

DISCLOSURE AS PER BASEL II
As of Ashad End 2073 (15 July, 2016)

1. Capital structure and Capital Adequacy

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

Particulars	NPR in '000'
Paid Up Capital	4,575,374
Proposed Stock Dividend	-
Share Premium	-
Statutory General Reserves	1,050,106
Capital Reserve	548,092
Capital Redemption Reserve	71,429
Retained Earnings	1,111,132
Other Free Reserves	24,941
Less:	
Deferred Tax Assets	24,941
Miscellaneous expenditure not written off	2,217
Land & building in excess of limit and unutilized	114,405
Investment in equity of institutions with financial interests	100,000
Loans & Facilities extended to related parties and restricted lending	-
Core Capital	7,139,511

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

Particulars	NPR in '000'
General Loan Loss Provision	654,106
Exchange Equalization Reserves	33,314
Subordinated Term Debt	500,000
Investment Adjustment Reserve	34,845
Supplementary Capital	1,222,265

• **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;**

- Deferred tax assets amounting NPR 24,941,003 has been deducted as per NRB directive no. 01/072
- The fictitious assets (deferred revenue expenditure) amounting to NPR 2,216,941 has been deducted from the core capital
- Land & building amounting NPR 114,405,252 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	7,139,511
Supplementary Capital	1,222,265
Total Qualifying Capital (Total Capital Fund)	8,361,776

- **Capital Adequacy Ratio;**

- 12.66%

- **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	This Year	Previous Year
a. Risk Weighted Exposure for Credit Risk	59,435,082	43,038,878
b. Risk Weighted Exposure for Operational Risk	3,065,714	2,557,224
c. Risk Weighted Exposure for Market Risk	189,295	153,742
d. Adjustment Under Pillar II		-
Add RWE equivalent to reciprocal of capital charge of 4 % of gross income.	847,700	923,182
Overall risk management policies and procedures are not satisfactory, add 4% of RWE	2,507,604	1,829,994
Total Risk Weighted Exposures (a + b + c +d)	66,045,394	48,503,019

Risk Weighted Exposures under each of 11 Categories of Credit Risk

NPR in '000'

Particulars	This Year	Previous Year
Claims on Government and Central Bank	-	-
Claims on Other Official Entities	147,500	308,311
Claims on Banks	1,356,420	667,733
Claims on Corporate and securities firms	23,710,698	17,394,037
Claims on regulatory retail Portfolio	10,438,497	6,862,615
Claims secured by Residential Properties	6,206,742	4,598,935
Claims secured by Commercial real estate	656,157	660,307
Past due Claims	520,825	609,944
High Risk Claims	11,564,396	7,959,926
Other Assets	1,756,449	1,634,369
Off Balance- Sheet Items	3,077,398	2,342,700
Total	59,435,082	43,038,878

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	1,168			1,168	0%	-
Balance With Nepal Rastra Bank	4,396			4,396	0%	-
Gold	0			0	0%	-
Investment in Nepalese Government Securities	10,517			10,517	0%	-
All Claims on Government of Nepal	216	-		216	0%	-
Investment in Nepal Rastra Bank securities	-			-	0%	-
All claims on Nepal Rastra Bank	-			-	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	1,966		-	1,966	20%	393
Claims on domestic banks that do not meet capital adequacy requirements	88		-	88	100%	88
Claims on foreign bank (ECA Rating 0-1)	1,228		-	1,228	20%	246
Claims on foreign bank (ECA Rating 2)	711		-	711	50%	356

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	1,368		-	1,368	20%	274
Claims on Domestic Corporates	23,932	-	221	23,711	100%	23,711
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)	13,985	-	67	13,918	75%	10,438
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	10,185	-	-	10,185	60%	6,111
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	115	19	-	96	100%	96
Claims secured by Commercial real estate	656	-	-	656	100%	656
Past due claims (except for claims secured by residential properties)	755	407	-	347	150%	521
High Risk claims	7,983	-	274	7,710	150%	11,564
Investments in equity and other capital instruments of institutions listed in stock exchange	542	-	-	542	100%	542
Investments in equity and other capital instruments of institutions not listed in the stock exchange	112		-	112	150%	168
Staff loan secured by residential property	190			190	1	114
Interest Receivable/claim on government securities	56			56	-	-
Cash in transit and other cash items in the process of collection	-			-	0	-
Other Assets (as per attachment)	2,052	1,119		933	100%	933
TOTAL (A)	82,369	1,546	562	80,261		56,358

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments				-	0%	-
Bills Under Collection	69			69	0%	-
Forward Exchange Contract Liabilities	2,267			2,267	10%	227
LC Commitments With Original Maturity Upto 6 months domestic counterparty	1,582		70	1,512	20%	302
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	352		3	348	50%	174
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	1,220		63	1,157	50%	579
Foreign counterparty (ECA Rating 0-1)	79		-	79	20%	16
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	27		-	27	100%	27
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	134	4	130	100%	130
Financial Guarantee	-	-	-	100%	-
Acceptances and Endorsements	498	26	472	100%	472
Unpaid portion of Partly paid shares and Securities	-	-	-	100%	-
Irrevocable Credit commitments (short term)	3,079	-	3,079	20%	616
Irrevocable Credit commitments (long term)	635	-	635	50%	317
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	449	-	449	0	90
Other Contingent Liabilities	123	-	123	100%	123
Unpaid Guarantee Claims	3	0	2	2	5
TOTAL (B)	10,516	-	166	10,349	3,077
Total RWE for credit Risk Before Adjustment (A) + (B)	92,885	1,546	728	90,611	59,435
<u>Adjustments under Pillar II</u>					
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					-
Total RWE for Credit Risk after Bank's adjustments under Pillar II	92,885	1,546	728	90,611	59,435

