

DISCLOSURE AS PER BASEL II
As of Ashwin End 2072 (17 Oct, 2015)

1. Capital structure and Capital Adequacy

• **Tier 1 capital and a breakdown of its components;**

Particulars	NPR in '000'
Paid Up Capital	2,658,285
Proposed Stock Dividend	-
Share Premium	67,838
Statutory General Reserves	1,054,552
Capital Reserve	1,000,000
Capital Redemption Reserve	71,429
Retained Earnings	793,765
Other Free Reserves	24,941
Less:	
Deferred Tax Assets	24,941
Miscellaneous expenditure not written off	2,561
Land & building in excess of limit and unutilized	162,204
Loans & Facilities extended to related parties and restricted lending	155,725
Core Capital	5,325,379

• **Tier 2 capital and a breakdown of its components;**

Particulars	NPR in '000'
General Loan Loss Provision	493,067
Exchange Equalization Reserves	33,314
Subordinated Term Debt	500,000
Investment Adjustment Reserve	29,000
Supplementary Capital	1,055,381

• **Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, and amount rose during the year and amount eligible to be reckoned as capital funds.**

The Bank has issued "7.25% NIC ASIA Bond 2077" for NPR 500 million on 15th May 2014.

- Outstanding Amount : NPR 500 million
- Maturity Period : 7 years
- Interest Rate : 7.25% per annum
- Interest Payment frequency : Half Yearly
- Amount eligible to be reckoned as capital fund : NPR 500 million

- **Deductions from capital;**

- Deferred tax assets amounting NPR 24,941,003 has been deducted as per NRB directive no. 01/072
- The fictitious assets (deferred revenue expenditure) amounting to NPR 2,560,950 has been deducted from the core capital
- Land & building amounting NPR 162,203,759 has been deducted from the core capital as per NRB directive no.8/071.
- Loans & Facilities extended to director amounting NPR 155,724,745 deducted from the core capital as per NRB directive no. 01/072

- **Total qualifying capital;**

Particulars	NPR in '000'
Core Capital	5,325,379
Supplementary Capital	1,055,381
Total Qualifying Capital (Total Capital Fund)	6,380,760

- **Capital Adequacy Ratio;**

- 12.54%

- **Summary of Bank's internal approach to assess the adequacy of capital to support current and future activities, if applicable**

The Bank has formulated and implemented the "Internal Capital Adequacy Assessment Process 2015" (ICAAP 2015) which has been approved by the Board of Directors. The ICAAP 2015 is a system of sound, effective, and complete strategies and processes that allow the Bank to assesses and maintain, ongoing basis, the amounts, types and distribution of internal capital that the Bank considers adequate to cover the nature and level of risk to which the Bank is or might by exposed to.

Internal Capital Adequacy Assessment Process (ICAAP) shall also include requirement to have robust governance arrangements, efficient process of managing all material risks and an effective regime for assessing and maintaining adequate and economic capital at the Bank where economic capital (economically needed capital) refers to the amount of capital required for the Bank's business operations and for financing the associated risks.

ICAAP 2015 shall provide policy and procedural guidelines for the calculation of internal capital adequacy by prescribing appropriate methodologies, techniques and procedures to assess the capital adequacy requirements in relation to the Bank's risk profile and effectiveness of its risk management, control environment and strategic planning.

The Board shall be primarily responsible for ensuring the current and future capital needs of the bank in relation to strategic objectives. The management shall review and understand the nature and level of various risks that the bank is confronting in the course of different business activities and how this risk relates to capital levels and accordingly implement sound risk management framework specifying control measures to tackle each risk factor.

The Bank prepares a long term 5 year's Strategy Plan and to achieve the long term plans the Bank prepares annual Budgets/ Operating/ Tactical plans as stipulated in the Budget Policy and strategy Document of the Bank. To ensure that the Bank's capital adequacy commensurate to demand of the Bank's capital required by the business planning, the Management and the Board prudently and proactively engage on ongoing process of capital and risk assessment, stress testing and scenarios testing, monitoring and reporting as per the ICAAP 2015.

