

## DISCLOSURE RELATING TO BASEL – III FRAMEWORK

As on Ashwin End 2073 (1<sup>st</sup> Quarter 2073-74)

### 1. Capital Structure and a Breakdown of its Components :

* Tier 1 Capital and a breakdown of its components	Rs.
	<b>In '000</b>
Core Capital (Tier 1)	7,928,275
a. Paid Up Equity Share Capital	6,499,478
b. Irredeemable Non Cumulative Preference Shares	-
c. Share Premium	90,552
d. Proposed Bonus Shares	-
e. General Reserves	2,060,866
f. Retained Earnings	(3,136,744)
g. Unaudited Current Year Cumulative Profit	1,166,084
h. Capital Redemption Reserve	-
i. Capital Adjustment Reserve	380,383
j. Dividend Equalization Reserve	7,486
k. Debenture Redemption Reserve	-
l. Capital Reserve (Created for loan waived as per Nepal Govt Direction)	259,736
m. Other Free Reserves (Special Reserve, Other reserves)	600,434
n. Less : Goodwill	-
o. Less : Deferred Tax Assets	-
p. Less : Miscellaneous Assets not written off	-
q. Less : Investments in Equity in Licensed Financial Institutions	-
r. Less : Investments in equity of Institutions with excess of Limits	-
s. Less : Investments in equity of Institutions with Vested Interest	-
t. Less : Investments arising out of Underwriting Commitments	-
u. Less : Reciprocal Cross Holdings	-
<b>* Tier 2 Capital and a breakdown of its components</b>	
Supplementary Capital (Tier 2)	896,457
a. Cumulative and/or Redeemable Preference Shares	-
b. Subordinated Term Debt	-
c. Hybrid Capital Instruments	-
d. General Loan Loss Provision	790,741
e. Exchange Equalization Reserve	86,787
f. Investment Adjustment Reserve	18,929
g. Assets Revaluation Reserve	-
h. Additional Loan Loss Provision	-
i. Other Reserves	-
<b>Total Capital Fund (Tier 1 and Tier 2)</b>	<b>8,824,731</b>
<b>Risk Weighted Exposure(Assets) (After Supervisor's Adjustment)</b>	<b>72,725,466</b>
<b>Capital Adequacy Ratio</b>	<b>12.12%</b>
<b>Regulator Requirement</b>	<b>11%</b>
<b>Common Equity Tier 1 Capital Ratio</b>	<b>10.89%</b>
<b>Leverage Ratio (regulatory requirement &gt;/ 4%)</b>	<b>7.05%</b>

- Deductions from Capital : Rs. None
- Total Qualifying Capital : Rs. 8,824,731
- Capital Adequacy ratio : 12.12%

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

NBL in its efforts to improve the capital adequacy ratio as prescribed by the regulator had implemented a revised capital plan. Besides, the bank had formulated ICAAP Policy aimed at improving the Capital Adequacy position in compliance with BASEL-II Framework. It has resulted in an increase in the capital adequacy ratio of the bank from 7.80% to 11.41% this year thereby complying and surpassing the statutory requirement of 10%. The task of systematic preparation and presentation of BASEL-II report has been entrusted with the Risk Management Division of the bank. Currently the bank's ratio stands at 12.12%.

## 2. Risk Exposures

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

The risk weighted exposures as of 16<sup>th</sup> October 2016 is given below:

S.No.	Particulars	Amount Rs. (000)
1.	Credit Risk	62,063,533
2.	Operational Risk	5,439,699
3.	Market Risk	801,510
4.	Adjustment under Pillar II	4,420,724
	<b>Total</b>	<b>72,725,466</b>

- Risk weighted exposures under each of 11 categories of Credit Risk

S.No.	Particulars	Amount Rs. (000)
1.	Claims on other official entities	-
2.	Claims on banks	67,32,898
3	Claims on domestic corporate & Securities firm	13,812,412
4.	Claims on regulatory retail portfolio	33,739,222
5.	Claims not satisfying granularity Criteria	4,606,090
6.	Claims Secured by Residential properties	4,841,331
6.	Claims secured by commercial real estate	341,649
7.	Past Due Claims	3,856,514
8.	High Risk Claims	2,188,427
9.	Investment in Equity of Institutions	128,355
10.	Other Assets	17,557,593
11	Off Balance Sheet Items	4,404,031
	<b>Total</b>	<b>89,893,348</b>

- Amount of NPAs (Both Gross and Net) Rs. In '000

<b>Gross NPA</b>	<b>: 2,044,310</b>
<b>Net NPA</b>	<b>: 641,994</b>
➤ <b>Restructure/Reschedule Loan</b>	<b>:</b>
➤ <b>Substandard Loan</b>	<b>: 500,512</b>
➤ <b>Doubtful Loan</b>	<b>: 141,482</b>
➤ <b>Loss Loan</b>	<b>:</b>

- **NPA Ratios :**

➤ Gross NPA to Gross Advances	: 3.10%
➤ Net NPA to Net Advances	: 0.97%

- **Movement of Non Performing Assets Rs. In 000**

Particulars	This Quarter	Previous Quarter	Changes %
Non Performing Assets	2,044,310	1,730,192	+17.54%
Non Performing Assets (%)	3.10%	2.72%	+13.90%

- **Write off of Loans and Interest Suspense**

Following Loans and Interest Suspense have been written off during the year 2015/16

