

**DISCLOSURE UNDER CAPITAL ADEQUACY FRAMEWORK OF NRB (BASEL III)**

As on 30 Ashwin 2081 (16 October 2024)

**I. CAPITAL STRUCTURE & CAPITAL ADEQUACY**

**i. Core Capital (Tier I)**

|   | Particulars   | Amount (NRs. '000') |
|---|---|---------------------|
| a | Paid up Equity Share Capital  | 3,510,846.20        |
| b | Equity Share Premium  | -                   |
| c | Proposed Bonus Equity Shares  | -                   |
| d | Statutory General Reserves  | 880,873.75          |
| e | Retained Earnings   | 209,844.90          |
| f | Unaudited current year cumulative profit/(loss)                     | -                   |
| g | Capital Redemption Reserve  | -                   |
| h | Capital Adjustment Reserve  | -                   |
| i | Debenture Redemption Reserve  | 178,571.43          |
| j | Dividend Equalization Reserves                                      | -                   |
| k | Bargain Purchase Gain   | -                   |
| l | Other Free Reserve  | -                   |
| m | Less: Goodwill  | -                   |
| n | Less: Intangible Assets   | 12,532.46           |
| o | Less: Fictitious Assets   | -                   |
| p | Less: Investment in equity in licensed Financial Institutions       | -                   |
| q | Less: Investment in equity of institutions with financial interests | -                   |
| r | Less: Investment in equity of institutions in excess of limits      | -                   |
| s | Less: Investments arising out of underwriting commitments           | -                   |
| t | Less: Reciprocal crossholdings                                      | -                   |
| u | Less: Purchase of land & building in excess of limit and unutilized | 10,046.40           |
| v | Less: Cash Flow Hedge   | -                   |
| w | Less: Defined Benefits Pension Assets                               | -                   |
| x | Less: Unrecognized Defined Benefit Pension Liabilities              | -                   |
| y | Less: Negative Balances of reserve accounts                         | -                   |
| z | Less: Other Deductions  | -                   |
|   | <b>Total Core Capital (Tier I)</b>                                  | <b>4,757,557.42</b> |

**ii. Supplementary Capital (Tier II)**

|   | Particulars   | Amount (NRs. '000') |
|---|---|---------------------|
| a | Cumulative and/or Redeemable Preference Share                           | -                   |
| b | Subordinated Term Debt  | 817,659.33          |
| c | Hybrid Capital Instruments  | -                   |
| d | Stock Premium   | -                   |
| e | General loan loss provision   | 563,166.11          |
| f | Exchange Equalization Reserve   | 1,129.40            |
| g | Investment Adjustment Reserve   | 3,000.00            |
| h | Accrued Interest Receivable on pass loan included in Regulatory Reserve | 105,526.40          |
| i | Interest Capitalized Reserve included in Regulatory Reserve             | 2,763.89            |
| j | Other Reserves  | -                   |
|   | <b>Total Supplementary Capital (Tier II)</b>                            | <b>1,493,245.13</b> |

**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. 996.23 million as on Ashwin end, 2081.

**iv. Deduction From Capital**

|   | Particulars   | Amount (NRs. '000') |
|---|---|---------------------|
| a | Less: Intangible Assets   | 12,532.46           |
| b | Less: Purchase of land & building in excess of limit and unutilized | 10,046.40           |
|   | <b>Total</b>  | <b>22,578.86</b>    |

**v. Total Qualifying Capital**

|   | Particulars                                  | Amount (NRs. '000') |
|---|--|---------------------|
| a | Total Core Capital (Tier I)                  | 4,757,557.42        |
| b | Total Supplementary Capital (Tier II)        | 1,493,245.13        |
|   | <b>Total Capital Fund (Tier I + Tier II)</b> | <b>6,250,802.54</b> |

**vi. Capital Adequacy Ratio**

|  |        |
|--|--------|
| Tier 1 Capital to Total Risk Weighted Exposures            | 9.43%  |
| Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures | 12.38% |

**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 Ashwin 2081 is 9.43% and the total capital ratio is 12.38%. 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      | 45,053,289.17        |
| b  | Risk Weighted Exposure for Operational Risk | 3,258,580.16         |
| c  | Risk Weighted Exposure for Market Risk      | 13,994.83            |
| <b>Total Risk Weighted Exposures (Before adjustments of Pillar II)</b>       |   | <b>48,325,864.16</b> |
| <b>Adjustments under Pillar II</b>   |   |                      |
| a  | Adjustment as per SRP 6.4a (7)              | 696,971.75           |
| b  | Adjustment as per SRP 6.4a (9)              | 1,449,775.92         |
| <b>Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)</b> |   | <b>50,472,611.84</b> |

