



## Disclosure under BASEL III As at Mid-July 2018 (4<sup>th</sup> Quarter End of FY 2017/18)

### 1. CAPITAL STRUCTURE & CAPITAL ADEQUACY OF THE BANK

#### i. Tier 1 Capital and breakdown of its Components

S.N.	Particulars	Amount (NPR Millions)
a	Paid up Capital	8,152.56
b	Share Premium / Capital Reserve	127.16
c	Proposed Bonus Shares	-
d	Statutory General Reserve	1,157.53
e	Retained Earnings	13.70
f	Un-audited Current Year Cumulative Profit	1,311.77
g	Other Free Reserves	41.49
h	Less: Deferred Tax Assets	29.73
i	Less: Fictitious Assets	1.30
j	Less: Investment in equity of institutions with financial interests	264.85
k	Less: Purchase of land & building in excess of limit and unutilized	32.61
	<b>Core (Tier-1) Capital</b>	<b>10,475.71</b>

#### ii. Tier 2 Capital and breakdown of its Components

SN	Particulars	Amount (NPR Millions)
a	General Loan Loss Provision	563.84
b	Exchange Equalization Reserve	22.97
c	Investment Adjustment Reserve	366.42
	<b>Supplementary (Tier-2) Capital</b>	<b>953.23</b>

#### iii. Details of Subordinated Term Debts

Bank doesn't have any subordinated term debts.

#### iv. Deductions from Capital

- Deferred Tax Assets of Rs 29.73 Million.
- Investment made in Gurans Life Insurance Company Limited of NPR 107.71 million and investment in Sunrise Capital Limited NPR 157.14 million (Investments in equity of institutions with Financial Interest)
- Rs 32.61 million for land and building not in use by bank that includes land purchased at Bharatpur, Chitwan (Rs 25.75 Million) not brought into use and proportionate WDV of buildings not used by bank and rented out to other parties (Rs 6.86 million)
- Fictitious Assets of Rs 1.30 Million.

#### v. Total Qualifying Capital

S. N.	Particulars	Amount (NPR Millions)
A	Common Equity Tier 1 Capital	10,475.71



B	Core Capital	10,475.71
C	Supplementary Capital	953.23
	<b>Total Capital</b>	<b>11,428.94</b>

**vi. Capital Adequacy of the Bank**

The capital adequacy of the bank (After Bank's adjustments of Pillar II) has been detailed below:

S. N.	Particulars	%
A	Common Equity Tier 1 Capital to Total Risk Weighted Exposures	12.95
B	Tier 1 Capital to Total Risk Weighted Exposures	12.95
C	Total Capital to Total Risk Weighted Exposures	<b>14.13</b>

**vii. Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable:**

Bank's current paid up capital amounts to Rs 8.15 Billion. The Bank complies with the Capital Increment plan of NRB which has also helped the Bank to be in steady and strong capital position. The overall strategy of the bank has been formulated with the special consideration to the capital adequacy requirement according to BASEL-III.

**viii. Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments.**

Bank does not have any other capital instruments except fully paid equity shares as qualifying capital.

**2. RISK EXPOSURES**

**a. Risk Weighted Exposures**

All material risks faced by the bank have been addressed in the capital assessment process. However, bank has developed a process to estimate risks with reasonable certainties. All the three risks that have direct impact on the capital adequacy level have been managed in a structured manner with clear roles and responsibilities. In order to make a comprehensive assessment of risks, the process has, at minimum, addressed the forms of risks covered below:

SN	Particulars	Amount (NPR Millions)
a	Risk Weighted Exposure for Credit Risk	74,122.43
b	Risk Weighted Exposure for Operational Risk	3,288.97
c	Risk Weighted Exposure for Market Risk	209.65
	<b>RWA Before Pillar 2 adjustment</b>	<b>77,621.05</b>

All risks, including credit, operational and market risks are identified, escalated, monitored and mitigated to the satisfaction of the risk type owner. The risk type owner is responsible for ensuring that all the risks are adequately identified, escalated,



monitored and mitigated. The Bank has an adequate system in place for monitoring and reporting risk exposures and assessing how the changing risk profile affects the need for capital. The senior management and board of directors on a regular basis receive the report regarding the risk profile of the bank and its capital needs. All the material risks are identified, measured, monitored and reported by the respective risk type owner.

