

DISCLOSURE AS PER BASEL II
As of Chaitra End 2071 (13 April, 2015)

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	2,658,285
Proposed Stock Dividend	-
Share Premium	67,838
Statutory General Reserves	914,043
Capital Reserve	1,000,000
Retained Earnings	745,473
Deferred Tax Reserve	28,193
Less:	-
Miscellaneous expenditure not written off	9,126
Core Capital	5,404,706

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

Particulars	NPR in '000'
General Loan Loss Provision	447,613
Exchange Equalization Reserves	33,314
Subordinated Term Debt	500,000
Investment Adjustment Reserve	644.62
Supplementary Capital	981,571

• **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 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 9,125,904 has been deducted from the core capital over the period of the assets.

- **Total qualifying capital;**

Particulars	NPR in '000'
Core Capital	5,404,706
Supplementary Capital	981,571
Total Qualifying Capital (Total Capital Fund)	6,386,277

- **Capital Adequacy Ratio;**

- 13.27%

- **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, 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

NPR in '000'

Risk weighted Exposures	Current Quarter	Previous Quarter
a. Risk Weighted Exposure for Credit Risk	42,500,375	39,745,803
b. Risk Weighted Exposure for Operational Risk	2,557,224	2,557,224
c. Risk Weighted Exposure for Market Risk	119,402	130,334
d. Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 5 % of gross income.	1,154,000	692,400
Overall risk management policies and procedures are not satisfactory, add 4% of RWE	1,807,080	848,670
Total Risk Weighted Exposures (a + b + c +d)	48,138,080	43,974,431

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	16,000	22,000
Claims on Banks	670,350	611,830
Claims on Corporate and securities firms	18,074,177	17,936,590
Claims on regulatory retail Portfolio	6,494,476	5,666,450
Claims secured by Residential Properties	4,416,549	4,410,953
Claims secured by Commercial real estate	1,009,089	1,787,540
Past due Claims	768,109	713,490
High Risk Claims	7,184,020	4,738,660
Other Assets	1,728,354	1,608,110
Off Balance- Sheet Items	2,139,252	2,250,180
Total	42,500,375	39,745,803

Non-Performing Assets

NPR in '000'

Particulars	Current Quarter		Previous Quarter	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured/ Reschedule Loans	17,602	15,402	19,193	16,793
Sub Standard Loans	195,641	146,731	230,833	173,125
Doubtful Loans	206,568	103,284	216,043	108,022
Loss	499,213	-	508,805	-
Total NPAs	919,024	265,417	974,874	297,940

Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	2.14	2.41
Net NPA to net advances (%)	0.64	0.76

Movement of Non-Performing Assets

NPR in '000'

Particulars	Current Quarter	Previous Quarter
Opening NPA	869,911	1,008,478
Net Increase/(decrease) during the year	49,113	(33,604)
Closing NPA	919,024	974,874

Write off Loan and Interest Suspense:

NPR in '000'

Particulars	Current Quarter	Previous Quarter
Write off Loan	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	120,408	91,146
Movement in Interest Suspense	(3,760)	(5,368)
Additional LLP during the year	120,408	91,146

Segregation of Investment:

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Held for Trading	-	-
Held for Maturity	7,850,570	7,538,535
Available for Sale	210,570	203,750

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.