### ii. Risk Weighted Exposure under categories of Credit Risk

| S.N.     | Categories  | Amount (NRs. '000')  |
|----------|---|----------------------|
| <b>A</b> | <b>Balance Sheet Exposures</b>  | <b>44,579,895.30</b> |
|          | Claims on domestic banks that meet capital adequacy requirements  | 918,682.01           |
|          | Claims on Domestic Corporates (Unrated)   | 4,199,577.48         |
|          | Regulatory Retail Portfolio (Not Overdue)   | 22,444,010.95        |
|          | Claims secured by residential properties  | 2,317,731.82         |
|          | Claims secured by residential properties (Overdue)  | 35,797.25            |
|          | Past due claims (except for claims secured by residential properties)   | 2,604,119.06         |
|          | High Risk claims  | 5,249,000.69         |
|          | Real Estate loans for land acquisition and development (Other than mentioned in Capital Adequacy framework 2015-point 3.3(j)(1)(k)) | 879,456.85           |
|          | Lending against Shares(above Rs.5 Million)  | 1,625,520.39         |
|          | Lending against Shares(upto Rs.5 Million)   | 361,646.15           |
|          | Personal Hirepurchase/Personal Auto Loans   | 319,819.69           |
|          | Investments in equity and other capital instruments of institutions listed in stock exchange  | 719,112.52           |
|          | Investments in equity and other capital instruments of institutions not listed in the stock exchange                                | 601,235.55           |
|          | Staff loan secured by residential property  | 160,017.22           |
|          | Other Assets (as per attachment)  | 2,144,167.65         |
| <b>B</b> | <b>Off- Balance Sheet Exposures</b>   | <b>473,393.87</b>    |
|          | Bid Bond, Performance Bond and Counter guarantee domestic counterparty  | 109,326.06           |
|          | Irrevocable Credit commitments (short term)   | 364,067.81           |

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

(NRs. '000')

| Particulars  |              | Gross Amount        | Provision           | Net Amount        |
|--------------|--------------|---------------------|---------------------|-------------------|
| A            | Sub-standard | 845,903.22          | 206,991.56          | 638,911.66        |
| B            | Doubtful     | 286,813.75          | 140,401.70          | 146,412.05        |
| C            | Loss         | 914,271.66          | 888,335.14          | 25,936.52         |
| <b>Total</b> |              | <b>2,046,988.62</b> | <b>1,235,728.39</b> | <b>811,260.23</b> |

### iv. Non-Performing Assets (NPA) Ratios

| NPA Ratios |                             | Percentage (%) |
|------------|-----------------------------|----------------|
| a          | Gross NPA to Gross Advances | 3.96%          |
| b          | Net NPA to Net Advances     | 1.64%          |

### v. Movement of Non-Performing Assets

(NRs. '000')

| Particulars                  | This Quarter | Previous Quarter | Change     |
|------------------------------|--------------|------------------|------------|
| Non-Performing Loan (In Amt) | 2,046,988.62 | 1,686,615.37     | 360,373.26 |
| Non-Performing Loan (In %)   | 3.96%        | 3.36%            | 0.60%      |

### vi. Write Off Of Loans and Interest Suspense

(NRs. '000')

|  |          |
|--|----------|
| Loan written off during the reporting period | 6,785.88 |
|--|----------|

### vii. Movement Of Loan Loss Provision and Interest Suspense

(NRs. '000')

| Particulars         | This Quarter | Previous Quarter | Change    |
|---------------------|--------------|------------------|-----------|
| Loan Loss Provision | 2,135,012.55 | 2,086,278.06     | 48,734.50 |
| Interest Suspense   | 657,919.12   | 587,310.68       | 70,608.44 |

## viii. Details of Additional Loan Loss Provision

(NRs. '000')

| S.No. | Particulars  | Amount           |
|-------|--------------|------------------|
| 1     | Pass         | (43,363.05)      |
| 2     | Watchlist    | 106,479.48       |
| 3     | Sub-standard | 115,028.35       |
| 4     | Doubtful     | 24,614.08        |
| 5     | Loss         | (154,024.36)     |
|       | <b>Total</b> | <b>48,734.50</b> |

## ix. Segregation of the Bank's Investment portfolio

Investments are segregated as per NRB Directive.

(NRs. '000')

| <input type="checkbox"/> Investment held for Trading    | Amount        |
|---|---------------|
| <input type="checkbox"/> Investment held to Maturity:   | 11,145,254.55 |
| <input type="checkbox"/> Investment Available for Sale: | 1,119,936.22  |

## 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 system/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 duly 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.