



Disclosure under BASEL III As at Mid-January 2018 (2nd Quarter End of FY 2017/18)

1. CAPITAL STRUCTURE & CAPITAL ADEQUACY OF THE BANK

i. Tier 1 Capital and breakdown of its Components

The core capital of the bank with its detailed breakdown is detailed below:

SN	Particulars	Amount
		(In NPR Million)
a	Paid up capital	8,152.56
b	Share Premium / Capital Reserve	127.16
c	Proposed Bonus Shares	0.00
d	Statutory General Reserve	1,157.53
e	Retained Earnings	13.70
f	Un-audited Current Year Cumulative Profit	587.56
g	Other Free Reserves	41.49
h	Less: Deferred Tax Assets	29.73
i	Less: Fictitious Assets	2.59
j	Less: Investment in equity of institutions with financial interests	186.28
k	Less: Purchase of land & building in excess of limit and	32.61
	Core (Tier-1) Capital	9,828.78

ii. Supplementary Capital

The supplementary capital of the bank with its detailed breakdown is detailed below:

SN	Particulars	Amount
		(In NPR Million)
a	General Loan Loss Provision	572.60
b	Exchange Equalization Reserve	22.97
c	Investment Adjustment Reserve	150.13
	Supplementary (Tier-2) Capital	745.70

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 Rs 107.71 million and investment in Sunrise Capital Limited Rs 78.57 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 not brought into use (Rs 25.75



Million) and proportionate WDV of buildings not used by bank and rented out to other parties (Rs 6.86 million)

- Fictitious Assets of Rs 3.22 Million.

v. Total Qualifying Capital

The total capital of the bank stands as:

S. No	Particulars	Amount (Rs. Millions)
A	Core Capital	9,828.78
B	Supplementary Capital	745.70
	Total Capital	10,574.48

vi. Capital Adequacy of the Bank

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

S. No	Particulars	%
A	Common Equity Tier 1 Capital to Total Risk Weighted Exposures	13.25
B	Tier 1 Capital to Total Risk Weighted Exposures	13.25
C	Total Capital to Total Risk Weighted Exposures	14.26

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	Risk
		(In NPR Million)
a	Risk Weighted Exposure for Credit Risk	67,618
b	Risk Weighted Exposure for Operational Risk	3,289
c	Risk Weighted Exposure for Market Risk	207
RWA Before Pillar 2 adjustment		71,114

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	Risk
		(NPR Million)	
a	Claims on Govt. and Central Bank	11,380	-
b	Claims on other Financial Entities	-	
c	Claims on Banks	4,906	1,444
d	Claims on Corporate and Securities Firm	23,500	23,434
e	Claims on Regulatory Retail Portfolio	19,269	14,129
f	Claims secured by Residential Properties	7,635	4,581
g	Claims secured by Commercial Real State	2,298	2,298
h	Past due Claims	1,170	972
i	High Risk Claims	2,806	4,209
j	Other Assets	3,204	1,021
k	Off balance sheet items	32,124	15,530
TOTAL		108,292	67,618

c. Total Risk Weighted Exposure Calculation Table

The detailed calculation of RWA is listed below:

SN	Particulars	Risk
		(in NPR Million)
a	Risk Weighted Exposure for Credit Risk	67,617.94
b	Risk Weighted Exposure for Operational Risk	3,288.97
c	Risk Weighted Exposure for Market Risk	206.94



Adjustments under Pillar II		
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		2,133.42
Total Risk Weighted Exposure		74,175.20

d. Detail of Non-Performing Loans

During the quarter the non-performing loans increased by 0.12%. The detail of the loans has been classified below:

Particulars	Gross Value (In NPR Million)	Net Value (In NPR Million)
Restructured Loans	-	-
Sub-Standard Loans	418.78	314
Doubtful Loans	243.30	122
Loss Loans	267.64	-
Total NPA	929.73	435.74

e. Ratio Of Non-Performing Loans

Particulars	This Qtr	Prev Qtr
Gross NPA	1.65%	1.49%
Net NPA	0.79%	0.48%

f. Movement of Non-Performing Assets (Gross)

During the Quarter Non-Performing Accounts (NPA) increased by 14.33%.

Particulars	NPA (Rs. Million)
Current Quarter	929.73
Previous Quarter	810.87
Change (Amount)	101.6
Change (%)	12.53

g. Write Off of Loans & Interest Suspense

Details of written off Loans and Interest Suspense is as follows:

Particulars	Amount (in millions)
Loan Written Off	155.92
Interest Suspense Written Off	295.05
Total	450.97

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	1,066,587,906	1,148,455,449	-7.1%
Interest Suspense	324,949,825	703,589,317	-53.8%

i. Details of Additional Loan Loss Provisions:

Particulars	Amount (NPR)
Pass	8,758,958
Restructured	
Sub-Standard	103,424,496
Doubtful	41,016,834
Loss	83,294,987
Total	236,495,275

j. Segregation of investment portfolio:

Investment	Amount (in millions)
Held For Trading	-
Held Till Maturity	11,557
Available For Sale	442
Total Investment	11,999



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

All material risks faced by the bank have been addressed in the capital assessment process Nepal Rastra Bank recognizes that not all risks can be measured precisely. 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 should, at minimum, address the forms of risks covered below.

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

The Bank has developed and implemented various manuals, operating procedures and guidelines for monitoring and controlling Operational Risks in the Bank; a number of procedure guidelines and manuals are in process of development.

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. Transactions in all levels are handled under dual supervision and control. 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.

iv. 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.

v. 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.

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

Following are the eligible credit risk mitigants used by the bank:

SN	Credit Risk Mitigants	Amount (NPR Million)
1	Deposit with Bank	1,231
2	Deposits with other banks/FI	-
3	Gold	135
4	Govt.& NRB Securities	-
Total Credit Risk Mitigants		1,366