

DISCLOSURE AS PER BASEL II
As of Ashad End 2072 (16 July, 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
Share Premium	67,838
Statutory General Reserves	1,052,538
Capital Reserve	1,000,000
Capital Redemption Reserve	71,429
Retained Earnings	627,185
Deferred Tax Reserve	24,941
Less:	
Miscellaneous expenditure not written off	2,676
Land & building in excess of limit and unutilized	165,291
Core Capital	5,334,249

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

Particulars	NPR in '000'
General Loan Loss Provision	480,497
Exchange Equalization Reserves	33,314
Subordinated Term Debt	500,000
Investment Adjustment Reserve	29,977
Supplementary Capital	1,043,788

• **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;**

- The fictitious assets (deferred revenue expenditure) amounting to NPR 2,675,618 has been deducted from the core capital
- Land & building amounting NPR 165,291,061 remained unutilized has been deducted from the core capital.

- **Total qualifying capital;**

Particulars	NPR in '000'
Core Capital	5,334,249
Supplementary Capital	1,043,788
Total Qualifying Capital (Total Capital Fund)	6,378,036

- **Capital Adequacy Ratio;**

- 13.16%

- **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 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.

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.

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.

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	42,998,395	37,356,027
b. Risk Weighted Exposure for Operational Risk	2,557,224	1,969,798
c. Risk Weighted Exposure for Market Risk	153,742	136,451
d. Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 4 % of gross income.	923,200	511,247
Overall risk management policies and procedures are not satisfactory, add 4% of RWE	1,828,374	789,246
Total Risk Weighted Exposures (a + b + c +d)	48,460,935	40,762,768

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	61,662	202,500
Claims on Banks	667,733	833,644
Claims on Corporate and securities firms	17,394,037	17,333,157
Claims on regulatory retail Portfolio	6,862,645	5,315,773
Claims secured by Residential Properties	4,598,935	3,176,815
Claims secured by Commercial real estate	660,307	1,006,516
Past due Claims	663,453	850,883
High Risk Claims	7,959,977	5,475,930
Other Assets	1,799,992	1,422,906
Off Balance- Sheet Items	2,329,644	1,737,903
Total	42,998,395	37,356,027

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	181,398	136,049	181,166	135,874
Doubtful Loans	87,151	43,576	235,169	117,584
Loss	594,125	-	453,577	-
Total NPAs	862,675	179,624	869,911	253,459

Ratio of Non-Performing Asset

Particulars	Current Year	Previous Year
Gross NPA to gross advances (%)	1.99%	2.33%
Net NPA to net advances (%)	0.43%	0.70%

Movement of Non-Performing Assets

Particulars	Current Year	NPR in '000'
		Previous Year
Opening NPA	869,911	752,343
Net Increase/(decrease) during the year	(7,237)	117,568
Closing NPA	862,675	869,911

Write off Loan and Interest Suspense:

Particulars	Current Year	NPR in '000'
		Previous Year
Write off Loan	1,679	50,000
Write off Interest	875	15,145

Movements in LLP and Interest Suspense:

Particulars	Current Year	NPR in '000'
		Previous Year
Movement in Loan Loss Provisions	182,735	124,161
Movement in Interest Suspense	17,073	69,121
Additional LLP during the year	182,735	124,161

Segregation of Investment:

Particulars	Current Year	NPR in '000'
		Previous Year
Held for Trading	-	-
Held for Maturity	9,794,146	6,429,128
Available for Sale	330,267	56,243

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 Integrated Risk Management department (IRMD), headed by Chief Risk Officer (CRO) directly reporting to the Board level committee, Risk Management Committee, is responsible for identifying, reporting, controlling and managing credit risk, operational risk, market risk and liquidity risk.

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. 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 Asset Liability Management Committee (ALCO) 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 internal audit department is an independent from the Bank's management; this unit focuses on development of internal procedures and check and control systems / procedures. The internal audit 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 the Board level audit committee. The internal audit has adopted risk based audit approach.

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.