

DISCLOSURE AS PER BASEL II
As of Poush End 2074 (14 January, 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 Reserve	
Bond Redemption Reserve	214,286
Retained Earnings	764,237
Other Free Reserve	
Less:	
Deferred Tax Assets	41,846
Miscellaneous expenditure not written off	1,758
Land & building in excess of limit and unutilized	
Investment in equity of institutions with financial interests	270,000
Core Capital	10,254,217

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

Particulars	NPR in '000
General Loan Loss Provision	1,034,304
Exchange Equalization Reserves	34,686
Subordinated	3,300,000
Investment Adjust Reserve	28,472
Other Reserve	41,846
Supplementary Capital	4,439,308

• **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

The Bank has issued "9% NIC ASIA Bond 2081/82" for NPR 3,000 million on 9th January 2018.

- Outstanding Amount : NPR 3,000 million
- Maturity Period : 7 years
- Interest Rate : 9% per annum
- Interest Payment frequency : Half Yearly
- Amount eligible to be reckoned as capital fund : NPR 3,000 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
- The Bank's investment in NIC AISIA Capital Ltd. and NIC ASIA Laghubitta Bittiaya Sanstha, a wholly owned subsidiary by NPR 200,000,000 and NPR 70,000,000 respectively has been deducted from the core capital.

- **Total qualifying capital;**

Particulars	NPR in '000'
Core Capital	10,254,217
Supplementary Capital	4,439,310
Total Qualifying Capital (Total Capital Fund)	14,693,527

- **Capital Adequacy Ratio**

- 13.59%

- **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, 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 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	100,082,877	66,690,054
b. Risk Weighted Exposure for Operational Risk	4,066,904	3,473,583
c. Risk Weighted Exposure for Market Risk	179,607	96,868
d. Adjustment Under Pillar II	-	-
Add RWE equivalent to reciprocal of capital charge of 4 % of gross income.	698,900	1,008,000
Overall risk management policies and procedures are not satisfactory, add 3% of RWE	3,129,882	2,810,421
Total Risk Weighted Exposures (a + b + c +d)	108,158,170	74,078,942

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	120,298	147,500
Claims on Banks	2,557,368	1,495,326
Claims on Corporate and securities firms	35,710,096	24,868,951

Claims on regulatory retail Portfolio	29,003,272	15,150,505
Claims secured by Residential Properties	4,834,996	5,640,532
Claims secured by Commercial real estate	831,635	664,463
Past due Claims	225,355	480,430
High Risk Claims	19,744,083	12,251,843
Other Assets	2,884,162	2,792,912
Off Balance- Sheet Items	4,171,611	3,197,592
Total	100,082,877	66,690,054

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	2,697			2,697	0%	-
Balance With Nepal Rastra Bank	5,936			5,936	0%	-
Gold	0			0	0%	-
Investment in Nepalese Government Securities	12,036			12,036	0%	-
All other Claims on Government of Nepal	301	-		301	0%	-
Investment in Nepal Rastra Bank securities	-			-	0%	-
All other claims on Nepal Rastra Bank	28			28	0%	-
Investment in Foreign Government Securities (ECA Rating 0-1)				-	0%	-
Investment in Foreign Government Securities (ECA Rating -2)			-	-	20%	-
Investment in Foreign Government Securities (ECA -3)			-	-	50%	-
Investment in Foreign Government Securities (ECA-4-6)			-	-	100%	-
Investment in Foreign Government Securities (ECA -7)			-	-	150%	-
Claims On BIS, IMF, ECB, EC and on Multilateral Development Banks 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)	120	-	-	120	100%	120
Claims on Public Sector Entity (ECA 7)			-	-	150%	-
Claims on domestic banks that meet capital adequacy Requirements	4,389		-	4,389	20%	878
Claims on domestic banks that do not meet capital Adequacy Requirements	-		-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	3,402		-	3,402	20%	680

