Disclosure under Basel III as on Ashwin end 2083

Capital Adequacy Framework, 2015 requires making a set of disclosure on the capital adequacy & risk management framework of the bank. Disclosure requirement based on Financial Statement as on Ashoj end 2083 are as follows.

A. Capital Structure & Capital Adequacy

Tier 1 Capital [Core Capital (CET 1 + AT 1)] and Breakdown of its Components

SN	Particulars	NPR in 000's
(A)	**Tier 1 Capital [Core Capital (CET 1 + AT 1)]**	
a	Paid up Equity Share Capital	5,323,291
b	Share Premium	
c	Statutory General Reserves	1,523,426
d	Retained Earnings	10,510
e	Un-audited current year cumulative profit/(loss)	44,930
f	Capital Redemption Reserve	
g	Capital Adjustment Reserve	
h	Dividend Equalization Reserves	
i	Other Free Reserve	
j	Less: Goodwill	
k	Less: Deferred Tax Assets	
l	Less: Fictitious Assets	15,639
m	Less: Investment in equity in licensed Financial Institutions	
n	Less: Investment in equity of institutions with financial interests	
o	Less: Investment in equity of institutions in excess of limits	
p	Less: Investments arising out of underwriting commitments	
q	Less: Reciprocal crossholdings	
r	Less: Purchase of land & building in excess of limit and unutilized	33,018
s	Less: Other Deductions	
	Total Tier 1 Capital	**6,853,500**

2. Tier 2 Capital and Breakdown of its Components:

SN	Particulars	NPR in 000's
a	Cumulative and/or Redeemable Preference Share	
b	Subordinated Term Debt	1,000,000
c	Hybrid Capital Instruments	
d	Stock Premium	
e	General Loan Loss Provision	804,052
F	Exchange Equalization Reserve	487
G	Investment Adjustment Reserve	2,500
H	Accrued Interest Receivable on pass loan included in Regulatory Reserve	144,282
i	Interest Capitalized Reserve included in Regulatory Reserve	
i	Other Reserves	26,185
	Total Tier 2 Capital	**1,977,506**

3 Total Qualifying Capital

SN	Particulars	NPR in 000's
1	Tier 1 Capital [Core Capital]	6,853,500
2	Tier 2 Capital [Supplementary Capital]	1,977,506
	Total Capital Fund	**8,831,006**

4 Capital Adequacy Ratio

SN	Particulars	Percentage
1	Tier I Capital to RWE	9.74%
2	Total Capital to RWE	12.55%

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

The bank has raised funds through subordinate term debt, viz., Debenture. Detailed information of all the Sub Ordinated Debt is as follows:

Particulars	Amount O/S	Issue Date	Maturity Date	Interest Rate*	Amount eligible for capital Fund
8% Shine Resunga Debenture 2092	1,000,000,000	2082/04/02	2092/04/02	8%	1,000,000,000

*While the Interest rate mentioned above is per-annum, the interest amount is payable semiannually.

6. Summary of Bank's internal approach to assess the adequacy of capital to support current and future activities

The Bank has formulated Internal Capital Adequacy Assessment Process ('ICAAP') which has a sound and comprehensive policy and process for evaluating the Bank's capital including the overall risk profile, business projections and capital management strategies. It covers the capital management policy of the Bank, set out the process for assessment of the adequacy of capital to meet regulatory requirements support current and future activities and meet the Pillar I and material Pillar II risks to which the bank is exposed to.

The Risk Management Policy of the Bank provides the comprehensive stress testing guidelines for credit, market, liquidity and other risk faced by the Bank. Stress testing takes into account extreme but probable scenarios to assess the bank's resilience to adverse circumstances and resultant impact on the Bank's risk profile and capital position. This ensures that the bank has robust and forward-looking capital planning and risk management process. Scenario assessment such as the fall in the financial markets, a falling trend in the asset's quality, volatile liquidity condition, negative changes in macroeconomic factors etc., are taken into consideration while carrying out the stress testing.

