

DISCLOSURE UNDER CAPITAL ADEQUACY FRAMEWORK OF NRB (BASEL II)

As on 31 Ashad 2076 (16 July 2019)

1. CAPITAL STRUCTURE & CAPITAL ADEQUACY

Tier-1 Capital and a breakdown of its Components:

NPR in '000

S. No.	Particular	Amount
1.	Paid up Equity Share Capital	2,844,501
2.	Irredeemable Non-cumulative preference shares	-
3.	Share Premium	-
4.	Proposed Bonus Equity Shares	-
5.	Statutory General Reserves	778,716
6.	Retained Earnings	45,397
7.	Un-audited current year cumulative profit/(loss)	807,555
8.	Capital Redemption Reserve	-
9.	Capital Adjustment Reserve	-
10.	Dividend Equalization Reserves	-
11.	Other Free Reserve	88,867
12.	Less: Deferred Tax Assets	88,867
Total Core Capital		4,476,169

i. Tier-2 Capital and a breakdown of its Components:

NPR in '000

S. No.	Particular	Amount
i.	Cumulative and/or Redeemable Preference Share	-
ii.	Subordinated Term Debt	-
iii.	Hybrid Capital Instruments	-
iv.	General loan loss provision	316,221
v.	Exchange Equalization Reserve	649
vi.	Investment Adjustment Reserve	6,817
vii.	Asset Revaluation Reserve	-
viii.	Other Reserves	-
Total Supplementary Capital		323,687

ii. Information about Subordinate Term Debt

The bank does not have any subordinated Term Debts.

iii. Deduction Form Capital

NPR in '000

Particular	Amount
Deferred Tax Assets	88,867

iv. Total Qualifying Capital

NPR in '000

Particular	Amount
Total Core Capital (Tier I)	4,476,169
Total Supplementary Capital (Tier II)	323,687
Total Capital Fund (Tier I + Tier II)	4,799,856

v. Capital Adequacy Ratio

Particular	Percentage
Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	17.69%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	18.97%

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

The bank considers the capital adequacy requirement pursuant to the provision set by NRB. The tier 1 capital ratio of the bank as at Ashad 2076 is 17.69% and the total capital ratio is 18.97%. The bank in its strategic planning cautiously considers the capital adequacy and projects capital adequacy required for the organization's growth.

2. RISK EXPOSURE

i. Risk Weighted Exposure for Credit Risk, Market Risk and Operational Risk

NPR in '000

S. No.	Particulars	Amount
1.	Risk Weighted Exposure for Credit Risk	23,314,155
2.	Risk Weighted Exposure for Operational Risk	1,956,624
3.	Risk Weighted Exposure for Market Risk	26,932
Total Risk Weighted Exposures (Before adjustments of Pillar II)		25,297,710
<i>Adjustments under Pillar II</i>		
SRP 6.4a (5)	<i>ALM policies & practices are not satisfactory, add 1% of net interest income to RWE</i>	-
SRP 6.4a (6)	<i>Add% of the total deposit due to insufficient Liquid Assets</i>	-

SRP 6.4a (7)	<i>Add RWE equivalent to reciprocal of capital charge of 2-5% of gross income</i>	-
SRP 6.4a (9)	<i>Overall risk management policies and procedures are not satisfactory. Add 0% of RWE</i>	-
SRP 6.4a (10)	<i>Desired level of disclosure requirement has not been achieved. Add 0% of RWE</i>	-
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)		25,297,710

ii. Risk Weighted Exposure under each 11 Categories of Credit Risk

NPR in '000

Particulars	Amount
Claims on Government and Central Bank	-
Claims on other official entities	-
Claims on Banks	1,176,022
Claims on Corporate and Securities Entities	7,815,504
Claims on Regulatory Retail Portfolio	7,134,011
Claims secured by residential properties	3,616,539
Claims secured by Commercial real estate	293,665
Past due claims	149,969
High Risk claims	550,997
Other Assets	2,229,530
TOTAL (A)	22,966,237

iii. Total Risk Weighted Exposure Calculation Table:

NPR in '000

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Cash Balance	435,380			435,380	0%	-
Balance With Nepal Rastra Bank	1,189,422			1,189,422	0%	-
Gold				-	0%	-
Investment in Nepalese Government Securities	2,081,875			2,081,875	0%	-
All Claims on Government of Nepal				-	0%	-
Investment in Nepal Rastra Bank securities				-	0%	-
All claims on Nepal Rastra Bank				-	0%	-