Claims on foreign bank (ECA Rating 2)	1,256		-	1,256	50%	628
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	1,856		-	1,856	20%	371
Claims on Domestic Corporates	35,852	-	142	35,710	100%	35,710
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	38,948	-	277	38,671	75%	29,003
Claims fulfilling all criterion of regulatory retail except granularity			-	-	100%	-
Claims secured by residential properties	8,009	-	-	8,009	60%	4,805
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	45	16	-	30	100%	30
Claims secured by Commercial real estate	832	-	-	832	100%	832
Past due claims (except for claim secured by residential Properties)	351	195	5	150	150%	225
High Risk claims	13,821	-	658	13,163	150%	19,744
Investments in equity and other capital instruments of institutions listed in the stock Exchange	424	1	-	422	100%	422
Investments in equity and other capital instruments of institutions not listed in the stock Exchange	175		-	175	150%	262
Staff loan secured by residential property	664			664	60%	398
Interest Receivable/ Claim on Government Securities	142			142	0%	-
Cash in Transit and Other Cash Items in the process of Collection	-			-	20%	-
Other Assets (as per attachment)	3,005	1,203		1,802	100%	1,802
TOTAL (A)	134,287	1,415	1,082	131,789		95,911

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments				-	0%	-
Bills Under Collection	234			234	0%	-
Forward Exchange Contract Liabilities	1,817			1,817	10%	182

LC Commitments With Original Maturity Up to 6 months (Domestic Counterparty)	2,149		107	2,042	20%	408
ECA Rating 0-1	-		-	-	20%	-
ECA Rating 2	-		-	-	50%	-
ECA Rating 3-6	-		-	-	100%	-
ECA Rating 7	-		-	-	150%	-
LC Commitments With Original Maturity Over 6 months (Domestic Counterparty)	545		8	537	50%	268
ECA Rating 0-1	-		-	-	20%	-
ECA Rating 2	-		-	-	50%	-
ECA Rating 3-6	-		-	-	100%	-
ECA Rating 7	-		-	-	150%	-
Bid Bond, Performance Bond and Counter Guarantee Domestic Counterparty	2,603		120	2,483	50%	1,242
Foreign Counter Party (ECA Rating 0-1)	75		-	75	20%	15
ECA Rating 2	-		-	-	50%	-
ECA Rating 3-6	32		-	32	100%	32
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 (include repo/reverse repo)	-		-	-	100%	-
Advance Payment Guarantee	51		3	49	100%	49
Financial Guarantee	-		-	-	100%	-
Acceptances and Endorsements	536		34	501	100%	501
Unpaid portion of Partly paid shares and Securities	-		-	-	100%	-
Irrevocable Credit commitments(Short Term)	6,250		-	6,250	20%	1,250
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	518		-	518	20%	104
Other Contingent Liabilities	117		-	117	100%	117
Unpaid Guarantee Claims	3		0	2	200%	5
Total RWE for credit Risk Before Adjustment (A) +(B)	14,928	-	272	14,656		4,172
<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	149,215	1,415	1,354	146,446		100,083

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	57,448	43,086	48,185	36,139
Doubtful Loans	14,292	7,146	19,563	9,782
Loss	189,554	-	185,735	-
Total NPAs	261,294	50,232	253,483	45,920

Ratio of Non-Performing Asset

Particulars	Current Year	Previous Year
Gross NPA to gross advances (%)	0.26%	0.29%
Net NPA to net advances (%)	0.05%	0.05%

Movement of Non-Performing Assets

NPR in '000'

Particulars	Current Year	Previous Year
Opening NPA	253,484	262,582
Net Increase/(decrease) during the year	7,810	(9,098)
Closing NPA	261,294	253,483

Write off Loan and Interest Suspense:

NPR in '000'

Particulars	Current Year	Previous Year
Write off Loan	-	14,311
Write off Interest	2,908	4,933

Movements in LLP and Interest Suspense:

NPR in '000'

Particulars	Current Year	Previous Year
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Movement in Loan Loss Provisions	(307,810)	25,384
Movement in Interest Suspense	(307,632)	23,657
Additional LLP during the year	(307,810)	25,384