B. Risk Exposures

Risk weighted exposures for Credit Risk, Market Risk and Operational Risk

SN	Particulars	NPR in 000's
1	Risk Weighted Exposure for Credit Risk	64,324,159
2	Risk Weighted Exposure for Operational Risk	4,069,066
3	Risk Weighted Exposure for Market Risk	191
	Total Risk Weighted Exposures before Pillar II adjustment	**68,393,416**

1 Risk Weighted Exposures under each 11 categories of Credit Risk:

SN	Particulars	NPR in 000's
1	Claims on Government & Central Bank	
2	Claims on Other Official Entities	
3	Claims on Domestic Banks	629,201
4	Claims on Domestic Corporates (Unrated)	31,868,428
5	Claims on Regulatory Retail Portfolio (Not overdue)	11,014,164
6	Claims secured by Residential Properties	3,496,044
7	Claims secured by Residential Properties (overdue)	178,329
8	Claims secured by Commercial Real Estate	2,102,920
9	Past due claims (except for claims secured by residential properties)	1,997,949
10	High Risk Claims	3, 172,094
11	Real Estate loans for land acquisition and development (Other than mentioned in Capital Adequacy framework 2015-point 3.3(j)(1)(k))	496,214
12	Lending against Shares	2,637,461
13	Real Estate loans for land acquisition and development (For institutions/projects registered/licensed and approved by Government of Nepal for land acquisition and development purposes)	2,854,928
14	Personal Hire purchase/Personal Auto Loans	298,739
15	Investments in equity and other capital instruments of institutions listed in stock exchange	538,506
16	Investments in equity and other capital instruments of institutions not listed in the stock exchange	264,527
17	Staff loan secured by residential property	281,395
18	Loans not exceeding Rs. 30 million to SME's that fulfill the criteria	344,981
19	Other Assets	1361,827
20	Off Balance- Sheet Items	786,451
	Total Credit Risk Weighted Exposures	**64,324,158**

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

SN	Particulars	NPR in 000's
1	Regulatory Retail Portfolio (Not overdue)	183,259
2	Bid Bond, Performance Bond and Counter guarantee domestic counterparty	6,842
	Total Credit Risk Mitigant	**190,101**

3 **Total Risk Weighted Exposure calculation table:**

SN	Particulars	NPR in 000's
i.	Risk Weighted Exposure for Credit Risk	64,324,159
ii.	Risk Weighted Exposure for Operational Risk	4,069,066
iii.	Risk Weighted Exposure for Market Risk	191
iv.	Adjustments under Pillar II:	
.	For Operational Risk	
	Add RWE equivalent to reciprocal of capital charge of 2% of gross income	590,468
	Overall risk management policies and procedures are not satisfactory. Add 2% of RWE	1,367,868
	Total Risk Weighted Exposure	**70,351,752**

5. Amount of Non-Performing Assets (both Gross and Net)

SN	Particulars	Gross (in 000's)	Net (in 000's)
i	Re-structure & Reschedule		
ii	Substandard	838,555	631,494
iii	Doubtful	1,098,707	551,967
iv	Bad	1,248,750	10,010
	Total Non-Performing Assets	**3,186,012**	**1,193,471**

6. NPA Ratios

SN	Particulars	Percent
i.	Gross NPA to Gross Loan & Advances	4.71
ii.	Net NPA to Net Loan & Advances	1.76

7. Movement of Non-Performing Assets

NPR (in 000's)

SN	Particulars	This Quarter	Last Quarter	Change
i.	Non-Performing Assets (In amt)	3,186,012	3,265,071	(79,059)
ii.	Non-Performing Assets (In %)	4.71	4.97	(0.26)

8. Write off of Loan and Interest Suspense

SN	Particulars	NPR in 000's
i.	Loan written off during the reporting period	-
ii.	Interest written off during the reporting period	6,915
	Total amount written off	**6,915**

