

DISCLOSURE AS PER BASEL II
As of Ashwin End 2074 (17 October, 2017)

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 Reserve | |
| Bond Redemption Reserve | 214,286 |
| Retained Earnings | 470,834 |
| Other Free Reserve | |
| Less: | |
| Deferred Tax Assets | 41,846 |
| Miscellaneous expenditure not written off | 1,758 |
| Land & building in excess of limit and unutilized | 86,496 |
| Investment in equity of institutions with financial interests | 100,000 |
| Core Capital | 10,044,317 |

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

| Particulars | NPR in '000 |
|--------------------------------|------------------|
| General Loan Loss Provision | 903,796 |
| Exchange Equalization Reserves | 34,686 |
| Subordinated | 300,000 |
| Investment Adjust Reserve | 28,472 |
| Other Reserve | 41,846 |
| Supplementary Capital | 1,308,800 |

- **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 41,845,804.00 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 1,758,263.87 have been deducted from the core capital
- Land & building amounting NPR 86,496,000 has been deducted from the core capital as per NRB directive no.8.
- The Bank's investment in NIC AISIA Capital Ltd., a wholly owned subsidiary, NPR 100,000,000 has been deducted from the core capital.

- **Total qualifying capital;**

| Particulars | NPR in '000' |
|--|-------------------|
| Core Capital | 10,044,317 |
| Supplementary Capital | 1,308,800 |
| Total Qualifying Capital (Total Capital Fund) | 11,353,118 |

- **Capital Adequacy Ratio**

- 12.08%

- **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 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 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 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 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 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 | 86,353,194 | 71,285,022 |
| b. Risk Weighted Exposure for Operational Risk | 4,066,904 | 3,473,583 |
| c. Risk Weighted Exposure for Market Risk | 153,031 | 138,890 |
| d. Adjustment Under Pillar II | - | - |
| Add RWE equivalent to reciprocal of capital charge of 4 % of gross income. | 698,900 | 1,007,971 |
| Overall risk management policies and procedures are not satisfactory, add 4% of RWE | 2,717,194 | 2,995,900 |
| Total Risk Weighted Exposures (a + b + c +d) | 93,989,223 | 78,901,366 |

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 | 118,400 | 145,500 |
| Claims on Banks | 1,602,533 | 1,391,091 |
| Claims on Corporate and securities firms | 33,513,338 | 26,285,631 |
| Claims on regulatory retail Portfolio | 22,272,812 | 18,789,887 |
| Claims secured by Residential Properties | 5,003,062 | 5,140,553 |
| Claims secured by Commercial real estate | 796,659 | 624,851 |
| Past due Claims | 227,596 | 179,359 |
| High Risk Claims | 14,558,453 | 12,724,138 |
| Other Assets | 4,066,903 | 2,636,549 |
| Off Balance- Sheet Items | 4,193,438 | 3,367,466 |
| Total | 86,353,194 | 71,285,025 |

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 | 2,750 | | | 2,750 | 0% | - |
| Balance With Nepal Rastra Bank | 12,057 | | | 12,057 | 0% | - |
| Gold | 0 | | | 0 | 0% | - |
| Investment in Nepalese Government Securities | 10,596 | | | 10,596 | 0% | - |
| All Claims on Government of Nepal | 301 | - | | 301 | 0% | - |
| Investment in Nepal Rastra Bank securities | - | | | - | 0% | - |
| All claims on Nepal Rastra Bank | 26 | | | 26 | 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) | 118 | - | - | 118 | 100% | 118 |
| Claims on Public Sector Entity (ECA 7) | | | - | - | 150% | - |
| Claims on domestic banks that meet capital adequacy requirements | 4,079 | | - | 4,079 | 20% | 816 |
| Claims on domestic banks that do not meet capital adequacy requirements | - | | - | - | 100% | - |
| Claims on foreign bank (ECA Rating 0-1) | 1,195 | | - | 1,195 | 20% | 239 |
| Claims on foreign bank (ECA Rating 2) | 215 | | - | 215 | 50% | 107 |
| 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 | 2,202 | | - | 2,202 | 20% | 440 |
| Claims on Domestic Corporates | 33,719 | - | 205 | 33,513 | 100% | 33,513 |
| 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) | 29,955 | - | 258 | 29,697 | 75% | 22,273 |
| Claims fulfilling all criterion of regularity retail except granularity | | | - | - | 100% | - |
| Claims secured by residential properties | 8,250 | - | - | 8,250 | 60% | 4,950 |
| Claims not fully secured by residential properties | | | - | - | 150% | - |