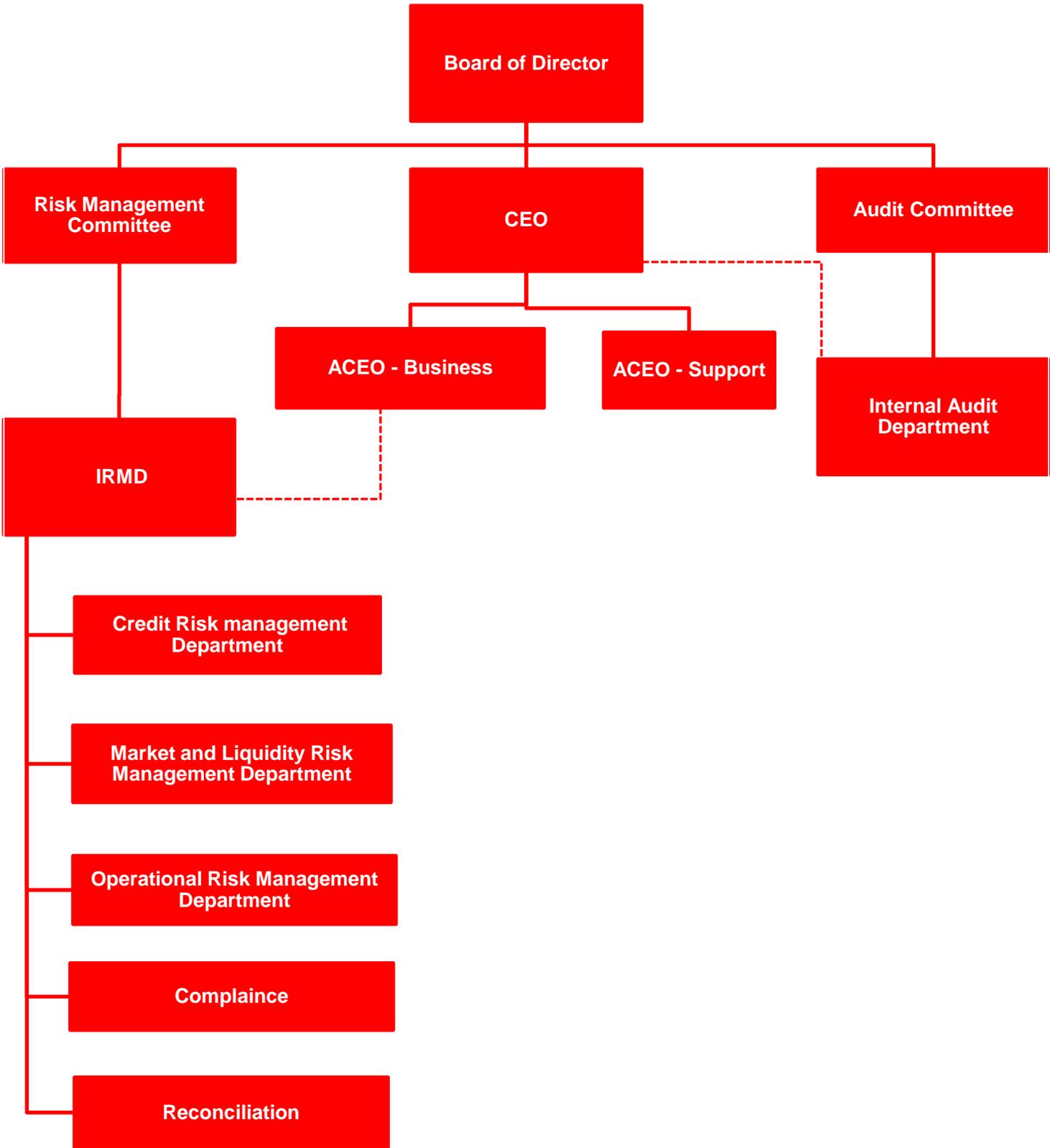
Segregation of Investment:

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.