

DISCLOSURE AS PER BASEL II
As of Ashadh End 2075 (16 July, 2018)

1. Capital Structure and Capital Adequacy

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

Particulars	NPR in '000'
Paid Up Capital	8,031,117
Proposed Stock Dividend	-
Share Premium	-
Statutory General Reserves	1,558,181
Capital Redemption Reserve	314,283
Retained Earnings	1,383,786
Less:	-
Deferred Tax Assets	41,846
Miscellaneous expenditure not written off	113,301
Land & building in excess of limit and unutilized	-
Investment in equity of institutions with financial interests	200,000.00
Core Capital	11,034,193

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

Particulars	NPR in '000'
General Loan Loss Provision	1,210,090
Exchange Equalization Reserves	34,686
Subordinated Term Debt	3,200,000
Investment Adjustment Reserve	28,472
Other Reserve	41,846
Supplementary Capital	4,515,094

- **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

- **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 11,330,796 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 '000'
Core Capital	11,034,193
Supplementary Capital	4,515,094
Total Qualifying Capital (Total Capital Fund)	15,549,287

- **Capital Adequacy Ratio**

- 12.30%

- **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 2017" (ICAAP 2017) which has been approved by the Board of Directors. The ICAAP 2017 is a system of sound, effective, and complete strategies and processes that

allow the Bank to assess and maintain, on an 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 requirements to have robust governance arrangements, an 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 2017 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 a 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 2017.

The Bank has also formulated and implemented "Stress Testing Guidelines 2015" in order to assess 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 has been established to provide the senior management necessary information on the risk profile, trends, and the capital requirements as per ICAAP 2017 and Stress Testing Guidelines 2015. 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 '000'	
Risk weighted Exposures	Current Year	Previous Year
a. Risk Weighted Exposure for Credit Risk	118,680,473	71,293,941
b. Risk Weighted Exposure for Operational Risk	4,066,904	3,473,583
c. Risk Weighted Exposure for Market Risk	117,548	138,890
d. Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 4 % of gross income.	1,048,400.00	1,007,971
Overall risk management policies and procedures are not satisfactory, add 4% of RWE	2,457,298	2,996,257
Total Risk Weighted Exposures (a + b + c +d)	126,370,623	78,910,641

Risk Weighted Exposures under each of 11 Categories of Credit Risk

	NPR in '000'	
Particulars	Current Year	Previous Year
Claims on Government and Central Bank		
Claims on Other Official Entities	2,404,498	145,500
Claims on Banks	1,755,702	1,391,091
Claims on Corporate and securities firms	42,958,795	26,274,118
Claims on regulatory retail Portfolio	35,061,184	18,786,518
Claims secured by Residential Properties	5,453,621	5,140,553

Claims secured by Commercial real estate	925,627	624,851
Past due Claims	207,982	179,332
High Risk Claims	22,405,902	12,748,134
Other Assets	2,870,377	2,636,381
Off Balance- Sheet Items	4,636,785	3,367,462
Total	118,680,473	71,293,941

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	3,754	-		3,754	0%	
Balance With Nepal Rastra Bank	15,812	-		15,812	0%	
Gold	0.09	-		0.09	0%	
Investment in Nepalese Government Securities	12,283	-		12,283	0%	
All Claims on Government of Nepal	301	-		301	0%	
Investment in Nepal Rastra Bank securities	1,093	-		1,093	0%	
All claims on Nepal Rastra Bank	48	-		48	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)		-			100%	
Claims on Public Sector Entity (ECA 7)		-			150%	
Claims on domestic banks that meet capital adequacy requirements	5,569	-		5,569	20%	1,114
Claims on domestic banks that do not meet capital adequacy requirements		-			100%	

Claims on foreign bank (ECA Rating 0-1)	2,752	-		2,752	20 %	550
Claims on foreign bank (ECA Rating 2)	182	-		182	50 %	91
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	721	-		721	20 %	144
Claims on Domestic Corporates	42,978	3 -	16	42,959	100 %	42,959
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)	46,938	1.05 -	188	46,748	75 %	35,061
Claims fulfilling all criterion of regularity retail except granularity		-			100 %	
Claims secured by residential properties	9,089	0.13 -		9,089	60 %	5,454
Claims not fully secured by residential properties		-			150 %	
Claims secured by residential properties (Overdue)					100 %	
Claims secured by Commercial real estate	926	0.50		926	100 %	926
Past due claims (except for claims secured by residential properties)	202	60	3	139	150 %	208
High Risk claims	15,475	0.21	538	14,937	150 %	22,406
Investments in equity and other capital instruments of institutions listed in stock exchange	494	5.31		488	100 %	488
Investments in equity and other capital instruments of institutions not listed in the stock exchange	789			789	150 %	1,183
Staff loan secured by residential property	981			981	60 %	589
Interest Receivable/claim on government securities	150			150	0%	
Cash in transit and other cash items in the process of collection					20 %	
Other Assets (as per attachment)	3,954	1,083		2,870	100 %	2,870
TOTAL (A)	164,493	1,154.13	745	162,594		114,044