9. Movement in the Loan Loss Provisions and Interest Suspense. **NPR in 000's**

SN	Particulars	This Quarter	Last Quarter	Change
i.	Loan Loss Provisions	2,939,117	2,817,104	122,013
ii.	Interest Suspense Loan & Advance	223,938	180,732	43,206

10. Details of Additional Loan Loss Provisions

SN	Particulars	NPR in 000's
i.	Provisioning for Pass Loans	4,167
ii.	Provisioning for Watch list Loans	72,896
iii.	Provisioning for Restructured/Rescheduled Loans	
iv.	Provisioning for Sub-standard Loans	(121,513)
v.	Provisioning for Doubtful Loans	237,938
vi	Provisioning for Bad Loans	(71,475)
vii	others if any	
	Total amount of additional loan loss provision	**122,013**

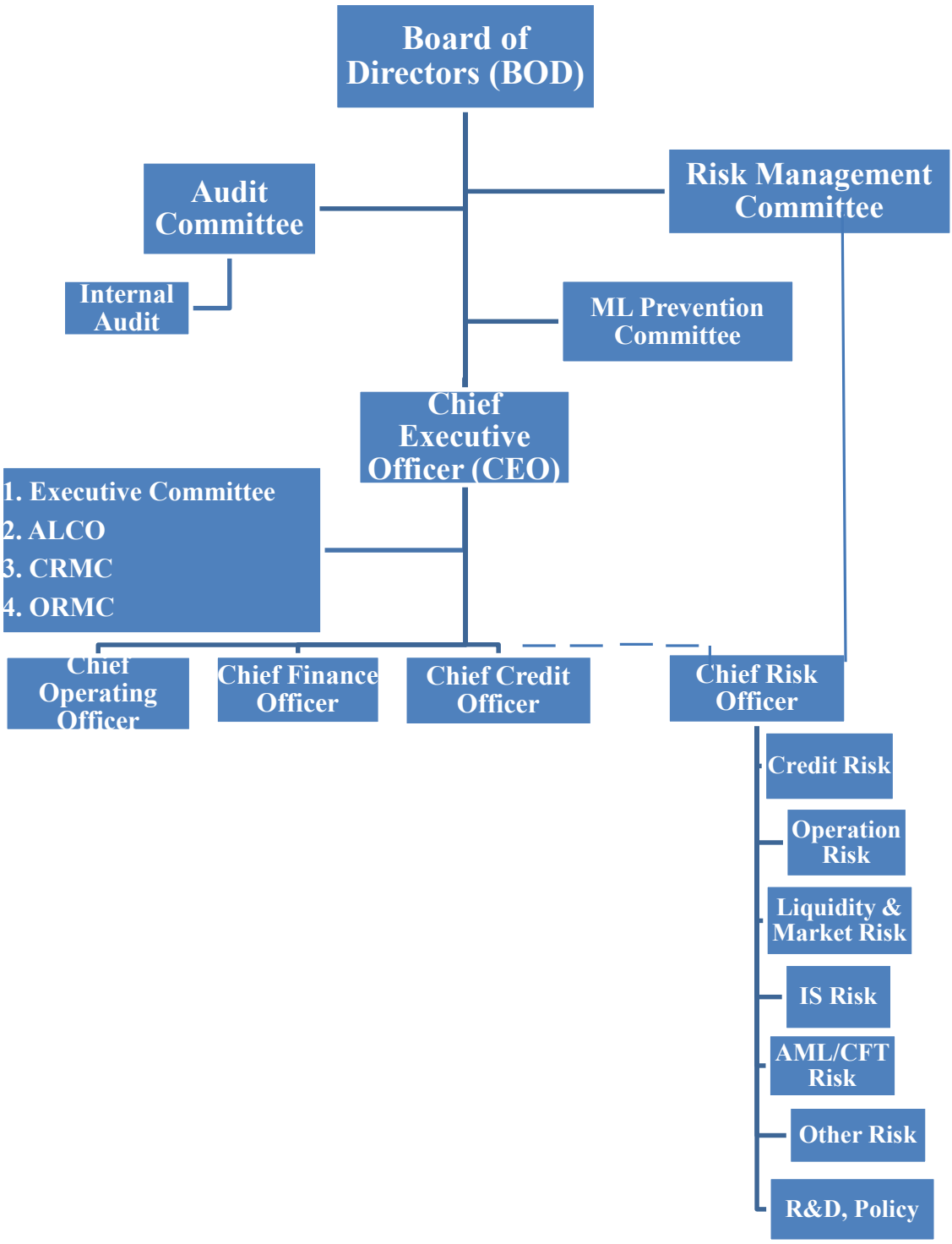
11. Segregation of Investment Portfolio into held for trading, Held to Maturity & Available for Sale.