Non-Performing Assets

NPR in '000'

Particulars	This Year		Previous Year	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	-	-	-	-
Sub Standard Loans	60,878	45,659	181,522	136,141
Doubtful Loans	35,181	17,591	87,001	43,500
Loss	393,782	-	629,916	-
Total NPAs	489,842	63,249	898,438	179,641

Ratio of Non-Performing Asset

Particulars	This Year	Previous Year
Gross NPA to gross advances (%)	0.82%	2.07%
Net NPA to net advances (%)	0.11%	0.43%

Movement of Non-Performing Assets

NPR in '000'

Particulars	This Year	Previous Year
Opening NPA	898,438	869,911
Net Increase/(decrease) during the year	(408,596)	28,527
Closing NPA	489,842	898,438

Write off Loan and Interest Suspense:

NPR in '000'

Particulars	This Year	Previous Quarter
Write off Loan	6,696	1,679
Write off Interest	-	875

Movements in LLP and Interest Suspense:

NPR in '000'

Particulars	This Year	Previous Quarter
Movement in Loan Loss Provisions	(104,987)	204,873
Movement in Interest Suspense	(87,506)	17,073
Additional LLP during the year	(104,987)	207,873

Segregation of Investment:

NPR in '000'

Particulars	This Year	Previous Quarter
Held for Trading	-	-
Held for Maturity	12,135,986	9,794,146
Available for Sale	753,829	330,267

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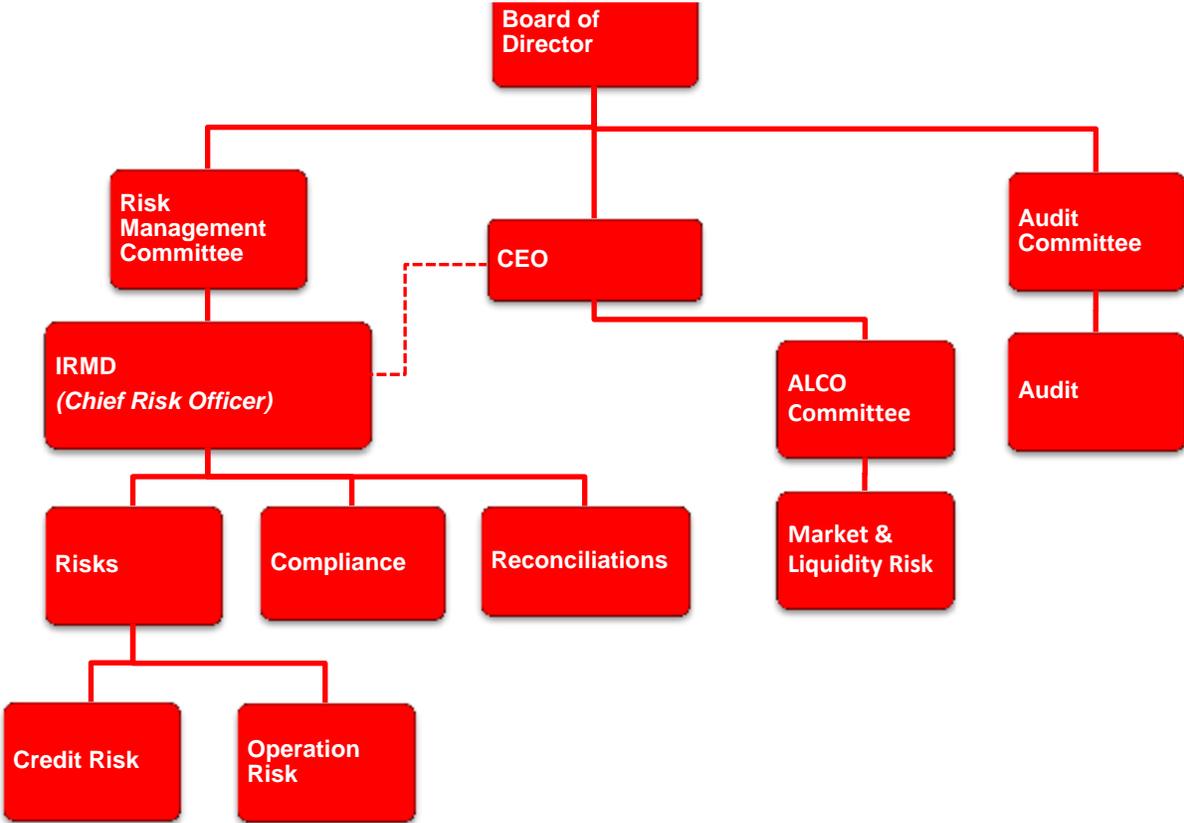
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In order to assess and manage the risk of the Bank, the organizational structure of the bank consists of Integrated Risk Management Department headed by Chief Risk Officer (CRO). There are three units under Risk Management i.e Risk, Compliance and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