- None

- Movements in Loan Loss provision and Interest Suspense : Rs. In '000

Particulars	Loan Loss Provision	Interest Suspense
Opening balance	1,998,214	3,949,933
Write Back/off in the years		
Addition in the year	194842	4,414,30
<b>Balance as at 16<sup>th</sup> October July 2016</b>	<b>2,193,056</b>	<b>4,391,363</b>

- Details of Subordinated Term Debt:

- Not applicable

- Details of Additional Loan Loss Provision:

- None

- Segregation of Investment Portfolio

S.No.	Investment Category	Amount Rs. (000)
1.	Held for Trading	-
2.	Held to Maturity	17,458,295
3.	Available for Sale	90,767

### **3. Risk Management Function**

NBL is exposed to various types of risks including credit, market, liquidity, operational, legal, compliance and reputation risks. The objective of the risk management framework at the Bank is to ensure that various risks are understood, measured and monitored and that the policies and procedures established to address these risks are strictly adhered to.

The Board of Directors has oversight on all the risks assumed by the bank. The board level sub-committee (Risk Management Committee) has been established to facilitate focused oversight of various risks. The committee reviews the risk management policies, the bank's compliance with risk management guidelines issued by NRB and the status of implementation of BASEL - II requirement by the bank.

The Bank has set up a strong control and monitoring environment for comprehensive risk management at all levels of operation by establishing an independent Risk Management Division which caters to the current banking requirement of properly identifying and monitoring the risks apparent and inherent in the business.

#### **Measurement of Risks for Capital Adequacy Purpose:**

Under Pillar 1 of the specific NRB guidelines, the bank currently follows Simplified Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Net Open Position approach for Market risk.

#### **A. Credit Risk**

##### **Strategies and Process:**

All credit related aspects are governed by Operation Manual-2 (Credit) and Credit Policy of NBL. These documents outline the type of products that can be offered, customer categories, credit approval process and limits. These documents are approved by the Board of directors.

The Bank's main emphasis is on SME credit. Different limits of lending power have been assigned at branch level, department head level and the credit committee level. Every aspect relating to credit such as procedure, documentation etc. are clearly defined in the Operation Manual -2 and the Credit Policy of the bank.

##### **Pre Sanction:**

The branch managers have the authority to approve the credit within their permissible limits after due scrutiny of background of the promoter, nature of business, turnover in the account, other financial indicators, income, collateral and security. Loans above the authority of branch are recommended to head office for further decision.

##### **Credit Risk Assessment Process:**

Risk Management Division carries out a comprehensive credit risk assessment process that encompasses analysis of relevant quantitative and qualitative information to ascertain credit rating of the borrower. The credit rating process involves assessment of risk emanating from various sources such as market risk, management risk, environmental risk, financial risk and security risk taking into consideration as much as 30 sub-parameters under each of these categories. Any files exceeding Rs. 10.00 Million (Funded and Non funded) are forwarded for risk rating by the concerned credit units before they are submitted for approval in the credit committee.

##### **Post Sanction Monitoring/ Follow up:**

Concerned branch are required to obtain regular information of the business. In case of revolving loans, the drawing power is checked commensurate with the existing level of stocks and working capital checked and verified at regular interval. The credit units at the Head Office are also required to prepare quarterly credit report to submit at higher level as a part of formal monitoring process.

## **B. Operation Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is inherent in the bank's business activities.

The board level committee that undertakes supervision and review of operational risk aspects are the Risk Management Committee and Audit Committee. The board and the risk committee review the operational risk level and the material operational risk exposure. The Audit committee supervises audit and compliance related aspects. Internal Audit department on the other hand carries out audit according to the audit plan and reports findings to the audit committee.

### **Risk Arising from breakdown of Information and Operating System:**

The bank has introduced new centralized software Pumori-IV and has improved in its MIS infrastructure in order to ensure the associated operational risks being brought down to an acceptably low level.

To safeguard the probable losses resulting from system failure or natural disaster, the bank has taken following policies to minimize the risk:

- a. Back up – Daily back up of all balances are taken at the end of the day. The bank is developing a system of auto back up in the near future.
- b. Disaster Recovery Site – The bank is in the process of establishing a disaster recovery site outside the Kathmandu valley considering the lower frequency of seismic activities.
- c. Validation of Entry and Password control – There is a system of maker and checker for entry validation before posting. Access authority for data entry, update, modification and validation has been given on the basis of levels of staffs.
- d. Exception Reporting – The system creates exception report as and when required.

### **Risk Arising from Procedural Lapses and Internal control:**

The bank has defined every banking procedures in the Operation Manual-1 related to banking transactions. Internal circulars are issued whenever required. Reporting by branches is regular. Internal Audit of maximum branches is carried out each year.

### **Corporate Governance:**

NRB Guidelines with respect to Corporate Governance are duly complied with.

## **C. Market Risk**

### **a. Investments**

Currently NBL has not made any investment for trading purpose. The investment in government securities have been made to hold till maturity. The investment in equity of listed institutions has been held as available for sale.

### **b. Foreign Exchange**

The bank's policy is to maintain the net open position of convertible foreign currency where exchange rate risk persists in matching position.

## **D. Types of Eligible Credit Risk Mitigants used and benefits availed under CRM:**

The eligible collateral taken as benefits under CRM are margin money deposited with the bank against off balance sheet exposures, Loan against Fixed deposits, Loan against Gold and Silver and Government Securities. Under this provision a total of Rs. 9,054,683 Thousand has been deducted from total credit risk as CRM.