

DISCLOSURE AS PER BASEL II
As of Chaitra End 2072 (12 April, 2016)

1. Capital structure and Capital Adequacy

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

Particulars	NPR in '000'
Paid Up Capital	3,695,016
Proposed Stock Dividend	-
Share Premium	-
Statutory General Reserves	1,050,106
Capital Reserve	548,092
Capital Redemption Reserve	71,429
Retained Earnings	800,573
Other Free Reserves	24,941
Less:	
Deferred Tax Assets	24,941
Miscellaneous expenditure not written off	2,332
Land & building in excess of limit and unutilized	160,880
Loans & Facilities extended to related parties and restricted lending	-
Core Capital	6,002,004

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

Particulars	NPR in '000'
General Loan Loss Provision	634,960
Exchange Equalization Reserves	33,314
Subordinated Term Debt	500,000
Investment Adjustment Reserve	34,845
Supplementary Capital	1,203,119

• **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 2,331,610.82 has been deducted from the core capital
-
- Land & building amounting NPR 160,879,933.13 has been deducted from the core capital as per NRB directive no.8/071.

- **Total qualifying capital;**

Particulars	NPR in '000'
Core Capital	6,002,004
Supplementary Capital	1,203,119
Total Qualifying Capital (Total Capital Fund)	7,205,123

- **Capital Adequacy Ratio;**

- 11.76%

- **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

Risk weighted Exposures	NPR in '000'	
	Current Quarter	Previous Quarter
a. Risk Weighted Exposure for Credit Risk	54,893,553	48,700,666
b. Risk Weighted Exposure for Operational Risk	3,065,714	3,065,714
c. Risk Weighted Exposure for Market Risk	139,578	84,556
d. Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 4 % of gross income.	847,700	847,700
Overall risk management policies and procedures are not satisfactory, add 4% of RWE	2,323,954	2,074,037
Total Risk Weighted Exposures (a + b + c +d)	61,270,498	54,772,673

Risk Weighted Exposures under each of 11 Categories of Credit Risk

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Claims on Government and Central Bank	-	-
Claims on Other Official Entities	865,200	147,500
Claims on Banks	1,433,326	1,593,913
Claims on Corporate and securities firms	21,340,496	19,142,131
Claims on regulatory retail Portfolio	8,542,338	7,639,943
Claims secured by Residential Properties	5,280,781	4,817,145
Claims secured by Commercial real estate	553,251	544,796
Past due Claims	529,743	608,221
High Risk Claims	11,561,176	9,396,344
Other Assets	1,681,098	1,890,781
Off Balance- Sheet Items	3,106,144	2,919,891
Total	54,893,553	48,700,666

Total Weighted Exposure calculation table

A. Balance Sheet Exposures	NPR in Mn					
	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	934			934	0%	-
Balance With Nepal Rastra Bank	4,254			4,254	0%	-
Gold	0			0	0%	-
Investment in Nepalese Government Securities	8,650			8,650	0%	-
All Claims on Government of Nepal	216	-		216	0%	-
Investment in Nepal Rastra Bank securities	1,351			1,351	0%	-
All claims on Nepal Rastra Bank	702			702	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)	865	-	-	865	100%	865
Claims on Public Sector Entity (ECA 7)			-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	2,106		-	2,106	20%	421
Claims on domestic banks that do not meet capital adequacy requirements	40		-	40	100%	40
Claims on foreign bank (ECA Rating 0-1)	1,162		-	1,162	20%	232
Claims on foreign bank (ECA Rating 2)	937		-	937	50%	468
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	1,357		-	1,357	20%	271
Claims on Domestic Corporates	21,572	-	231	21,340	100%	21,340
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)	11,465	-	75	11,390	75%	8,542
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	8,572	-	-	8,572	60%	5,143
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	171	34	-	138	100%	138
Claims secured by Commercial real estate	553	-	-	553	100%	553
Past due claims (except for claims secured by residential properties)	812	459	-	353	150%	530
High Risk claims	7,845	-	137	7,707	150%	11,561
Investments in equity and other capital instruments of institutions listed in stock exchange	399	3	-	397	100%	397
Investments in equity and other capital instruments of institutions not listed in the stock exchange	90		-	90	150%	136
Staff loan secured by residential property	193			193	1	116

Interest Receivable/claim on government securities	46			46	-	-
Cash in transit and other cash items in the process of collection	6	-		6	0	1
Other Assets (as per attachment)	2,117	1,085	-	1,032	100%	1,032
TOTAL (A)	76,415	1,580	443	74,392		51,787

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments				-	0%	-
Bills Under Collection	56			56	0%	-
Forward Exchange Contract Liabilities	2,340		-	2,340	10%	234
LC Commitments With Original Maturity Upto 6 months domestic counterparty	2,669		106	2,562	20%	512
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	306		5	301	50%	151
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	1,178		58	1,121	50%	560
Foreign counterparty (ECA Rating 0-1)	78		-	78	20%	16
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	26		-	26	100%	26
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		4	126	100%	126
Financial Guarantee	-		-	-	100%	-
Acceptances and Endorsements	434		23	411	100%	411
Unpaid portion of Partly paid shares and Securities	-		-	-	100%	-
Irrevocable Credit commitments (short term)	2,911		-	2,911	20%	582
Irrevocable Credit commitments (long term)	492		-	492	50%	246

Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	650			650	0	130
Other Contingent Liabilities	107		-	107	100%	107
Unpaid Guarantee Claims	3		0	2	2	5
TOTAL (B)	11,379	-	195	11,184		3,106
Total RWE for credit Risk Before Adjustment (A) +(B)	87,793	1,580	638	85,575		54,894
<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	87,793	1,580	638	85,575		54,894

Non-Performing Assets

NPR in '000'

Particulars	Current Quarter		Previous Quarter	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	-	-	-	-
Sub Standard Loans	95,269	71,452	121,417	91,063
Doubtful Loans	65,352	32,676	58,811	29,405
Loss	435,616	-	484,276	-
Total NPAs	596,238	104,128	664,504	120,468

Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	1.11%	1.40%
Net NPA to net advances (%)	0.20%	0.26%

Movement of Non-Performing Assets

NPR in '000'

Particulars	Current Quarter	Previous Quarter
Opening NPA	898,438	898,438
Net Increase/(decrease) during the year	(302,200)	(233,934)
Closing NPA	596,238	664,504

Write off Loan and Interest Suspense:

NPR in '000'

Particulars	Current Quarter	Previous Quarter
Write off Loan	-	6,696
Write off Interest	-	-

Movements in LLP and Interest Suspense:

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Movement in Loan Loss Provisions	(53,779)	(114,794)
Movement in Interest Suspense	(81,417)	(53,545)
Additional LLP during the year	(53,779)	(114,794)

Segregation of Investment:

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Held for Trading	-	-
Held for Maturity	12,424,081	11,993,274
Available for Sale	489,882	430,512

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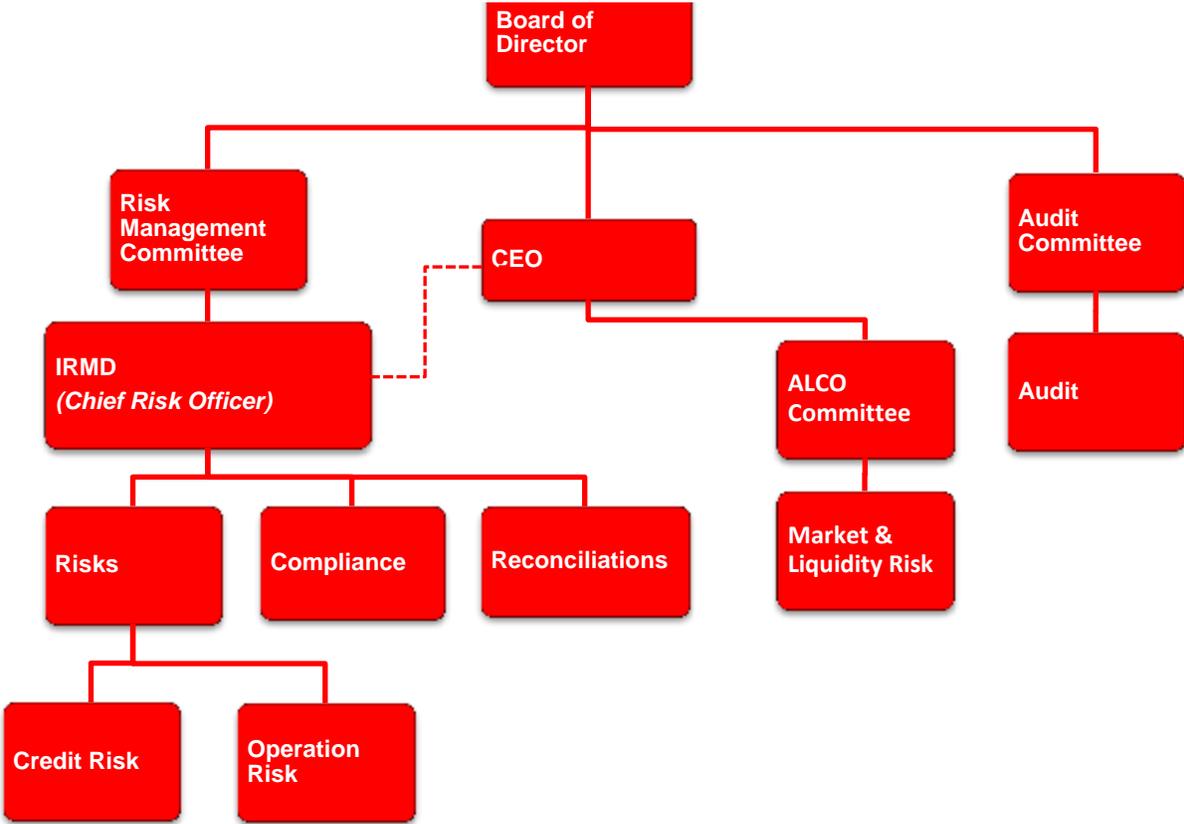
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In order to assess and manage the risk of the Bank, the organizational structure of the bank consists of Integrated Risk Management Department headed by Chief Risk Officer (CRO). There are three units under Risk Management i.e Risk, Compliance and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