

**Disclosure under Basel III capital accord of Nepal Rastra Bank**  
 [As per clause 7.4(b) of the New Capital Accord As at Third Quarter End (Chaitra, 2073)]

**1.0 Tier 1 capital and a breakdown of its components:**

		As on 13.4.2017
<b>Core Capital (Tier 1)</b>		<b>7,749,201,245</b>
a	Paid up Equity Share Capital	3,749,901,333
b	Proposed Bonus Equity Share	-
c	Statutory General Reserves	2,897,528,788
d	Retained Earnings	115,368,462
e	Un-audited current year cumulative profit	1,064,282,845
f	Other Free Reserve	-
g	Less - Deferred Tax Assets	(77,880,183)

**2.0 Tier 2 capital and a breakdown of its components:**

		As on 13.4.2017
<b>Supplementary Capital (Tier 2)</b>		<b>1,154,188,462</b>
a	General loan loss provision	392,811,861
b	Exchange Equalization Reserve	413,839,141
c	Investment Adjustment Reserve	347,537,460

**3.0 Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, and amount raised during the year and amount eligible to be reckoned as capital funds.**

Not applicable

**4.0 Deductions from capital**

NPR 77,880,183

**5.0 Total qualifying capital**

NPR 8,903,389,708

**6.0 Capital adequacy ratio**

16.89%

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

<b>RISK WEIGHTED EXPOSURES</b>		As on 13.4.2017
A	Risk Weighted Exposure for Credit Risk	47,121,441,827
B	Risk Weighted Exposure for Operational Risk	4,927,394,416
C	Risk Weighted Exposure for Market Risk	675,672,981
<b>Total Risk Weighted Exposures (a+b+c)</b>		<b>52,724,709,224</b>

**8.0 Risk Weighted Exposures under each of 11 categories of Credit Risk**

No.	Particulars	RWE as on Chaitra end 2073
1	Claims on Govt. and central Bank	-
2	Claims on other official entities	-
3	Claims on Banks	8,604,074,621
4	Claims on corporate and securities firm	15,224,939,564
5	Claims on regulatory retail portfolio	3,885,183,626
6	Claims secured by residential properties	3,783,741,025
7	Claims secured by commercial real estate	6,407,391,164
8	Past due claims	303,368,810
9	High risk claims	3,397,932,171
10	Other Assets	527,999,205
11	Off balance sheet items	5,017,717,640
<b>Total</b>		<b>47,121,441,827</b>