A formal monitoring and reporting mechanism has been established to provide the senior management necessary information on the risk profile, trends, and the capital requirements as per ICAAP 2015. Such reports are being prepared on a monthly basis and circulated to relevant business units/departments, Integrated Risk Department (IRMD), and tabled in Assets Liability Committee (ALCO) meeting. Further quarterly reports are presented to the Risk Management Committee and the Board for review and discussions.

2. Risk Exposure

Risk weighted exposures for Credit Risk, Market Risk and Operational Risk

NPR in '000'

Risk weighted Exposures	Current Quarter	Previous Quarter
a. Risk Weighted Exposure for Credit Risk	44,900,731	43,092,087
b. Risk Weighted Exposure for Operational Risk	3,065,714	2,557,224
c. Risk Weighted Exposure for Market Risk	155,465	153,742
d. Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 4 % of gross income.	847,700	923,182
Overall risk management policies and procedures are not satisfactory, add 4% of RWE	1,924,876	1,832,122
Total Risk Weighted Exposures (a + b + c +d)	50,894,485	48,558,356

Risk Weighted Exposures under each of 11 Categories of Credit Risk

NPR in '000'

Particulars	Current Quarter	Previous Quarter
Claims on Government and Central Bank	-	-
Claims on Other Official Entities	-	308,311

Claims on Banks	1,065,823	667,733
Claims on Corporate and securities firms	18,765,241	17,394,037
Claims on regulatory retail Portfolio	7,523,512	6,862,615
Claims secured by Residential Properties	4,675,989	4,598,935
Claims secured by Commercial real estate	657,596	660,307
Past due Claims	599,603	663,153
High Risk Claims	7,517,275	7,959,926
Other Assets	1,468,460	1,634,369
Off Balance- Sheet Items	2,627,233	2,342,700
Total	44,900,731	43,092,087

Total Weighted Exposure calculation table

NPR in Mn

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	948			948	0%
Balance With Nepal Rastra Bank	3,760			3,760	0%	-
Gold	0			0	0%	-
Investment in Nepalese Government Securities	6,098			6,098	0%	-
All Claims on Government of Nepal	216	-		216	0%	-
Investment in Nepal Rastra Bank securities	1,400			1,400	0%	-
All claims on Nepal Rastra Bank	4			4	0%	-
Claims on Foreign Government and Central Bank (ECA 0-1)				-	0%	-
Claims on Foreign Government and Central Bank (ECA -2)			-	-	20%	-
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 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%	-
Claims on domestic banks that meet capital adequacy requirements	1,833		-	1,833	20%	367
Claims on domestic banks that do not meet capital adequacy requirements	11		-	11	100%	11
Claims on foreign bank (ECA Rating 0-1)	1,468		-	1,468	20%	294
Claims on foreign bank (ECA Rating 2)	346		-	346	50%	173
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	1,108		-	1,108	20%	222

Claims on Domestic Corporates	18,960	-	194	18,765	100%	18,765
Claims on Foreign Corporates (ECA 0-1)			-	-	20%	-
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)	10,113	-	82	10,031	75%	7,524
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	7,602	-	-	7,602	60%	4,561
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	156	41	-	115	100%	115
Claims secured by Commercial real estate	658	-	-	658	100%	658
Past due claims (except for claims secured by residential properties)	1,047	619	28	400	150%	600
High Risk claims	5,059	-	47	5,012	150%	7,517
Investments in equity and other capital instruments of institutions listed in stock exchange	370	0	-	370	100%	370
Investments in equity and other capital instruments of institutions not listed in the stock exchange	38		-	38	150%	57
Staff loan secured by residential property	191			191	60%	114
Interest Receivable/claim on government securities	39			39	0%	-
Cash in transit and other cash items in the process of collection	-	-		-	20%	-
Other Assets (as per attachment)	2,060	1,132	-	927	100%	927
TOTAL (A)	63,485	1,793	352	61,341		42,274

