

Executive Summary

Sunrise Bank Limited (SrBL) focuses on compliance of the Directives and Guidelines issued from the regulating and monitoring Authorities. It also gives more importance on reviewing all the activities on its own on daily basis and implementing the effective internal control system within the organization. The Bank always maintains updated books of accounts on its own and with the others. The Disclosure Policy of Basel II Accord indicates the real need of the healthy financial competition within the Banking Industry. Among various tools the Disclosure Policy is one of the major and technical setup to be updated by the Bank. This is an effective and efficient way to minimize possible risk and save their time to make the customer satisfied. Disclosure Policy is used to ensure the books of accounts maintain as per the requirement of Guidelines/ Directives issued by the Competent Authority. The formulation of policy and effective implementation thereof by the Bank is compulsory.

This document, therefore, serves the purpose of guiding the respective Department, thereby describing the functions, step wise procedural aspects, roles and responsibilities. The procedural aspect of the Department will, however, remain the same as Nepal Rastra Bank Directives and policies framed thereof, as per Bank's Policies, Operational Guidelines/Manuals of the Bank, and circulars issued by Chief Executive Officer and other executives of the Bank from time to time to comply the legal provisions including the Directives/ Guidelines etc issued by the Competent Authority. The compliance of Basel II Accord is the mandatory to the Commercial Banks; hence overall coverage for the same Accord is incorporated under this Disclosure Policy.

1. Name and Short Title:

This Policy is called “The Disclosure Policy of Basel II Accord 2065 (2008)” of Sunrise Bank Limited.

2. Objectives:

The main objective of this framework is to develop safe and sound financial system by way of sufficient amount of qualitative capital and risk management practices. This framework is intended to ensure for the maintenance of that level of capital which,

- is adequate to protect its depositors and creditors.
- is commensurate with the risk associated activities and profile of the Bank.
- promotes public confidence in the Banking system.
- implements a process for assessing the appropriateness of Disclosures, validity and frequency thereof.
- takes the attention of Board of Directors (BOD) of the Bank to strike a balance between materiality, proprietary and confidential information.

3. Responsibility:

- First of all, the concerned staffs of the concerned department as initiator or having the detail knowledge of the transaction are responsible for making proper entry and reporting.
- Head of Departments (HoDs) of Head Office, Branch Managers (BMs)/Branch In-charges are fully responsible for timely implementation and reporting accordingly.
- All other concerned authorities are fully responsible for resolution and finding prompt response to point out the risk and to mitigate the same.

4. Disclosure Policy:

The Board of Directors of each Bank shall be responsible for establishing and maintaining at all times, an adequate level of capital. Hence, it is essential to disclose all the risk affecting elements in the financial statements of the Bank, reports submitted to the competent Authority/ies, Annual General Meeting (AGM) Report, website of the Bank etc.

Banks should at minimum, disclose following information at the stipulated time intervals. At the same time, Banks shall be free to disclose any other information they consider important for its stakeholders as and when they consider necessary, beyond the prescribed requirements.

Banks should provide the following Disclosures as at end of each financial year along with the annual financial statements.

Sunrise Bank Limited is having proper culture and Disclosure Policy as per the requirement or regular interval of frequency/ies. The following information is to be disclosed for reporting to NRB and other competent authority/ies as and when required:

4.1 Capital Structure and Capital Adequacy:

- Tier 1 capital and a breakdown of its components;
- Tier 2 capital and a breakdown of its components;
- Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds.
- Deductions from capital;
- Total qualifying capital;
- Capital adequacy ratio;
- Summary of the Bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable; and
- Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments.

4.2 Risk Exposures:

- Risk weighted exposures for Credit Risk, Market Risk and Operational Risk;
- Risk Weighted Exposures under each of eleven (11) categories of Credit Risk;
- Total risk weighted exposure calculation table;
- Amount of NPAs (both Gross and Net)
 - Restructured/Rescheduled Loan
 - Substandard Loan
 - Doubtful Loan
 - Loss Loan

NPA ratios

- Gross NPA to Gross Advances
- Net NPA to Net Advances
 - Movement of Non Performing Assets
 - Write off of Loans and Interest Suspense
 - Movements in Loan Loss Provisions and Interest Suspense

- Details of additional Loan Loss Provisions
- Segregation of investment portfolio into Held for trading, Held to maturity and available for Sale category

4.3 Risk Management Function:

For each separate risk area (Credit, Market and Operational risk), Banks must describe their risk management objectives and policies, including:

- Strategies and processes;
- The structure and organization of the relevant risk management function;
- The scope and nature of risk reporting and/or measurement systems; and
- Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.