**9.0 Total risk weighted exposure calculation table**

S.N.	A. Balance Sheet Exposures	Book Value a	Specific Provision b	Eligible CRM c	Net Value d=a-b-c	Risk Weight e	Risk Weighted Exposures f=d*e
1	Cash Balance	787,443,888	-	-	787,443,888	0%	-
2	Balance With Nepal Rastra Bank	7,062,316,203	-	-	7,062,316,203	0%	-
3	Gold	-	-	-	-	0%	-
4	Investment in Nepalese Government Securities	3,952,415,400	-	-	3,952,415,400	0%	-
5	All claims on Government of Nepal	138,807,033	-	-	138,807,033	0%	-
6	Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
7	All claims on Nepal Rastra Bank	-	-	-	-	0%	-
8	Claims on Foreign Government and Central Bank (ECA 0-1)	-	-	-	-	0%	-
9	Claims on Foreign Government and Central Bank (ECA - 2)	-	-	-	-	20%	-
10	Claims on Foreign Government and Central Bank (ECA - 3)	-	-	-	-	50%	-
11	Claims on Foreign Government and Central Bank (ECA 4-6)	-	-	-	-	100%	-
12	Claims on Foreign Government and Central Bank (ECA - 7)	-	-	-	-	150%	-
13	Claims On BIS, IMF, ECO, EC and on Multilateral Development Banks (MDIs) recognised by the framework	-	-	-	-	0%	-
14	Claims on Other Multilateral Development Banks	-	-	-	-	100%	-
15	Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	20%	-
16	Claims on Public Sector Entity (ECA 2)	-	-	-	-	50%	-
17	Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	100%	-
18	Claims on Public Sector Entity (ECA 7)	-	-	-	-	150%	-
19	Claims on domestic banks that meet capital adequacy requirements	1,517,733,467	-	-	1,517,733,467	20%	303,546,693
20	Claims on domestic banks that do not meet capital adequacy requirement	-	-	-	-	100%	-
21	Claims on foreign bank (ECA Rating 1)	26,020,002,489	-	-	26,020,002,489	20%	5,204,000,499
22	Claims on foreign bank (ECA Rating 2)	1,688,973	-	-	1,688,973	50%	844,487
23	Claims on foreign bank (ECA Rating 3-6)	3,092,700,000	-	-	3,092,700,000	100%	3,092,700,000
24	Claims on foreign bank (ECA Rating 7)	-	-	-	-	150%	-
25	Claims on Foreign bank incorporated in SAARC Region operating with a buffer of 1% above their respective regulatory capital requirement	14,914,716	-	-	14,914,716	20%	2,982,943
26	Claims on Domestic Corporates	16,352,973,476	-	1,128,033,912	15,224,939,564	100%	15,224,939,564
27	Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	20%	-
28	Claims on Foreign Corporates (ECA 2)	-	-	-	-	50%	-
29	Claims on Foreign Corporates (ECA 3-6)	-	-	-	-	100%	-
30	Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-
31	Regulatory Retail Portfolio (Net Overdue)	5,180,244,835	-	-	5,180,244,835	75%	3,885,183,626
32	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
33	Claims secured by residential properties	5,807,376,376	-	-	5,807,376,376	60%	3,484,425,825
34	Claims not fully secured by residential properties	-	-	-	-	150%	-
35	Claims secured by residential properties (Overdue)	205,134,453	22,643,184	-	182,491,269	150%	182,491,269
36	Claims secured by Commercial real estate	6,407,391,164	-	-	6,407,391,164	100%	6,407,391,164
37	Past due claims (except for claim secured by residential properties)	245,215,568	42,969,695	-	202,245,873	150%	303,368,810
38	High risk claims	2,048,577,771	1,250	72,531,714	1,975,724,907	150%	2,963,586,454
39	Investment in equity and other capital instruments of institutions listed in the stock exchange	398,742,460	-	-	398,742,460	100%	398,742,460
40	Investment in equity and other capital instruments of institutions not listed in the stock exchange	3,735,500	-	-	3,735,500	150%	5,603,250
41	Staff loan secured by residential property	194,706,552	-	-	194,706,552	60%	116,823,931
42	Interest Receivable/claim on government securities	5,836,896	-	-	5,836,896	0%	-
43	Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
44	Other Assets (as per attachment)	1,162,928,706	635,835,501	-	527,093,205	100%	527,093,205
<b>Total</b>		<b>80,600,565,437</b>	<b>701,449,630</b>	<b>1,200,565,626</b>	<b>78,698,550,172</b>		<b>42,103,724,187</b>