SN	Particulars	NPR in 000's
i.	Held for Trading	
ii.	Held to Maturity	13,430,500
iii.	Available for sale	714,857
	Total Investment	**14,145,357**

C. Risk Management Function

1. Risk management in the bank includes risk identification, measurement and assessment, and its objective is to minimize negative effects that risks can have on the financial result and capital of a Bank. Risk management strategies include the transfer of risk, avoidance of risk, reduction of the negative effect of the risk and acceptance of the consequences of a particular risk. The design of a risk management system depends among other things, on its size, capital structure, complexity of functions, technical expertise, and quality of Management Information System (MIS) and is structured to address both banking as well as non-banking risks to maximize shareholders' value.

   The Bank follows the following internal structure for effective Risk Management:



The bank under the direction and oversight of the Board adopts the Risk Management Policy to ensure business strategies, profitability and financial stability are inconsistent with the Bank's strategies and risk appetite. The Bank separately reviews the credit risk, operation risk and market risk to ensure that the Bank operate within the risk appetite expressed by the Risk Management Framework.

2 Risk Management Techniques

The Bank adopts the following techniques for these specific types of the risks:

i. Credit Risk

The Bank exercises the following techniques in assessing the credit risk:

- Strict adherence to Board approved policies
- Independent review of credit proposals by Business Development Officers and Risk Management Department
- Well-defined delegated authority levels.
- Effective observance to post disbursal credit risk management techniques.

ii. Operational Risk

The Bank has developed a framework for managing operational risk and evaluating the adequacy of capital covering the bank's appetite and tolerance for operational risk, as specified through the policies for managing this risk, including the extent and manner in which operational risk is transferred outside the bank. It also includes policies outlining the bank's approach to identifying, assessing, monitoring and controlling/mitigating the risk.

iii. Liquidity Risk

The objective of liquidity management is to ensure that bank has sufficient funds to meet its contractual and regulatory financial obligations at all times. Basically, the Bank adopts the following norms for liquidity risk management:

- Strict adherence to Basel III and NRB requirement to maintain the liquidity ratios
- Keeping the close eye on the banking and economic scenario.

iv. Foreign Exchange Rate Risk

The following norms are adopted by the bank to manage the exchange rate risk:

- Maintenance of the Net Open Position within the threshold expressed by the Liquidity Management Framework.
- Frequent monitoring of Open positions basis and analysis of the gains/losses.

v. Interest Rate Risk

The following norms are adopted by the bank to manage the interest rate risk:

- Effective cost benefit analysis for the product development
- Regular Net Interest Margin and Credit to Deposit Ratio monitoring
- Gap analysis to check the measures for the mismatches between rate sensitive liabilities and rate sensitive assets.

vi. Capital Risk

The following norms are adopted by the bank to manage the capital risk:

- Meeting the regulatory capital requirements
- Monthly computation of Capital Adequacy Ratios under normal and stress conditions.