

**DISCLOSURE AS PER BASEL III**  
**As of Poush End 2075 (14<sup>th</sup> January 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	1,558
Capital Redemption Reserve	214
Retained Earnings	1,847
<b>Less:</b>	-
Deferred Tax Assets	42
Miscellaneous expenditure not written off	11
Land & building in excess of limit and unutilized	-
Investment in equity of institutions with financial interests	200
<b>Core Capital</b>	<b>12,201</b>

**Tier II capital and a breakdown of its components;**

Particulars	NPR in Mn.
General Loan Loss Provision	1,503
Exchange Equalization Reserves	38
Subordinated Term Debt	5,030
Investment Adjustment Reserve	44
Other Reserve	41
<b>Supplementary Capital</b>	<b>6,658</b>

**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 15<sup>th</sup> 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 9<sup>th</sup> 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 20<sup>th</sup> 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

- **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 10,592,130 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	12,201
Supplementary Capital	6,658
<b>Total Qualifying Capital (Total Capital Fund)</b>	<b>18,859</b>

- **Capital Adequacy Ratio**

- 11.97%

- **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	147,210	137,280
b. Risk Weighted Exposure for Operational Risk	5,614	5,614
c. Risk Weighted Exposure for Market Risk	151	175
<b>d. Adjustment Under Pillar II</b>		
Add RWE equivalent to reciprocal of capital charge of 3 % of gross income.	1,564	1,564
Overall risk management policies and procedures are not satisfactory, add 2% of RWE	3,060	2,861
<b>Total Risk Weighted Exposures (a + b + c +d)</b>	<b>157,599</b>	<b>147,495</b>

### 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	4,805	4,439
Claims on Corporate and securities firms	54,065	51,374

Claims on regulatory retail Portfolio	43,751	39,564
Claims secured by Residential Properties	6,018	5,411
Claims secured by Commercial real estate	801	744
Past due Claims	1,437	282
High Risk Claims	24,846	25,775
Other Assets	6,822	6,554
Off Balance- Sheet Items	4,665	3,136
<b>Total</b>	<b>147,210</b>	<b>137,280</b>

**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	5,065	-	-	5,065	0%	-
Balance with Nepal Rastra Bank	6,917	-	-	6,917	0%	-
Gold	1	-	-	1	0%	-
Investment in Nepalese Government Securities	14,937	-	-	14,937	0%	-
All Claims on Government of Nepal	323	-	-	323	0%	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
All claims on Nepal Rastra Bank	78	-	-	78	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	-	-	-	-	150%	-

Central Bank (ECA - 7)						
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	8,276	-	-	8,276	20%	1,655
Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	5,100	-	-	5,100	20%	1,020
Claims on foreign bank (ECA Rating 2)	4,161	-	-	4,161	50%	2,080
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	246	-	-	246	20%	49
Claims on Domestic Corporates	54,065	-	-	54,065	100%	54,065
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)	58,565	-	230.59	58,334	75%	43,751
Claims fulfilling all criterion of regularity retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	8,846	-	-	8,846	60%	5,308
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	86	9	-	77	100%	77
Claims secured by Commercial real estate	801	-	-	801	100%	801
Past due claims (except for claims secured by residential properties)	1,100	190	3.32	907	150%	1,360
High Risk claims	17,034	-	469.57	16,564	150%	24,846
Investments in equity and other capital instruments of institutions listed in stock exchange	1,646	5	-	1,641	100%	1,641
Investments in equity and other capital instruments of institutions not listed in the stock exchange	1,202	-	-	1,202	150%	1,804
Staff loan secured by residential property	1,185	-	-	1,185	60%	711
Interest Receivable/claim on government securities	171	-	-	171	0%	-
Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
Other Assets (as per	4,707	1,330	-	3,378	100%	3,378

attachment)						
<b>TOTAL (A)</b>	<b>194,511</b>	<b>1,534</b>	<b>-</b>	<b>192,274</b>		<b>142,545</b>

**Off Balance Sheet Exposures:**

<b>B. Off Balance Sheet Exposures</b>	<b>Book Value</b>	<b>Specific Provision</b>	<b>Eligible CRM</b>	<b>Net Value</b>	<b>Risk Weight</b>	<b>Risk Weighted Exposures</b>
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	90	-	-	90	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Up to 6 months domestic counterparty	1,553	-	82	1,470	20%	294
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	4,271	-	78	4,193	50%	2,096
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	-	-	-	-	100%	-

or Posting of Securities as collateral						
Repurchase Agreements, Assets sale with recourse	-	-	-	-	100%	-
Advance Payment Guarantee	307	-	0.06	307	100%	307
Financial Guarantee	-	-	-	-	100%	-
Acceptances and Endorsements	408	-	28	380	100%	380
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (short term)	6,332	-	-	6,332	20%	1,266
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	-	-	-	316	100%	316
Unpaid Guarantee Claims	3		0.13	2.38	200%	4.75
<b>TOTAL (B)</b>	<b>13,280</b>	<b>-</b>	<b>189</b>	<b>13,091</b>		<b>4,665</b>
<b>Total RWE for credit Risk Before Adjustment (A) +(B)</b>	<b>207,791</b>	<b>1,534</b>	<b>892</b>	<b>205,365</b>		<b>147,210</b>

