

**Disclosure under Basel III capital accord of Nepal Rastra Bank**  
(As per clause 7.4(b) of the New Capital Accord As at Fourth Quarter End (Ashadh, 2074))

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

	As on 15.7.2017
<b>Core Capital (Tier 1)</b>	<b>11,357,628,374</b>
a Paid up Equity Share Capital	4,005,715,333
b Proposed Bonus Equity Share	5,276,593,758
c Share Premium	3,044,186,600
d Statutory General Reserves	2,897,528,788
e Retained Earnings	73,791,150
f Un-audited current year cumulative profit	1,420,601,708
g Other Free Reserve	-
h Less - Deferred Tax Assets	(84,195,205)

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

	As on 15.7.2017
<b>Supplementary Capital (Tier 2)</b>	<b>1,043,987,329</b>
a General loan loss provision	411,397,940
b Exchange Equalization Reserve	413,839,141
c Investment Adjustment Reserve	218,195,288

**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 84,195,205

**5.0 Total qualifying capital**

NPR 12,401,615,703

**6.0 Capital adequacy ratio**

21.83%

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

	As on 15.7.2017
<b>RISK WEIGHTED EXPOSURES</b>	
A Risk Weighted Exposure for Credit Risk	50,192,675,320
B Risk Weighted Exposure for Operational Risk	5,276,593,758
C Risk Weighted Exposure for Market Risk	1,330,723,677
<b>Total Risk Weighted Exposures (a+b+c)</b>	<b>56,801,992,755</b>

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

No.	Particulars	RWE as on Ashadh end 2074
1	Claims on govt. and central bank	-
2	Claims on other official entities	-
3	Claims on Banks	8,090,443,631
4	Claims on corporate and securities firm	16,160,139,183
5	Claims on regulatory retail portfolio	3,987,916,233
6	Claims secured by residential properties	4,380,930,656
7	Claims secured by commercial real estate	7,364,701,905
8	Past due Claims	290,208,598
9	High risk claims	3,658,806,633
10	Other Assets	393,290,005
11	Off balance sheet items	6,148,048,475
	<b>Total</b>	<b>50,192,675,320</b>

**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=a*e	
1	Cash balance	811,609,528	-	-	811,609,528	0%	-	
2	Balance With Nepal Rastra Bank	7,067,997,124	-	-	7,067,997,124	0%	-	
3	Gold	-	-	-	-	0%	-	
4	Investment in Nepalese Government Securities	4,537,539,356	-	-	4,537,539,356	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	503,350,000	-	-	503,350,000	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 on Multilateral Development Banks (MDBs) incorporated 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	1,658,936,514	-	-	1,658,936,514	20%	331,787,303	
20	Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-	
21	Claims on foreign bank (ECA Rating 0-1)	20,306,320,060	-	-	20,306,320,060	20%	4,061,264,012	
22	Claims on foreign bank (ECA Rating 2)	1,716,884	-	-	1,716,884	50%	858,442	
23	Claims on foreign bank (ECA Rating 3-6)	3,611,300,000	-	-	3,611,300,000	100%	3,611,300,000	
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	21,169,373	-	-	21,169,373	20%	4,233,875	
26	Claims on Domestic Corporates	16,160,139,948	-	102,650,765	16,160,139,183	100%	16,160,139,183	
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 Portfolios (Not Overdue)	5,317,221,644	-	-	5,317,221,644	35%	3,987,916,233	
32	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-	
33	Claims secured by residential properties	6,425,568,663	-	-	6,425,568,663	60%	3,855,341,198	
34	Claims not fully secured by residential properties	-	-	-	-	150%	-	
35	Claims secured by residential properties (Overdue)	182,360,938	18,108,417	-	164,252,521	100%	164,252,521	
36	Claims secured by Commercial real estate	7,364,701,905	-	-	7,364,701,905	100%	7,364,701,905	
37	Past due claims (except for claim secured by residential properties)	2,293,552,118	36,082,803	-	1,937,469,315	150%	2,902,208,998	
38	High Risk claims	2,199,646,807	1,250	-	2,122,595,398	150%	3,183,893,098	
39	Investment in equity and other capital instruments of institutions listed in the stock exchange	269,400,288	-	-	269,400,288	100%	269,400,288	
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	267,394,894	-	-	267,394,894	60%	160,436,937	
42	Interest Receivable/claim on government securities	1,852,188	-	-	1,852,188	0%	-	
43	Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-	
44	Other Assets (as per attachment)	3,955,987,328	762,297,123	-	3,193,690,205	100%	3,193,690,205	
	<b>Total</b>	<b>78,538,561,192</b>	<b>816,489,669</b>	<b>179,700,924</b>	<b>77,542,370,699</b>		<b>44,044,637,945</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	528,797,376	-	-	528,797,376	0%	-
2	Bills Under Collection	1,173,476,647	-	-	1,173,476,647	0%	-
3	Forward Exchange Contract Liabilities	2,376,477,206	-	-	2,376,477,206	10%	237,647,721
4	LC Commitments With Original Maturity Up to 6 months (domestic counterparties)	2,197,811,299	-	91,395,146	2,106,416,153	20%	421,283,231
	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)	84,816,948	-	76,813,810	8,003,139	50%	4,001,569
	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)	538,069,928	-	229,694,840	308,375,089	50%	154,187,544
	Foreign Counterparty (ECA Rating 0-1)	5,245,008,245	-	4,075,699,715	1,169,308,530	20%	233,861,706
	Foreign Counterparty (ECA Rating 2)	3,564,530,823	-	1,696,660,042	1,867,870,781	50%	933,935,391
	Foreign Counterparty (ECA Rating 3-6)	213,774,577	-	-	213,774,577	100%	213,774,577
	Foreign Counterparty (ECA Rating 7)	7,816,937	-	-	7,816,937	150%	11,725,405
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	2,834,078,563	-	1,893,462,253	1,140,616,311	100%	1,140,616,311
11	Financial Guarantee	58,855,875	-	16,452,000	42,403,875	100%	42,403,875
12	Acceptances and Endorsements	729,589,385	-	16,411,882	713,177,504	100%	713,177,504
13	Unpaid Portion of Party paid shares and Securities	-	-	-	-	100%	-
14	Irrevocable credit commitments (short term)	6,291,130,889	-	2,251,739,275	4,039,391,613	20%	807,878,323
15	Irrevocable Credit commitments (long term)	300,000,000	-	-	300,000,000	50%	150,000,000
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	1,280,632,890	-	196,677,741	1,083,955,149	100%	1,083,955,149
18	Unpaid Guarantee Claims	-	-	-	-	200%	-
	<b>TOTAL</b>	<b>27,424,467,569</b>	<b>-</b>	<b>10,345,006,703</b>	<b>17,079,460,866</b>		<b>6,148,048,275</b>
	<b>Total RWE for Credit Risk Before Adjustment (A) +(B)</b>	<b>105,963,028,761</b>	<b>816,489,609</b>	<b>10,524,707,626</b>	<b>94,621,831,525</b>		<b>50,192,675,320</b>
	Adjustments under Pillar 4	-	-	-	-	-	-
	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 & C)	-	-	-	-	-	-
	<b>Total RWE for Credit Risk (After Bank's adjustments of Pillar 4)</b>	<b>105,963,028,761</b>	<b>816,489,609</b>	<b>10,524,707,626</b>	<b>94,621,831,525</b>		<b>50,192,675,320</b>