S.N.	B. Off Balance Sheet Exposures	Gross Book Value a	Specific Provision b	Eligible CRM c	Net Value d=a-b-c	Risk Weight	RWE f=d*e
1	Revolvable Commitments	496,047,872	-	-	496,047,872	0%	-
2	Bills Under Collection	684,380,030	-	-	684,380,030	0%	-
3	Forward Exchange Contract Liabilities	1,140,558,637	-	-	1,140,558,637	10%	114,055,864
4	LC Commitments With Original Maturity Up to 6 months (domestic counterparties)	2,107,870,197	-	90,189,321	2,017,680,876	20%	403,536,175
	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%	-
5	LC Commitments With Original Maturity Over 6 months (domestic counterparties)	106,091,250	-	95,482,125	10,609,125	50%	5,304,562
	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%	-
6	Bid Bond, Performance Bond and Counter Guarantee (domestic counterparties)	462,240,573	-	208,567,588	253,672,985	50%	126,836,492
	Foreign Counterparty (ECA Rating 0-1)	3,571,500,062	-	2,810,873,423	760,626,639	20%	152,125,328
	Foreign Counterparty (ECA Rating 2)	3,452,234,538	-	1,640,511,899	1,811,722,639	50%	905,861,319
	Foreign Counterparty (ECA Rating 3-6)	198,095,960	-	-	198,095,960	100%	198,095,960
	Foreign Counterparty (ECA Rating 7)	-	-	-	-	150%	-
7	Underwriting commitments	-	-	-	-	50%	-
8	Lending of Bank's Securities or Posting of Securities as collateral	-	-	-	-	100%	-
9	Repurchase Agreements, Assets sale with recourse	-	-	-	-	100%	-
10	Advance Payment Guarantee	2,133,455,533	-	1,342,117,241	791,338,293	100%	791,338,293
11	Financial Guarantee	59,328,075	-	16,438,500	42,889,575	100%	42,889,575
12	Acceptances and Endorsements	603,884,205	-	32,207,867	571,676,338	100%	571,676,338
13	Unpaid Portion of Party paid shares and Securities	-	-	-	-	100%	-
14	Irrevocable credit commitments (short term)	5,343,925,642	-	2,335,121,189	3,008,804,453	20%	601,760,891
15	Irrevocable Credit commitments (long term)	-	-	-	-	50%	-
16	Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	-	-	-	-	20%	-
17	Other Contingent Liabilities	1,379,507,825	-	288,962,193	1,090,545,632	100%	1,090,545,632
18	Unpaid Guarantee Claims	19,800,000	-	13,504,394	6,295,606	200%	12,590,411
	<b>TOTAL</b>	<b>21,559,921,199</b>	<b>-</b>	<b>8,873,976,141</b>	<b>12,685,945,058</b>		<b>5,617,717,640</b>
	<b>Total RWE for Credit Risk Before Adjustment (A) +(B)</b>	<b>102,360,486,626</b>	<b>701,449,630</b>	<b>10,074,541,766</b>	<b>91,584,495,230</b>		<b>47,121,441,827</b>
	Adjustments under Pillar II	-	-	-	-	-	-
	Add: 10% of the sum and facilities in excess of Single Obligor Limits	-	-	-	-	-	-
	Add: 1% of the contract (sale) value in case of the sale of credit with recourse (B.a.ii)	-	-	-	-	-	-
	<b>Total RWE for Credit Risk (After Bank's adjustments of Pillar II)</b>	<b>102,360,486,626</b>	<b>701,449,630</b>	<b>10,074,541,766</b>	<b>91,584,495,230</b>		<b>47,121,441,827</b>

#### 10.0 Amount of NPAs (both Gross and Net)

##### 10.1 Restructure/Reschedule Loan

- Nil

##### 10.2 Substandard loan

- Gross value Rs. 11,294,213 Net values Rs. 8,470,660.

##### 10.3 Doubtful Loan

- Gross value Rs. 24,319,238 Net value Rs 12,159,619.

##### 10.4 Loss Loan

- Gross value Rs.50,630,261 Net value: NIL

#### 11.0 NPA Ratio

##### 11.1 Gross NPA to Gross Advances

0.23%

##### 11.2 Net NPA to Net Advances

0.06%

#### 12.0 Movement of NPA

∅ Downward movement of Rs. 6,519,687 during the quarter.

#### 13.0 Write off of loans & Interest suspense

∅ Loans Write off as of 13th Apr 2017 is Rs.4,979,053 and interest suspense balance is Rs 471,027.

#### 14.0 Movement in Loan loss provisions and Interest suspense

Upward movement in Loan Loss Provisions of Rs. 22,651,432 during the quarter.

Upward movement in Interest suspense of Rs. 37,904,436 during the quarter.

#### 15.0 Detail of additional Loan Loss provision

- No major additional provisions have been made.

#### 16.0 Segregation of investment portfolio into Held for trading, Held to maturity and Available for sale category

Investment Portfolio	Net Amount (NPR)
Held For Trading	3,695,024,809
Held To Maturity	12,112,740,592
Available For Sale	402,477,960

## **17.0 Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable**

### **Board and Senior Management Oversight**

Ultimate responsibility for setting our risk tolerance boundaries and for the effective management of risk rests with the Board.

The Bank management is responsible for understanding the nature and level of risk taken by the Bank and relating the risk to the capital adequacy level. The Country Executive Risk Committee (CERC) reviews Credit Risk, Operational Risk, Market Risk and Reputational Risk, analyzes the trend, assesses the exposure impact on capital and provides a summary report to the Executive Committee.

