

**DISCLOSURE AS PER BASEL II**  
**As of Poush End 2073 (16 Oct, 2016)**

**1. Capital structure and Capital Adequacy**

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

Particulars	NPR in '000'
Paid Up Capital	5,819,650
Proposed Stock Dividend	-
Share Premium	319,962
Statutory General Reserves	1,263,487
Capital Reserve	-
Capital Redemption Reserve	142,857
Retained Earnings	827,048
Other Free Reserves	-
<b>Less:</b>	
Deferred Tax Assets	31,051
Miscellaneous expenditure not written off	1,988
Land & building in excess of limit and unutilized	114,293
Investment in equity of institutions with financial interests	100,000
Loans & Facilities extended to related parties and restricted lending	-
<b>Core Capital</b>	<b>8,125,673</b>

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

Particulars	NPR in '000'
General Loan Loss Provision	700,628
Exchange Equalization Reserves	33,954
Subordinated Term Debt	300,000
Investment Adjustment Reserve	29,596
Other Reserves	31,051
<b>Supplementary Capital</b>	<b>1,095,230</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 "7.25% NIC ASIA Bond 2077" for NPR 500 million on 15<sup>th</sup> 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 300 million

- **Deductions from capital;**

- Deferred tax assets amounting NPR 31,050,918 has been deducted as per NRB directive no. 01/072
- The fictitious assets (deferred revenue expenditure) amounting to NPR 1,987,602.65 has been deducted from the core capital
- Land & building amounting NPR 114,292,937.11 has been deducted from the core capital as per NRB directive no.8/071.
- Investment in NIC AISIA Capital Ltd. NPR 100,000,000 deducted from the core capital.

- **Total qualifying capital;**

Particulars	NPR in '000'
Core Capital	8,125,673
Supplementary Capital	1,095,230
<b>Total Qualifying Capital (Total Capital Fund)</b>	<b>9,220,902</b>

- **Capital Adequacy Ratio;**

- 12.45%

- **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	Last Quarter
a. Risk Weighted Exposure for Credit Risk	66,690,054	62,254,377
b. Risk Weighted Exposure for Operational Risk	3,473,599	3,473,583
c. Risk Weighted Exposure for Market Risk	96,868	266,301
<b>d. Adjustment Under Pillar II</b>		
Add RWE equivalent to reciprocal of capital charge of 4 % of gross income.	1,008,000	1,008,000
Overall risk management policies and procedures are not satisfactory, add 4% of RWE	2,810,421	2,639,770
<b>Total Risk Weighted Exposures (a + b + c +d)</b>	<b>74,078,942</b>	<b>69,642,032</b>

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

NPR in '000'

Particulars	Current Quarter	Last Quarter
Claims on Government and Central Bank	-	-
Claims on Other Official Entities	147,500	656,815
Claims on Banks	1,495,326	1,526,594
Claims on Corporate and securities firms	24,868,951	23,253,760
Claims on regulatory retail Portfolio	15,150,505	12,222,706
Claims secured by Residential Properties	5,640,532	5,847,770
Claims secured by Commercial real estate	664,463	655,946
Past due Claims	480,430	549,411
High Risk Claims	12,251,843	11,750,281
Other Assets	2,792,912	2,371,660
Off Balance- Sheet Items	3,197,592	3,419,434
<b>Total</b>	<b>66,690,054</b>	<b>62,254,378</b>

## 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	1,525			1,525	0%	-
Balance With Nepal Rastra Bank	4,651			4,651	0%	-
Gold	0			0	0%	-
Investment in Nepalese Government Securities	7,683			7,683	0%	-
All Claims on Government of Nepal	216	-		216	0%	-
Investment in Nepal Rastra Bank securities	3,066			3,066	0%	-
All claims on Nepal Rastra Bank	3			3	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)	148	-	-	148	100%	148
Claims on Public Sector Entity (ECA 7)			-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	2,713		-	2,713	20%	543
Claims on domestic banks that do not meet capital adequacy requirements	-		-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	985		-	985	20%	197
Claims on foreign bank (ECA Rating 2)	869		-	869	50%	435

