

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 end 2077)]

1.0 Tier 1 Capital and a breakdown of its components

		As on 15.07.2020
Core Capital (Tier 1)		14,114,834,984
a	Paid up Equity Share Capital	8,011,430,667
b	Proposed Bonus Equity Share	-
c	Share Premium	-
d	Statutory General Reserves	4,106,760,537
e	Retained Earnings	5,304,535
f	Un-audited current year cumulative profit	1,991,339,246
g	Other Free Reserve	-
h	Less: Deferred Tax Assets	-

2.0 Tier 2 Capital and a breakdown of its components

		As on 15.07.2020
Supplementary Capital (Tier 2)		1,347,985,803
a	General loan loss provision	852,161,527
b	Exchange Equalization Reserve	495,824,276
c	Investment Adjustment Reserve	-

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 Nil

5.0 Total qualifying capital

NPR 15,462,820,787

6.0 Capital adequacy ratio

18.54 %

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

RISK WEIGHTED EXPOSURES		As on 15.07.2020
A	Risk Weighted Exposure for Credit Risk	75,044,102,628
B	Risk Weighted Exposure for Operational Risk	6,049,578,137
C	Risk Weighted Exposure for Market Risk	1,378,548,499
Add:	Adjustments Under Pillar-II	947,712,206
	Total Risk Weighted Exposures (a+b+c)	83,419,941,471

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

No.	Particulars	As on 15.07.2020
1	Claims on govt. and central Bank	-
2	Claims on other official entities	-
3	Claims on Banks	9,563,909,276
4	Claims on corporate and securities firm	21,799,552,145
5	Claims on regulatory retail portfolio	4,505,616,038
6	Claim secured by residential properties	5,643,566,217
7	Claims secured by commercial real state	9,653,458,526
8	Past due Claims	836,888,865
9	High risk claims	7,599,185,096
10	Other Assets	1,576,460,848
11	Off Balance Sheet Items	13,865,465,616
	Total	75,044,102,628

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)	Risk Weighted Exposures (f=d*e)
1	Cash Balance	1,175,754,169	-	-	1,175,754,169	0%	-
2	Balance with Nepal Rastra Bank	9,107,764,333	-	-	9,107,764,333	0%	-
3	Gold	-	-	-	-	0%	-
4	Investment in Nepalese Government Securities	12,693,373,900	-	-	12,693,373,900	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	-	-	-	-	0%	-



	(MDBs) recognised by the framework.						
14	Claims on Other Multilateral Development Banks	-	-	-	-	100%	-
15	Claims on Domestic Public Sector Entities	-	-	-	-	100%	-
16	Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	20%	-
17	Claims on Public Sector Entity (ECA 2)	-	-	-	-	50%	-
18	Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	100%	-
19	Claims on Public Sector Entity (ECA 7)	-	-	-	-	150%	-
20	Claims on domestic banks that meet capital adequacy requirements	3,082,400,505	-	-	3,082,400,505	20%	616,480,101
21	Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
22	Claims on foreign bank (ECA Rating 0-1)	32,566,127,860	-	-	32,566,127,860	20%	6,513,225,572
23	Claims on foreign bank (ECA Rating 2)	-	-	-	-	50%	-
24	Claims on foreign bank (ECA Rating 3-6)	2,407,704,948	-	-	2,407,704,948	100%	2,407,704,948
25	Claims on foreign bank (ECA Rating 7)	-	-	-	-	150%	-
26	Claims on Foreign bank incorporated in SAARC Region operating with a buffer of 1% above their respective regulatory capital requirement	132,493,278	-	-	132,493,278	20%	26,498,656
27	Claims on Domestic Corporates	23,202,667,331	53,525,960	1,349,589,226	21,799,552,145	100%	21,799,552,145
28	Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	20%	-
29	Claims on Foreign Corporates (ECA 2)	-	-	-	-	50%	-
30	Claims on Foreign Corporates (ECA 3-6)	-	-	-	-	100%	-
31	Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-
32	Regulatory Retail Portfolio (Not Overdue)	6,009,148,014	1,659,963	-	6,007,488,051	75%	4,505,616,038
33	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
34	Claims secured by residential properties	8,950,157,110	2,323,850	-	8,947,833,260	60%	5,368,699,956



