

DISCLOSURE AS PER BASEL II
As of Ashwin 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	366,690
Other Free Reserves	-
Less:	
Deferred Tax Assets	31,051
Miscellaneous expenditure not written off	2,102
Land & building in excess of limit and unutilized	114,349
Investment in equity of institutions with financial interests	100,000
Loans & Facilities extended to related parties and restricted lending	-
Core Capital	7,665,144

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

Particulars	NPR in '000'
General Loan Loss Provision	677,617
Exchange Equalization Reserves	33,954
Subordinated Term Debt	300,000
Investment Adjustment Reserve	29,596
Other Reserves	31,051
Supplementary Capital	1,072,218

• **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 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 2,102,272 has been deducted from the core capital
- Land & building amounting NPR 114,349,095 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	7,665,144
Supplementary Capital	1,072,218
Total Qualifying Capital (Total Capital Fund)	8,737,363

- **Capital Adequacy Ratio;**

- 12.55%

- **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	62,254,377	59,245,702
b. Risk Weighted Exposure for Operational Risk	3,473,583	3,065,698
c. Risk Weighted Exposure for Market Risk	266,301	189,295
d. Adjustment Under Pillar II		-
Add RWE equivalent to reciprocal of capital charge of 4 % of gross income.	1,008,000	847,713
Overall risk management policies and procedures are not satisfactory, add 4% of RWE	2,639,770	2,500,028
Total Risk Weighted Exposures (a + b + c +d)	69,642,032	65,848,436

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	656,815	147,500
Claims on Banks	1,526,594	1,356,420
Claims on Corporate and securities firms	23,253,760	23,710,698
Claims on regulatory retail Portfolio	12,222,706	10,438,467
Claims secured by Residential Properties	5,847,770	6,183,522
Claims secured by Commercial real estate	655,946	656,157
Past due Claims	549,411	552,769
High Risk Claims	11,750,281	11,564,345
Other Assets	2,371,660	1,747,370
Off Balance- Sheet Items	3,419,434	2,888,455
Total	62,254,377	59,245,703

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	1,613			1,613	0%	-
Balance With Nepal Rastra Bank	4,390			4,390	0%	-
Gold	0			0	0%	-
Investment in Nepalese Government Securities	6,956			6,956	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	4			4	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)	657	-	-	657	100%	657
Claims on Public Sector Entity (ECA 7)			-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	2,972		-	2,972	20%	594
Claims on domestic banks that do not meet capital adequacy requirements	-		-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	1,706		-	1,706	20%	341
Claims on foreign bank (ECA Rating 2)	640		-	640	50%	320

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	1,356		-	1,356	20%	271
Claims on Domestic Corporates	23,666	-	413	23,254	100%	23,254
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)	16,349	-	52	16,297	75%	12,223
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	9,599	-	-	9,599	60%	5,759
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	109	21	-	88	100%	88
Claims secured by Commercial real estate	656	-	-	656	100%	656
Past due claims (except for claims secured by residential properties)	751	384	0	366	150%	549
High Risk claims	8,280	-	446	7,834	150%	11,750
Investments in equity and other capital instruments of institutions listed in stock exchange	978	-	-	978	100%	978
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	316			316	1	189
Interest Receivable/claim on government securities	86			86	-	-
Cash in transit and other cash items in the process of collection	-			-	0	-
Other Assets (as per attachment)	2,346	1,177		1,169	100%	1,169
TOTAL (A)	86,735	1,582	911	84,242		58,835

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments				-	0%	-
Bills Under Collection	79			79	0%	-
Forward Exchange Contract Liabilities	2,908			2,908	10%	291
LC Commitments With Original Maturity Upto 6 months domestic counterparty	2,557		110	2,446	20%	489
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	570		1	569	50%	284
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	900		68	831	50%	416
Foreign counterparty (ECA Rating 0-1)	436		-	436	20%	87
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	30		-	30	100%	30
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	130	2	129	100%	129
Financial Guarantee	-	-	-	100%	-
Acceptances and Endorsements	292	18	274	100%	274
Unpaid portion of Partly paid shares and Securities	-	-	-	100%	-
Irrevocable Credit commitments (short term)	3,551	-	3,551	20%	710
Irrevocable Credit commitments (long term)	986	-	986	50%	493
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	448	-	448	0	90
Other Contingent Liabilities	123	-	123	100%	123
Unpaid Guarantee Claims	3	0	2	2	5
TOTAL (B)	13,011	-	200	12,811	3,419
Total RWE for credit Risk Before Adjustment (A) + (B)	99,746	1,582	1,111	97,053	62,254
<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	99,746	1,582	1,111	97,053	62,254

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	177,585	133,189	60,259	45,194
Doubtful Loans	40,262	20,131	34,584	17,292
Loss	340,781	-	357,251	-
Total NPAs	558,628	153,319	452,093	62,486

