



## Disclosure under Basel III as on Ashwin end 2080

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 Ashwin end 2080 are as follows.

### A. Capital Structure & Capital Adequacy

#### Tire 1 Capital and Breakdown of its Components

| S.N | Particulars   | NPR in 000's     |
|-----|---|------------------|
| a   | Paid up Equity Share Capital  | 4,283,883        |
| b   | Share Premium   |                  |
| c   | Statutory General Reserves  | 1,029,453        |
| d   | Retained Earnings   | 477,280          |
| e   | Un-audited current year cumulative profit/(loss)                    | (34,314)         |
| 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   |                  |
| 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 | 33,017           |
| s   | Less: Other Deductions  |                  |
|     | <b>Total Tier 1 Capital</b>   | <b>5,723,285</b> |

#### 2. Tire 2 Capital and Breakdown of its Components :

| S.N | Particulars                                   | NPR in 000's   |
|-----|---|----------------|
| a   | Cumulative and/or Redeemable Preference Share |                |
| b   | Subordinated Term Debt                        |                |
| c   | Hybrid Capital Instruments                    |                |
| d   | General loan loss provision                   | 625,155        |
| e   | Exchange Equalization Reserve                 | 375            |
| f   | Investment Adjustment Reserve                 | 2,500          |
| g   | Asset Revaluation Reserve                     |                |
| h   | Other Reserves                                |                |
|     | <b>Total Tier 2 Capital</b>                   | <b>628,029</b> |

#### 3 Total Qualifying Capital

| S.N | Particulars                            | NPR in 000's     |
|-----|--|------------------|
| i   | Tier 1 Capital [Core Capital]          | 5,723,285        |
| ii  | Tier 2 Capital [Supplementary Capital] | 628,029          |
|     | <b>Total Capital Fund</b>              | <b>6,213,119</b> |

#### 4 Capital Adequacy Ratio

| S.N | Particulars           | Percentage |
|-----|-----------------------|------------|
| i   | Tier I Capital to RWE | 11.72%     |
| ii  | Total Capital to RWE  | 13.00%     |

#### 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 not raised any funds through subordinate term debt including any hybrid capital instruments.

#### 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 assets 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

##### 1. Operational Risk

| S.N  | Particulars                                 | NPR in 000's      |
|--|---|-------------------|
| i  | Risk Weighted Exposure for Credit Risk      | 45,344,969        |
| ii   | Risk Weighted Exposure for Operational Risk | 2,211,011         |
| iii  | Risk Weighted Exposure for Market Risk      | 436               |
| <b>Total Risk Weighted Exposures before Pillar II adjustment</b> |   | <b>47,556,417</b> |

#### Risk weighted exposures under each 11 categories of Credit

##### 2 Risk:

| S.N  | Particulars                              | NPR in 000's |
|------|--|--------------|
| i.   | Claims on Government & Central Bank      |              |
| ii.  | Claims on Other Official Entities        |              |
| iii. | Claims on Banks                          | 967,625      |
| iv.  | Claims on Domestic Corporates            | 24,772,331   |
| v.   | Claims on Regulatory Retail Portfolio    | 9,244,215    |
| vi.  | Claims secured by Residential Properties | 24,19,624    |
| vii. | Claims secured by Commercial Real Estate | 258,048      |



|   |  |                   |
|---|--|-------------------|
| viii.                                       | Past Due Claims  | 54,574            |
| ix.   | High Risk Claims   | 47,96,742         |
| x.  | Lending against Shares(up to Rs. 5 Million)  | 231,747           |
|   | Real Estate loans for land acquisition and development (For institutions/projects registered/licensed and approved by Government of Nepal for land acquisition and |                   |
| xi.   | development purposes)  | 616,823           |
|   | Personal Hire purchase/Personal Auto Loans (up to Rs. 2.5  |                   |
| xii.  | Million)   | 159,341           |
|   | Personal Hirepurchase/Personal Auto Loans (above Rs. 2.5   |                   |
| xii.  | Million)   | 25,316            |
|   | Investments in equity and other capital instruments of institutions  |                   |
| xiv   | listed in stock exchange   | 257,810           |
|   | Investments in equity and other capital instruments of institutions  |                   |
| xv  | not listed in the stock exchange   | 79,369            |
| xvi.  | Staff loan secured by residential property   | 271,297           |
| xvii  | Other Assets   | 976456            |
| xviii                                       | Off Balance- Sheet Items   | 213,651           |
| <b>Total Credit Risk Weighted Exposures</b> |  | <b>45,344,969</b> |