The Assets and Liabilities Committee is responsible for the management of capital and establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate exposure and tax exposure.

In respect of Operational Risk, this is managed through Country Executive Risk Committee which exercises oversight of the Bank's operational risk profile to ensure that risk exposures are managed in a manner consistent with the Risk Management Framework and contained within the Bank's risk appetite. The responsibility for daily management of Operational Risk exposures rests with Business and Business Support Functions. Country Operational Risk Officer has been appointed with the key responsibilities to ensure consistency in the application of the Risk Management Framework across all areas of operational risk management by monitoring the controls associated with the Risk Management Framework processes and working with the Chief Risk Officer to remediate identified gaps.

With regard to Market Risk, the Financial Market Operations maintain net open position of all currencies on a daily basis and provides data to Head FM who reviews and analyzes the trend, assesses the exposure impact on capital and provides a summary report to the ALCO. The net open position report is also discussed at the ALCO.

Executive Committee reviews the inputs received from CERC and ALCO and provides a synopsis to the Board along with its view on the risks exposure and the adequacy of capital, for review and noting.

### **Sound Capital Assessment**

In order to ensure a sound capital assessment process, all three risks that have direct impact on the capital adequacy level are managed in a structured manner with clear roles and responsibilities.

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is therefore a central part of the financial and operational management of the Bank. Through the Risk Management Framework, we manage enterprise-wide risks with the objective of maximizing risk-adjusted returns while remaining within our risk tolerance.

Roles and responsibilities for risk management are defined under a 'three lines of defense' model. Each 'line of defense' describes a specific set of responsibilities for risk management and control.

- The First Line of defense comprises of all individuals that have management responsibility to ensure the effective management of risks within the scope of their direct organizational responsibilities and align business strategy with risk appetite.
- The Second Line of defense comprises of the Risk Control Owners, supported by their respective control functions. The Second Line is independent of the origination, trading and sales functions and is responsible for ensuring that the residual risks within the scope of their responsibilities remain within appetite.
- The Third Line of defense comprises the independent assurance provided by the Group Internal Audit (GIA) function, which has no responsibilities for any of the activities it examines. GIA provides independent assurance of the effectiveness of management's control of its own business activities (the First Line) and of the processes maintained by the Risk Control Functions (the Second Line). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework. The findings from GIA's audits are reported to all relevant management and governance bodies – accountable line managers, relevant oversight function or committee and committees of the Board.

Credit Risk is managed through a framework that sets out policies, procedures and standards covering the measurement and management of credit risk. Credit policies and standards are considered and approved by the Board. Any exception to the credit policies and standards get escalated and approved by the appropriate authorities as stipulated in the policies and standards.

Operational Risk is managed through Risk Management Framework (RMF) which sets out the Bank's approach to risk management and the control framework.

The Market Risk is managed in line with the Bank's market risk and other related policies, giving due consideration to the prevalent market conditions.

### **Comprehensive assessment of risks**

The Country Executive Risk Committee is responsible for overseeing the effective implementation of the Risk Management Framework, including the clear assignment of the roles and responsibilities of Risk Control Owners for the effective management of risk throughout the Bank. ERC is responsible for the management of all risks, except those for which ALCO has direct responsibilities. Risk limits and risk exposure approval authority frameworks are set by the ERC in respect of all risks including credit risk, country risk and market risk.

### **Credit risk**

Credit risk is the potential for loss due to the failure of counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures arise from both the banking and trading book. The credit risk of individual counterparties or groups of connected counterparties as well as at the portfolios of retail clients is assessed and reviewed. The credit risk management covers credit rating and measurement, credit approval, large exposures and credit risk concentration, credit monitoring, and portfolio analysis. All Corporate and Institutional borrowers including Business Banking borrowers, at individual and group levels, are assigned internal credit rating that supports identification and measurement of risk and integrated into overall credit risk analysis.

### **Operational Risk**

Operational Risk is the potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks.

Operational Risk Framework (ORF) adopted by the Bank provides the Bank's approach to the management of operational risk in accordance with the RMF and the Board's Risk Appetite level. The bank's operational risk management approach serves to continually improve the Bank's ability to anticipate all material risks and to increase our ability to demonstrate, with a high degree of confidence, that those risks are well controlled. It also clarifies and reinforces the need for clear ownership and accountability for all processes across the Bank, with no significant gaps or duplication.

