

## 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 2074)]

### 1.0 Tier 1 Capital and a breakdown of its components;

		As on 13.04.2018
<b>Core Capital (Tier 1)</b>		<b>12,628,976,311</b>
a	Paid up Equity Share Capital	8,011,430,667
b	Proposed Bonus Equity Share	-
c	Share Premium	-
d	Statutory General Reserves	3,181,848,015
e	Retained Earnings	9,786,366
f	Un-audited current year cumulative profit	1,509,637,666
g	Other Free Reserve	-
h	Less : Deferred Tax Assets	(83,726,403)

### 2.0 Tier 2 Capital and a breakdown of its components;

		As on 13.04.2018
<b>Supplementary Capital (Tier 2)</b>		<b>930,410,136</b>
a	General loan loss provision	486,600,160
b	Exchange Equalization Reserve	438,421,970
c	Investment Adjustment Reserve	5,388,006

### 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 83,726,403

### 5.0. Total qualifying capital

NPR 13,559,386,446.27

### 6.0. Capital adequacy ratio

22.68 %

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

<b>RISK WEIGHTED EXPOSURES</b>		<b>As on 13.04.2018</b>
A	Risk Weighted Exposure for Credit Risk	53,325,407,387
B	Risk Weighted Exposure for Operational Risk	4,598,925,881
C	Risk Weighted Exposure for Market Risk	1,178,353,764
Add:	Adjustments Under Pillar-II	679,667,877
	<b>Total Risk Weighted Exposures (a+b+c)</b>	<b>59,782,354,910</b>

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

<b>No.</b>	<b>Particulars</b>	<b>RWE as on Chaitra end 2074</b>
1	Claims on govt. and central Bank	-
2	Claims on other official entities	-
3	Claims on Banks	3,679,750,622
4	Claims on corporate and securities firm	20,340,510,151
5	Claims on regulatory retail portfolio	4,150,526,781
6	Claim secured by residential properties	4,903,710,841
7	Claims secured by commercial real state	7,269,892,784
8	Past due Claims	342,281,207
9	High risk claims	4,283,750,054
10	Other Assets	663,906,223
11	Off Balance sheet Items	7,691,078,725
	<b>Total</b>	<b>53,325,407,387</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=d*e
1	Cash Balance	1,014,606,962	-	-	1,014,606,962	0%	-
2	Balance With Nepal Rastra Bank	3,710,879,225	-	-	3,710,879,225	0%	-
3	Gold	-	-	-	-	0%	-
4	Investment in Nepalese Government Securities	7,118,771,603	-	-	7,118,771,603	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, ECB, EC and on 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	2,965,038,993	-	-	2,965,038,993	20%	593,007,799
20	Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
21	Claims on foreign bank (ECA Rating 0-1)	15,328,999,893	-	-	15,328,999,893	20%	3,065,799,979
22	Claims on foreign bank (ECA Rating 2)	1,877,988	-	-	1,877,988	50%	938,994
23	Claims on foreign bank (ECA Rating 3-6)	-	-	-	-	100%	-
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	100,019,255	-	-	100,019,255	20%	20,003,851
26	Claims on Domestic Corporates	21,454,164,970	-	1,113,654,819	20,340,510,151	100%	20,340,510,151
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)	5,534,035,708	-	-	5,534,035,708	75%	4,150,526,781
32	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
33	Claims secured by residential properties	7,373,446,498	-	-	7,373,446,498	60%	4,424,067,899
34	Claims not fully secured by residential properties	-	-	-	-	150%	-
35	Claims secured by residential properties (Overdue)	260,825,917	7,985,603	-	252,840,314	100%	252,840,314
36	Claims secured by Commercial real estate	7,269,892,784	-	-	7,269,892,784	100%	7,269,892,784
37	Past due claims (except for claim secured by residential properties)	292,829,640	64,642,169	-	228,187,471	150%	342,281,207
38	High Risk claims	2,733,899,174	1,974	61,399,522	2,672,497,678	150%	4,008,746,517

