

Disclosure under Basel II capital accord of Nepal Rastra Bank

[As per clause 7.4(b) of the New Capital Accord As at Fourth Quarter End (Ashadh, 2073)]

1.0 Tier 1 capital and a breakdown of its components:

		As on 15.07.2016
Core Capital (Tier 1)		6,736,723,168
a	Paid up Equity Share Capital	2,812,426,000
b	Proposed Bonus Equity Share	-
c	Statutory General Reserves	2,639,029,861
d	Retained Earnings	24,241,409
e	Un-audited current year cumulative profit	1,265,497,520
f	Other Free Reserve	89,556,936
g	Less : Deferred Tax Assets	(84,406,936)
h	Less : Deferred Revenue Expenses	(9,621,622)

2.0 Tier 2 capital and a breakdown of its components:

		As on 15.07.2016
Supplementary Capital (Tier 2)		718,638,425
a	General loan loss provision	333,113,481
b	Exchange Equalization Reserve	384,481,144
c	Investment Adjustment Reserve	1,043,800

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 94,028,558

5.0 Total qualifying capital

NPR 7,455,361,593

6.0 Capital adequacy ratio

15.82%

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

RISK WEIGHTED EXPOSURES		As on 15.07.2016
A	Risk Weighted Exposure for Credit Risk	41,055,456,634
B	Risk Weighted Exposure for Operational Risk	4,925,883,782
C	Risk Weighted Exposure for Market Risk	1,155,729,446
Total Risk Weighted Exposures (a+b+c)		47,137,070,862

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

No.	Particulars	RWE as on Ashadh 2073
1	Claims on govt. and central Bank	-
2	Claims on other official entities	-
3	Claims on Banks	7,830,700,050
4	Claims on corporate and securities firm	13,328,529,669
5	Claims on regulatory retail portfolio	3,014,085,260
6	Claim secured by residential properties	2,924,793,636
7	Claims secured by commercial real state	5,002,393,032
8	Past due Claims	323,052,157
9	High risk claims	2,606,535,256
10	Other Assets	321,021,773
11	Off Balance sheet items	5,704,346,002
	Total	41,055,456,634

9.0 Total risk weighted exposure calculation table

Form No. 2: Risk Weighted Exposure For Credit Risk							Rs.	
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	799,366,056	-	-	799,366,056	0%	-	
2	Balance With Nepal Rastra Bank	1,514,671,384	-	-	1,514,671,384	0%	-	
3	Gold	-	-	-	-	0%	-	
4	Investment in Nepalese Government Securities	7,271,476,269	-	-	7,271,476,269	0%	-	
5	All claims on Government of Nepal	138,807,033	-	-	138,807,033	0%	-	
6	Investment in Nepal Rastra Bank securities	2,530,000,000	-	-	2,530,000,000	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, ECB, EC and Multilateral Development Banks (MDBs) 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	1,404,864,699	-	-	1,404,864,699	20%	280,972,940	
20	Claims on domestic banks that do not meet capital adequacy requirem	2,076,464	-	-	2,076,464	100%	2,076,464	
21	Claims on foreign bank (ECA Rating 0-1)	16,253,042,532	-	-	16,253,042,532	20%	3,250,608,506	
22	Claims on foreign bank (ECA Rating 2)	1,808,515	-	-	1,808,515	50%	904,258	
23	Claims on foreign bank (ECA Rating 3-6)	4,293,600,000	-	-	4,293,600,000	100%	4,293,600,000	
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	12,689,408	-	-	12,689,408	20%	2,537,882	
26	Claims on Domestic Corporates	14,500,028,610	-	1,171,498,941	13,328,529,669	100%	13,328,529,669	
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 (Not Overdue)	4,018,780,346	-	-	4,018,780,346	75%	3,014,085,260	
32	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-	
33	Claims secured by residential properties	4,539,220,455	-	-	4,539,220,455	60%	2,723,532,273	
34	Claims not fully secured by residential properties	-	-	-	-	150%	-	
35	Claims secured by residential properties (Overdue)	125,630,914	22,078,146	-	103,552,768	100%	103,552,768	
36	Claims secured by Commercial real estate	5,002,393,032	-	-	5,002,393,032	100%	5,002,393,032	
37	Past due claims (except for claim secured by residential properties)	254,568,080	39,199,975	-	215,368,105	150%	323,052,157	
38	High Risk claims	1,758,589,013	3,158	59,464,517	1,699,121,338	150%	2,548,682,006	
39	Investment in equity and other capital instruments of institutions listed in the stock exchange	52,250,000	-	-	52,250,000	100%	52,250,000	
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	162,847,659	-	-	162,847,659	60%	97,708,596	
42	Interest Receivable/claim on government securities	2,371,608	-	-	2,371,608	0%	-	
43	Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-	
44	Other Assets (as per attachment)	618,585,946	297,564,173	-	321,021,773	100%	321,021,773	
	Total	65,261,403,523	358,845,453	1,230,963,459	63,671,594,612		35,351,110,832	