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

**3**

| S.N                                | Particulars                                      | NPR in 000's   |
|------------------------------------|--|----------------|
| i.                                 | Deposits with Banks                              | 531,188        |
| ii.                                | Deposits with other banks/financial institutions |                |
| iii.                               | Gold   |                |
| iv.                                | Government and NRB Securities                    |                |
| v.                                 | Guarantee of Government of Nepal                 |                |
| vi.                                | Securities/Guarantee of other Sovereigns         |                |
| vii.                               | Guarantee of Domestic Banks                      |                |
| viii.                              | Guarantee of Multilateral Development Banks      |                |
| ix.                                | Guarantee of Foreign Banks                       |                |
| <b>Total Credit Risk Mitigants</b> |  | <b>531,188</b> |

**4**

**Total Risk Weighted Exposure calculation table:**

| S.N                                 | Particulars   | NPR in 000's      |
|-------------------------------------|---|-------------------|
| i.                                  | Risk Weighted Exposure for Credit Risk  | 45,344,969        |
| ii.                                 | Risk Weighted Exposure for Operational Risk   | 22,11,011.41      |
| iii.                                | Risk Weighted Exposure for Market Risk  | 436.51            |
| iv.                                 | Adjustments under Pillar II :   |                   |
| .                                   | 3% of gross income for Operational Risk   |                   |
|                                     | Ad RWE equivalent to reciprocal of capital charge of 2% of gross income             | 346,076           |
|                                     | Overall risk management policies and procedures are not satisfactory. Add 2% of RWE | 951,128           |
| <b>Total Risk Weighted Exposure</b> |   | <b>48,853,621</b> |



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

| S.N | Particulars                        | Gross (in 000's) | Net (in 000's) |
|-----|------------------------------------|------------------|----------------|
| i   | Re-structure & Reschedule          |                  |                |
| ii  | Substandard                        | 832,104          | 629,487        |
| iii | Doubtful                           | 194,681          | 99,010         |
| iv  | Bad                                | 212,056          | 2,536          |
|     | <b>Total Non Performing Assets</b> | <b>12,38,841</b> | <b>731,033</b> |

**6. NPA Ratios**

| S.N | Particulars                        | Percent |
|-----|------------------------------------|---------|
| i.  | Gross NPA to Gross Loan & Advances | 2.59    |
| ii. | Net NPA to Net Loan & Advances     | 1.57    |

**7. Movement of Non-Performing Assets**

**NPR (in 000's)**

| S.N | Particulars                    | This Year | Last Year<br>( Ashwin end<br>2079) | Change  |
|-----|--------------------------------|-----------|------------------------------------|---------|
| i.  | Non-Performing Assets (In Amt) | 1,238,242 | 438,476                            | 799,766 |
| ii. | Non-Performing Assets (In %)   | 2.59      | 1.09                               | 1.50    |

**8. Write off of Loan and Interest Suspense**

| S.N | Particulars                                      | NPR in 000's |
|-----|--|--------------|
| i.  | Loan written off during the reporting period     |              |
| ii. | Interest written off during the reporting period |              |
|     | <b>Total amount written off</b>                  |              |

**9. Movement in the Loan Loss Provisions and Interest Suspense.**

| S.N | Particulars          | This Year | Last Year | Change  |
|-----|----------------------|-----------|-----------|---------|
| i.  | Loan Loss Provisions | 1,132,963 | 775,733   | 357,230 |
| ii. | Interest Suspense    | 519,210   | 365,359   | 153,851 |

