

Shree Investment & Finance Co. Ltd.



Disclosures under Basel II For First Quarter of FY 2082-83 ending Ashoj 2082

Capital Structure and Capital Adequacy:

1.1. Capital Adequacy Ratio

Particular	Ratio
Core Capital Ratio – Tier I	17.57%
Total Capital Ratio - Tier I + Tire II	18.50%

1.2. Total qualifying capital:

Qualifying Capital	Amount '000'
Tier I Core Capital Fund	1,281,926
Tire II Supplementary Capital Fund	67,777
Total Capital Fund	1,349,703

1.3. Tier 1 Capital and a breakdown of its components:

S.N.	Particular	Amount '000'
1	Paid up Equity Share Capital	1,000,000
2	Irredeemable Non-cumulative preference shares	
3	Share Premium	
4	Proposed Bonus Equity Shares	
5	Statutory General Reserves	285,984
6	Retained Earnings	62,800
7	Un-audited current year cumulative profit/(loss)	3,444
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	70,302
21	Less: Other Deductions	
	Total Tier I Capital	1,281,926

Shree Investment & Finance Co. Ltd.



1.4. Tier 2 Capital and Breakdown of its Components:

S.N.	Particular	Amount '000'
1	Cumulative and/or Redeemable Preference Share	
2	Subordinated Term Debt	
3	Hybrid Capital Instruments	
4	General loan loss provision	59,998
5	Exchange Equalization Reserve	
6	Investment Adjustment Reserve	
7	Accrued Interest Receivable on pass loan included in Regulatory Reserve	7,778
8	Other Reserves	
	Total Tier II Capital	67,776

1.5. Deduction from capital.

Shree Investment and Finance Ltd has deducted purchase of land NPR 70,302,239 in calculation of Tier I capital fund.

2. Risk Exposures:

2.1 Risk weighted exposures for credit Risk, Market Risk and Operational Risk:

Risk Weighted Exposures	Amount '000'
Risk Weighted Exposure for Credit Risk	6,619,065
Risk Weighted Exposure for Operational Risk	386,314
Risk Weighted Exposure for Market Risk	
Add: 3% of the total RWE due to non-compliance of Disclosure Requirement (6.4 a 10)	
Add: 3% of the total deposit due to insufficient Liquid Assets (6.4 a 6)	
Total Risk Weighted Exposures	7,005,379

2.2 Risk weighted exposures under different categories of Credit Risk:

S.N	Categories	Amount '000'
1	Claims on Government and Central Bank	
2	Claims on Other Financial Entities	
3	Claims on domestic banks that meet capital adequacy requirement	51,130
4	Claims on Domestic Corporates (Unrated)	3,448,537
5	Regulatory Retail Portfolio (Not Overdue)	866,468
6	Claims fulfilling all criterion of regularity retail except granularity	70,283
6	Claims secured by residential properties	298,613
7	Claims secured by residential properties (Overdue)	28,897
8	Claims secured by Commercial real estate	109,609
9	Past due claims (except for claims secured by residential properties)	131,020
10	High Risk claims	347,389
11	Real Estate loans for land acquisition and development (Other than mentioned in Capital Adequacy framework 2007-point 3.3(j)(1)(j))	176,743

Shree Investment & Finance Co. Ltd.



12	Lending Against Shares	371,621
14	Personal Hirepurchase/Personal Auto Loans	14,615
16	Investments in equity and other capital instruments of institutions listed in stock exchange	214,308
17	Investments in equity and other capital instruments of institutions not listed in the stock exchange	1,128
18	Staff loan secured by residential property	24,917
19	Other Assets	233,229
20	Off Balance Sheet Items	230,555
	Total	6,619,065

2.3 Total Risk Weight Exposures calculation Table:

RISK WEIGHTED EXPOSURES	Amount '000'
Risk Weighted Exposure for Credit Risk	6,619,065
Risk Weighted Exposure for Operational Risk	386,314
Risk Weighted Exposure for Market Risk	
Add: 3% of the total RWE due to non-compliance of Disclosure Requirement (6.4 a 7)	79,549
Add: 3% of RWE. Overall risk management policies and procedures are not satisfactory. Add 3% of RWE (6.4 a 9)	210,161
Total Risk Weighted Exposures (After Bank's adjustment of Pillar II)	7,295,089
Total Core Capital	1,281,926
Total Capital Fund	1,349,703
Total Tier I Capital to Total Risk Weighted Exposures	17.57%
Total Capital Fund to Total Risk Weighted Exposures	18.50%

3 Details of Non-Performing loan

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

S.N	Particulars	Gross Amount	Loan Loss Provision	Net NPL
1	Restructured	-	-	-
2	Sub-Standard	71,130	17,783	53,347
3	Doubtful	60,953	30,477	30,476
4	Loss	88,015	88,015	-
	Total	220,098	136,274	83,823

3.2. NPA Ratio:

NPA Ratio	%
Gross NPA to Gross Advances	3.34

Shree Investment & Finance Co. Ltd.