B. Off Balance Sheet Exposures	Book Value	Specific	Eligible CRM	Net Value	Risk Weight	Risk Weighted
		Provision				Exposures
Revocable Commitments				-	0%	-
Bills Under Collection	17			17	0%	-
Forward Exchange Contract Liabilities	2,355		-	2,355	10%	236
LC Commitments With Original Maturity Upto 6 months domestic counterparty	2,522		93	2,429	20%	486
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	261		4	256	50%	128
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%	-
Bid Bond, Performance Bond and Counter guarantee domestic counterparty	984		50	934	50%	467
Foreign counterparty (ECA Rating 0-1)	77		-	77	20%	15
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	29		-	29	100%	29
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	88	6	83	100%	83
Financial Guarantee	-	-	-	100%	-
Acceptances and Endorsements	235	13	223	100%	223
Unpaid portion of Partly paid shares and Securities	-	-	-	100%	-
Irrevocable Credit commitments (short term)	2,978	-	2,978	20%	596
Irrevocable Credit commitments (long term)	135	-	135	50%	67
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	795	-	795	20%	159
Other Contingent Liabilities	134	-	134	100%	134
Unpaid Guarantee Claims	3	0	2	200%	5
TOTAL (B)	10,613	-	166	10,447	2,627
Total RWE for credit Risk Before Adjustment (A) + (B)	74,098	1,793	518	71,788	44,901
<u>Adjustments under Pillar II</u>					
SRP 6.4a(3) - Add 10% of the loans & facilities in excess of Single Obligor Limits to RWE					-
SRP 6.4a(4) - Add 1% of the contract (sale) value in case of the sale of credit with recourse to RWE					-
Total RWE for Credit Risk after Bank's adjustments under Pillar II	74,098	1,793	518	71,788	44,901

Non-Performing Assets

NPR in '000'

Particulars	Current Quarter		Previous Quarter	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	-	-	-	-
Sub Standard Loans	150,119	112,589	181,522	136,141
Doubtful Loans	112,120	56,060	87,001	43,500
Loss	566,405	-	594,443	-
Total NPAs	828,644	168,649	862,965	179,641

Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	1.83%	1.99%
Net NPA to net advances (%)	0.38%	0.43%

Movement of Non-Performing Assets

NPR in '000'

Particulars	Current Quarter	Previous Quarter
Opening NPA	862,965	869,911
Net Increase/(decrease) during the year	(34,321)	(6,946)
Closing NPA	828,644	862,965

Write off Loan and Interest Suspense:*NPR in '000'*

Particulars	Current Quarter	Previous Quarter
Write off Loan	6,696	1,679
Write off Interest	-	875

Movements in LLP and Interest Suspense:*NPR in '000'*

Particulars	Current Quarter	Previous Quarter
Movement in Loan Loss Provisions	2,738	169,755
Movement in Interest Suspense	(9,455)	17,073
Additional LLP during the year	2,738	169,755

Segregation of Investment:*NPR in '000'*

Particulars	Current Quarter	Previous Quarter
Held for Trading	-	-
Held for Maturity	8,558,124	9,794,146
Available for Sale	407,869	330,267

3. Risk Management Function

The Bank has been building robust risk management capabilities in order to achieve an effective risk management framework and contain the risks associated with the business.

In compliance with Nepal Rastra Bank's directives and guidelines, the Bank has formed a Risk Management Committee (RMC) in order to monitor and mitigate various risks of the Bank i.e. Credit, Operations, Market and Liquidity. In order to strengthen compliance in accordance to directives/instructions issued by NRB and to identify, measure, monitor, and control all major risk of the Bank adequately, this committee has been formed in line with adaptation framework of risk management.

The RMC, on a periodically basis, discusses and reviews major errors/lapses (based on output checking report, internal/external audit reports), operational losses/risk, reputational risk, frauds and forgeries of the Bank/ branches and ensures that timely corrective and preventive actions are taken to mitigate such risks in future.

An independent functional Integrated Risk Management department (IRMD), headed by Chief Risk Officer (CRO) directly reporting to the Board level committee, Risk Management Committee, has been

established which serves as second line of defense in risk management /governance framework of the Bank.

Credit Risk

Credit Risk management strategies include effectively managing the risk of financial loss arising out of booking an exposure on counterparty and also ensuring independence of the credit risk function from the origination, trading and sales function. Credit risk is managed through a defined framework which sets out policies, procedures and standards covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and the approvers in the risk functions. All credit exposure limits are approved within a defined credit approval authority framework.

The Bank has a dedicated Loan Recovery Department for management of non-performing / problem assets reporting directly to Chief Executive Officer of the Bank.

