

**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 end 2076)]

**1.0 Tier 1 Capital and a breakdown of its components**

		As on 12.04.2020
<b>Core Capital (Tier 1)</b>		<b>13,923,472,022</b>
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	1,799,976,284
g	Other Free Reserve	-
h	Less: Deferred Tax Assets	-

**2.0 Tier 2 Capital and a breakdown of its components**

		As on 12.04.2020
<b>Supplementary Capital (Tier 2)</b>		<b>1,085,294,795</b>
a	General loan loss provision	589,972,410
b	Exchange Equalization Reserve	495,322,385
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 15,008,766,818

**6.0 Capital adequacy ratio**

17.05 %

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

RISK WEIGHTED EXPOSURES		As on 12.04.2020
A	Risk Weighted Exposure for Credit Risk	79,137,524,710
B	Risk Weighted Exposure for Operational Risk	6,049,578,137
C	Risk Weighted Exposure for Market Risk	1,891,042,122
Add:	Adjustments Under Pillar-II	947,712,206
	<b>Total Risk Weighted Exposures (a+b+c)</b>	<b>88,025,857,176</b>



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

No.	Particulars	As on 12.04.2020
1	Claims on govt. and central Bank	-
2	Claims on other official entities	-
3	Claims on Banks	9,758,317,722
4	Claims on corporate and securities firm	24,283,076,168
5	Claims on regulatory retail portfolio	5,088,633,244
6	Claim secured by residential properties	5,707,340,574
7	Claims secured by commercial real state	10,404,330,898
8	Past due Claims	62,658,267
9	High risk claims	8,165,050,907
10	Other Assets	1,337,270,906
11	Off Balance Sheet Items	14,330,846,025
	<b>Total</b>	<b>79,137,524,710</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)	Risk Weighted Exposures (f=d*e)
1	Cash Balance	1,509,389,176	-	-	1,509,389,176	0%	-
2	Balance with Nepal Rastra Bank	5,287,628,517	-	-	5,287,628,517	0%	-
3	Gold	-	-	-	-	0%	-
4	Investment in Nepalese Government Securities	6,208,596,921	-	-	6,208,596,921	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	-	-	-	-	150%	-



	Central Bank (ECA - 7)						
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 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	3,598,360,994	-	-	3,598,360,994	20%	719,672,199
21	Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
22	Claims on foreign bank (ECA Rating 0-1)	23,653,704,217	-	-	23,653,704,217	20%	4,730,740,843
23	Claims on foreign bank (ECA Rating 2)	6,732,848	-	-	6,732,848	50%	3,366,424
24	Claims on foreign bank (ECA Rating 3-6)	4,274,200,000	-	-	4,274,200,000	100%	4,274,200,000
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	151,691,278	-	-	151,691,278	20%	30,338,256



27	Claims on Domestic Corporates	24,881,396,893	24,446,455	573,874,270	24,283,076,168	100%	24,283,076,168
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)	6,788,081,827	3,237,503	-	6,784,844,325	75%	5,088,633,244
33	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
34	Claims secured by residential properties	9,425,084,585	4,213,918	-	9,420,870,667	60%	5,652,522,400
35	Claims not fully secured by residential properties	-	-	-	-	150%	-
36	Claims secured by residential properties (Overdue)	64,503,338	9,685,165	-	54,818,173	100%	54,818,173
37	Claims secured by Commercial real estate	10,424,845,898	20,515,000	-	10,404,330,898	100%	10,404,330,898
38	Past due claims (except for claim secured by residential properties)	78,624,764	36,852,586	-	41,772,178	150%	62,658,267
39	High Risk claims	5,507,439,084	1,443,084	273,046,596	5,232,949,404	150%	7,849,424,105
40	Investment in equity and other capital instruments of institutions listed in the stock exchange	310,023,552	-	-	310,023,552	100%	310,023,552
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	535,764,809	-	-	535,764,809	50%	267,882,405
43	Interest Receivable/claim	777,879	-	-	777,879	0%	-



	on government securities						
44	Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
45	Other Assets (as per attachment)	1,571,610,604	502,222,103	-	1,069,388,501	100%	1,069,388,501
	<b>Total (A)</b>	<b>104,420,999,717</b>	<b>602,615,813</b>	<b>846,920,866</b>	<b>102,971,463,038</b>		<b>64,806,678,685</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 (e)	RWE (f=d*e)
1	Revocable Commitments	2,058,067,676	-	-	2,058,067,676	0%	-
2	Bills Under Collection	1,646,464,909	-	-	1,646,464,909	0%	-
3	Forward Exchange Contract Liabilities	3,891,980,058	-	-	3,891,980,058	10%	389,198,006
4	LC Commitments with Original Maturity Up to 6 months (domestic counterparty)	3,622,852,099	-	202,388,377	3,420,463,722	20%	684,092,744
	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)	182,158,490	-	102,089,270	80,069,220	50%	40,034,610
	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)	1,179,718,130	-	235,392,425	944,325,705	50%	472,162,853
	Foreign Counterparty (ECA Rating 0-1)	5,043,235,810	-	3,982,066,982	1,061,168,828	20%	212,233,766
	Foreign Counterparty (ECA Rating 2)	11,761,896,496	-	5,666,747,491	6,095,149,005	50%	3,047,574,502
	Foreign Counterparty (ECA Rating 3-6)	453,018,837	-	-	453,018,837	100%	453,018,837