B. Off Balance Sheet Exposures		Specific Provision			Risk Weight	
Revocable Commitments		-			0%	
Bills Under Collection	159	-			0%	
Forward Exchange Contract Liabilities	180	-			10%	18
LC Commitments With Original Maturity Upto 6 months domestic counterparty	4,665	-	79.31		20%	917
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	97	-			50%	48
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	1,468	-	138.16		50%	665
Foreign counterparty (ECA Rating 0-1)		-			20%	
Foreign counterparty (ECA Rating 2)		-			50%	
Foreign counterparty (ECA Rating 3-6)	762	-			100%	762
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	87	-	3.06		100%	84
Financial Guarantee		-			100%	
Acceptances and Endorsements	468	-	31.85		100%	437
Unpaid portion of Partly paid shares and Securities		-			100%	
Irrevocable Credit commitments (short term)	6,361	-			20%	1,272
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	800	-			20%	160
Other Contingent Liabilities	269	-			100%	269
Unpaid Guarantee Claims	2.50	-	0.13		200%	4.75
TOTAL (B)	15,318	-	252.51			4,637
Total RWE for credit Risk Before Adjustment (A) +(B)	179,812	1,154				118,681
<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	179,812	1,154	998	177,660		118,681

Non-Performing Assets

NPR in '000'

Particulars	Current Year		Previous Year	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	-	-	-	-
Sub Standard Loans	14,022	10,516	32,043	24,032
Doubtful Loans	5,571	2,786	3,265	1,633
Loss	53,378		227,273	
Total NPAs	72,971	13,302	262,582	25,665

Ratio of Non-Performing Asset

Particulars	Current Year	Previous Year
Gross NPA to gross advances (%)	0.06	0.36
Net NPA to net advances (%)	0.01	0.04

Movement of Non-Performing Assets

NPR in '000'

Particulars	Current Year	Previous Year
Opening NPA	262,582	452,094
Net Increase/(decrease) during the year	(189,611)	(189,512)
Closing NPA	72,971	262,582

Write off Loan and Interest Suspense:

NPR in '000'

Particulars	Current Year	Previous Year
Write off Loan	42,702	31,634
Write off Interest	2,908	20,597

Movements in LLP and Interest Suspense:

NPR in '000'

Particulars	Current Year	Previous Year
Movement in Loan Loss Provisions	303,216	(69,683)
Movement in Interest Suspense	95,138	(307,688)
Additional LLP during the year	303,216	(69,683)

Segregation of Investment:

NPR in '000'

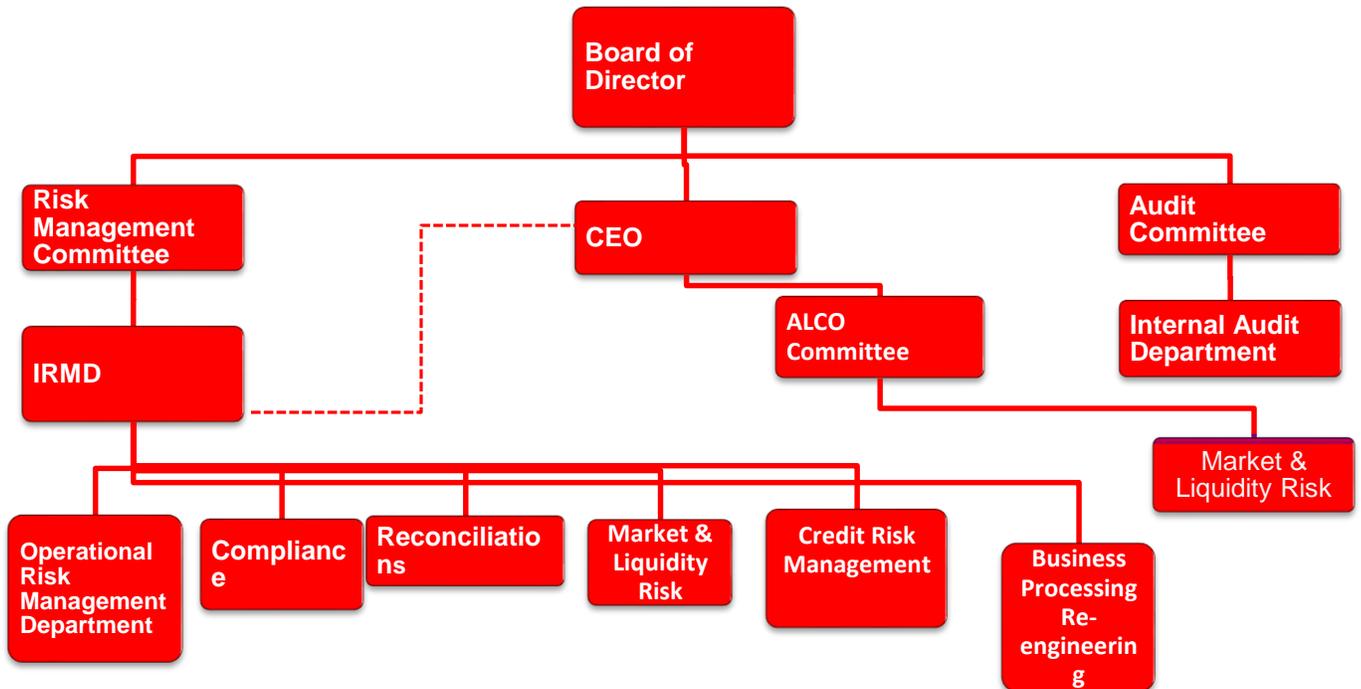
Particulars	Current Year	Previous Year
Held for Trading		
Held Till Maturity	14,566,863	10,814,268
Available for Sale	1,212,529	697,630

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.