

Samriddhi Finance Company Limited

Disclosure Under Basel II

As on end of Ashad 2079

Information presented hereunder is as per disclosure requirements of the Capital Adequacy Framework issued by NRB. Disclosures are in respect of the stand-alone capital adequacy of Samriddhi Finance Company Limited.

1. Capital Structure and Capital Adequacy

| Particulars | | NPR in '000 |
|---|---|----------------|
| (A) Core Capital (Tier 1) | | 549,276 |
| a | Paid up Equity Share Capital | 742,175 |
| b | Irredeemable Non-cumulative preference shares | - |
| c | Share Premium | 20,037 |
| d | Proposed Bonus Equity Shares | - |
| e | Statutory General Reserves | 92,697 |
| f | Retained Earnings | (293,494) |
| g | Un-audited current year cumulative profit/(loss) | (12,138) |
| H | Capital Redemption Reserve | - |
| I | Capital Adjustment Reserve | - |
| j | Dividend Equalization Reserves | - |
| k | Other Free Reserve | - |
| l | Less: Goodwill | - |
| m | Less: Deferred Tax Assets | - |
| n | Less: Fictitious Assets | - |
| o | Less: Investment in equity in licensed Financial Institutions | - |
| p | Less: Investment in equity of institutions with financial interests | - |
| q | Less: Investment in equity of institutions in excess of limits | - |
| r | Less: Investments arising out of underwriting commitments | - |
| s | Less: Reciprocal crossholdings | - |
| t | Less: Purchase of land & building in excess of limit and unutilized | - |
| u | Less: Other Deductions | - |
| Adjustments under Pillar II | | |
| SRP 6.4a(1) | Less: Shortfall in Provision | - |
| SRP 6.4a(2) | Less: Loans & Facilities extended to related parties and restricted lending | - |
| (B) Supplementary Capital (Tier 2) | | 32,388 |
| a | Cumulative and/or Redeemable Preference Share | - |
| b | Subordinated Term Debt | - |
| c | Hybrid Capital Instruments | - |

| | | |
|--|-------------------------------|----------------|
| d | General loan loss provision | 32,388 |
| e | Exchange Equalization Reserve | - |
| f | Investment Adjustment Reserve | - |
| G | Asset Revaluation Reserve | - |
| H | Other Reserves | - |
| Total Capital Fund (Tier I and Tier II) | | 581,665 |

2. Risk Weighted Exposures under each categories of Credit Risk

| Particulars | | Amount (NPR in '000) |
|---|---|--------------------------------|
| A. Balance Sheet Exposures | | Risk Weighted Exposures |
| 1 | Claims on Government and Central Bank | - |
| 2 | Claims on Other Official Entities | - |
| 3 | Claims on domestic banks | 95,604 |
| 4 | Claims on Domestic Corporates (Unrated) | 129,552 |
| 5 | Claims on Regulatory Retail Portfolio | 533,425 |
| 6 | Claims Secured by residential properties | 63,105 |
| 7 | Claims secured by Commercial real estate | - |
| 8 | Past due claims (except for claims secured by residential properties) | - |
| 9 | High Risk Claims | 911,048 |
| 10 | Lending Against Securities (Bonds & Shares) | - |
| 11 | Other Assets | - |
| a | Investment in equity and other capital instructions of institutions | |
| | Listed in stock exchange | 75,708 |
| | Not listed in the stock exchange | 6,364 |
| b | Staff loan secured by residential property | 5,247 |
| 12 | Other Assets (as per attachment) | 121,549 |
| | TOTAL (A) | 1,941,602 |
| B. Off Balance Sheet Exposures | | Risk Weighted Exposures |
| a | Irrevocable Credit commitments (Short term) | 6,378 |
| | TOTAL (B) | 6,378 |
| | Total RWE for credit Risk Before Adjustment (A) +(B) | 1,947,980 |
| | <u>Adjustments under Pillar II</u> | |
| | SRP 6.4a(3) - Add 10% of the loans & facilities in excess of Single Obligor Limits to RWE | - |
| Total RWE for Credit Risk after Bank's adjustments under Pillar II | | 1,947,980 |

3. Total Risk Weighted Exposures Calculation Table

| | | NPR in '000 |
|-------------|--|------------------|
| Particulars | | Amount |
| A | RWE for Credit Risk | 1,947,980 |
| B | RWE for Operational Risk | 43,297 |
| C | RWE for Market Risk | - |
| | Add RWE equivalent to reciprocal of capital charge of 3% of gross income | 14,477 |
| | Desired level of disclosure requirement has not been achieved. Add 1% of RWE | 19,913 |
| | Total Risk Weighted Exposure | 2,025,667 |
| | | |
| | Total Core Capital to Risk Weighted Exposures | 27.12% |
| | Total Capital Fund to Total Risk Weighted Exposures | 28.71% |