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	1,606		-	1,606	20%	321
Claims on Domestic Corporates	25,453	-	584	24,869	100%	24,869
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)	20,292	-	92	20,201	75%	15,151
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	9,281	-	-	9,281	60%	5,569
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	97	26	-	72	100%	72
Claims secured by Commercial real estate	664	-	-	664	100%	664
Past due claims (except for claims secured by residential properties)	667	347	0	320	150%	480
High Risk claims	8,740	-	572	8,168	150%	12,252
Investments in equity and other capital instruments of institutions listed in stock exchange	802	16	-	786	100%	786
Investments in equity and other capital instruments of institutions not listed in the stock exchange	24		-	24	150%	36
Staff loan secured by residential property	357			357	1	214
Interest Receivable/claim on government securities	54			54	-	-
Cash in transit and other cash items in the process of collection	-			-	0	-
Other Assets (as per attachment)	2,698	940		1,757	100%	1,757
<b>TOTAL (A)</b>	<b>92,594</b>	<b>1,329</b>	<b>1,248</b>	<b>90,018</b>		<b>63,492</b>

<b>B. Off Balance Sheet Exposures</b>	<b>Book Value</b>	<b>Specific Provision</b>	<b>Eligible CRM</b>	<b>Net Value</b>	<b>Risk Weight</b>	<b>Risk Weighted Exposures</b>
Revocable Commitments				-	0%	-
Bills Under Collection	73			73	0%	-
Forward Exchange Contract Liabilities	2,952			2,952	10%	295
LC Commitments With Original Maturity Upto 6 months domestic counterparty	1,525		72	1,452	20%	290
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	536		13	524	50%	262
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	995		80	915	50%	458
Foreign counterparty (ECA Rating 0-1)	462		-	462	20%	92
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	31		-	31	100%	31
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	146	4	142	100%	142
Financial Guarantee	-	-	-	100%	-
Acceptances and Endorsements	273	22	251	100%	251
Unpaid portion of Partly paid shares and Securities	-	-	-	100%	-
Irrevocable Credit commitments (short term)	3,530	-	3,530	20%	706
Irrevocable Credit commitments (long term)	914	-	914	50%	457
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	447	-	447	0	89
Other Contingent Liabilities	123	-	123	100%	123
Unpaid Guarantee Claims	2	2	-	2	-
<b>TOTAL (B)</b>	<b>12,009</b>	<b>-</b>	<b>192</b>	<b>11,816</b>	<b>3,198</b>
<b>Total RWE for credit Risk Before Adjustment (A) + (B)</b>	<b>104,603</b>	<b>1,329</b>	<b>1,440</b>	<b>101,834</b>	<b>66,690</b>
<b><u>Adjustments under Pillar II</u></b>					
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					-
<b>Total RWE for Credit Risk after Bank's adjustments under Pillar II</b>	<b>104,603</b>	<b>1,329</b>	<b>1,440</b>	<b>101,834</b>	<b>66,690</b>

## Non-Performing Assets

NPR in '000'

Particulars	Current Quarter		Last Quarter	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	-	-	-	-
Sub Standard Loans	144,090	108,068	177,585	133,189
Doubtful Loans	10,673	5,337	40,262	20,131
Loss	330,846	-	340,781	-
<b>Total NPAs</b>	<b>485,610</b>	<b>113,405</b>	<b>558,627</b>	<b>153,319</b>

## Ratio of Non-Performing Asset

Particulars	Current Quarter	Last Quarter
Gross NPA to gross advances (%)	0.72%	0.90%
Net NPA to net advances (%)	0.17%	0.25%

## Movement of Non-Performing Assets

NPR in '000'

Particulars	Current Quarter	Last Quarter
Opening NPA	452,094	452,094
Net Increase/(decrease) during the year	33,516	106,534
Closing NPA	485,610	558,628

**Write off Loan and Interest Suspense:**

NPR in '000'

Particulars	Current Quarter	Last Quarter
Write off Loan	14,311	-
Write off Interest	4,993	-

**Movements in LLP and Interest Suspense:**

NPR in '000'

Particulars	Current Quarter	Last Quarter
Movement in Loan Loss Provisions	25,384	35,436
Movement in Interest Suspense	23,657	42,577
Additional LLP during the year	25,384	35,436

**Segregation of Investment:**

NPR in '000'

Particulars	Current Quarter	Last Quarter
Held for Trading	-	-
Held Till Maturity	12,857,618	11,851,967
Available for Sale	924,781	1,101,567

**3. Risk Management Function**

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.