We seek to minimize our exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The OR governance structure is as follows:

- Operational Risk governance ensures consistent oversight across all levels regarding the execution and effectiveness of Operational Risk Framework (ORF).
- Risk Control Owners for all major Risk Types are appointed as per the RMF and are responsible for effective management of operational risk of their respective control function.
- Operational risks are identified and graded at the business/unit level. For all risk graded low and above along with the treatment plan are agreed with the Risk Control Owner before raising the risk in the system (phonix) and tabling the risks in Country Executive Risk Committee for acceptance. Mitigating controls are put in place and mitigation progress monitored until its effectiveness is achieved.
- The Executive Risk Committee (ERC) ensures the effective management of Operational Risk throughout the business/functions in support of the Group's strategy and in accordance with the Risk Management Framework. The ERC assigns ownership, requires actions to be taken and monitors progress of risks identified, in addition to confirming the risk grading provided at the business/unit level.
- The Executive Risk Committee (ERC) accepts operational risks arising in the country provided the residual risk rating is 'low' on the Group Operational Risk Assessment Matrix. Risks categorized as Medium, High or Very High on the Group Operational Risk Assessment Matrix are reported to the Executive Risk Committee (ERC) for endorsement and escalated to the Group Process Owner through the relevant country process owner for acceptance through the relevant Process Governance Committees (PGCs).
- The Group Risk Committee (GRC) determines the Group's approach to the management of operational risk in accordance with the RMF. Group Operational Risk Committee (GORC) is responsible for governing operational risk across all functions, client segments and products. It is in turn supported by Business Process Governance Committees (PGCs) appointed by Process Universe Owners, which provide global oversight of all operational risks arising from end-to-end processes within their Process Universes. Additionally, Group Financial Crime Risk Committee (GFRC) is responsible for governing financial crime risks across the Group Process Universe and Group Information Management Governance Committee (GIMGC) provides oversight and drives best practice in information management and data governance.

### **Market Risk**

We recognise Market Risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Our exposure to market risk arises principally from customer-driven transactions. The objective of our market risk policies and processes is to obtain the best balance of risk and return while meeting customer's requirement.

Risks arising out of adverse movements in exchange rates, interest rates, liquidity and equity are covered under market risk management. In line with capital framework prescribed by NRB, the bank focuses on exchange rate risk management for managing / computing the capital charge on market risk. In addition the interest rate risk, currency exchange rate risk, liquidity risk and equity price risk are assessed at a regular interval to strengthen market risk management. The market risk is managed within the risk tolerance limits set by the Board.

Market risk is tightly monitored using value at risk (VaR) methodologies complemented by sensitivity measures, gross nominal limits and loss triggers at a detailed portfolio level. This is supplemented with extensive stress testing which takes account of more extreme price movements.

### **Other risks**

In addition to the credit, operational, market and liquidity risk, the bank identifies, assesses and monitors strategic and reputational risks at a regular interval. The Board maintains the primary responsibility to establish the strategic direction of the Bank. The Country Executive Risk Committee and EXCO are also responsible for the management of reputational risk.

### **Monitoring and Reporting**

All risks, including credit, operational and market risks are identified, escalated, monitored and mitigated to the satisfaction of the Risk Control Owner. The Risk Control Owner is responsible for ensuring that risks are adequately identified, escalated monitored and mitigated. The Bank has adequate system for monitoring and reporting risk exposures and assessing how the changing risk profile affects the need for capital. The Country Executive Risk Committee reviews and assesses the credit risk, operational risk, reputational risk, market risk, etc. and provides a summary report to the Executive Committee.

### **Internal Control Review**

The Bank is committed to managing risk and controlling its business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations and enhance resilience to external events.

The effectiveness of the Bank's internal control system is reviewed regularly by the Board, its committees, Management and Internal Audit. The Audit Committee has reviewed the effectiveness of the internal control system during the FY 2022/23 BS and reported on its review to the Board. 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 in 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 also notified to the Chief Executive Officer and Business Heads for immediate corrective actions.