

DISCLOSURE AS PER BASEL III
As of Ashoj End 2075 (17 October 2018)

1. Capital Structure and Capital Adequacy

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

Particulars	NPR in 'Million'
Paid Up Capital	8,031.12
Proposed Stock Dividend	-
Share Premium	-
Statutory General Reserves	1,558.18
Capital Redemption Reserve	752.70
Retained Earnings	1,383.79
Less:	-
Deferred Tax Assets	41.85
Miscellaneous expenditure not written off	10.83
Land & building in excess of limit and unutilized	-
Investment in equity of institutions with financial interests	200.00
Core Capital	11,687.39

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

Particulars	NPR in 'Million'
General Loan Loss Provision	1,387.48
Exchange Equalization Reserves	34.69
Subordinated Term Debt	5,230.00
Investment Adjustment Reserve	28.47
Other Reserve	41.85
Supplementary Capital	6,722.48

- **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 200 million

The Bank has issued "9% NIC ASIA Bond 2081/82" for NPR 3000 million on 9th January 2018.

- Outstanding Amount : NPR 3000 million
- Maturity Period : 7 years
- Interest Rate : 9% per annum
- Interest Payment frequency : Half Yearly
- Amount eligible to be reckoned as capital fund : NPR 3000 million

The Bank has issued "11% NIC ASIA Bond 2082/83" for NPR 1830 million on 20th September 2018.

- Outstanding Amount : NPR 1830 million
- Maturity Period : 7 years
- Interest Rate : 11% per annum
- Interest Payment frequency : Half Yearly
- Amount eligible to be reckoned as capital fund : NPR 1830 million

- **Deductions from capital;**

- Deferred tax assets amounting NPR 41,845,804 has been deducted as per NRB directive no. 01
- The fictitious assets pertaining to bond issue expenses and premium on foreign currency bond amounting to NPR 10,830,310 have been deducted from the core capital
- The Bank's investment in NIC AISIA Capital Ltd., a wholly owned subsidiary, NPR 200,000,000 has been deducted from the core capital.

- **Total qualifying capital;**

Particulars	NPR in 'Million'
Core Capital	11,687.39
Supplementary Capital	6,722.48
Total Qualifying Capital (Total Capital Fund)	18,409.87

- **Capital Adequacy Ratio**

- 12.48%

- **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 2018" (ICAAP 2018) which has been approved by the Board of Directors. The ICAAP 2018 is a system of sound, effective, and complete strategies and processes that allow the Bank to assess 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.

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 2018 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 during 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 2018.

The Bank has also formulated and implemented "Stress Testing Guidelines 2018" in order to assess of the vulnerability of the Bank under various stress situations typically, application of "what if" scenarios, especially in the problematic identification of low frequency but high severity events and identifying expected and unexpected losses. It focuses on capturing the impact of large, but still plausible events and understanding the overall risk profile in a coherent and consistent framework, including impact analysis on earnings, solvency and liquidity.

Stress testing of the Bank also includes macroeconomic environment of the country and its impact in the Bank's business as well as entire key risk areas and functions of the Bank as far as data availability and resources permit those having ultimate impact on the capital adequacy of the Bank.

A formal monitoring and reporting mechanism have been established to provide the senior management necessary information on the risk profile, trends, and the capital requirements as per ICAAP 2018 and Stress Testing Guidelines 2018. Such reports are being prepared on a monthly and quarterly 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 'Million'

Risk weighted Exposures	Current Period	Previous Period
a. Risk Weighted Exposure for Credit Risk	137,279.96	134,266.80
b. Risk Weighted Exposure for Operational Risk	5,614.15	5,614.15
c. Risk Weighted Exposure for Market Risk	175.13	181.89
d. Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 3 % of gross income.	1,564.10	1,564.10
Overall risk management policies and procedures are not satisfactory, add 2% of RWE	2,861.38	2,801.26
Total Risk Weighted Exposures (a + b + c +d)	147,494.72	144,428.19

Risk Weighted Exposures under each of 11 Categories of Credit

Particulars	NPR in 'Mn'	
	Current Period	Previous Period
Claims on Government and Central Bank		
Claims on Other Official Entities		
Claims on Banks	4,439.73	1,755.70
Claims on Corporate and securities firms	51,374.21	42,958.80
Claims on regulatory retail Portfolio	39,563.98	35,061.18
Claims secured by Residential Properties	5,411.41	5,453.62
Claims secured by Commercial real estate	743.98	925.63
Past due Claims	281.92	207.98
High Risk Claims	25,775.21	22,405.90
Other Assets	6,553.64	5,274.88
Off Balance- Sheet Items		