Claims on Foreign Government and Central Bank (ECA 0-1)					-	0%	-
Claims on Foreign Government and Central Bank (ECA -2)				-	-	20%	-
Claims on Foreign Government and Central Bank (ECA -3)				-	-	50%	-
Claims on Foreign Government and Central Bank (ECA-4-6)				-	-	100%	-
Claims on Foreign Government and Central Bank (ECA -7)				-	-	150%	-
Claims On BIS, IMF, ECB, EC and MDB's recognized by the framework					-	0%	-
Claims on Other Multilateral Development Banks				-	-	100%	-
Claims on Public Sector Entity (ECA 0-1)				-	-	20%	-
Claims on Public Sector Entity (ECA 2)				-	-	50%	-
Claims on Public Sector Entity (ECA 3-6)				-	-	100%	-
Claims on Public Sector Entity (ECA 7)				-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	5,877,357			-	5,877,357	20%	1,175,471
Claims on domestic banks that do not meet capital adequacy requirements				-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)				-	-	20%	-
Claims on foreign bank (ECA Rating 2)				-	-	50%	-
Claims on foreign bank (ECA Rating 3-6)				-	-	100%	-
Claims on foreign bank (ECA Rating 7)				-	-	150%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective	2,752			-	2,752	20%	550

regulatory capital requirement						
Claims on Domestic Corporates	8,342,888	524,536	2,847	7,815,504	100%	7,815,504
Claims on Foreign Corporates (ECA 0-1)			-	-	20%	-
Claims on Foreign Corporates (ECA 2)			-	-	50%	-
Claims on Foreign Corporates (ECA 3-6)			-	-	100%	-
Claims on Foreign Corporates (ECA 7)			-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	10,782,070	119,880	1,150,174	9,512,016	75%	7,134,012
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	6,139,977	171,408	-	5,968,569	60%	3,581,141
Claims not fully secured by residential properties			-	-	150%	-
Claims secured by residential properties (Overdue)	37,221	1,823	-	35,398	100%	35,398
Claims secured by Commercial real estate	293,665	-	-	293,665	100%	293,665
Past due claims (except for claims secured by residential properties)	442,236	342,257	-	99,979	150%	149,969
High Risk claims	531,108	101,894	61,882	367,331	150%	550,997
Lending Against Securities (Bonds & Shares)	1,303,094	17,072	-	1,286,022	100%	1,286,022
Investments in equity and other capital instruments of institutions listed in stock exchange	427,271		-	427,271	100%	427,271
Investments in equity and other capital instruments of institutions not listed in the stock exchange			-	-	150%	-
Staff loan secured by residential property	62,468			62,468	60%	37,481
Interest Receivable/claim on government securities	23,725			23,725	-	-
Cash in transit and other cash items in the process of collection	-	-		-	20%	-

Other Assets (as per attachment)	1,221,350	742,594	-	478,756	100%	478,756
TOTAL (A)	39,193,859	2,021,465	1,214,904	35,957,490		22,966,237

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments				-	0%	-
Bills Under Collection				-	0%	-
Forward Exchange Contract Liabilities			-	-	10%	-
LC Commitments With Original Maturity Upto 6 months domestic counterparty			-	-	20%	-
Foreign counterparty (ECA Rating 0-1)			-	-	20%	-
Foreign counterparty (ECA Rating 2)			-	-	50%	-
Foreign counterparty (ECA Rating 3-6)			-	-	100%	-
Foreign counterparty (ECA Rating 7)			-	-	150%	-
LC Commitments With Original Maturity Over 6 months domestic counterparty			-	-	50%	-
Foreign counterparty (ECA Rating 0-1)			-	-	20%	-
Foreign counterparty (ECA Rating 2)			-	-	50%	-
Foreign counterparty (ECA Rating 3-6)			-	-	100%	-
Foreign counterparty (ECA Rating 7)			-	-	150%	-
Bid Bond, Performance Bond and Counter guarantee domestic counterparty	78,160		-	78,160	50%	39,080
Foreign counterparty (ECA Rating 0-1)			-	-	20%	-