4. Non-Performing Loans

| Category | Gross | Loan Loss Provision | Net Loan |
|--------------|-------------------|---------------------|-------------------|
| Restructured | - | - | - |
| Sub-Standard | 71,277,622 | 17,819,406 | 53,458,217 |
| Doubtful | - | - | - |
| Loss | 1,368,979 | 1,368,979 | - |
| Total | 72,646,601 | 19,188,385 | 53,458,217 |

5. Non-Performing Loans/Total Loans – 4.58%

6. Total Loan Loss Provision – 44,437,858

7. Movement in Non-Performing Loans

| | | NPR in '000 | |
|--|---------------|--------------|--|
| Particulars | Amount | Percentage | |
| Up to This Quarter | 72,647 | 4.58% | |
| Up to Previous Quarter | 56,354 | 3.59% | |
| Increase in Non-Performing Loan | 16,292 | 0.99% | |

8. Write Off of Loans and Interest Suspense during the quarter

| | | NPR in '000 |
|--------------------------------|----------------|-------------|
| Particulars | Amount in '000 | |
| Write Off of Loans | 34,025 | |
| Write Off of Interest Suspense | 100,788 | |

9. Movement in Loan Loss Provision and Interest Suspense

NPR in '000

| Particulars | Up to this quarter | Up to previous quarter | Change % |
|---------------------|--------------------|------------------------|----------|
| Loan Loss Provision | 44,438 | 79,460 | -44.08% |
| Interest Suspense | 11,979 | 109,010 | -89.01% |

10. Details of Loan Loss Provision

NPR in '000

| Particulars | Up to this quarter | Up to previous quarter | Change % |
|--------------|--------------------|------------------------|----------|
| Pass | 20,716 | 21,123 | -1.93% |
| Watch List | 4,534 | 14,718 | -69.19% |
| Restructured | - | - | 0.00% |
| Sub-standard | 17,819 | 4,245 | 319.77% |
| Doubtful | - | - | 0.00% |
| Loss | 1,369 | 39,374 | -96.52% |
| Total | 44,438 | 79,460 | |

11. Segregation of Investment Portfolio

NPR in '000

| Particulars | Amount |
|--------------------|---------|
| Held for Trading | - |
| Held for Maturity | 259,976 |
| Available for Sale | 54,144 |

12. Summary of the Finance internal approach to assess the adequacy of its capital to support current and future activities

SFCL has adopted sound risk management framework taking into account of guidelines prescribed by Internal Capital Adequacy Assessment Process (ICAAP) and Risk Management Guidelines of SFCL ensuring soundness of capital position and sustainability of the business.

Considering the requirements to promulgate policies and procedures to safeguard the assets and liability of company, SFCL Board of Directors has approved different policies which provides guidance on independent identification, measurement and management of risks across various businesses. Finance'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. Basel II disclosures have been complied with, addressing the risks and adopting measures to minimize their impact. Increasing complexities in risks, vulnerabilities of businesses and fast changing world with intense competition pose a threat to sustainability. In order to address the varieties of risk that keeps coming out of business operations, company has identified different risks and adopted different measures to minimize them. Capital planning is an integral part of the finance'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. Ever since its establishment, the company has been able to generate and retain substantial earnings in order to ensure adequate capital formation, as required for its business growth. The company is well capitalized and able to maintain the required capital through internal generation, and equally through capital markets if needed.

13. Risk Management Framework

13.1 Risk Management Committee

Risk Management Committee is a board level committee which discuss the overall risk management including performance of the finance so as to assess the solvency of the finance and necessary instructions are issued to concerned division and recommendation are made to the Board for necessary deliberation and implementation.

13.2 Internal Audit

SFCL has outsourced its Internal audit function to independent audit firm which directly reports to Audit Committee on quarterly basis.

13.3 Credit Risk Management

SFCL has its own Credit and Investment Policy in place which guides in generating business incorporating key risk analysis. The company has set up a separate Credit Risk Division, headed by the Chief Risk Officer (CRO). This division is independent to business and does not have any targets, nor have any incentive for business generation. This division oversees global, macro, micro and unit level risk that arises out of daily business operation and equally due to changes in the market conditions affecting particular business. There is separate Credit Administration Department (CAD), which prepares security documents for execution and takes custody of the document executed in presence of Relationship Officers.

13.4 Operational Risk Management

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.

Effective monitoring and internal reporting is in place to make periodic assessment and reporting.

13.5 Market Risk Management

Market Risks are discussed at Asset Liability Management Committee (ALCO) of the company which performs its activities in line with the policies and procedures and suggests/recommends for necessary steps collectively to address the risk on interest rate movement and equity price changes.

Adequate care is taken to ensure the maturity of deposits to match with assets maturity and maintain sufficient liquidity. Treasury department plays the vital role for monitoring same and report to Chief Executive Officer.

13.6 Liquidity Risk Management

Monitoring of Liquidity ratios are done through daily reporting system from Finance and Treasury department to Top Level Management. Towards liquidity risk management, if additional liquidity may be required, the company has access to different sources of funding such as existing institutional deposit relationships, interbank market, and central bank funding mechanisms.