#### b. Credit Risk under 11 Categories

The Credit Risks under the 11 categories as per the Capital Adequacy Framework, 2015 and Basel –III has been detailed below:

SN	Risk Classification	Net Book Value	RWE
		(NPR Million)	
a	Claims on Govt. and Central Bank	14,061.30	-
b	Claims on other Financial Entities	-	-
c	Claims on Banks	4,695.16	1,458.57
d	Claims on Corporate and Securities Firm	24,053.60	23,957.51
e	Claims on Regulatory Retail Portfolio	22,586.61	16,628.58
f	Claims secured by Residential Properties	8,133.70	4,920.17
g	Claims secured by Commercial Real State	2,051.36	2,051.36
h	Past due Claims	1,055.06	821.38
i	High Risk Claims	2,578.89	3,868.34
j	Other Assets	4,368.51	1,588.35
k	Off balance sheet items	37,672.03	18,828.17
<b>TOTAL</b>		<b>121,256.23</b>	<b>74,122.43</b>

#### c. Total Risk Weighted Exposure Calculation Table

S.N.	Risk Weighted Exposure	Amount (NPR Millions)
a	Risk Weighted Exposure for Credit Risk	74,122.43
b	Risk Weighted Exposure for Operational Risk	3,288.97
c	Risk Weighted Exposure for Market Risk	209.65
<b>Adjustments under Pillar II</b>		
	Add: 1% of the NII to RWA for ALM Policy and Practice	21.93
	3% additional risk weight for Operational Risk	906.00
	3% adjustment on Total RWE for Overall Risk	2,331.99
<b>Total Risk Weighted Exposure</b>		<b>80,880.97</b>

#### d. Detail of Non-Performing Loans

Particulars	Gross Value	Net Value
	(In NPR Million)	
Restructured Loans	-	
Sub-Standard Loans	141.17	105.88
Doubtful Loans	326.09	163.04
Loss Loans	307.67	-
<b>Total NPA</b>	<b>774.93</b>	<b>268.92</b>

#### e. Ratio Of Non-Performing Loans



Particulars	This Qtr	Prev Qtr
Gross NPA	1.28%	1.45%
Net NPA	0.44%	0.66%

**f. Movement of Non-Performing Assets (Gross)**

During the Quarter Non-Performing Accounts (NPA) decreased by 7.87%.

Non Performing Assets	NPR Millions
Current Quarter	774.93
Previous Quarter	841.08
Change (Amount)	(66.15)
Change (%)	(7.87)

**g. Write Off of Loans & Interest Suspense**

Particulars	NPR Millions
Loan Written Off	163.83
Interest Suspense Written Off	308.41
<b>Total</b>	<b>472.25</b>

**h. Movement of Loan Loss Provision and Interest Suspense**

As per NRB Directives, all interest accruals on loans and advances, irrespective of loan category, are transferred to interest suspense account until the interest accrued and due is realized in cash. Details of Interest Suspense Movement are as follows:

Particulars	This Quarter (NPR)	Prev. Quarter (NPR)	Change %
Loan Loss Provision	1,121,684,149	1,069,788,513	4.85
Interest Suspense	363,323,893	366,849,656	(0.96)

**i. Details of Additional Loan Loss Provisions:**

Additional LLP for the quarter	NPR.
Pass	32,118,956
Watch-List	(27,183,296)
Restructured	-
Sub-Standard	(9,364,661)
Doubtful	(85,020,820)
Loss	141,345,457
<b>Total</b>	<b>51,895,636</b>

**j. Segregation of investment portfolio:**

Investment	Amount (NPR Millions)
Held For Trading	-
Held Till Maturity	12,885
Available For Sale	721
<b>Total Investment</b>	<b>13,606</b>



### 3. Risk Management Function

#### a. Summary of the bank's internal approach to assess the adequacy of its capital to support all the risks in business and achieve better risk management techniques in monitoring and managing risks

##### i. Board and senior management oversight

Bank management is responsible for understanding the nature and level of risk being taken by the bank and how this risk relates to adequate capital levels. It is also responsible for ensuring that the form and sophistication of the risk management processes is commensurate with the complexity of its operations. A sound risk management process, thus, is the foundation for an effective assessment of the adequacy of a bank's capital position. The decisions made by the management are regularly reviewed by the BOD.

##### ii. Sound capital assessment

Another crucial component of an effective ICAAP is the assessment of capital. In order to be able to make a sound capital assessment, the bank has, at minimum, have the following:

- Policies and procedures designed to ensure that the bank identifies, measures, and reports all material risks;
- A process that relates capital to the level of risk;
- A process that states capital adequacy goals with respect to risk, taking account of the bank's strategic focus and business plan; and
- A process of internal control reviews and audits to ensure the integrity of the overall management process.