### 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	353	264	232	174
Doubtful Loans	1.66	0.83	-	-
Loss	98	-	123	-
<b>Total NPAs</b>	<b>453</b>	<b>265</b>	<b>355</b>	<b>174</b>

### Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	0.30	0.26
Net NPA to net advances (%)	0.18	0.13

### Movement of Non-Performing Assets

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Opening NPA	354,666	72,971
Net Increase/(decrease) during the year	97,947	281,695
Closing NPA	452,613	354,666

### Write off Loan and Interest Suspense:

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Write off Loan	16,130	42,702
Write off Interest	659	2,908

### Movements in LLP and Interest Suspense:

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Movement in Loan Loss Provisions	602,312	297,488
Movement in Interest Suspense	(101,153)	52,423
Additional LLP during the year	602,312	297,488

### Segregation of Investment:

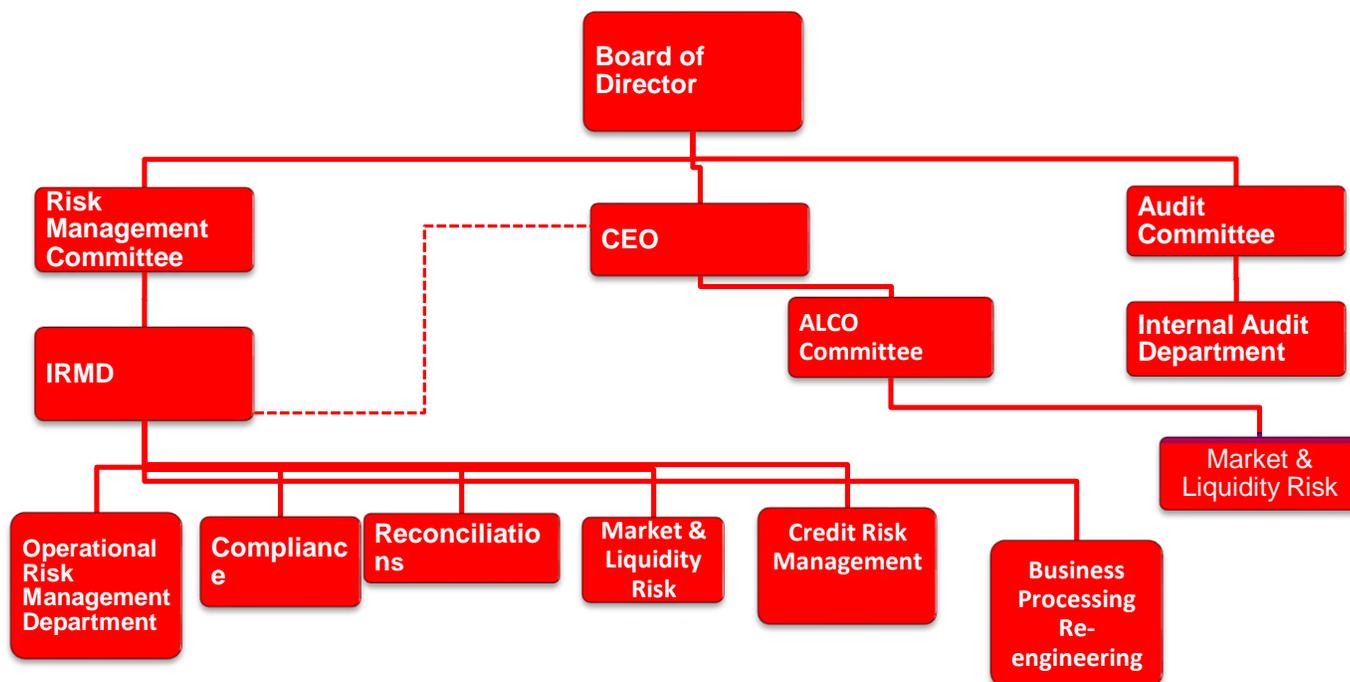
Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Held for Trading	-	-
Held till Maturity	14,937,029	18,259,227
Available for Sale	3,444,258	2,551,626

### 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.