Foreign counterparty (ECA Rating 2)			-	-	50%	-
Foreign counterparty (ECA Rating 3-6)			-	-	100%	-
Foreign counterparty (ECA Rating 7)			-	-	150%	-
Underwriting commitments			-	-	50%	-
Lending of Bank's Securities or Posting of Securities as collateral			-	-	100%	-
Repurchase Agreements, Assets sale with recourse			-	-	100%	-
Advance Payment Guarantee			-	-	100%	-
Financial Guarantee	35,517		-	35,517	100%	35,517
Acceptances and Endorsements			-	-	100%	-
Unpaid portion of Partly paid shares and Securities			-	-	100%	-
Irrevocable Credit commitments (short term)	763,562		-	763,562	20%	152,712
Irrevocable Credit commitments (long term)	241,215		-	241,215	50%	120,608
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement				-	20%	-
Other Contingent Liabilities	-	-	-	-	100%	-
Unpaid Guarantee Claims			-	-	200%	-
TOTAL (B)	1,118,454	-	-	1,118,454		347,917
Total RWE for credit Risk Before Adjustment (A) +(B)	40,312,313	2,021,465	1,214,904	37,075,944		23,314,155
Adjustments under Pillar II						

iv. Amount of Non Performing Assets (Gross and Net Amount)*NPR in '000*

Particulars	Gross Amount	Provision	Net Amount
Restructured	4,457	557	3,900
Substandard	281,189	50,456	230,732
Doubtful	145,138	72,569	72,569
Loss	268,217	268,217	-
Total	699,001	391,799	307,201

v. Non Performing Assets (NPA) Ratios

Particular	Percentage
Gross NPA to Gross Advances	2.54%
Net NPA to Net Advances	1.15%

vi. Movement of Non Performing Asset*NPR in '000*

Particulars	Opening Balance (Asadh 2075)	Closing Balance (Asadh 2076)	Movement
Restructured	8,681	4,457	(4,224)
Substandard	328,205	281,189	(47,016)
Doubtful	220,472	145,138	(75,334)
Loss	290,849	268,217	(22,632)
Total	848,207	699,001	(149,206)

vii. Write Off of Loans and Interest Suspense:

During the FY 2075/76 bank has written off of the loan amounting to NRs. 46,620 thousand.

viii. Movement of Loan Loss Provision and Interest Suspense*NPR in '000*

Particulars	Opening Balance (Asadh 2075)	Closing Balance (Asadh 2076)	Movement
Pass	199,687	252,332	52,645
Watch-List	42,131	78,430	36,299
Restructured	1,085	557	(528)
Substandard	82,051	50,456	(31,595)
Doubtful	110,236	72,569	(37,667)
Loss	290,849	268,217	(22,632)
Total	726,039	722,561	(3,478)

ix. Interest Suspense

NPR in '000

Particulars	Opening Balance (Asadh 2075)	Closing Balance (Asadh 2076)	Movement
Interest Suspense	268,728	293,637	24,909

x. Details of Additional Loan Loss Provision

NPR in '000

Particulars	Movement
Pass	52,645
Watch-List	36,299
Restructured	(528)
Substandard	(31,595)
Doubtful	(37,667)
Loss	(22,632)
Total	(3,478)

xi. Segregation of the Bank's Investment portfolio

Investments are segregated as under.

NPR in '000

Particulars	Amount
Investment securities measured at amortized cost	2,105,599
Investment in equity measured at FVTOCI	51,734
Investment in unquoted associates	4,744
Other Trading Assets	340,835
Total	2,502,912

3. Risk Management Function

The bank has a risk management system to identify, assess, monitor, report the risk inherent in banking operation such as credit risk, market risk, liquidity risk, operation risk, capital adequacy and provide appropriate directions and guidelines to the management for mitigation of risk. A risk management system incorporating every area has been formed for effective risk management.

i. Credit Risk

The bank has Credit policy Guideline, standardized form for analysis of risk and credit worthiness, inspection and supervision before the loan approval, delegation of approving authority to various level, risk assessment from risk department, compliance of NRB directive is ensured. Risk Weighted Exposure for Credit Risk has been calculated as per NRB Capital Adequacy Framework.

ii. Operation Risk

The bank has formed various policies for mitigating the operation risk like Financial Administration bylaws, Employee Bylaws, Operation Manual, AML/CFT policy, Suspicious Transaction Policy. Risk Weighted Exposure for Credit Risk has been calculated as per NRB Capital Adequacy Framework.

iii. Market Risk

The Assets Liabilities Management Committee (ALCO) sets the market risk limit and risk tolerance limit, regularly meets and decide proactively to cope up with the market risk. Risk Weighted Exposure for market risk has been calculated as per the NRB capital Adequacy Framework.

iv. Liquidity Risk

To mitigate the liquidity risk, the bank has introduced the Unified Treasury Circular, daily monitors the liquidity position. Periodic review of gap over the assets and liabilities management is done

v. Reputational Risk

The management committee are responsible for protecting the bank's reputation and ensures bank does not take any activity that may cause material damage to reputation of the bank. Further, the bank has appointed the information officer.