##### iii. Comprehensive assessment of risks

Chief Risk Officer (CRO), along with his team, is responsible for overall risk management of the Bank which includes managing, assessing, identifying, monitoring and reducing pertinent global, macro and micro-economic level business risks that could interfere with Banks objective and goals and whether the Bank is in substantial compliance with its internal operating policies and other applicable regulations and procedures, external, legal, regulatory or contractual requirements on a continuous basis. Further, CRO ensures integration of all major risk in capital assessment process.

##### iv. Risk Management Committee (RMC)

Board level risk management committee has been set up under NRB Directive for ensuring/reviewing bank's risk appetite is in line with the policies.

##### Credit Risk

The Bank's Credit Policy Guidelines has adopted a Credit Risk Management philosophy that involves a continual measurement.



### **Market Risk**

The Bank has in place Assets Liability Management (ALM) Policy, and Assets Liability Management Committee (ALCO), which monitors risks arising from changes in exchange rates in foreign currencies; liquidity profile of assets and liabilities, investment activities of the bank etc.

### **Operational Risk**

Board and senior management of the bank places high priority on effective operational risk management and adherence to sound operating controls. The Bank has developed and implemented various manuals, operating procedures and guidelines for monitoring and controlling Operational Risks in the Bank.

Most significant steps adopted by the Bank for handling Operational Risks are as follows:

Independent reconciliation department accustomed to conducting daily reconciliation of all agency accounts and Inter-Branch accounts. Transaction Stack System is in place on amount limit basis. Exception and MIS reports are generated by the system on a 'Live' basis, where account activity can be monitored as and when they occur. General Authority schedule is in place to delegate authority to staff across all levels. Independent Internal Audit has been appointed to carry out review of internal controls and compliance. Output in all transactions is checked by a higher authority level. Disaster Recovery Server is in place to ensure full restoration of Bank's data.

### **Other Risk**

In addition to credit, credit concentration, operational and market risk the Bank identifies, assess and monitors other risks such as strategic risk and reputational risks at regular interval.

#### **v. Monitoring**

Monitoring and reporting of all risks, including credit, operational and market risks are identified, escalated, monitored and mitigated to the satisfaction of the risk type owner. The risk type owner is responsible for ensuring that all the risks are adequately identified, escalated, monitored and mitigated. The Bank has an adequate system in place for monitoring and reporting risk exposures and assessing how the changing risk profile affects the need for capital. The senior management and board of directors on a regular basis receive the report regarding the risk profile of the bank and its capital needs. All the material risks are identified, measured, monitored and reported by the respective risk type owner.

#### **vi. Internal Control Review**

The internal control structure of the Bank is essential for sound capital assessment process. Effective control of the capital assessment process includes an independent review and involvement of both internal as well as external audits wherever appropriate. The Bank is committed conduct the regular review of its risk



management process to ensure its integrity, accuracy, and reasonableness. The effectiveness of the Bank's internal control system is reviewed regularly by the Board, its committees, Management and Internal Audit.

The Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Bank through its program of business/unit audits. The Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. Internal Audit reports regularly to the Audit Committee. The findings of all adverse audits are reported to the Chief Executive Officer and Business Heads for immediate corrective actions.

**vii. Assets and Liability Committee (ALCO)**

The ALCO, chaired by Chief Executive Officer, ensures functioning of the banking business in line with the set procedures and processes and recommends for necessary steps to address the risk associated with liquidity, movement in interest rate, exchange rate and equity price and other risks.

**viii. Stress Testing**

Stress Testing is a risk management technique used to evaluate the potential effects on an institution's financial condition, of a set of specified changes in risk factors, corresponding to exceptional but plausible events. The Bank conducts the stress test on quarterly basis and reports to senior management as well as to Nepal Rastra Bank.

**ix. Maker-Checker Policy**

The Bank has adopted Maker-Checker Policy in all of the transactions. Each and every transaction is entered and authorized in CBS by two different individuals for better control and any deviations are closely monitored. The activities of any personnel can be monitored centrally through an integrated system which helps in minimizing the risk of misconduct.

**b. Types of eligible credit risk mitigants used and the benefits availed under CRM**

SN	Credit Risk Mitigants	Amount (NPR Millions)
1	Deposit with Bank	1,228.15
2	Deposits with other banks/FI	-
3	Gold	14.94
4	Govt.& NRB Securities	-
<b>Total Credit Risk Mitigants</b>		<b>1,243.09</b>