| | | | | | | |
|--|----------------|--------------|--------------|----------------|------|---------------|
| Claims secured by residential properties (Overdue) | 72 | 19 | - | 53 | 100% | 53 |
| Claims secured by Commercial real estate | 797 | - | - | 797 | 100% | 797 |
| Past due claims (except for claims secured by residential properties) | 341 | 189 | 1 | 152 | 150% | 228 |
| High Risk claims | 10,325 | 1 | 618 | 9,706 | 150% | 14,558 |
| Investments in equity and other capital instruments of institutions listed in stock exchange | 424 | 0 | - | 424 | 100% | 424 |
| Investments in equity and other capital instruments of institutions not listed in the stock exchange | 174 | | - | 174 | 150% | 261 |
| Staff loan secured by residential property | 603 | | | 603 | 60% | 362 |
| Interest Receivable/claim on government securities | 120 | | | 120 | 0% | - |
| Cash in transit and other cash items in the process of collection | - | - | | - | 20% | - |
| Other Assets (as per attachment) | 4,192 | 1,172 | - | 3,020 | 100% | 3,020 |
| TOTAL (A) | 122,511 | 1,381 | 1,083 | 120,047 | | 82,160 |

| B. Off Balance Sheet Exposures | Book Value | Specific Provision | Eligible CRM | Net Value | Risk Weight | Risk Weighted Exposures |
|---|-------------------|---------------------------|---------------------|------------------|--------------------|--------------------------------|
| Revocable Commitments | | | | - | 0% | - |
| Bills Under Collection | 113 | | | 113 | 0% | - |
| Forward Exchange Contract Liabilities | 3,104 | | - | 3,104 | 10% | 310 |
| LC Commitments With Original Maturity Upto 6 months domestic counterparty | 3,021 | | 153 | 2,868 | 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 | 397 | | 10 | 387 | 50% | 194 |
| 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 | 2,426 | | 95 | 2,331 | 50% | 1,165 |
| Foreign counterparty (ECA Rating 0-1) | 77 | | - | 77 | 20% | 15 |
| Foreign counterparty (ECA Rating 2) | - | | - | - | 50% | - |
| Foreign counterparty (ECA Rating 3-6) | 31 | | - | 31 | 100% | 31 |
| 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 | 15 | | 1 | 14 | 100% | 14 |
| Financial Guarantee | - | | - | - | 100% | - |
| Acceptances and Endorsements | 541 | | 35 | 506 | 100% | 506 |
| Unpaid portion of Partly paid shares and Securities | - | | - | - | 100% | - |

| | | | | | | |
|---|----------------|--------------|--------------|----------------|------|---------------|
| Irrevocable Credit commitments (short term) | 5,344 | | - | 5,344 | 20% | 1,069 |
| 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 | 307 | | | 307 | 20% | 61 |
| Other Contingent Liabilities | 249 | | - | 249 | 100% | 249 |
| Unpaid Guarantee Claims | 3 | | 0 | 2 | 200% | 5 |
| TOTAL (B) | 15,628 | - | 294 | 15,334 | | 4,193 |
| Total RWE for credit Risk Before Adjustment (A) +(B) | 138,139 | 1,381 | 1,377 | 135,381 | | 86,353 |
| <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 | 138,139 | 1,381 | 1,377 | 135,381 | | 86,353 |

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 | 48,185 | 36,139 | 32,043 | 24,032 |
| Doubtful Loans | 19,563 | 9,782 | 3,265 | 1,633 |
| Loss | 185,735 | - | 227,273 | (0) |
| Total NPAs | 253,483 | 45,920 | 262,582 | 25,665 |

Ratio of Non-Performing Asset

| Particulars | Current Year | Previous Year |
|---------------------------------|--------------|---------------|
| Gross NPA to gross advances (%) | 0.29% | 0.36% |
| Net NPA to net advances (%) | 0.05% | 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 | (9,098) | (189,512) |
| Closing NPA | 253,483 | 262,582 |

Write off Loan and Interest Suspense:

NPR in '000'

| Particulars | Current Year | Previous Year |
|--------------------|--------------|---------------|
| Write off Loan | - | 31,634 |
| Write off Interest | - | 20,597 |

Movements in LLP and Interest Suspense:

| Particulars | NPR in '000' | |
|----------------------------------|--------------|---------------|
| | Current Year | Previous Year |
| Movement in Loan Loss Provisions | (306,960) | (72,633) |
| Movement in Interest Suspense | 123,306 | 61,061 |
| Additional LLP during the year | (306,960) | (72,633) |

