

**DISCLOSURE AS PER BASEL II**  
**As of Ashad End 2071 (16 July, 2014)**

**1. Capital structure and Capital Adequacy**

Capital structure and Capital Adequacy of the Bank has been presented in Schedule 30 (A) and the supporting sheets are available in schedule 30 (B), 30 (C), 30 (D) and 30 (E).

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

Particulars	NPR in '000
Paid Up Capital	2,311,552
Share Premium	67,838
Statutory General Reserves	1,110,666
Capital Reserve	1,000,000
Retained Earnings	663,775
Deferred Tax Reserve	15,091
<b>Less:</b>	
Miscellaneous expenditure not written off	11,687
<b>Core Capital</b>	<b>5,157,236</b>

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

Particulars	NPR in '000
General Loan Loss Provision	364,682
Exchange Equalization Reserves	33,314
Subordinated Debt	500,000
Investment Adjust Reserve	644.62
<b>Supplementary Capital</b>	<b>898,641</b>

• **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 NIC Asia Bond 2077 for NPR 500 million on 15<sup>th</sup> May 2014. Main features of the bond are as follows;

- Maturity Period : 7 years
- Interest Rate : 7.25% per annum
- Interest Payment frequency : Half Yearly

• **Deductions from capital;**

- The fictitious assets which are deferred revenue expenditure amounting NPR 11,687,180 is deducted from the core capital over the period of the assets.

- **Total qualifying capital;**

Particulars	NPR in '000
Core Capital	5,157,236
Supplementary Capital	898,641
<b>Total Qualifying Capital (Total Capital Fund)</b>	<b>6,055,877</b>

- **Capital Adequacy Ratio;**

- 13.89%

- **Summary of Bank's Internal Approach to assess Capital Adequacy**

Bank management is responsible for understanding and assessing the nature as well as level of risk taken by the bank and relating the risk to the capital adequacy level.

The Credit Risk Management 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 ALCO for discussion and future strategy setting.

In compliance with NRB Directives and guidelines, 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.

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

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

As of 16<sup>th</sup> July 2014, Bank has following capital structure;

Paid up ordinary capital	:	NPR 2,311,552,000
NIC Asia Bond 2077	:	NPR 500,000,000

## 2. Risk Exposure

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

Risk weighted Exposures	NPR in 000'	
	Current Year	Previous Year
a. Risk Weighted Exposure for Credit Risk	37,270,541	33,471,488
b. Risk Weighted Exposure for Operational Risk	1,969,798	1,604,263
c. Risk Weighted Exposure for Market Risk	136,451	195,706
<b>Adjustment Under Pillar II</b>		
Add equivalent to reciprocal of capital charge of 3 % of gross income.	511,247	-
Overall risk management policies and procedures are not satisfactory, add 2% of RWE	787,536	352,715
<b>Total Risk Weighted Exposures (a + b + c)</b>	<b>40,675,573</b>	<b>35,624,171</b>

### Risk Weighted Exposures under each of 11 Categories of Credit Risk

Particulars	NPR in 000'	
	Current Year	Previous Year
Claims on Government and Central Bank	-	-
Claims on Other Official Entities	202,500	421,254
Claims on Banks	833,644	604,317
Claims on Corporate and securities firms	17,899,147	16,151,771
Claims on regulatory retail Portfolio	5,307,990	4,716,248
Claims secured by Residential Properties	3,154,847	2,335,254
Claims secured by Commercial real estate	559,304	1,602,618
Past due Claims	863,730	1,364,080
High Risk Claims	5,313,329	2,194,723
Other Assets	1,403,188	1,991,904
Off Balance- Sheet Items	1,732,863	2,089,319
<b>Total</b>	<b>37,270,541</b>	<b>33,471,488</b>

### Non-Performing Assets

Particulars	NPR in '000			
	Current Year		Previous Year	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	-	-	-	-
Sub Standard Loans	180,565	135,424	210,149	157,612
Doubtful Loans	144,769	72,384	109,435	54,717
Loss	512,331	-	432,759	-
<b>Total NPAs</b>	<b>837,664</b>	<b>207,808</b>	<b>752,343</b>	<b>212,329</b>

### Ratio of Non Performing Asset

Particulars	Current Year	Previous Year
Gross NPA to gross advances (%)	2.25	2.32
Net NPA to net advances (%)	0.56	0.67

### Movement of Non-Performing Assets

Particulars	NPR in 000'	
	Current Year	Previous Year

Opening NPA	752,343	128,548
Addition during the Year	85,321	623,795
NPA Recovery during the Year	-	-
Closing NPA	837,664	752,343

**Write off Loan and Interest Suspense:**

*NPR in 000'*

Particulars	Current Year	Previous Year
Write off Loan	50,000	-
Write off Interest	14,672	-

**Movements in LLP and Interest Suspense:**

*NPR in 000'*

Particulars	Current Year	Previous Year
Movement in Loan Loss Provisions	187,887	575,767
Movement in Interest Suspense	69,121	170,617
Additional LLP during the year	187,887	575,767

**Segregation of Investment:**

*NPR in '000'*

Particulars	Current Year	Previous Year
Held for Trading	-	-
Held for Maturity	6,429,128	6,770,629
Available for Sale	56,243	41,242

**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; a fully functional risk management unit is responsible for identifying, reporting, controlling and managing credit, operational and market risk.

**Credit Risk**

For Credit Risk Management a separate risk management unit (segregated from the sales function of business) has been created and directly reports to Chief Executive Officer. A dedicated sub-unit within the risk management for management of non-performing / problem assets works towards implementing risk grading / credit scoring processes in order to achieve better management of credit risk and to achieve better efficiency in credit processing.

**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. 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. 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 ALCO (Asset Liability Management Committee) which meets periodically 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 Audit and Compliance function is also independent from Bank Management; this unit focuses on development of internal procedures and check and control systems / procedures. The Internal Audit and Compliance unit undertakes a comprehensive audit of all business groups and other functions, in accordance with the approved audit plan. In order to mitigate above risks, further this unit function is also independent with separate reporting lines, with audit function reporting directly to Board Audit committee.

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.