

DISCLOSURE AS PER BASEL II
As of Poush End 2072 (14 Jan, 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	543,103
Other Free Reserves	24,941
Less:	
Deferred Tax Assets	24,941
Miscellaneous expenditure not written off	2,446
Land & building in excess of limit and unutilized	161,762
Loans & Facilities extended to related parties and restricted lending	-
Core Capital	5,743,537

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

Particulars	NPR in '000'
General Loan Loss Provision	501,660
Exchange Equalization Reserves	33,314
Subordinated Term Debt	500,000
Investment Adjustment Reserve	34,845
Supplementary Capital	1,069,820

• **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 2,446,280.21 has been deducted from the core capital
- Land & building amounting NPR 161,762,483 has been deducted from the core capital as per NRB directive no.8/071.

- **Total qualifying capital;**

Particulars	NPR in '000'
Core Capital	5,743,537
Supplementary Capital	1,069,820
Total Qualifying Capital (Total Capital Fund)	6,813,356

- **Capital Adequacy Ratio;**

- 12.44%

- **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	Previous Quarter
a. Risk Weighted Exposure for Credit Risk	48,700,666	44,900,731
b. Risk Weighted Exposure for Operational Risk	3,065,714	3,065,714
c. Risk Weighted Exposure for Market Risk	84,556	155,465
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	2,074,037	1,924,876
Total Risk Weighted Exposures (a + b + c +d)	54,772,673	50,894,485

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	147,500	-
Claims on Banks	1,593,913	1,065,823
Claims on Corporate and securities firms	19,142,131	18,765,241

Claims on regulatory retail Portfolio	7,639,943	7,523,512
Claims secured by Residential Properties	4,817,145	4,675,989
Claims secured by Commercial real estate	544,796	657,596
Past due Claims	608,221	599,603
High Risk Claims	9,396,344	7,517,275
Other Assets	1,890,781	1,468,460
Off Balance- Sheet Items	2,919,891	2,627,233
Total	48,700,666	44,900,731

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	809			809	0%	-
Balance With Nepal Rastra Bank	3,842			3,842	0%	-
Gold	0			0	0%	-
Investment in Nepalese Government Securities	6,120			6,120	0%	-
All Claims on Government of Nepal	216	-		216	0%	-
Investment in Nepal Rastra Bank securities	3,920			3,920	0%	-
All claims on Nepal Rastra Bank	6			6	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	2,011		-	2,011	20%	402
Claims on domestic banks that do not meet capital adequacy requirements	33		-	33	100%	33
Claims on foreign bank (ECA Rating 0-1)	1,105		-	1,105	20%	221
Claims on foreign bank (ECA Rating 2)	1,507		-	1,507	50%	754
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	921		-	921	20%	184
Claims on Domestic Corporates	19,382	-	240	19,142	100%	19,142

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)	10,265	-	78	10,187	75%	7,640
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	7,841	-	-	7,841	60%	4,704
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	180	67	-	113	100%	113
Claims secured by Commercial real estate	545	-	-	545	100%	545
Past due claims (except for claims secured by residential properties)	882	477	-	405	150%	608
High Risk claims	6,307	0	43	6,264	150%	9,396
Investments in equity and other capital instruments of institutions listed in stock exchange	393	3	-	390	100%	390
Investments in equity and other capital instruments of institutions not listed in the stock exchange	38		-	38	150%	57
Staff loan secured by residential property	193			193	1	116
Interest Receivable/claim on government securities	26			26	-	-
Cash in transit and other cash items in the process of collection	-	-		-	0	-
Other Assets (as per attachment)	2,437	1,109	-	1,328	100%	1,328
TOTAL (A)	69,127	1,656	361	67,110		45,781
B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments				-	0%	-
Bills Under Collection	24			24	0%	-
Forward Exchange Contract Liabilities	1,987		-	1,987	10%	199
LC Commitments With Original Maturity Upto 6 months domestic counterparty	2,967		98	2,869	20%	574
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	275		4	271	50%	135
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	1,056		54	1,002	50%	501
Foreign counterparty (ECA Rating 0-1)	79		-	79	20%	16
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	25		-	25	100%	25

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	118	3	115	100%	115
Financial Guarantee	-	-	-	100%	-
Acceptances and Endorsements	386	17	369	100%	369
Unpaid portion of Partly paid shares and Securities	-	-	-	100%	-
Irrevocable Credit commitments (short term)	2,916	-	2,916	20%	583
Irrevocable Credit commitments (long term)	265	-	265	50%	132
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	795	-	795	0	159
Other Contingent Liabilities	107	-	107	100%	107
Unpaid Guarantee Claims	3	0	2	2	5
TOTAL (B)	11,001	-	176	10,825	2,920
Total RWE for credit Risk Before Adjustment (A) +(B)	80,128	1,656	537	77,936	48,701
Adjustments under Pillar II					
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	80,128	1,656	537	77,936	48,701