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	466,585,534	-	-	466,585,534	0%	-
2	Bills Under Collection	753,607,772	-	-	753,607,772	0%	-
3	Forward Exchange Contract Liabilities	2,226,620,057	-	-	2,226,620,057	10%	222,662,006
4	LC Commitments With Original Maturity Up to 6 months (domestic counterparty)	2,366,418,274	-	132,130,996	2,234,287,278	20%	446,857,456
	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 counterparty)	92,396,326	-	25,155,839	67,240,488	50%	33,620,244
	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 counterparty)	443,307,549	-	222,023,819	221,283,730	50%	110,641,865
	Foreign Counterparty (ECA Rating 0-1)	4,738,297,699	-	3,715,383,509	1,022,914,191	20%	204,582,838
	Foreign Counterparty (ECA Rating 2)	3,432,448,546	-	1,623,460,003	1,808,988,543	50%	904,494,271
	Foreign Counterparty (ECA Rating 3-6)	158,614,247	-	-	158,614,247	100%	158,614,247
	Foreign Counterparty (ECA Rating 7)	14,903,086	-	-	14,903,086	150%	22,354,628
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	2,918,368,041	-	1,907,693,626	1,010,674,415	100%	1,010,674,415
11	Financial Guarantee	46,867,000	-	4,608,500	42,258,500	100%	42,258,500
12	Acceptances and Endorsements	331,057,625	-	10,044,823	321,012,800	100%	321,012,800
13	Unpaid Portion of Partly paid shares and Securities	-	-	-	-	100%	-
14	Irrevocable credit commitments (short term)	6,222,707,078	-	402,839,737	5,819,867,341	20%	1,163,973,468
15	Irrevocable Credit commitments (long term)	476,000,000	-	-	476,000,000	50%	238,000,000
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	1,022,019,300	-	201,420,037	820,599,264	100%	820,599,264
18	Unpaid Guarantee Claims	2,000,000	-	-	2,000,000	200%	4,000,000
	TOTAL	25,712,218,134	-	8,244,760,890	17,467,457,244		5,704,346,003
	Total RWE for Credit Risk before Adjustment (A) +(B)	90,973,621,657	358,845,453	9,475,724,348	81,139,051,856		41,055,456,834
	Adjustments under Pillar-II						
	Add: 10% of the loan and facilities in excess of Single Obligor Limits	-	-	-	-	-	-
	Add: 1% of the contract (sale) value in case of the sale of credit with recourse (6.4.4)	-	-	-	-	-	-
	Total RWE for Credit Risk (After Bank's adjustments of Pillar II)	90,973,621,657	358,845,453	9,475,724,348	81,139,051,856		41,055,456,834

10.0 Amount of NPAs (both Gross and Net)

10.1 Restructure/Reschedule Loan

- Nil

10.2 Substandard loan

- Gross value Rs. 42,775,468 Net values Rs. 32,081,601

10.3 Doubtful Loan

- Gross value Rs. 18,591,570 Net value Rs 9,295,785

10.4 Loss Loan

- Gross value Rs. 40,452,453, Net value: NIL

11.0 NPA Ratio

11.1 Gross NPA to Gross Advances

0.32%

11.2 Net NPA to Net Advances

0.13%

12.0 Movement of NPA

Ø Upward movement of Rs. 14,613,680 during the quarter.

13.0 Write off of loans & Interest suspense

Ø Loans Write off as of 15th July 2016 is Rs.21,098,573 and interest suspense balance is Rs 472,102.

14.0 Movement in Loan loss provisions and interest suspense

Upward movement in Loan Loss Provisions of Rs. 33,349,788 during the quarter.

Downward movement in Interest suspense of Rs. 13,614,258 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	NIL
Held To Maturity	22,682,276,268
Available For Sale	55,985,500

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

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.

In respect of Operational Risk, this is managed through Country Executive Risk Committee which exercises oversight of the Bank's operational risk exposures to ensure that 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.

Operational Risk is managed through Risk Management Framework (RMF) which sets out the bank's approach to risk management and the control framework. Through the Risk Management Framework, we manage enterprise-wide risks with the objective of maximizing risk-adjusted returns while remaining within our risk appetite. Roles and responsibilities for risk management are defined under '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 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.

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 a 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 level, are assigned internal credit rating that supports identification and measurement of risk and integrated into overall credit risk analysis.

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

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 Tolerance. 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 (phoenix) 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 Operational Risk 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 (GFCRC) 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, liquidity risk and equity price risk are assessed at a regular interval to strengthen market risk management. The market risk is managed within the tolerance limit 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.

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.

Other risks

In addition to the credit, operational, market and liquidity risks, 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 2072/73 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 on 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.