	3,135.89	4,636.79
Total	137,279.96	118,680.47

**Total Risk Weight Exposure Table
On Balance Sheet Exposure**

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	4,940.47			4,940.47	0%	-
Balance With Nepal Rastra Bank	7,853.98			7,853.98	0%	-
Gold	1.07			1.07	0%	-
Investment in Nepalese Government Securities	12,608.82			12,608.82	0%	-
All Claims on Government of Nepal	300.67	-		300.67	0%	-
Investment in Nepal Rastra Bank securities	-			-	0%	-
All claims on Nepal Rastra Bank	48.72			48.72	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			-	-	100%	-

(ECA-4-6)						
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)	-	-	-	-	100%	-
Claims on Public Sector Entity (ECA 7)			-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	10,832.00		-	10,832.00	20%	2,166.40
Claims on domestic banks that do not meet capital adequacy requirements	-		-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	4,738.98		-	4,738.98	20%	947.80
Claims on foreign bank (ECA Rating 2)	2,414.23		-	2,414.23	50%	1,207.11
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	592.10		-	592.10	20%	118.42
Claims on Domestic Corporates	51,460.05	2.70	83.14	51,374.21	100%	51,374.21
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)	53,039.23	1.00	286.25	52,751.97	75%	39,563.98
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	9,019.02	-	-	9,019.02	60%	5,411.41
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	102.72	7.08	-	95.63	100%	95.63
Claims secured by Commercial	743.98	-	-	743.98	100%	743.98

real estate						
Past due claims (except for claims secured by residential properties)	163.77	36.33	3.24	124.19	150%	186.29
High Risk claims	17,771.63	0.25	587.90	17,183.48	150%	25,775.21
Investments in equity and other capital instruments of institutions listed in stock exchange	1,155.22	5.31	-	1,149.91	100%	1,149.91
Investments in equity and other capital instruments of institutions not listed in the stock exchange	1,196.41		-	1,196.41	150%	1,794.62
Staff loan secured by residential property	1,079.07			1,079.07	0.6	647.44
Interest Receivable/claim on government securities	212.03			212.03	0	-
Cash in transit and other cash items in the process of collection	-	-		-	0.2	-
Other Assets (as per attachment)	4,204.52	1,242.86	-	2,961.66	100%	2,961.66
TOTAL (A)	184,478.68	1,295.54	960.54	182,222.60		134,144.08

Off Balance Sheet Exposures:

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable					0%	

Commitments				-		-
Bills Under Collection	136.59			136.59	0%	-
Forward Exchange Contract Liabilities			-	-	10%	-
LC Commitments With Original Maturity Upto 6 months domestic counterparty	1,896.20		48.59	1,847.61	20%	369.52
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	-		-	-	50%	-
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			0.30	-	50%	-

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%	-
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	415.31		-	415.31	100%	415.31
Financial Guarantee			-	-	100%	-
Acceptances and Endorsements	555.13		31.29	523.84	100%	523.84
Unpaid portion of Partly paid shares and Securities	-		-	-	100%	-
Irrevocable Credit commitments (short term)	7,534.12		-	7,534.12	20%	1,506.82
Irrevocable Credit commitments (long term)	-		-	-	50%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement				-	0.2	-

Other Contingent Liabilities	315.63		-	315.63	100%	315.63
Unpaid Guarantee Claims	2.50		0.13	2.38	2	4.75
TOTAL (B)	10,855.49	-	80.30	10,775.49		3,135.89
Total RWE for credit Risk Before Adjustment (A) + (B)	195,334.17	1,295.54	1,040.84	192,998.09		137,279.96
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	195,334.17	1,295.54	1,040.84	192,998.09		137,279.96

Non-Performing Assets

NPR in 'Mn'

Particulars	Current Year		Previous Year	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	-	-	-	-
Sub Standard Loans	231.76	173.82	14.02	10.52
Doubtful Loans	-	-	5.57	2.79
Loss	122.90	-	53.38	-
Total NPAs	354.67	173.82	72.97	13.30