3.3 Movement in Non-Performing Assets:

‘000’

Particulars	This Quarter	Previous Quarter	Change (%)
Non-Performing Assets	220,098	168,032	30.99

3.4 Write off Loans and Interest Suspense:

Particulars	Amount ‘000’
Write off loans during the quarter	-
Write off Interest Suspense quarter	-
Total	-

3.5. Movement in Loan Loss Provision:

Particulars	This Quarter ‘000	Previous Quarter ‘000	Change (%)
Loan Loss Provision	215,200	180,223	19.41

3.6. Details of Loan Loss Provision during the year:

Particulars	Amount ‘000’
Pass	59,999
Watch List	18,927
Restructured	-
Sub-Standard	17,783
Doubtful	30,477
Loss	88,015
Additional	-
Total	215,200

3.7 Segregation of Investment Portfolio:

Particulars	Amount ‘000’
Held for Trading	-
Held to Maturity	1,904,635
Available for sales	215,060
Total Investment	2,119,695



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

Shree Investment and Finance follows the Internal Capital Adequacy Assessment Process (ICAAP) and Risk Management Guideline while deciding on any business. It covers qualitative and quantitative information on risk capital adequacy assessment made by the management along with capital plan for the future business growth expected by the finance and meet the pillar I and pillar II risk to which the finance is exposed to.

The committees like Audit Committee, Risk Management Committee review the business and risk periodically and take necessary care of stress test result, return and capital in a sustainable manner. The finance has setup Assets Liability Management Committee to manage interest rate risk, liquidity risk, exchange risk, market risk etc. The finance perform gap analysis of its Assets and Liabilities to manage the liquidity risk. The finance consider the capital adequacy requirement pursuant to the provision set by Nepal Rastra Bank. The finance is well capitalized and able to maintain the required capital through internal generation and equally through capital market if needed.

5 Risk Management Function

a) Risk Management Committee

Members of the finance department's operation and risk departments are also part of the board-level Risk Management Committee. This is where the company's performance and overall risk management are thoroughly examined in order to evaluate the financial solvency. The relevant divisions receive the appropriate instructions, and recommendation are made to the Board where necessary.

b) Internal Audit

There has been appointment of independent internal audit team which is independent from management and reports to the Audit Committee.

c) Credit Risk Management

SIFC has its own Credit Policy Guideline (CPG) and loan product paper in order to look the general business activities. The company has clear vision on business and risk management where any credit proposal for approval is passed through CPG and risk analysis shall be done as per product portfolio before approval of credit appraisal

d) Operational Risk Management

Operations Risk that arises out of inefficient processes and people inside and outside the company is increasing these days. Operation risk, market risk, and other risks are discussed in the Risk Management Committee. Core Banking System (CBS) is another area of concern and vulnerable to threats from outside. Information and Technology Department in the company reviews and checks the security aspects in line with the IT Policy of the SIFC. SIFC has conducted an IS Audit of the CBS and suggestions given by the audit concerning safety and security standards are being put in place.

SIFC has a separate division to oversee operation risk including Compliance of KYC and AML. The department is headed by senior level staff with adequate access to the daily report, operational processes, and right to recommend the changes in the system and procedures. The head of operation department directly reports to the Chief Risk Officer.



Similarly, daily functions at operations are independently reported through separate reporting lines other than business generation and credit risk where independence of checking and control is complied with.

e) Liquidity Risk Management

Liquidity risk is the company's inability to meet its contractual and contingent financial obligations as they fall due, without incurring unacceptable losses. The obligations could be both 'On' and 'Off' balance sheet. By the inherent nature, companies are always vulnerable to liquidity and solvency problems that can arise from mismatches in the tenor of its assets and liabilities. The SIFC's primary liquidity risk management objective is to assess the funding requirement towards meeting its obligations and to ensure that adequate funds are available at appropriate times, both under normal and stressed conditions. Towards this the SIFC has its ALCO functioning as the main platform for its liquidity risk management. The ALCO reviews the liquidity risk management policies and procedures. Setting and reviewing liquidity targets, reviewing liquidity concentrations, assessing default probability of liquid assets, diversifying sources of funding and maturity of deposits, monitoring the liquidity impact of off-balance sheet transactions are some of the primary jobs of the ALCO towards achieving effective asset-liability management. The ALCO uses tools such as structural liquidity statements, interest rate risk monitoring tables, stress test reports, the liquidity profile of the company and that of the industry, liquidity ratio analysis, trend analysis, and forecasting in reviewing and managing the liquidity risk. Minutes of the ALCO meeting are discussed at the Risk Committee meetings to ensure senior oversight.