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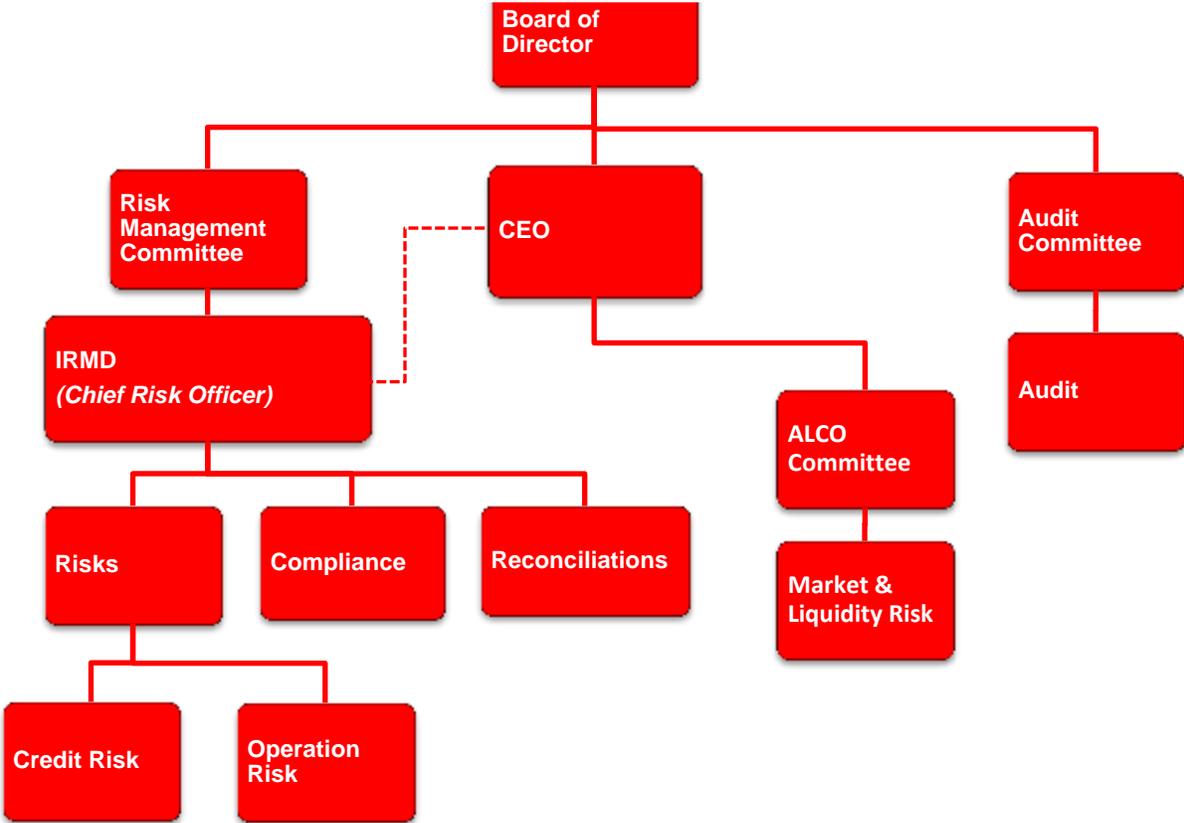
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In order to assess and manage the risk of the Bank, the organizational structure of the bank consists of Integrated Risk Management Department headed by Chief Risk Officer (CRO). There are three units under Risk Management i.e Risk, Compliance and Reconciliation. Asset Liability Committee supervises the Liquidity Risk and Market Risk.

### Internal Structure for Risk Management



The credit risk unit reviews the Integrated Risk Management Department, 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.