DISCLOSURE UNDER CAPITAL ADEQUACY FRAMEWORK OF NRB (BASEL II)

As on 31st Ashad 2080 (16 July 2023)

1.CAPITAL STRUCTURE & CAPITAL ADEQUACY

i. Core Capital (Tier I)

	Particulars	Amount (NRs. '000')
a	Paid up Equity Share Capital	3,281,164.67
b	Statutory General Reserves	743,478.37
c	Retained Earnings	58,095.57
d	Less: Intangible Assets	16,778.85
e	Less: Purchase of land & building in excess of limit and unutilized	10,046.40
	Total Core Capital (Tier I)	**4,055,913.37**

ii. Supplementary Capital (Tier II)

	Particulars	Amount (NRs. '000')
a	Subordinated Term Debt	995,160.20
b	General LLP	699,008.46
c	Exchange Equalization Reserve	1,043.44
d	Investment Adjustment Reserve	3,000.00
	Total Supplementary Capital (Tier II)	**1,698,212.10**

iii. Information about Subordinate Term Debt

The bank has issued debenture of Rs. 1 billion having coupon rate of 9% and maturity period of 10 years. It has been recognised at amortised cost using effective interest method. The book value of debenture is Rs. 995.16 million as on Ashad end, 2080

iv. Deduction From Capital

	Particulars	Amount (NRs. '000')
a	Less: Intangible Assets	16,778.85
b	Less: Purchase of land & building in excess of limit and unutilized	10,046.40
	Total	**26,825.25**

v. Total Qualifying Capital

	Particulars	Amount (NRs. '000')
a	Total Core Capital (Tier I)	4,055,913.37
b	Total Supplementary Capital (Tier II)	1,698,212.10
	Total Capital Fund (Tier I + Tier II)	**5,754,125.46**

vi. Capital Adequacy Ratio

Tier 1 Capital to Total Risk Weighted Exposures	8.64%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	12.26%

vii. Summary of the bank's internal approach to assess the adequacy of capital to support current and future activities

The bank considers the capital adequacy requirement pursuant to the provision set by NRB. The tier 1 capital ratio of the bank as at Asar 2080 is 8.64% and the total capital ratio is 12.26%. The capital adequacy is major factor that is considered in the bank's annual meeting, daily financial analysis and during ALCO meeting and Risk Management Committee meetings. The bank in its strategic planning cautiously considers the capital adequacy and projects capital adequacy required for the organization's growth.

2. Risk Exposure

i. Risk Weighted Exposure for Credit Risk, Market Risk and Operational Risk

	Particulars	Amount (NRs. '000')
a	Risk Weighted Exposure for Credit Risk	42,364,151.26
b	Risk Weighted Exposure for Operational Risk	2,632,747.95
c	Risk Weighted Exposure for Market Risk	9,075.33
	Total Risk Weighted Exposures (Before adjustments of Pillar II)	**45,005,974.54**
Adjustments under Pillar II		
a	*Adjustment as per SRP 6.4a (7)*	595,370.64
b	*Adjustment as per SRP 6.4a (9)*	1,350,179.24
	Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	**46,951,524.42**

ii. Risk Weighted Exposure under categories of Credit Risk

S.N.	Categories	Amount (NRs. '000')
A	**Balance Sheet Exposures**	**63,845,878.03**
a	Cash Balance	729,141.19
b	Balance With Nepal Rastra Bank	2,167,394.33
c	Investment in Nepalese Government Securities	7,310,084.98
d	All claims on Nepal Rastra Bank	119,947.65
e	Claims on domestic banks that meet capital adequacy requirements	5,686,851.91
f	Claims on Domestic Corporates (Unrated)	5,114,830.47
g	Regulatory Retail Portfolio (Not Overdue)	28,037,464.37
h	Claims secured by residential properties	2,461,113.18
i	Claims secured by residential properties (Overdue)	35,647.51
j	Past due claims (except for claims secured by residential properties)	2,478,607.70
k	High Risk claims	6,261,058.21
l	Lending against Shares(upto Rs.2.5 Million)	161,401.26
m	Investments in equity and other capital instruments of institutions listed in stock exchange	539,583.48
n	Investments in equity and other capital instruments of institutions not listed in the stock exchange	70,823.70
o	Staff loan secured by residential property	304,483.47
p	Interest Receivable/claim on government securities	118,861.85
q	Other Assets (as per attachment)	2,248,582.77
B	**Off- Balance Sheet Exposures**	**1,537,416.68**
a	Bid Bond, Performance Bond and Counter guarantee domestic counterparty	308,697.55
b	Irrevocable Credit commitments (short term)	1,228,719.13

iii. Amount of Non-Performing Assets (Gross and Net Amount)

