

**Disclosure under Basel II capital accord of Nepal Rastra Bank**

[As per clause 7.4(b) of the New Capital Accord As at Second Quarter End (Poush, 2071)]

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

		As on 14.01.2015
<b>Core Capital (Tier 1)</b>		<b>5,358,661,385</b>
a	Paid up Equity Share Capital	2,248,161,200
b	Proposed Bonus Equity Share	-
c	Statutory General Reserves	2,381,024,791
d	Retained Earnings	10,028,482
e	Un-audited current year cumulative profit	644,686,128
f	Deferred Tax Reserve	89,556,936
g	Less : Deferred Revenue Expenses	(14,796,153)

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

		As on 14.01.2015
<b>Supplementary Capital (Tier 2)</b>		<b>654,775,880</b>
a	General loan loss provision	293,134,392
b	Exchange Equalization Reserve	360,597,688
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 14,796,153

**5.0 Total qualifying capital**

NPR 6,013,437,265

**6.0 Capital adequacy ratio**

13.08%

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

<b>RISK WEIGHTED EXPOSURES</b>		As on 14.01.2015
A	Risk Weighted Exposure for Credit Risk	40,967,276,397
B	Risk Weighted Exposure for Operational Risk	4,716,123,330
C	Risk Weighted Exposure for Market Risk	281,138,357
<b>Total Risk Weighted Exposures (a+b+c)</b>		<b>45,964,538,085</b>

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

No.	Particulars	RWE as on Poush 2071
1	Claims on govt. and central Bank	-
2	Claims on other official entities	59,816,250
3	Claims on Banks	9,718,922,226
4	Claims on corporate and securities firm	12,608,484,715
5	Claims on regulatory retail portfolio	2,835,628,341
6	Claim secured by residential properties	2,524,710,142
7	Claims secured by commercial real state	5,145,071,025
8	Past due Claims	572,741,415
9	High risk claims	2,869,852,627
10	Other Assets	550,420,652
11	Off Balance sheet Items	4,081,629,305
<b>Total</b>		<b>40,967,276,397</b>

**9.0 Total risk weighted exposure calculation table**

Form No. 2: Risk Weighted Exposure For Credit Risk

S.N.	A. Balance Sheet Exposures	Book Value a	Specific Provision b	Eligible CRM c	Net Value d=a-b-c	Risk Weight e	Rs.	
							Risk Weighted Exposures f=d*e	
1	Cash Balance	676,601,199	-	-	676,601,199	0%	-	-
2	Balance With Nepal Rastra Bank	4,759,349,903	-	-	4,759,349,903	0%	-	-
3	Gold	-	-	-	-	0%	-	-
4	Investment in Nepalese Government Securities	2,442,155,752	-	-	2,442,155,752	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 (IMBIs) 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)	53,170,000	13,292,500	-	39,877,500	150%	59,816,250	-
19	Claims on domestic banks that meet capital adequacy requirements	1,060,810,306	-	-	1,060,810,306	20%	212,162,061	-
20	Claims on domestic banks that do not meet capital adequacy requireme	27,155,474	-	-	27,155,474	100%	27,155,474	-
21	Claims on foreign bank (ECA Rating 0-1)	12,883,187,702	-	-	12,883,187,702	20%	2,576,637,540	-
22	Claims on foreign bank (ECA Rating 2)	-	-	-	-	50%	-	-
23	Claims on foreign bank (ECA Rating 3-6)	6,895,970,000	-	-	6,895,970,000	100%	6,895,970,000	-
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	34,985,756	-	-	34,985,756	20%	6,997,151	-
26	Claims on Domestic Corporates	12,907,783,645	-	299,298,930	12,608,484,715	100%	12,608,484,715	-
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)	3,780,837,788	-	-	3,780,837,788	75%	2,835,628,341	-
32	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-	-
33	Claims secured by residential properties	3,976,846,752	-	-	3,976,846,752	60%	2,386,108,051	-
34	Claims not fully secured by residential properties	-	-	-	-	150%	-	-
35	Claims secured by residential properties (Overdue)	69,590,488	11,729,994	-	57,860,494	100%	57,860,494	-
36	Claims secured by Commercial real estate	5,145,071,025	-	-	5,145,071,025	100%	5,145,071,025	-
37	Past due claims (except for claim secured by residential properties)	498,229,916	26,402,505	-	381,827,410	150%	572,741,115	-
38	High Risk claims	1,917,547,430	1,250	42,839,928	1,874,706,251	150%	2,812,059,377	-
39	Investment in equity and other capital instruments of institutions listed in the stock exchange	55,190,000	3,000,000	-	52,190,000	100%	52,190,000	-
40	Investment in equity and other capital instruments of institutions not listed in the stock exchange	6,735,500	3,000,000	-	3,735,500	150%	5,603,250	-
41	Staff loan secured by residential property	134,569,327	-	-	134,569,327	60%	80,741,596	-
42	Interest Receivable/claim on government securities	3,968,595	-	-	3,968,595	0%	-	-
43	Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-	-
44	Other Assets (as per attachment)	953,227,492	402,806,840	-	550,420,652	100%	550,420,652	-
<b>Total</b>		<b>58,331,791,081</b>	<b>460,233,089</b>	<b>342,138,858</b>	<b>57,529,419,134</b>		<b>36,885,647,093</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	220,665,443	-	-	220,665,443	0%	-
2	Bills Under Collection	126,015,561	-	-	126,015,561	0%	-
3	Forward Exchange Contract Liabilities	981,029,145	-	-	981,029,145	10%	98,102,914
4	LC Commitments With Original Maturity Up to 6 months (domestic counterpart)	1,972,204,519	-	548,723,732	1,423,480,786	20%	284,696,157
	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 counterpart)	399,443,626	-	342,493,595	56,950,032	50%	28,475,016
	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 counterpart)	313,533,944	-	124,592,246	188,941,698	50%	94,470,849
	Foreign Counterparty (ECA Rating 0-1)	3,725,059,920	-	2,909,430,392	815,629,527	20%	163,125,905
	Foreign Counterparty (ECA Rating 2)	2,974,239,420	-	1,402,109,340	1,572,130,080	50%	786,065,040
	Foreign Counterparty (ECA Rating 3-6)	193,025,932	-	-	193,025,932	100%	193,025,932
	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	3,046,644,762	-	1,936,154,978	1,110,489,784	100%	1,110,489,784
11	Financial Guarantee	18,977,000	-	3,038,500	15,938,500	100%	15,938,500
12	Acceptances and Endorsements	333,993,869	-	10,811,225	323,182,643	100%	323,182,643
13	Unpaid Portion of Partly paid shares and Securities	-	-	-	-	100%	-
14	Irrevocable credit commitments (short term)	2,943,454,424	-	49,656,400	2,893,798,024	20%	578,759,605
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	584,685,977	-	202,847,124	381,838,853	100%	381,838,853
18	Unpaid Guarantee Claims	23,458,105	-	11,729,052	11,729,052	200%	23,458,105
	<b>TOTAL</b>	<b>17,856,431,645</b>	<b>-</b>	<b>7,541,586,584</b>	<b>10,314,845,061</b>		<b>4,081,629,305</b>
	<b>Total RWE for Credit Risk Before Adjustment (A) +(B)</b>	<b>76,188,222,727</b>	<b>460,233,089</b>	<b>7,883,725,442</b>	<b>67,844,264,195</b>		<b>40,967,276,397</b>
	<b>Adjustments under Pillar-II</b>						
	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 a 4)	-	-	-	-	-	-
	<b>Total RWE for Credit Risk (After Bank's adjustments of Pillar II)</b>	<b>76,188,222,727</b>	<b>460,233,089</b>	<b>7,883,725,442</b>	<b>67,844,264,195</b>		<b>40,967,276,397</b>

