**736,938**

iii. Details of Subordinated Term Debts

Bank doesn’t have any subordinated term debts.

iv. Deductions from Capital

- Deferred Tax Assets of Rs 29.73 Million.
- Investment made in Gurans Life Insurance Company Limited of Rs 19.86 million (related party) and investment in sunrise capital Rs 78.57 million (subsidiary)

- Rs 32.61 million for land and building not in use by bank that includes land purchased at Bharatpur, Chitwan not brought to use Rs 25.75 Million and proportionate WDV of buildings not used by bank and rented out to other parties Rs 6.86 million.

- Fictitious Assets of Rs 3.89 Million.

v. Total Qualifying Capital

The total capital of the bank stands as:

SN	Particulars	Amount (In NPR 000)
a	Core Capital	9,117,774
b	Suplementary Capital	736,938
	Total Capital	**9,854,712**

vi. Capital Adequacy of the Bank

The capital adequacy of the bank has been detailed below:

SN	Particulars	Percentage
a	Core Capital Adequacy Ratio	13.39%
b	Supplementary Capital Adequacy Ratio	1.08%
	Capital Adequacy Ratio	**14.47%**

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

Bank's current paid up capital amounts to Rs 7.018 Billion, including 48.59% shares of general public. The Bank complies with the licensing condition of NRB which has also helped the Bank to have a steady and strong capital position. The bank has the plan of increasing the capital over Rs. 8 billion by the end of Ashad 2074 to comply with NRB directives. The overall strategy of the bank has been formulated with the special consideration to the capital adequacy requirement according to BASEL- II & BASEL-III.

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

Bank does not have any other capital instruments except fully paid equity shares as qualifying capital.

2. RISK EXPOSURES

a. Risk Weighted Exposures

All material risks faced by the bank have been addressed in the capital assessment process. However, bank has developed a process to estimate risks with reasonable certainties. All the three risks that have direct impact on the capital adequacy level have been managed in a structured manner with clear roles and responsibilities. In order to makes a comprehensive assessment of risks, the process has, at minimum, addressed the forms of risks covered below:

SN	Particulars	Risk (In NPR 000)
a	Risk Weighted Exposure for Credit Risk	62878374
b	Risk Weighted Exposure for Operational Risk	2,552,530
c	Risk Weighted Exposure for Market Risk	81,250
	RWA Before Pillar 2 adjustment	**65,512,154**

All risks, including credit, operational and market risks are identified, escalated, monitored and mitigated to the satisfaction of the risk type owner. The risk type owner is responsible for ensuring that all the risks are adequately identified, escalated, monitored and mitigated. The Bank has an adequate system in place for monitoring and reporting risk exposures and assessing how the changing risk profile affects the need for capital. The senior management and board of directors on a regular basis receive the report regarding the risk profile of the bank and its capital needs. All the material risks are identified, measured, monitored and reported by the respective risk type owner.

b. Credit Risk under 11 Categories

The Credit Risks under the 11 categories been detailed below:

SN	Risk Classification	Net Book Value (In NPR 000)	Risk (In NPR 000)
a	Claims on Govt. and Central Bank	14,780,165	-
b	Claims on other Financial Entities	-	-
c	Claims on Banks	4,041,731	1,125,750
d	Claims on Corporate and Securities Firm	21,066,671	21,066,671
e	Claims on Regulatory Retail Portfolio	15,822,767	11,867,075
f	Claims secured by Residential Properties	6,873,665	4,147,137
g	Claims secured by Commercial Real State	2,924,880	2,924,880
h	Past due Claims	399,184	598,776
i	High Risk Claims	3,729,533	5,524,429
j	Other Assets	1,214,605	1,214,605
k	Off balance sheet items	28,641,826	14,409,051
	TOTAL	**99,495,027**	**62,878,374**

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c. Total Risk Weighted Exposure Calculation Table

The detailed calculation of RWA is listed below:

SN	Particulars	Risk (in NPR 000)
a	Risk Weighted Exposure for Credit Risk	62878374
b	Risk Weighted Exposure for Operational Risk	2,552,530
c	Risk Weighted Exposure for Market Risk	81,250
d	Adjustments under Pillar II	
e	Add: 1% of the NII to RWA for ALM Polcy and Practice.	15036
f	3% additional risk weight for Operational Risk	619811
g	3% adjustment on Total RWE	1965365
	Total Risk Weighted Exposure	**68,112,366**

d. Detail of Non-Performing Loans

During the year the non-performing loans increased by 0.15%. The detail of the loans has been classified below:

Particulars	Gross Value (In NPR 000)	Net Value (In NPR 000)
Restructured Loans	-	-
Sub-Standard Loans	63,495	47,621
Doubtful Loans	326,635	163,317
Loss Loans	319,110	-
Total NPA	**709,240**	**210,939**

e. Ratio of Non-Performing Loans

Particulars	Percentage
Gross NPA	1.37%
Net NPA	0.41%

f. Movement of Non-Performing Assets (Gross)

During the year Non-Performing Accounts (NPA)increased by 32.85%.