Ratio of Non-Performing Asset

Particulars	Current Period	Previous Period
Gross NPA to gross advances (%)	0.26	0.06
Net NPA to net advances (%)	0.13	0.01

Movement of Non-Performing Assets

Particulars	NPR in '000'	
	Current Period	Previous Period
Opening NPA	72,971	262,582
Net Increase/(decrease) during the year	281,695	(189,611)
Closing NPA	354,666	72,971

Write off Loan and Interest Suspense:

Particulars	NPR in '000'	
	Current Period	Previous Period
Write off Loan		42,702
Write off Interest		2,908

Movements in LLP and Interest Suspense:

Particulars	NPR in '000'	
	Current Period	Previous Period
Movement in Loan Loss Provisions	297,488S	303,216
Movement in Interest Suspense	52,423	95,138
Additional LLP during the year	297,488	303,216

Segregation of Investment:

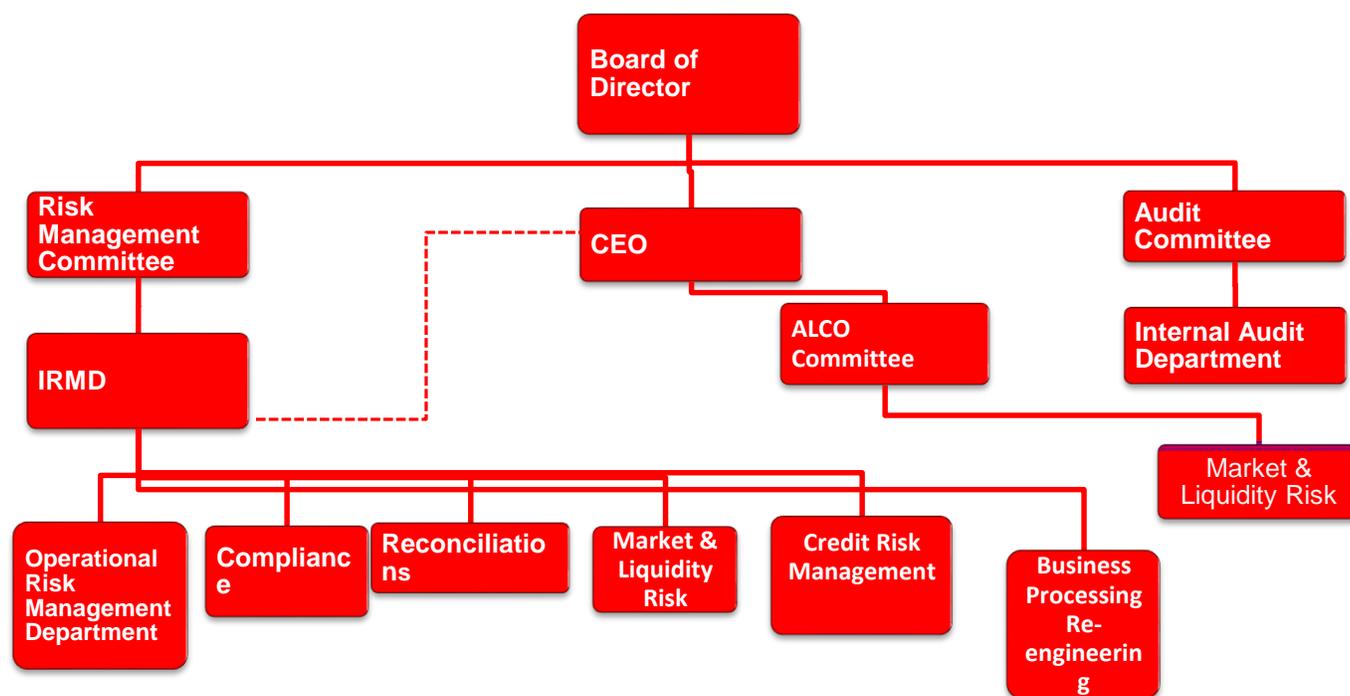
Particulars	NPR in '000'	
	Current Period	Previous Period
Held for Trading		
Held Till Maturity	18,259,227	14,566,863
Available for Sale	2,551,626	1,212,529

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.

In order to assess and manage the risk of the Bank, the organizational structure of the bank consists of Integrated Risk Management Department. Internal Structure for Risk Management function is depicted below:

Internal Structure for Risk Management



The credit risk unit under 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, service 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. The CFO and CEO 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.