**10. Details of Additional Loan Loss Provisions**

| S.N  | Particulars   | NPR in 000's     |
|------|---|------------------|
| i.   | Provisioning for Pass Loans                           | 550,575          |
| ii.  | Provisioning for Watchlist Loans                      | 74,579           |
| iii. | Provisioning for Restructured/Rescheduled Loans       |                  |
| iv.  | Provisioning for Sub-standard Loans                   | 202,617          |
| v.   | Provisioning for Doubtful Loans                       | 95,672           |
| vi.  | Provisioning for Bad Loans                            | 209,520          |
| vii. | others if any   |                  |
|      | <b>Total amount of additional loan loss provision</b> | <b>1,132,963</b> |

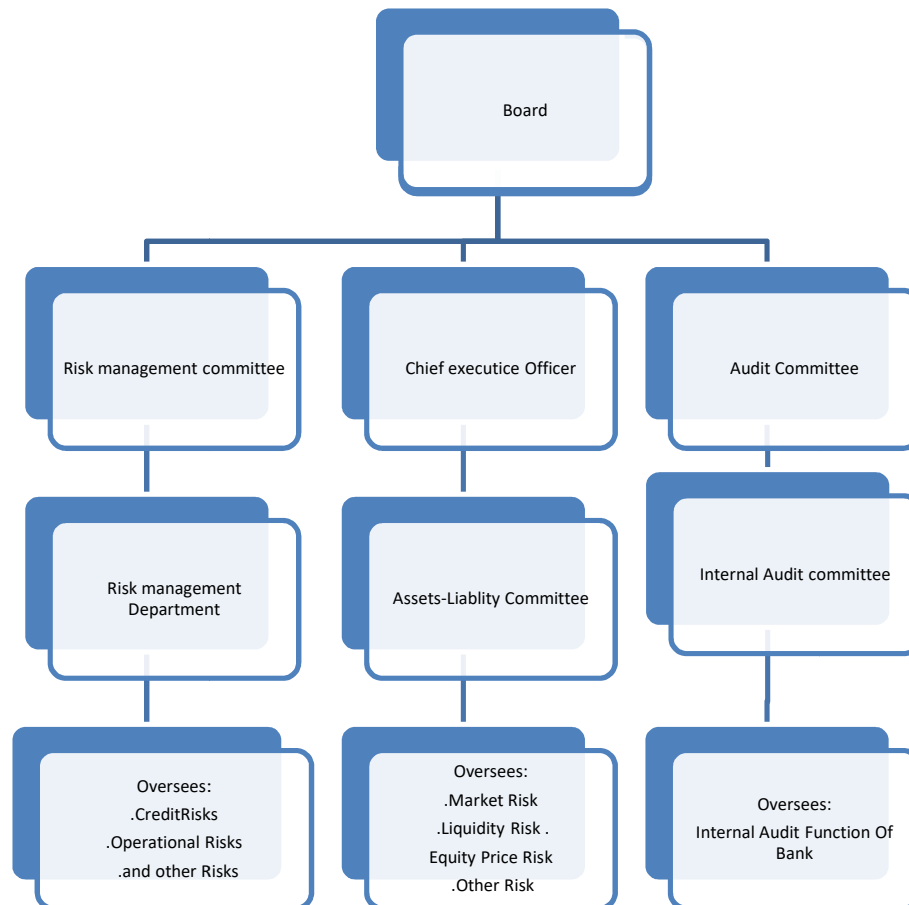
**11. Segregation of Investment Portfolio into held for trading, Held to Maturity & Available for Sale.**

| S.N  | Particulars             | NPR in 000's      |
|------|-------------------------|-------------------|
| i.   | Held for Trading        |                   |
| ii.  | Held to Maturity        | 10,075,244        |
| iii. | Available for sale      | 342,387           |
|      | <b>Total Investment</b> | <b>10,417,631</b> |

**C. Risk Management Function**

- 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, onitssize, capital structure, complexity of functions, technical expertise, and quality of Management Information System (MIS) and is structured to address both banking as well as nonbanking 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 baking 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.