PARTICULARS	NPA (NPR 000)
Current Year	709,240
Previous Year	533,846
Change	175,394
Change%	32.85%

g. Write off of Loans & Interest Expenses

During the year loan amounting Rs. 85,025,124 carried forwarded from NIDC capital markets ltd were written off.

h. Movement of Loan Loss Provision And Interest Suspense

As per NRB Directives, all interest accruals on loans and advances, irrespective of loan category, are transferred to interest suspense account until the interest accrued and due is realized in cash. Details of Interest Suspense Movement are as follows:

Particulars	Amount (NPR 000)
Movement of Loan Loss Provision	181,723
Movement of Interest Suspense	157,175

i. Details of Additional Loan Loss Provisions:

Bank has not made any additional Loan Loss Provision during the year.

j. Segregation of investment portfolio into Held for trading, Held to maturity and Available for sale category:

Investment	Amount (NPR 000)
Held For Trading	-
Held Till Maturity	9,129,499
Available For Sale	424,076
Toal Investment	**9,553,575**

3. Risk Management Function

a. Summary of the bank's internal approach to assess the adequacy of its capital to support all the risks in business and achieve better risk management techniques in monitoring and managing risks

i. Board and senior management oversight

Bank management is responsible for understanding the nature and level of risk being taken by the bank and how this risk relates to adequate capital levels. It is also responsible for ensuring that the form and sophistication of the risk management processes is commensurate with the complexity of its operations. A sound risk management process, thus, is the foundation for an effective assessment of the adequacy of a bank's capital position. The decisions made by the management are regularly reviewed by the BOD.

ii. Sound capital assessment

Another crucial component of an effective ICAAP is the assessment of capital. In order to be able to make a sound capital assessment, the bank has, at minimum, have the following:

- Policies and procedures designed to ensure that the bank identifies, measures, and reports all material risks;
- A process that relates capital to the level of risk;
- A process that states capital adequacy goals with respect to risk, taking account of the bank's strategic focus and business plan; and
- A process of internal control reviews and audits to ensure the integrity of the overall management process.

iii.Comprehensive assessment of risks

All material risks faced by the bank have been addressed in the capital assessment process. Nepal Rastra Bank recognizes that not all risks can be measured precisely. However, bank has developed a process to estimate risks with reasonable certainties. All the three risks that have direct impact on the capital adequacy level have been managed in a structured manner with clear roles and responsibilities. In order to make a comprehensive assessment of risks, the process should, at minimum, address the forms of risks covered below.

Credit Risk

The Bank's Credit Policy Guidelines has adopted a Credit Risk Management philosophy that involves a continual measurement.

Market Risk

The Bank has in place Assets Liability Management (ALM) Policy, and Assets Liability Management Committee (ALCO), which monitors risks arising from changes in exchange rates in foreign currencies; liquidity profile of assets and liabilities, investment activities of the bank etc.

Operational Risk

The Bank has developed and implemented various manuals, operating procedures and guidelines for monitoring and controlling Operational Risks in the Bank; a number of procedure guidelines and manuals are in process of development.

Most significant steps adopted by the Bank for handling Operational Risks are as follows:

Independent reconciliation department accustomed to conducting daily reconciliation of all agency accounts and Inter-Branch accounts. Transaction Stack System is in place on amount limit basis. Exception and MIS reports are generated by the system on a ‘Live” basis, where account activity can be monitored as and when they occur. General Authority schedule is in place to delegate authority to staff across all levels. Independent Internal Audit has been appointed to carry out review of internal controls and compliance. Transactions in all levels are handled under dual supervision and control. Output in all transactions is checked by a higher authority level. Disaster Recovery Server is in place to ensure full restoration of Bank’s data.

Other Risk

In addition to credit, credit concentration, operational and market risk the Bank identifies, assess and monitors other risks such as strategic risk and reputational risks at regular interval.

iv. Monitoring

Monitoring and reporting of all risks, including credit, operational and market risks are identified, escalated, monitored and mitigated to the satisfaction of the risk type owner. The risk type owner is responsible for ensuring that all the risks are adequately identified, escalated, monitored and mitigated. The Bank has an adequate system in place for monitoring and reporting risk exposures and assessing how the changing risk profile affects the need for capital. The senior management and board of directors on a regular basis receive the report regarding the risk profile of the bank and its capital needs. All the material risks are identified, measured, monitored and reported by the respective risk type owner.

v. Internal Control Review

The internal control structure of the Bank is essential for sound capital assessment process. Effective control of the capital assessment process includes an independent review and involvement of both internal as well as external audits wherever appropriate. The Bank is committed conduct the regular review of its risk management process to ensure its integrity, accuracy, and reasonableness. The effectiveness of the Bank’s internal control system is reviewed regularly by the Board, its committees, Management and Internal Audit.

The Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Bank through its program of business/unit audits. The Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. Internal Audit reports regularly to the Audit Committee. The findings of all adverse audits are reported to the Chief Executive Officer and Business Heads for immediate corrective actions.

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

Following are the eligible credit risk mitigants used by the bank:

SN	Credit Risk Mitigants	Amount (NPR 000)
1	Deposit with Bank	383,126
2	Deposits with other banks/FI	-
3	Gold	389,958
4	Govt.& NRB Securities	-
	Total Credit Risk Mitigants	**773,084**