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

##### 10.1 Restructure/Reschedule Loan

- Nil

##### 10.2 Substandard loan

- Gross value Rs. 22,631,453 Net values Rs. 16,973,589.

##### 10.3 Doubtful Loan

- Gross value Rs. 11,107,496 Net value Rs. 5,553,748.

##### 10.4 Loss Loan

- Gross value Rs.42,995,711 Net value: NIL

#### 11.0 NPA Ratio

##### 11.1 Gross NPA to Gross Advances

0.13%

##### 11.2 Net NPA to Net Advances

0.06%

#### 12.0 Movement of NPA

∅ Downward movement of Rs. 9,509,054 during the quarter.

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

∅ Loans Write off as of 15th Jul 2017 is Rs.Nil and interest suspense balance is Nil.

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

Upward movement in Loan Loss Provisions of Rs.67,720,320 during the quarter.

Downward movement in interest suspense of Rs. 16,669,170 during the quarter.

#### 15.0 Detail of additional Loan Loss provision

- Major additional provision under watchlist category has 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	4,280,892,441
Held To Maturity	11,077,996,915
Available For Sale	273,135,788

## **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 appetite 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 country cross-border 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 Operational Risk 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 Operational Risk Framework across all areas of operational risk management by monitoring the controls associated with the Operational Risk 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, which reinforces the risk management culture in the bank. 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 Operational Risk Framework (ORF) 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 Business Banking, Commercial and Corporate & Institutional 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. 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. The bank aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the bank.

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 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. All Risks that are rated Medium or above on the Group Operational Risk Assessment Matrix are reported to the Executive Risk Committee (ERC) for endorsement and escalated to the Group Process Owner by the relevant country process owner for acceptance through the relevant Process Governance Committees (PGCs).
- The Financial Crime Risk Committee, chaired by the CEO, ensures appropriate governance of Financial Crime risk and oversees the implementation of the Risk Management Framework as it relates to Financial Crime.
- The Group Risk Committee (GRC) determines the Group's approach to the management of operational risk in accordance with the RMF. The GRC fulfills its responsibilities in part through delegation of authorities to properly constituted committees as listed below:

o 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.

o Group Financial Crime Risk Committee (GFCRC) is responsible for governing financial crime risks across the Group Process Universe. This includes financial crime operational risks arising from non-compliance with external rules and regulations relating to International Sanctions, Anti-money-laundering & Terrorist financing and Anti-bribery and Corruption.

o Group Information Management Governance Committee (GIMGC) provides oversight and drives best practice in information management and data governance.

o Business and Geographic Risk Committees are responsible for ensuring the effective management of risk in the businesses and across the geographies in support of the Group's strategy.

### **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 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.

### **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 2023/24 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.