35	Claims not fully secured by residential properties	-	-	-	-	150%	-
36	Claims secured by residential properties (Overdue)	295,750,345	20,884,083	-	274,866,261	100%	274,866,261
37	Claims secured by Commercial real estate	9,666,708,526	13,250,000	-	9,653,458,526	100%	9,653,458,526
38	Past due claims (except for claim secured by residential properties)	646,366,980	88,441,070	-	557,925,910	150%	836,888,865
39	High Risk claims	5,086,505,729	36,091,520	231,103,197	4,819,311,012	150%	7,228,966,518
40	Investment in equity and other capital instruments of institutions listed in the stock exchange	364,615,328	-	-	364,615,328	100%	364,615,328
41	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
42	Staff loan secured by residential property	538,047,235	-	-	538,047,235	50%	269,023,617
43	Interest Receivable/claim on government securities	1,412,174	-	-	1,412,174	0%	-
44	Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
45	Other Assets (as per attachment)	2,159,151,253	851,714,022	-	1,307,437,231	100%	1,307,437,231
	Total (A)	118,228,691,550	1,067,890,469	1,580,692,424	115,580,108,658		61,178,637,012

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 (e)	RWE (f=d*e)
1	Revocable Commitments	2,222,069,538	-	-	2,222,069,538	0%	-
2	Bills Under Collection	1,210,499,172	-	-	1,210,499,172	0%	-
3	Forward Exchange Contract Liabilities	5,216,198,609	-	-	5,216,198,609	10%	521,619,861
4	LC Commitments with Original Maturity Up to 6 months (domestic counterparty)	3,495,408,000	-	81,549,332	3,413,858,667	20%	682,771,733
	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	235,915,719	-	104,146,447	131,769,272	50%	65,884,636



	6 months (domestic counterparty)						
	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)	1,187,070,194	-	234,203,783	952,866,411	50%	476,433,206
	Foreign Counterparty (ECA Rating 0-1)	6,954,324,655	-	5,472,939,151	1,481,385,504	20%	296,277,101
	Foreign Counterparty (ECA Rating 2)	12,110,592,397	-	5,831,888,635	6,278,703,762	50%	3,139,351,881
	Foreign Counterparty (ECA Rating 3-6)	524,925,962	-	-	524,925,962	100%	524,925,962
	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	9,942,125,998	-	5,792,013,246	4,150,112,752	100%	4,150,112,752
11	Financial Guarantee	159,335,488	-	30,963,201	128,372,287	100%	128,372,287
12	Acceptances and Endorsements	304,390,298	-	7,861,185	296,529,113	100%	296,529,113
13	Unpaid Portion of Partly paid shares and Securities	-	-	-	-	100%	-
14	Irrevocable credit commitments (short term)	8,277,991,340	-	130,130,774	8,147,860,566	20%	1,629,572,113
15	Irrevocable Credit commitments (long term)	1,602,625,000	-	-	1,602,625,000	50%	801,312,500
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	1,386,387,825	-	259,840,859	1,126,546,966	100%	1,126,546,966
18	Unpaid Guarantee Claims	64,388,763	-	51,511,010	12,877,753	200%	25,755,505
	Total (B)	54,894,248,958	-	17,997,047,623	36,897,201,335		13,865,465,616
	Total RWE for Credit Risk Before Adjustment (A) +(B)	173,122,940,508	1,067,890,469	19,577,740,046	152,477,309,993		75,044,102,628
	Adjustments under Pillar-II	-	-	-	-		-
	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)	-	-	-	-	-	-
	Total RWE for Credit Risk (After Bank's adjustments of Pillar II)	173,122,940,508	1,067,890,469	19,577,740,046	152,477,309,993	-	75,044,102,628

