Disclosures under Basel II
As per Capital Adequacy Framework 2007 (Updated 2008)
For 2nd Quarter of Fiscal year 2021-22 endings 14th January 2022

Information presented hereunder is as per disclosure requirements of the Capital Adequacy Framework, 2007 (Updated 2008) as issued by Nepal Rastra Bank.

1. Capital Structure and Capital Adequacy:

❖ **Core Capital (Tier 1)**

Rs.'000

	Particulars	Amount (Rs.)
1	Paid up Equity Share Capital	3,342,402.73
2	Share Premium	-
3	Proposed Bonus Equity Shares	-
4	Statutory General Reserves	1,183,674.09
5	Retained Earnings	693,901.26
6	Un-audited current year cumulative profit/(loss)	213,598.83
7	Capital Adjustment Reserve	-
8	Other Free Reserve	-
	Less: Purchase of land & building in excess of limit and unutilized	55,625.00
Total core capital (Tier 1)		**5,377,951.91**

❖ **Supplementary capital (Tier 2)**

Rs.'000

	Particulars	Amount (Rs.)
1	Cumulative and/or Redeemable Preference Share	-
2	Subordinated Term Debt	-
3	Hybrid Capital Instruments	-
4	General loan loss provision	617,076.84
5	Exchange Equalization Reserve	1,674.09
6	Investment Adjustment Reserve	-
7	Asset Revaluation Reserve	-
8	Other Reserves	-
Total Capital Fund (Tier II)		**618,750.93**

❖ **Total Qualifying Capital**

Rs.'000

	Total capital fund (Tier1 + Tier 2)	Amount (Rs.)
1	Core Capital (Tier 1 Capital)	5,377,951.91
2	Supplementary Capital (Tier 2)	618,750.93

Total Capital Fund (Tier I and Tier II)	**5,996,702.84**

❖ CAPITAL ADEQUACY RATIOS

Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	12.45 %
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)	13.88 %

2. Risk Exposures

❖ Risk Weighted Exposures for Credit, Market and Operational Risk (Rs. in '000)

	Particulars	Amount (Rs.)
1	Risk Weighted Exposure for Credit Risk	39,721,911.83
2	Risk Weighted Exposure for Operational Risk	2,592,283.16
3	Risk Weighted Exposure for Market Risk	15,027.12
Total Risk Weighted Exposures (Before adjustments of Pillar II)		**42,329,222.11**

Adjustments under Pillar II

SRP 6.4a (5)	ALM policies & practices are not satisfactory, add 1% of net interest income to RWE	-
SRP 6.4a (6)	Add .....% of the total deposit due to insufficient Liquid Assets	-
SRP 6.4a (7)	Add RWE equvalent to reciprocal of capital charge of 2 % of gross income.	444,399.40
SRP 6.4a (9)	Overall risk management policies and precedures are not satisfactory. Add 1% of RWE	423,292.22
SRP 6.4a (10)	If desired level of disclosure requirement has not been achieved, Add .....% of RWE	-
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)		**43,196,913.73**

❖ **Risk Weighted Exposures under each Categories of Credit Risk (Rs. in '000)**

	Particulars	Amount (Rs.)
1	Claims on Government and Central Bank	-
2	Claims on Other Financial Entities	-
3	Claims on Banks	892,921.03
4	Claims on corporate & securities firms	11,747,916.45
5	Regulatory retail portfolio	12,392,109.75
6	Claims Secured By Residential Properties Overdue	5,379,641.99
7	Claims Secured By Commercial Real Estate	85,747.86
8	Lending Against Securities (Bonds & Shares)	1,917,121.81
9	Past Due Claims	2,564,563.61
10	High Risk Claims	2,093,423.21
11	Investments in equity and other capital instruments of institutions not listed in the stock exchange	3,184.95
12	Investments in equity and other capital instruments of institutions listed in stock exchange	662,259.63
13	Staff loan secured by residential property	27,674.75
14	Other Assets	1,649,438.09
15	Off Balance sheet items	305,908.71
	Total Risk Weighted Exposures for Credit Risk	**39,721,911.83**

3. Amount of Non-Performing Assets (NPAs) [both Gross and Net]

Particulars	Balance	Provision Amount	Net
Restruture loan/Reschedule loan	-	-	-
Substandard	546,026,347.29	136,506,586.82	409,519,760.47
Doubtful loan	204,034,132.56	102,017,066.28	102,017,066.28