	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	10,084,629,482	-	5,733,332,490	4,351,296,992	100%	4,351,296,992
11	Financial Guarantee	204,163,288	-	32,242,101	171,921,187	100%	171,921,187
12	Acceptances and Endorsements	677,011,000	-	26,507,315	650,503,685	100%	650,503,685
13	Unpaid Portion of Partly paid shares and Securities	-	-	-	-	100%	-
14	Irrevocable credit commitments (short term)	10,306,121,143	-	278,624,731	10,027,496,412	20%	2,005,499,282
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	1,209,190,876	-	157,193,815	1,051,997,061	100%	1,051,997,061
18	Unpaid Guarantee Claims	-	-	-	-	200%	-
	<b>Total (B)</b>	<b>53,923,133,295</b>	<b>-</b>	<b>16,416,584,997</b>	<b>37,506,548,297</b>		<b>14,330,846,025</b>
	<b>Total RWE for Credit Risk Before Adjustment (A) +(B)</b>	<b>158,344,133,012</b>	<b>602,615,813</b>	<b>17,263,505,863</b>	<b>140,478,011,336</b>		<b>79,137,524,710</b>
	<b>Adjustments under Pillar-II</b>						
	<b>Add:</b> 10% of the loan and facilities in excess of Single Obligor Limits (6.4 a 3)	-	-	-	-	-	-
	<b>Add:</b> 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>158,344,133,012</b>	<b>602,615,813</b>	<b>17,263,505,863</b>	<b>140,478,011,336</b>	<b>-</b>	<b>79,137,524,710</b>

**10.0 Amount of NPAs (both Gross and Net)****10.1 Restructure/Reschedule Loan**

Nil

**10.2 Substandard loan**

Gross value Rs. 90,310,379 Net values Rs. 67,732,784

**10.3 Doubtful Loan**

Gross value Rs. 8,967,603 Net value Rs 4,483,802

**10.4 Loss Loan**

Gross value Rs. 33,934,947 Net value: Nil

**11.0 NPA Ratio****11.1 Gross NPA to Gross Advances**

0.22%

**11.2 Net NPA to Net Advances**

0.12%

**12.0 Movement of NPA**

Upward movement of Rs. 39,504,037 during the quarter.

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

Loans Write off as of 12th Apr 2020 is Rs. 7,773,940 and Interest Suspense balance is Rs. 109,316.

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

Upward movement in Loan Loss Provisions of NPR 33,686,514 during the quarter.

Downward movement in Interest suspense of NPR 48,162 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	34,005,386,921
Available For Sale	313,759,052



## **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 or Traded Risk, Reputational Risk, Information & Cyber Security Risk, Financial Crime & Compliance, Conduct and Country 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 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 regards to Market Risk, the Financial Market Operations maintain net open position of all currencies daily and provides data to Head FM who reviews and analyses 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 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 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**

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. Existing and future levels of OR must be maintained within the approved risk appetite ("RA") of the bank.

### **OR related principles**

- The bank will identify and assess all OR arising as consequence of its business activities.



- The bank will systematically and consistently monitor the design and operating effectiveness of the system of controls for all Principal Risk Types (PRTs) and non-PRT, using Control Assessment Standards (“CAS”). Evidenced based control monitoring data forms the direct basis of the assessment.
- The bank will systemically identify existing or emerging OR which exceed appetite to define appropriate mitigating actions which may include business restrictions.
- The bank will not miss any opportunity to learn lessons from significant internal or external events and will implement relevant mitigation actions.
- The bank will systematically assess internal capital adequacy for OR through scenario analysis and stress testing.

### **Governance Committee Structure**

On behalf of the Group Risk Committee (“GRC”), the Group Non-Financial Risk Committee (“GNFRC”) is responsible for governing non-financial risk (“NFR”) across all functions, client segments and products. Material non-financial risks must be escalated from the GNFRC up to the GRC as required.

Group Non-Financial Risk Committee (GNFRC) is supported by business-level, product-level and functional-level NFRs appointed by Process Universe Owners. Business-level, product-level and functional-level Non-Financial Risk Committees (NFRs) provide global oversight of the system of controls arising from processes within their Process Universes.

The Executive Risk Committee (ERC) oversees the management of the Non-Financial Risks (NFRs) and the supporting system of controls at the country.

### **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 2075/76 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.