Types of eligible credit risk mitigants used and the benefits availed under Credit Risk Mitigation (CRM).

Currently, Sunrise Bank Limited (SrBL) is adapting following policies and applying in all reporting purposes. Actual scenario is also reflected under the following three covered categories of risk:

- **Credit Risk:**

The Bank has its own Credit Policy Guidelines to handle the Credit Risk Management philosophy that involves a continual measurement of probability of default/ loss; identification of possible risks and mitigations. The provisions of Capital Adequacy Framework -2007 updated July, 2008 will be complied in line to line basis to overcome from the Credit Risk.

- **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. The provisions of Capital Adequacy Framework -2007 updated July, 2008 will be complied in line to line basis to overcome from the Market Risk.

- **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:

1. Sunrise Bank Limited has effective, efficient and systematic internal control system/mechanism.
2. Independent reconciliation unit accustomed to conducting daily reconciliation of all Nostro/agency accounts, Inter-Branch and Inter-Department account under direct supervision of Head of Finance Operations Department (FOD), Head Office.
3. Transaction Stack System is in place on amount limit basis.
4. Exception and MIS reports are generated by the computer system on a "Live" basis, where account activity can be monitored as and when they occur.
5. General Authority Schedule is in place to delegate authority to staff across all levels.
6. Independent Internal Audit has been appointed to carry out review of internal controls. From the out-sourcing of internal auditor Bank will get higher level of transparency and independence to make the critical view upon the financial transactions.
7. Transactions at all levels are handled under dual supervision and control, where maker of the transaction and checker of the same are different persons.
8. Output in all transactions is checked by a level higher authority and independent person.
9. Disaster Recovery Server is in place to ensure full restoration of Bank's data.
 - Movement of Non Performing Assets
 - Write off of Loans and Interest Suspense
 - Movements in Loan Loss Provisions and Interest Suspense
 - Details of Additional Loan Loss Provisions
 - Segregation of investment portfolio into Held for trading, Held to maturity and Available for Sale category.

- Summary of the Bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable; and
- 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 the Policy to comply the Disclosures requirements under this framework which should also be published in the website of the Bank. Such Disclosures of the Bank will be updated to reflect the capital adequacy position of the Bank after the supervisory adjustments under the review process.

Bank will follow the mandatory requirement to report to NRB of its own capital adequacy computations, according to the format as specified under the Capital Adequacy Framework on a quarterly basis within thirty (30) days after the end of the quarter or as and when required by NRB. All such returns have to be certified by the internal auditor of the Bank.

Besides the returns specified above, the Bank is carrying out the task to inform NRB within thirty (30) days of:

- Any breach of the minimum capital adequacy requirements set out in this framework together with an explanation of the reasons for the breach and the remedial measures it has taken to address those breaches.
- Any concerns it has about its Capital Adequacy, along with proposed measures to address these concerns.
- Sunrise Bank is aware about full compliance of these Disclosures requirements as a pre-requisite. The Bank is also aware of getting any capital relief and/or do adjustments in the risk weights of collateralized or guaranteed exposures if it is necessary to get any Credit Risk Mitigation (CRM) techniques. Formal proposal will be made for approval of competent authority/ies in such cases.

5. Conclusion:

With a view of adapting the international best practices, SrBL is ready to adapt the Basel II Capital Adequacy Framework. SrBL also gives its full assurance to comply the pre-requisites of the Basel II framework as guided by the Basel core principles for effective Banking supervision, adapting the sound practices for proper management of Operational Risk, Credit Risk and Market Risk.

Provisions of this document will be automatically altered corresponding to Instruction Circulars received from Head Office, Nepal Rastra Bank Circulars. Likewise, any change in the Bank's Policy, addition or reduction in the functions of the Department will automatically change the provisions of this document.