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	121,417	91,063	150,119	112,589
Doubtful Loans	58,811	29,405	112,120	56,060
Loss	484,276	-	566,405	-
Total NPAs	664,504	120,468	828,644	168,649

Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	1.40%	1.83%
Net NPA to net advances (%)	0.26%	0.38%

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	(233,934)	(69,794)
Closing NPA	664,504	828,644

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:*NPR in '000'*

Particulars	Current Quarter	Previous Quarter
Movement in Loan Loss Provisions	(139,990)	(32,381)
Movement in Interest Suspense	(53,545)	(9,455)
Additional LLP during the year	(139,990)	(32,381)

Segregation of Investment:*NPR in '000'*

Particulars	Current Quarter	Previous Quarter
Held for Trading	-	-
Held for Maturity	11,993,274	8,558,124
Available for Sale	430,512	407,869

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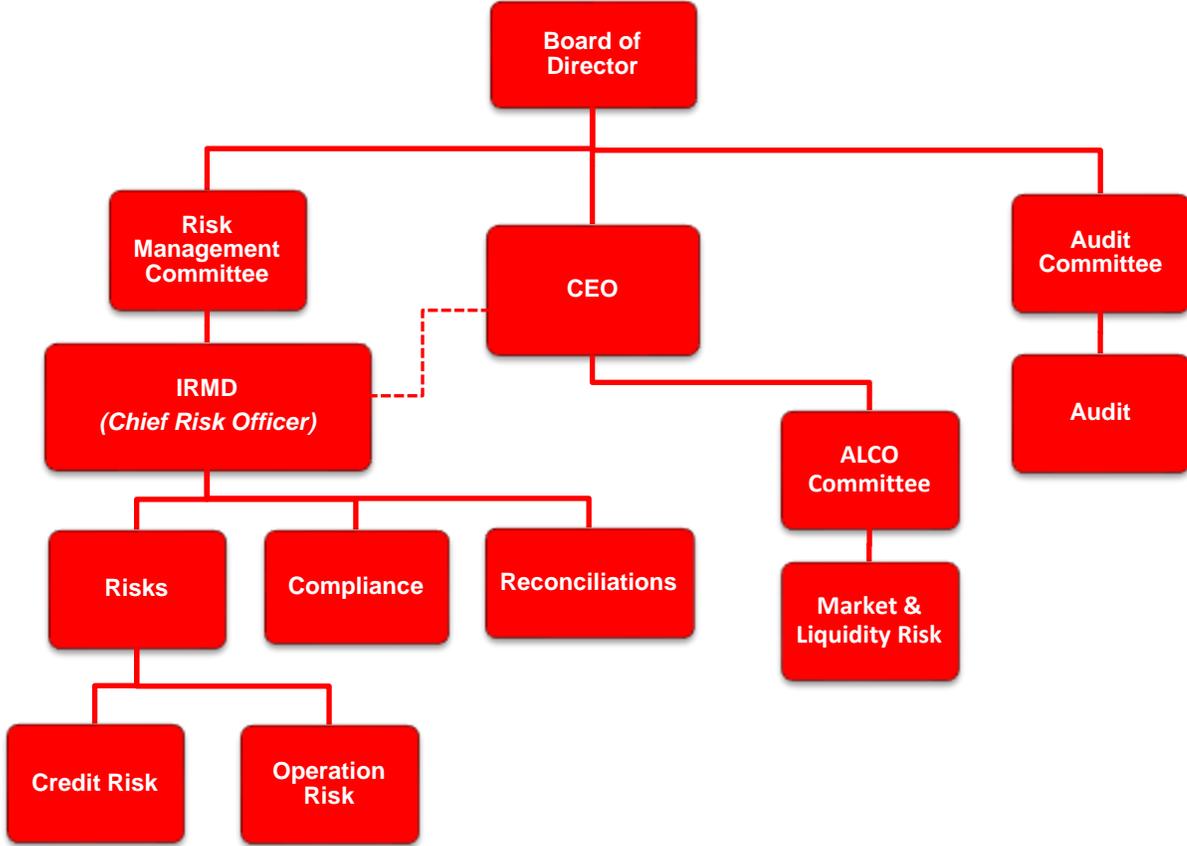
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In order to assess and manage the risk of the Bank, the organizational structure of the bank consists of Integrated Risk Management Department headed by Chief Risk Officer (CRO). There are three units under Risk Management i.e Risk, Compliance and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