10.0 Amount of NPAs (both Gross and Net)

10.1 Restructure/Reschedule Loan

Nil

10.2 Substandard loan

Gross value Rs. 104,287,340 Net values Rs. 78,215,505

10.3 Doubtful Loan

Gross value Rs. 48,118,209 Net value Rs 24,059,105

10.4 Loss Loan

Gross value Rs. 95,925,937 Net value: Nil

11.0 NPA Ratio

11.1 Gross NPA to Gross Advances

0.44%

11.2 Net NPA to Net Advances

0.18%

12.0 Movement of NPA

Upward movement of Rs. 115,118,557 during the quarter.

13.0 Write off of loans & Interest suspense

Loans Write off as of 15th July 2020 is Rs. 9,633,506 and Interest Suspense balance is Rs. 1,944,590.

14.0 Movement in Loan loss provisions and interest suspense

Upward movement in Loan Loss Provisions of NPR 377,971,854 during the quarter.

Upward movement in Interest suspense of NPR 1,835,274 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

Investment Portfolio	Net Amount (NPR)
Held for Trading	-
Held to Maturity	46,673,253,900
Available for Sale	368,350,828

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 (ERC) reviews Credit Risk, Operational Risk, Market or Traded Risk, Reputational Risk, Information & Cyber Security Risk, Financial Crime Risk, Compliance Risk, Conduct Risk, Country Risk and Model Risk; analyses the trend, assesses the exposure impact on capital and provides a summary report to the Executive Committee. Its objective is to ensure the effective management of risks throughout the Bank in support of the Bank's Business Strategy.

The Assets and Liabilities Committee (ALCO) is responsible for the management of capital and liquidity, and establishment of, and compliance with, policies relating to balance sheet management, including management of 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 the 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 Market Risk Team. The net open position report is also discussed at the ALCO.

Executive Committee (EXCO) reviews the inputs received from CERC and ALCO and a synopsis is provided to the Board 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 viz. Credit, operational and market or traded risk, that have direct impact on the capital adequacy level are managed in a structured manner with clear roles and responsibilities. ICAAP document is also prepared annually and submitted to the regulator.

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 defence' model, which reinforce the risk management culture in the bank. Each 'line of defence' 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 Type Framework (ORTF) 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

OR is defined as the “Potential for loss from inadequate or failed internal processes, and systems, human error, or from the impact of external events (including legal risks)”.

Operational Risk Type Framework (ORTF) adopted by the bank outlines the overall risk management approach for operational risk (“OR”) for the internal stakeholders and external stakeholders. The bank allocates responsibilities for the management of operational risk consistent with the Three Lines of Defence. The ORTF is built on a risk-based approach meaning that risk management plans, processes, activities and resource allocations are determined in accordance with the level of risk.

OR related principles

- Risk appetite and scenarios are forward looking and should be used strategically to help planning and business management.
- There should be a top-down, complete and consistent approach to risks and controls through the Risk and Control Self-Assessment (RCSA) process.
- The RCSA process involves objective assessments of risks based on client impact and likelihood, more focus on material risks, more thinking on control design rather than simply testing, and tools to allow countries to prioritise local actions.
- When an operational risk event occurs, there needs to be rapid escalation and root-cause reviews, tracked to completion.



- People are skilled and rewarded for good risk management behaviour.
- The data and system encourage good risk management behaviour.
- Second line independent review is risk-based and proportionate.

Governance Committee Structure

The Country Executive Risk Committee (ERC) oversees the management of the Non-Financial Risks (NFRs) and the supporting system of controls at the country. The Country Assets and Liabilities Committee (ALCO) is responsible for the management of capital and liquidity Risk.

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, capital 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 Financial Crime Risk Committee (CFCRC), chaired by the CEO, ensures appropriate governance of Financial Crime risk. The Country Executive Risk Committee and EXCO are responsible for the management of other 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 2076/77 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.