(NRs. '000')

	Particulars	Gross Amount	Provision	Net Amount
A	Restructured	-	-	-
B	Sub-standard	316,315.25	77,339.31	238,975.95
C	Doubtful	368,401.39	179,821.37	188,580.02
D	Loss	709,678.72	690,551.15	19,127.57
	Total	**1,394,395.37**	**947,711.83**	**446,683.53**

iv. Non-Performing Assets (NPA) Ratios

	NPA Ratios	Percentage (%)
a	Gross NPA to Gross Advances	2.98%
b	Net NPA to Net Advances	0.99%

v. Movement of Non-Performing Assets

(NRs. '000')

S.No.	Particulars	Opening Balance (Chaitra End 2079)	Closing Balance (Ashad End 2080)	Movement
Non-Performing Loan				
1	Restructured Loan	10,892.40	-	(10,892.40)
2	Sub-standard	483,154.21	316,315.25	(166,838.96)
3	Doubtful	507,819.83	368,401.39	(139,418.43)
4	Loss	466,206.41	709,678.72	243,472.31

vi. Write Off Of Loans and Interest Suspense

Particulars	NRs. In '000
Write off of Loans	19,750.79

vii. Movement Of Loan Loss Provision

(NRs. '000')

S.No.	Particulars	Opening Balance (Chaitra End 2079)	Closing Balance (Asar End 2080)	Movement
1	Pass	493,310.45	513,575.41	20,264.95
2	Watchlist	229,446.97	244,458.76	15,011.79
3	Restructure	1,361.55	-	(1,361.55)
4	Sub-standard	118,549.05	77,339.31	(41,209.74)
5	Doubtful	250,651.93	179,821.37	(70,830.55)
6	Loss	465,851.45	690,551.15	224,699.70
	Total Loan Loss Provision	**1,559,171.39**	**1,705,746.00**	**146,574.60**

viii. Details of Additional Loan Loss Provision (NRs. '000')

S.No.	Particulars	Chaitra End 2079
1	Pass	20,264.95
2	Watchlist	15,011.79
3	Restructure	(1,361.55)
4	Sub-standard	(41,209.74)
5	Doubtful	(70,830.55)
6	Loss	224,699.70
	Total	**146,574.60**

ix. Segregation of the Bank's Investment portfolio

Investments are segregated as per NRB Directive.

Investment held for Trading		**Amount (Full Figure)**
	Investment held to Maturity:	7,310,084,980
	Investment Available for Sale	610,407,183

3. Risk Management Function

i. Strategies and Policies

Risk management strategies and policies are paramount to mitigating risks that are faced by banks. In addition to maintaining adequate capital, the responsibility of the bank also lies in maintaining a balance between risk and return. Therefore, effective risk management is a must for sustainability of banks. Apart from the business credit department, a separate credit risk department has been formulated, and senior level staff has been handed the responsibility of ensuring that the risk management guidelines are properly placed and executed. Regarding operation risk, operation risk management policy has been formulated and effective channels are being formed to ensure that the policies are thoroughly followed. The Asset Liability Committee looks after the market risk and meetings are held periodically to ensure that the bank takes proper decisions based on the market situations

ii. The Structure and Organization of the Relevant Risk Management Function

A senior level staff has been appointed who is responsible to ensure that the credit risk are identified and mitigated. In operation, AML/CFT unit has been created and an experienced senior level manager has been appointed as compliance officer, who also looks after the operation risk. Customization is under process to develop sytem/software to ensure AML/CFT and other operation risks are identified and necessary actions taken. The ALCO looks after the market risk. The Asset Liability committee has members from different department and therefore identification of risk and mitigating actions are decided right promptly. Apart from this, risk management committee, consisting of board members dully considers the situations and issues of risks faced by bank and further provide directions to reduce and mitigate risks.

iii. The Scope and Nature of Risk Reporting and / or Measurement Systems

The risk identified from credit, operation and market risk department are further discussed in management meetings, ALCO meetings and are placed before the risk management committee. The internal audit department also reviews the risk at every level and reports to the audit committee. Recently, whistle blowing policy has also been formulated to ensure that the risk are timely identified and mitigated.