Ratio of Non-Performing Asset

Particulars	Current Quarter	Last Quarter
Gross NPA to gross advances (%)	0.90%	0.76%
Net NPA to net advances (%)	0.25%	0.11%

Movement of Non-Performing Assets

NPR in '000'

Particulars	Current Quarter	Last Quarter
Opening NPA	452,094	898,438
Net Increase/(decrease) during the year	106,534	(446,344)
Closing NPA	558,628	452,094

Write off Loan and Interest Suspense:

NPR in '000'

Particulars	Current Quarter	Last Quarter
Write off Loan	-	45,678
Write off Interest	-	1,450

Movements in LLP and Interest Suspense:

NPR in '000'

Particulars	Current Quarter	Last Quarter
Movement in Loan Loss Provisions	35,436	(138,236)
Movement in Interest Suspense	42,577	(93,321)
Additional LLP during the year	35,436	(138,236)

Segregation of Investment:

NPR in '000'

Particulars	Current Quarter	Last Quarter
Held for Trading	-	-
Held Till Maturity	11,851,967	12,135,986
Available for Sale	1,101,567	753,829

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.

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 be exposed to.

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.

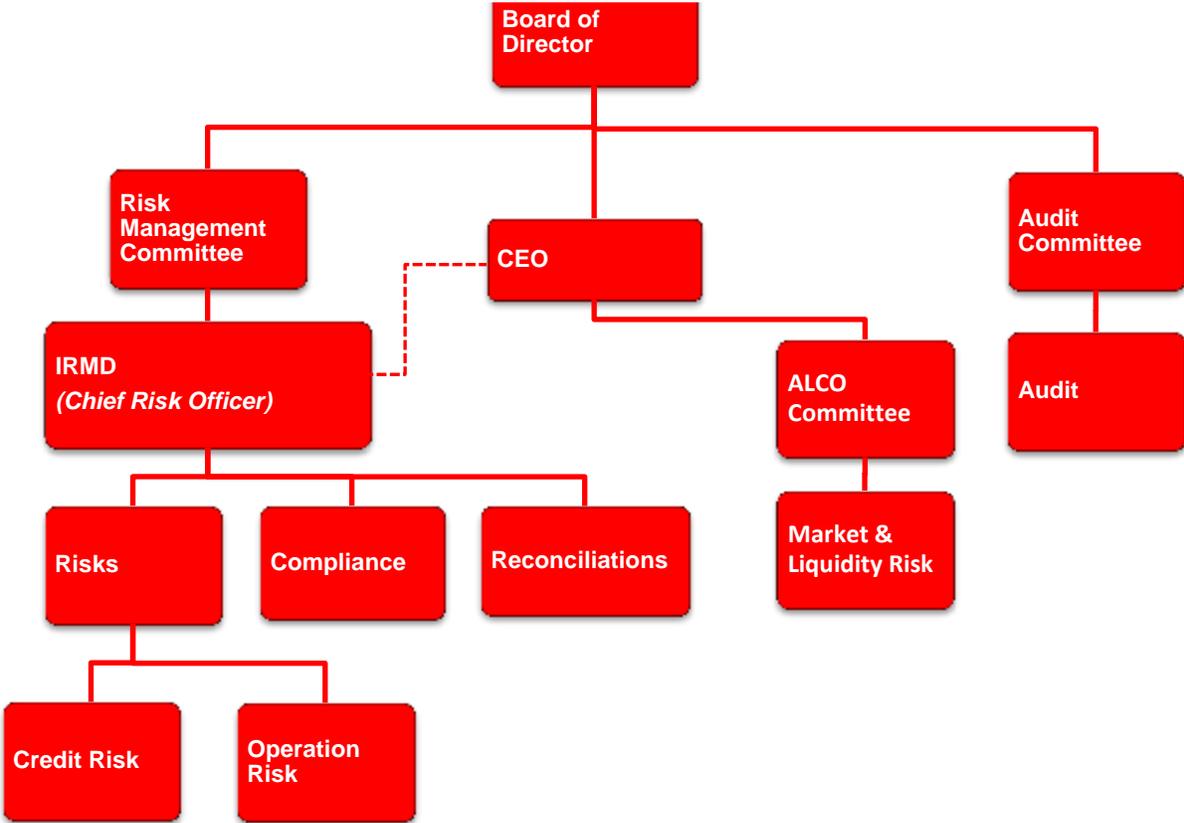
The Bank prepares a long term 5 year's Strategy Plan and to achieve the long term plans the Bank prepares annual Budgets/ Operating/ Tactical plans as stipulated in the Budget Policy and strategy Document of the Bank. To ensure that the Bank's capital adequacy commensurate to demand of the Bank's capital 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.

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.