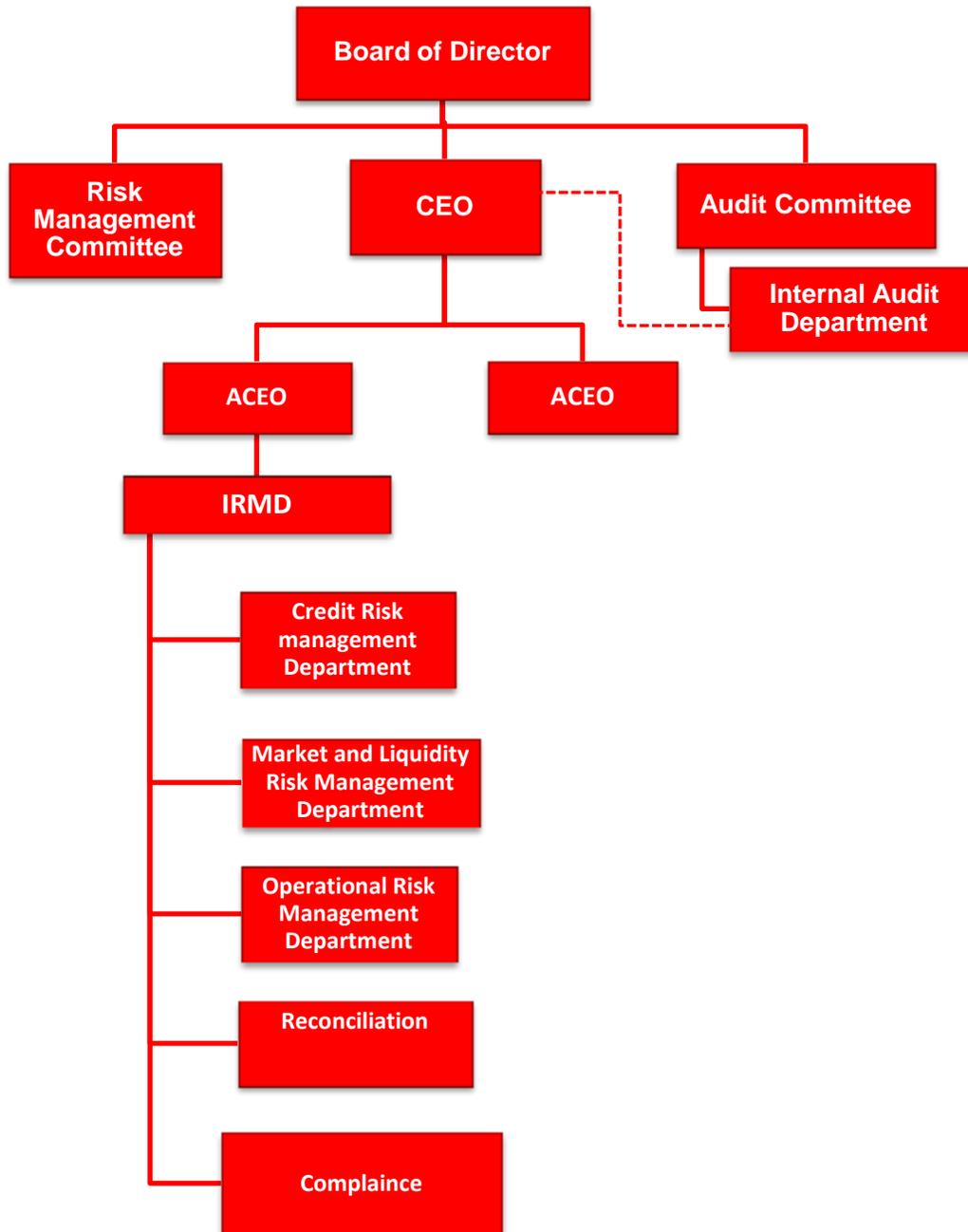
Segregation of Investment:

| Particulars | NPR in '000' | |
|--------------------|--------------|---------------|
| | Current Year | Previous Year |
| Held for Trading | - | - |
| Held Till Maturity | 13,143,487 | 10,814,268 |
| Available for Sale | 698,199 | 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:



The credit risk management department 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, operational risk management department assess the adequacy and effectiveness of internal processes/controls to avoid any loss resulting from resulting from inadequate internal processes, people, and systems, or from external events. 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, Market and Liquidity Risk Management department reviews/ analyzes the trend and assesses the exposure impact on capital. ALCO formulates appropriate internal controls and strategies for managing the interest rate, liquidity, exchange and investment risk. Treasury maintains net open position of all currency on daily basis.