Credit Risk Mitigation (CRM)

The Bank has extensive policy and guidelines to mitigate credit risks. The Bank's credit policy has strengthened minimizing credit risk and provided support to make qualitative analysis based on sound credit principles and procedures. The Bank has a policy to consider as security for pledge, hypothecated or mortgage which have value considering physical control and legal title. Bank has considered eligible CRM as prescribed by Capital Adequacy standard. Collateral taken as Deposit with own Bank, Deposit with other BFIs, National Saving & Development Bonds, and Gold & Silver have been considered as CRM and adjusted on overall risk weighted exposure on credit risk in line with the standard.

Operational Risk

Effective operational risk management systems aims to minimizing losses and customer dissatisfaction due to failure in processes, focusing on flows in products and their design that can expose the Bank to losses due to fraud, analyzing the impact of failures in technology / system, developing plans to meet external shocks that can adversely impact continuity in the Bank's operations. The Bank has introduced a "comprehensive operational risk monitoring and reporting framework" as well as "output checking" at all branches covering all transactions on daily basis to minimize operational risk.

Market Risk

Bank has an Asset Liability Management Committee (ALCO) which meets monthly to discuss product pricing for deposits and advances and maturity profiles of assets and liabilities, articulating interest rate, view of bank, funding policy, transfer pricing policy and balance sheet management.

The Bank has been working continuously towards risk diversification of its assets base so as to achieve better portfolio mix and to protect/enhance the overall risk on its loan book. The strategic focus of mapping business is gradually reducing high-risk assets and increasing low risk exposures.

The Bank is vigilant to the risk factors and has adequate systems/ procedures to assess the risks associated with day to day business. The Bank takes risk considering the risk appetite of the Bank and after assessment of strengths and weaknesses in the internal and external environment. Periodic reviews are done in order to explore every possibility to gain insight on various risk factors and in order to find the best ways to mitigate the risk associated.

The Risk Management Procedures of the Bank comprises:

a) Regular Meeting: Regular Meetings are arranged in definite interval of time that helps information sharing and discussion on various risk factors being faced by the Bank. These meetings include Assets Liabilities Committee (ALCO), Credit Risk Management Committee (CRMC) and Operation Risk Management Committee (ORMC)

b) Expert Service: Expert Professional are hired/ contracted in areas where the situation demands expertise not available in the Bank

c) System Dependence: More emphasis is given to build effective system rather than an individual.

d) Division of Authority: Authority is divided so as to attain adequate check and balance and to make the people accountable to their job.

e) Internal Audit Department: The internal audit unit undertakes a comprehensive audit of all business units and other functions, in accordance with the approved audit plan. The Internal Audit is an independent with reporting lines directly to the Board level Audit Committee. The internal audit has adopted risk based audit approach

f) Training/ Retraining of Staffs: Frequent and adequate In-house as well as external trainings are provided to staffs on rotational basis as well as on necessity basis.

g) Stress Testing: Stress Testing is carried out on quarterly basis in order to determine the resilience of the Bank in case of substantial deterioration of loans and increase in non-performing loan, Deterioration of real estate loan, interest rate shock, exchange rate shock, equity price shock and liquidity shock.

h) Research and Analysis: Continuous research is conducted to identify the possible improvements in the Bank's policy/ procedure, system, workflow etc. in order to achieve qualitative and quantitative improvement in the organization that helps to reduce the risk.

i) Organizational Structure: In order to assess and manage the risk of the Bank, the organizational structure of the bank consists of Integrated Risk Management Department headed

by Chief Risk Officer (CRO). There are three units under Risk Management i e Credit Risk, Operation Risk and Market and Liquidity Risk.

The credit risk unit reviews the credit risk, analyzes the trend, and assesses the exposure impact on capital, which is vital in credit decision-making. Also for managing credit risk, credit policy, credit policy manual and product papers have been developed for building risk awareness culture throughout the organization.

In respect of operational risk, operations In-charges and operation managers of respective branches and departments provide operational loss data to operation manager, corporate via regular reporting requirements stipulated by operational risk management policy. These data are further analyzed, reported and appropriate action taken as per requirement.

With regard to market risk, treasury maintains net open position of all currency on daily basis. Head treasury reviews/ analyzes the trend and assesses the exposure impact on capital. The net open position report is presented at the Assets Liability Committee (ALCO) for discussion and future strategy setting.