Loss loan	397,748,238.79	397,748,238.79	-
Grand Total	**1,147,808,718.64**	**636,271,891.89**	**511,536,826.75**

Particulars	NPA Ratios
Gross NPA To Gross Advances	2.89%

4. Risk Management Framework

In compliance with Nepal Rastra Bank Directives 6 on "Corporate Governance", the Board of Bank has established a Risk Management Committee with clear terms of reference. As at the date of this report, the Bank's Risk Management Committee comprised of the following:

S. No.	Members of Risk Management Committee	Designation
1	Non-Executive Director from Promoter	Chairperson
2	Non-Executive Director from Promoter	Member
3	Operation Head	Member
4	Chief Risk Officer	Member secretary

The Committee meets at least four times annually to oversee and review the fundamental prudential risks including operational, credit, market, reputational, capital and liquidity risk etc.

The responsibilities of Risk Management Committee are as follows:

a. Formulate policies and guidelines for identification, measurement, monitoring and control all major risk categories.

b. Ensuring the Bank has clear, comprehensive and well documented policies and procedure.

c. Defining the Bank's overall risk tolerance in relation to credit risk.

d. Ensuring that Bank's significant risks exposure is maintained at prudent levels and consistent with the available capital.

Apart from Board Level Risk Management Committee the other committees and groups as mentioned below supports for Overall Risk Management.

Credit Risk

Credit risk is the probability of loss of principal and reward associated with it due to failure of counterparty to meet its contractual obligations to pay the Bank in accordance with agreed terms. The Credit Risk Monitoring and Reporting Framework have been prepared in order to mitigate/minimize the credit risk of the Bank through appropriate monitoring and reporting framework established within the Bank.

Bank has implemented various System/ Policies/ Procedures/ Guidelines for the effective management of Credit Risk. For each type of loan, credit policies and procedures define criteria for granting loans in a safe and sound manner including but not limited purpose of credit and source of repayment, collection of relevant information based on the different client risk profiles, use of adequate tools, adequacy, enforceability and liquidity status of collaterals, as well as the practical aspects of their mobilization.

A standardized loan application forms has been in use for facilitating collection and analysis of all the relevant data for evaluating credit worthiness and proper evaluation of the credit risk of the prospective borrower. The factors considered in evaluating loan applications normally included prospects of the business, management of the firm/company, financial analysis, income statement, balance sheet, cash flow statement, key financial indicators, key risk and mitigates. Further, inspection and supervision are also conducted before approval of the loan for pre-analysis and after the disbursement of loan as well for monitoring the utilization of loan.

Market Risk

Risks arising out of adverse movements in interest rates and equity prices are covered under Market Risk Management. Market Risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Institution exposure to market risk arises principally from customer driven transactions.

In line with Risk Management Guidelines prescribed by NRB, the Bank focuses on risk management in addition to that interest rate risk is assessed at a regular interval to strengthen market risk management. The market risk is managed within the risk tolerances and market risk limits set by ALCO. ALCO regularly meets analyses and takes decision over the Market Risk by analyzing the internal as well as external factor.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for fixed nature asset positions is not available to the Bank on acceptable terms. The Liquidity Risk is managed by ALCO. The ALCO has developed the Treasury circular for overall liquidity management of bank.

Operational Risk

Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies, employee errors, system failures, fraud or other criminal activity, any event that disrupts business processes.

Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. For the control of operational risk of institution, it has Financial Administration Policy, Employee Bylaws, Operational Manual, AML/CFT Policy, Suspicious Transaction Identification Procedure, and Politically Exposed Person Policy, which guides the day-to-day operations.

Each risk control owner is responsible for identifying risks that are material and for maintaining an effective control environment across the organization. Risk control owners have responsibility for the control of operational risk arising from the management of the following activities: External Rules & Regulations, Liability, Legal Enforceability, Damage or Loss of Physical Assets, Safety & Security, Internal Fraud or Dishonesty, External Fraud, Information Security, Processing Failure, and Model.

Operational risks can arise from all business lines and from all activities carried out by the Bank. Operational risk management approach seeks to ensure management of operational risk by maintaining a complete process universe defined for all business segments, products and functions processes.

Qualitative disclosures

The Bank has maintained the capital adequacy as per Capital adequacy framework, 2007 (Updated July 2008) as required by Nepal Rastra Bank. Capital adequacy ratio as on poush end 2078 is 12.45% and 13.88% on core capital and capital fund respectively

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 in the course of 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.