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	378,004,381	-	-	378,004,381	60%	226,802,629
42	Interest Receivable/claim on government securities	6,334,594	-	-	6,334,594	0%	-
43	Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
44	Other Assets (as per attachment)	1,517,047,356	853,141,134	-	663,906,223	100%	663,906,223
<b>Total</b>		<b>82,526,129,168</b>	<b>1,224,482,797</b>	<b>1,212,087,075</b>	<b>80,089,559,296</b>		<b>43,252,617,888</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	Revocable Commitments	613,945,854	-	-	613,945,854	0%	-
2	Bills Under Collection	1,113,201,053	-	-	1,113,201,053	0%	-
3	Forward Exchange Contract Liabilities	2,018,477,682	-	-	2,018,477,682	10%	201,847,768
4	LC Commitments With Original Maturity Up to 6 months (domestic counterparty)	3,569,491,845	-	98,999,869	3,470,491,977	20%	694,098,395
	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	L C Commitments With Original Maturity Over 6 months (domestic counterparty)	228,962,933	-	80,532,959	148,429,974	50%	74,214,987
	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)	586,385,064	-	219,471,398	366,913,666	50%	183,456,833
	Foreign Counterparty (ECA Rating 0-1)	4,199,017,906	-	3,257,139,566	941,878,339	20%	188,375,668
	Foreign Counterparty (ECA Rating 2)	5,185,542,648	-	2,473,211,575	2,712,331,073	50%	1,356,165,537
	Foreign Counterparty (ECA Rating 3-6)	153,974,370	-	-	153,974,370	100%	153,974,370
	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	3,767,766,582	-	2,354,236,243	1,413,530,338	100%	1,413,530,338
11	Financial Guarantee	59,820,375	-	16,670,000	43,150,375	100%	43,150,375
12	Acceptances and Endorsements	668,439,000	-	27,456,444	640,982,556	100%	640,982,556
13	Unpaid Portion of Partly paid shares and Securities	-	-	-	-	100%	-
14	Irrevocable credit commitments (short term)	6,836,777,191	-	117,491,181	6,719,286,009	20%	1,343,857,202
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	1,677,933,955	-	280,509,259	1,397,424,696	100%	1,397,424,696
18	Unpaid Guarantee Claims	-	-	-	-	200%	-
	<b>TOTAL</b>	<b>30,679,736,458</b>	<b>-</b>	<b>8,925,718,495</b>	<b>21,754,017,963</b>		<b>7,691,078,725</b>

	<b>Total RWE for Credit Risk Before Adjustment (A) +(B)</b>	<b>108,152,354,218</b>	<b>925,770,880</b>	<b>10,100,772,835</b>	<b>97,125,810,503</b>		<b>53,325,407,387</b>
	<b>Adjustments under Pillar-II</b>	-	-	-	-		-
	Add: 10% of the loan and facilities in excess of Single Obligor Limits (6.4 a 3)	-	-	-	-	-	-
	Add: 1% of the contract (sale) value in case of the sale of credit with recourse (6.4 a 4)	-	-	-	-	-	-
	<b>Total RWE for Credit Risk (After Bank's adjustments of Pillar II)</b>	<b>108,152,354,218</b>	<b>925,770,880</b>	<b>10,100,772,835</b>	<b>97,125,810,503</b>	-	<b>53,325,407,387</b>

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

### **10.1 Restructure/Reschedule Loan**

- Nil

### **10.2 Substandard loan**

· Gross value Rs. 23,731,137.94 Net values Rs. 17,798,353.455

### **10.3 Doubtful Loan**

· Gross value Rs. 14,272,280.88 Net value Rs 7,136,140.44

### **10.4 Loss Loan**

· Gross value Rs.59,560,819.95 Net value: Nil

## **11.0 NPA Ratio**

### **11.1 Gross NPA to Gross Advances**

0.21%

### **11.2 Net NPA to Net Advances**

0.05%

## **12.0 Movement of NPA**

∅ Upward movement of Rs. 24,706,317.55 during the quarter.

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

∅ Loans Write off as of 13th April 2018 is Rs.315, 303.02 and interest suspense balance is Nil.

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

Upward movement in Loan Loss Provisions of NPR 60,090,194.76 during the quarter.

Downward movement in Interest suspense of NPR 12,604,438.57 during the quarter.

## **15.0 Details of additional Loan Loss provision**

- No major additional provision has been made.

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

<b>Investment Portfolio</b>	<b>Net Amount (NPR)</b>
<b>Held For Trading</b>	-
<b>Held To Maturity</b>	13,338,771,603
<b>Available For Sale</b>	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, Reputational Risk, Information & Cyber Security Risk and 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 (EXCO) 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 Enterprise 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 a 'three lines of defense' model, which reinforce 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 the businesses and functions engaged in or supporting revenue generating activities that own and manage the risks.

- The Second Line of defense comprises of the control functions independent of the First Line that provide oversight and challenge of risk management to provide confidence to the Senior Management and the Board
- The Third Line of defense comprises of the internal audit function that provides independent assurance of the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line.

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 Enterprise Risk Management Framework, including the clear assignment of the roles and responsibilities of Risk Framework 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 ERMF 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 Framework Owners for all principal Risk Types are appointed as per the ERMF and are responsible for effective management of 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 Framework Owner before raising the risk in the system and tabling the risks in Country Executive Risk Committee for acceptance. Mitigating controls are put in place and mitigation progress monitored until its effectiveness.
- 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 Enterprise 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 Country Financial Crime Risk Committee (CFCRC), chaired by the CEO, ensures appropriate governance of Financial Crime risk and oversees the implementation of the Enterprise 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 ERMF. The GRC fulfils its responsibilities in part through delegation of authorities to properly constituted committees as listed below:
  - \* 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
  - \* 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.
  - \* Group Information Management Governance Committee (GIMGC) provides oversight and drives best practice in information management and data

governance.

\* 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 recognize 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 predominantly 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 reputational risk, information & cyber security risk, and financial crime risk at a regular interval. The Country Executive Risk Committee and EXCO are responsible for the management of these risks.

### **Monitoring and Reporting**

All risks, including credit, operational and market risks are identified, escalated, monitored and mitigated to the satisfaction of the Risk Framework Owner. The Risk Framework 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 2073/74 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.