

DISCLOSURE AS PER BASEL III
As of Ashadh End 2076 (16th July 2019)

1. Capital Structure and Capital Adequacy

Tier I capital and a breakdown of its components:

Particulars	NPR in Mn.
Paid Up Capital	8,834
Proposed Stock Dividend	-
Share Premium	-
Statutory General Reserves	2,430
Capital Redemption Reserve	2,113
Retained Earnings	417
Less:	-
Deferred Tax Assets	-
Miscellaneous expenditure not written off	110
Land & building in excess of limit and unutilized	
Investment in equity of institutions with financial interests	200
Core Capital	13,483

Tier II capital and a breakdown of its components;

Particulars	NPR in Mn.
General Loan Loss Provision	6,742
Exchange Equalization Reserves	1,484
Subordinated Term Debt	39
Investment Adjustment Reserve	56
Other Reserve	-
Supplementary Capital	8,321

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 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

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

- Outstanding Amount : NPR 1,830 million
- Maturity Period : 7 years
- Interest Rate : 11% per annum
- Interest Payment frequency : Half Yearly
- Amount eligible to be reckoned as capital fund : NPR 1,830 million

The Bank has issued "10% NIC ASIA Bond 2085/86" for NPR 2,045 million on 1th March 2019.

- Outstanding Amount : NPR 2,050million
- Maturity Period : 10 years
- Interest Rate : 10% per annum
- Interest Payment frequency : Half Yearly
- Amount eligible to be reckoned as capital fund : NPR 2,050 million

- **Deductions from capital;**

The fictitious assets pertaining to bond issue expenses and premium on foreign currency bond amounting to NPR 110,490,299 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 Mn.
Core Capital	13,483
Supplementary Capital	8,321
Total Qualifying Capital (Total Capital Fund)	21,804.00

- **Capital Adequacy Ratio**

- 13.28%

- **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 Mn.

Risk weighted Exposures	Current Quarter	Previous Quarter
a. Risk Weighted Exposure for Credit Risk	154,507	149,566
b. Risk Weighted Exposure for Operational Risk	5,686	5,693
c. Risk Weighted Exposure for Market Risk	118	246
d. Adjustment Under Pillar II		
Add RWE equivalent to reciprocal of capital charge of 3 % of gross income.	161	1,611
Overall risk management policies and procedures are not satisfactory, add 2% of RWE	3,206	3,110
Total Risk Weighted Exposures (a + b + c +d)	163,678	160,226

Risk Weighted Exposures under each of 11 Categories of Credit

NPR in Mn.

Particulars	Current Quarter	Previous Quarter
Claims on Government and Central Bank	-	-
Claims on Other Official Entities	-	-
Claims on Banks	4,398	6,812
Claims on Corporate and securities firms	54,595	53,720
Claims on regulatory retail Portfolio	43,729	44,058
Claims secured by Residential Properties	4,659	5,134
Claims secured by Commercial real estate	1,316	777
Past due Claims	669	532
High Risk Claims	35,199	24,991
Other Assets	5,296	4,629
Off Balance- Sheet Items	4,646	4,453
Total	154,507	145,106

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	5,345	-	-	5,345	0%	-
Balance with Nepal Rastra Bank	16,008	-	-	16,008	0%	-
Gold	-	-	-	-	0%	-
Investment in Nepalese Government Securities	15,343	-	-	15,343	0%	-
All Claims on Government of Nepal	216	-	-	216	0%	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
All claims on Nepal Rastra Bank	90	-	-	90	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 on Multilateral Development Banks (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	11,373	-	-	11,373	20%	2,275
Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	9,078	-	-	9,078	20%	1,816
Claims on foreign bank (ECA Rating 2)	532	-	-	532	50%	266
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	211	-	-	211	20%	42
Claims on Domestic Corporates	54,697	77	25	54,595	100%	54,595
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)	58,653	13	336	58,305	75%	43,729
Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	7,720	1	-	7,719	60%	4,631
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	41	13	-	28	100%	28
Claims secured by Commercial real estate	1,316	-	-	1,316	100%	1,316
Past due claims (except for claim secured by residential properties)	711	259	6	446	150%	669
High Risk claims (Venture capital, private equity investments, personal loans and credit card receivables)	19,900	33	290	19,578	150%	29,366
Lending against securities (bonds & shares)	912	-	-	912	100%	912
Investments in equity and other capital instruments of institutions listed in the stock exchange	1,603	-	-	1,603	100%	1,603
Investments in equity and other capital instruments of institutions not listed in the stock exchange	2,212	-	-	2,212	150%	3,318
Staff Loan secured by	837	-	-	837	60%	502

residential property						
Interest receivable/claim on government securities	-	-	-	-	0%	-
Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
Other Assets	4,794	-	-	4,794	100%	4,794
TOTAL	211,592	395	658	210,540		149,861

Off Balance Sheet Exposures:

