

DISCLOSURE AS PER BASEL II
As of Poush End 2071 (14 January 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	170,714
Un-audited current year cumulative profit/(loss)	360,615
Deferred Tax Reserve	28,193
Less:	
Miscellaneous expenditure not written off	9,927
Core Capital	5,189,760

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

Particulars	NPR in '000
General Loan Loss Provision	395,025
Exchange Equalization Reserves	33,314
Subordinated Term Debt	500,000
Investment Adjustment Reserve	645
Supplementary Capital	928,983

• **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 detail of issued debt on 15th may 2014 -"7.25% NIC ASIA Bond 2077" for NPR 500 million as follows

• 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 9,927,381 has been deducted from the core capital over the period of the assets.

- **Total qualifying capital;**

Particulars	NPR in '000
Core Capital	5,189,760
Supplementary Capital	928,983
Total Qualifying Capital (Total Capital Fund)	6,118,744

- **Capital Adequacy Ratio;**

- 13.91%

- **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	39,745,803	38,242,260
b. Risk Weighted Exposure for Operational Risk	2,557,224	2,557,223
c. Risk Weighted Exposure for Market Risk	130,334	139,767
Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 3 % of gross income.	692,400	692,400
Overall risk management policies and procedures are not satisfactory, add 2% of RWE	848,670	818,785
Total Risk Weighted Exposures (a + b + c)	43,974,431	42,450,435

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	22,000	172,500
Claims on Banks	611,830	792,760
Claims on Corporate and securities firms	17,936,590	18,214,190
Claims on regulatory retail Portfolio	5,666,450	5,285,420
Claims secured by Residential Properties	4,410,953	4,058,220
Claims secured by Commercial real estate	1,787,540	575,710
Past due Claims	713,490	744,070
High Risk Claims	4,738,660	4,907,310
Other Assets	1,608,110	1,597,500
Off Balance- Sheet Items	2,250,180	1,894,580
Total	39,745,803	38,242,260

Non-Performing Assets*NPR in '000*

Particulars	Current Quarter		Previous Quarter	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	19,193	16,793	45,538	39,846
Sub Standard Loans	230,833	173,125	232,180	174,135
Doubtful Loans	216,043	108,022	219,326	109,663
Loss	508,805	-	511,431	-
Total NPAs	974,874	297,940	1,008,475	323,644

Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	2.41	2.62
Net NPA to net advances (%)	0.76	0.86

Movement of Non-Performing Assets*NPR in 000'*

Particulars	Current Quarter	Previous Quarter
Opening NPA	1,008,478	869,911
Net Increase/(decrease) during the year	(33,604)	138,567
Closing NPA	974,874	1,008,478

Write off Loan and Interest Suspense:*NPR in 000'*

Particulars	Current Quarter	Previous Quarter
Write off Loan	-	-
Write off Interest	-	-

Movements in LLP and Interest Suspense:*NPR in 000'*

Particulars	Current Quarter	Previous Quarter
Movement in Loan Loss Provisions	91,146	79,184
Movement in Interest Suspense	(5,368)	12,979
Additional LLP during the year	91,146	79,184

Segregation of Investment:*NPR in '000'*

Particulars	Current Quarter	Previous Quarter
Held for Trading	-	-
Held for Maturity	7,538,535	12,142,150
Available for Sale	203,750	160,088

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 unit for management of non-performing / problem assets work 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.