

DISCLOSURE AS PER BASEL II
As of Ashwin End 2071 (17 October, 2014)

1. Capital structure and Capital Adequacy

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

Particulars	NPR in '000
Paid Up Capital	2,311,552
Proposed Stock Dividend	346,733
Share Premium	67,838
Statutory General Reserves	914,043
Capital Reserve	1,000,000
Retained Earnings	170,714
Un-audited current year cumulative profit/(loss)	154,262
Deferred Tax Reserve	28,193
Less:	
Miscellaneous expenditure not written off	11,530
Core Capital	4,981,805

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

Particulars	NPR in '000
General Loan Loss Provision	375,162
Exchange Equalization Reserves	33,314
Subordinated Term Debt	500,000
Investment Adjustment Reserve	645
Supplementary Capital	909,121

- **Details of subordinated debt**

The Bank has "7.25% NIC ASIA Bond 2077" for NPR 500 million with the following features;

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

- **Deductions from capital;**

- The fictitious assets (deferred revenue expenditure) amounting to NPR 11,530,141 has been deducted from the core capital over the period of the assets.

- **Total qualifying capital;**

Particulars	NPR in '000
Core Capital	4,981,805
Supplementary Capital	909,121
Total Qualifying Capital (Total Capital Fund)	5,890,927

- **Capital Adequacy Ratio;**

- 13.88%

- **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.

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	38,242,260	37,356,027
b. Risk Weighted Exposure for Operational Risk	2,557,223	1,969,798
c. Risk Weighted Exposure for Market Risk	139,767	136,451
Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 3 % of gross income.	692,400	511,247
Overall risk management policies and procedures are not satisfactory, add 2% of RWE	818,785	789,245
Total Risk Weighted Exposures (a + b + c)	42,450,435	40,762,768

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	172,500	202,500
Claims on Banks	792,760	833,644
Claims on Corporate and securities firms	18,396,760	17,333,157
Claims on regulatory retail Portfolio	5,285,420	5,315,773
Claims secured by Residential Properties	4,058,220	3,176,815
Claims secured by Commercial real estate	575,710	1,006,516
Past due Claims	744,070	850,883
High Risk Claims	4,907,310	5,475,930
Other Assets	1,414,930	1,422,906
Off Balance- Sheet Items	1,894,580	1,737,903
Total	38,242,260	37,356,027

Non-Performing Assets

NPR in '000

Particulars	Current Quarter		Previous Quarter	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	45,538	39,846	-	-
Sub Standard Loans	232,180	174,135	181,166	135,874
Doubtful Loans	219,326	109,663	235,169	117,584
Loss	511,431	-	435,577	-
Total NPAs	1,008,475	323,644	869,911	253,459

Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	2.62	2.33
Net NPA to net advances (%)	0.86	0.68

Movement of Non-Performing Assets

NPR in 000'

Particulars	Current Quarter	Previous Quarter
Opening NPA	869,911	752,343
Net Increase/(decrease) during the year	138,567	117,568
Closing NPA	1,008,478	869,911

Write off Loan and Interest Suspense:

NPR in 000'

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

Movements in LLP and Interest Suspense:

NPR in 000'

Particulars	Current Quarter	Previous Quarter
Movement in Loan Loss Provisions	79,184	124,161
Movement in Interest Suspense	12,979	69,121
Additional LLP during the year	79,184	124,161

Segregation of Investment:

NPR in '000'

Particulars	Current Quarter	Previous Quarter
Held for Trading	-	-
Held for Maturity	12,142,150	6,429,128
Available for Sale	160,088	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 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.