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted
Revocable Commitments				-	0%	-
Bills Under Collection	37	-	-	37	0%	-
Forward Exchange Contract Liabilities	3,901	-	-	3,902	10%	390
LC Commitments With Original Maturity Up to 6 months (domestic counterparty)	1,396	-	39	1,357	20%	271
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 counter party)	4,297	-	158	4,139	50%	2,069
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 (including repo/ reverse repo)	-	-	-	-	100%	-
Advance Payment Guarantee	307	-	3	304	100%	304
Financial Guarantee	-	-	-	-	100%	-

Acceptances and Endorsements	286	-	21	265	100%	265
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (Short term)	5,342	-	-	5,342	20%	1,068
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	-	-	-	-	20%	-
Other Contingent Liabilities	273	-	0	273	100%	273
Unpaid Guarantee Claims	3	-	-	3	200%	5
TOTAL	15,843	-	223	15,621		4,646
Total RWE for credit Risk (A) +(B)	227,436	395	880	226,160		154,507
Adjustments under Pillar II						

Non-Performing Assets

Particulars	NPR in 'Mn'			
	Current Quarter		Previous Quarter	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans	-	-	-	-
Sub Standard Loans	426	319	301	226
Doubtful Loans	50	25	6	3
Loss	214	-	364	-
Total NPAs	690	345	671	229

Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	0.46	0.45
Net NPA to net advances (%)	0.23	0.16

Movement of Non-Performing Assets

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Opening NPA	671,035	452,613
Net Increase/(decrease) during the year	19,366	218,422
Closing NPA	690,401	671,035

Write off Loan and Interest Suspense:

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Write off Loan	63,033	10,394
Write off Interest	3,034	2,908

Movements in LLP and Interest Suspense:

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Movement in Loan Loss Provisions	(112,390)	702,471
Movement in Interest Suspense	(375)	27,583
Additional LLP during the year	(112,390)	702,471

Segregation of Investment:

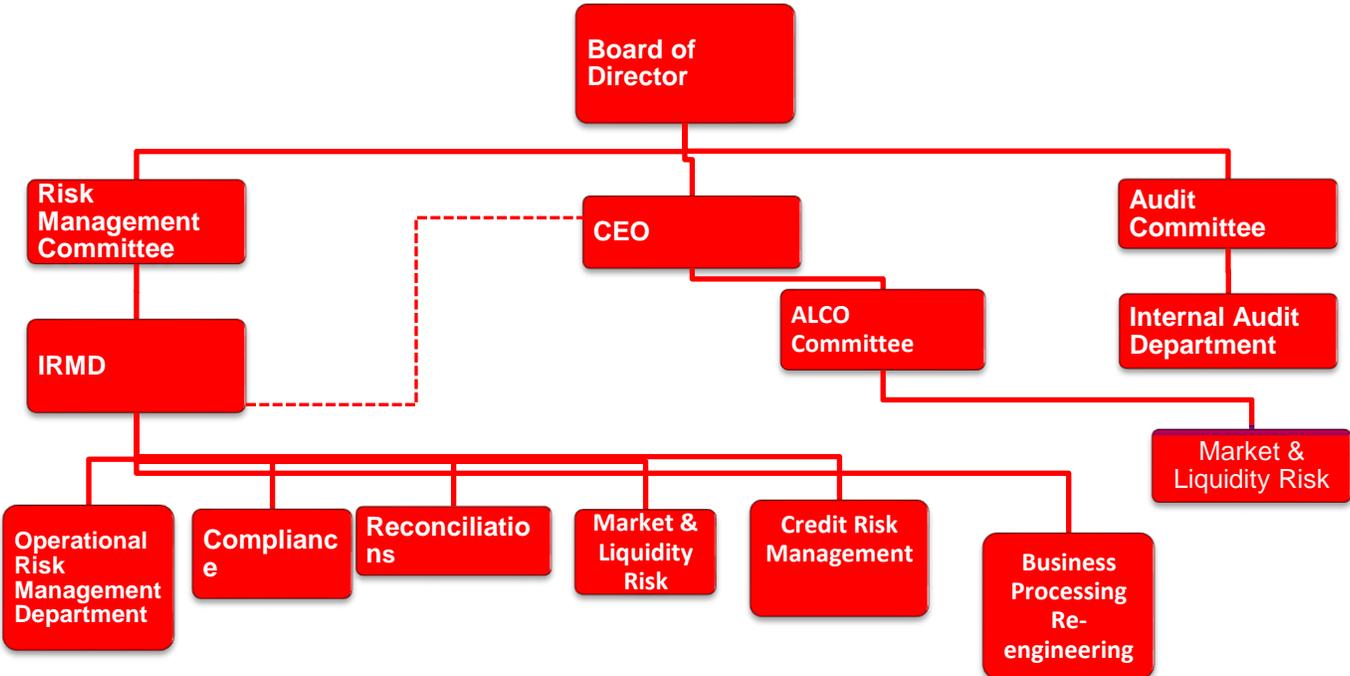
Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Held for Trading	-	-
Held till Maturity	15,190,600	12,105,297
Available for Sale	4,014,700	3,053,358

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.

Regarding 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.