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

##### 10.1 Restructure/Reschedule Loan

- Nil

##### 10.2 Substandard loan

- Gross value Rs. 108,263,421, Net values Rs. 81,197,566

##### 10.3 Doubtful Loan

- Gross value Rs. 1,084,799, Net value Rs 542,399

##### 10.4 Loss Loan

- Gross value Rs. 20,955,547, Net value: NIL

#### 11.0 NPA Ratio

##### 11.1 Gross NPA to Gross Advances

0.44%

##### 11.2 Net NPA to Net Advances

0.28%

#### 12.0 Movement of NPA

Ø Upward movement of Rs. 55,896,512 during the quarter.

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

Ø Loans Write off as of 14th Jan 2015 is Rs. 15,564,175 and interest suspense balance is Rs 176,224.

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

Upward movement in Loan Loss Provisions of Rs. 11,828,432 during the quarter.

Upward movement in interest suspense of Rs. 24,473,553 during the quarter.

#### 15.0 Detail of additional Loan Loss provision

- Provisions due to growth in the volume have been added. 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	9,338,125,752
Available For Sale	55,925,500

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

### **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 Operating Officer to remediate identified gaps.

With regard to Market Risk, the Financial Market Operations maintains net open position of all currencies on a daily basis and circulates it to FM Front Office. The net open position report is also discussed at the ALCO (Assets Liabilities Committee).

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.

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 gets escalated and approved by the appropriate authorities as stipulated in the policies and standards.

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.

### **Credit risk**

The credit risk of individual counterparties or groups of connected counterparties as well as at the portfolios of retail customers 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 SME 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.

### **Operational Risk**

Operational Risk is the potential for loss arising from the failure of people, process or technology or the impact of external events.

Operational Risk Framework (ORF) adopted by the bank provides comprehensive risk management tools for managing operational risk. The Operational Risk Framework (ORF) defines how risks are managed, how Operational Risk policies and controls are assured, how effective governance is exercised as well as the key roles required to manage the underlying processes.

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 that have residual risk ratings which are above 'Low' on the country materiality scale, provided the residual risk rating is 'low' on the Group materiality scale. Risks categorized as Medium, High or Very High on the Group materiality scale are reported to the Executive Risk Committee (ERC) for endorsement and escalated to Group Operational Risk Committees (GORCs) and Group Risk Committee (GRC) for acceptance through the relevant PGCS.
- The Business / Function Operational Risk Committees (ORCs) at Regional level oversee operational risks within businesses and functions across the Region.
- The Group Operational Risk Committee (GORC) and Group Risk Committee (GRC) oversee operational risks at Group level.
- Process Governance Committee (PGC) provides global oversight of all material operational risk arising from a given end-to-end product, client or control processes to ensure that they are identified and controlled.

### **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.

### **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 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 on a regular basis reviews the effectiveness of the internal control system and reports to the Board. The Internal Audit function is focused on the areas of greatest risk as determined by risk assessment and monitors compliance with policies and standards and the effectiveness of internal control structures across the Bank through business/unit audits. The function reports to the Audit Committee. Audit Results are shared with Business Heads for corrective actions.