



Disclosure Under BASEL – III

For 4th Quarter of FY 2080-081 ending 31th Ashar 2081 (FY 2023-024 ending of 15th July 2024)

1 Capital Structure and Capital Adequacy:

1.1 Tier I and II Capital and a breakdown of its components:

Tier 1 Capital and a breakdown of its components	Amount in Full Figure
Core Capital (Tier 1)	25,474,591,411
Paid up Equity Share Capital	14,694,022,928
Irredeemable Non-cumulative preference shares	-
Share Premium	-
Proposed Bonus Equity Shares	-
Statutory General Reserves	8,283,988,731
Retained Earnings	(903,128,733)
Un-audited current year cumulative profit/(loss)	1,656,831,829
Debenture Redemption Reserve	1,166,666,667
Capital Adjustment Reserve/Fund	380,382,600
Dividend Equalization Reserves	7,485,526
Special Reserve	-
Capital Reserve (created for loan waived as per Nepal Govt. Direction)	259,735,644
Deferred Tax Reserve	-
Other Free Reserves	-
Less: Goodwill	-
Less: Fictitious Assets	(22,251,984)
Less: Investment in equity in licensed Financial Institutions	-
Less: Investment in equity of institutions with financial interests	-
Less: Investment in equity of institutions in excess of limits	(49,141,797)
Less: Investments arising out of underwriting commitments	-
Less: Reciprocal crossholdings	-
Less: Purchase of land & building in excess of limit & unutilized	-
Less: Other Deductions	-
Tier 2 Capital and a breakdown of its components	-
Supplementary Capital (Tier 2)	6,195,344,625
Cumulative and/or Redeemable Preference Shares	-
Subordinated Term Debt	3,494,939,268
Hybrid Capital Instruments	-
General Loan Loss Provision	2,611,322,611
Exchange Equalization Reserve	87,340,885
Investment Adjustment Reserve	1,741,861
Additional Loan Loss Provision	-
Other Reserves	
Total Capital Fund (Tier 1 and Tier 2)	31,669,936,036
Risk Weighted Exposure (Assets) (After Supervisor's Adjustment)	232,609,478,851
Capital Adequacy Ratio	13.62%
Regulator Requirement (With Counter Cycle Buffer)	11.50%
Common Equity Tier 1 Capital Ratio	10.95%
Leverage Ratio (regulatory requirement >/ 4%)	6.49%

1.2 Detailed information about the Subordinated Term Debts

Title	NBL Debenture 2087
Face Value	3,500,000,000.00
Maturity Period	10 Yrs (2077 Bs to 2087 BS)
Interest Rate	8.50%
No of unit Issued	35,00,000
Issue Size	3,500,000,000.00

1.3 Deductions from Capital :

The Bank has deducted the following items in the calculation of Tier I Capital Fund:

- NPR 2,22,51,984/- for Intangible Assets.
- NPR 4,91,41,797/- for Investments in equity of Institutions with excess of Limits.
Total Deduction NPR 7,13,93,781/-

1.4 Total Qualifying Capital:

Qualifying Capital	Amount in Full Figure
Core Capital (Tier 1 Capital)	25,474,591,411
Supplementary Capital (Tier II)	6,195,344,625
Total Capital	31,669,936,036

1.5 Capital adequacy ratio:

Particulars	Ratios
Common Equity Tier 1 Ratio	10.95%
Core Capital Ratio – Tier I	10.95%
Total Capital Ratio – Tier I + Tier II	13.62%

1.6 Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities:

Bank in its efforts to improve the capital adequacy ratio as prescribed by the regulator has implemented a revised capital plan. Besides, the bank has formulated ICAAP Policy and ICAAP Guidelines aimed at improving the Capital Adequacy position in compliance with BASEL-III Framework from FY 2073-74. The task of systematic preparation and presentation of BASEL-III report has been entrusted now with the Central Finance Department of the bank. Currently, the bank's capital adequacy ratio stands at 13.62%.

2 Risk Exposures:

2.1 Risk weighted exposures for Credit Risk, Market Risk, and Operational Risk:

Particulars	Amount In Full Figure
Risk Weighted Exposure for Credit Risk	209,007,588,705
Risk Weighted Exposure for Operational Risk	12,459,335,024
Risk Weighted Exposure for Market Risk	485,779,723
Total	221,952,703,452
Supervisory Review	
Add: 4% of Gross Income (due to weak operational risk management)	3,998,194,296
Add:3% of Total RWE (due to poor overall risk management system)	6,658,581,104
Total Supervisory Addition	10,656,775,400
Grand Total of RWEs	232,609,478,851

2.2 Risk weighted exposures under each 11 categories of Credit Risk:

Categories of Credit Risk	Risk Weighted Exposure NPR Full Figure	Proportion
Claims on Government and Central Bank	-	0.00%
Claims on Other Financial Entities	-	0.00%
Claims on Banks	4,347,805,652	2.08%
Claims on Domestic Corporates and Securities Firms	81,672,182,880	39.08%
Claims on Regulatory Retail Portfolio	41,293,211,885	19.76%
Claims secured by residential properties	6,160,333,497	2.95%
Claims secured by Commercial real estate	1,018,909,706	0.49%
Past due claims	10,744,726,123	5.14%
High Risk claims	19,757,608,983	9.45%
Other Assets	24,823,421,397	11.88%
Off Balance Sheet Items	19,189,388,582	9.18%
Total Credit Risk Weighted Exposure	209,007,588,705	100.00%

2.3 Total Risk weighted exposure calculation table:

A. Balance Sheet Exposures	Book Value (a)	Specific Provision (b)	Eligible CRM (.c)	Net Value (d=a-b-c)	Risk Weight (e)	RWE (f=d*e)
Cash Balance	6,740,437,314			6,740,437,314	0%	-
Balance with Nepal Rastra Bank	21,545,521,833			21,545,521,833	0%	-
Investment in Nepalese Government Securities	69,722,447,646			69,722,447,646	0%	-
All Claims on Government of Nepal (Pension Receivable +Govt Txn)	278,476,765			278,476,765	0%	-
Claims on domestic banks that meet capital adequacy requirements	8,185,588,261		-	8,185,588,261	20%	1,637,117,652
Claims on Foreign Banks (ECA Rating 0-1)	1,098,584,964		384,894,964	713,690,000	20%	142,738,000
Claims on Foreign Banks (ECA Rating 2)	1,730,666,874		63,166,874	1,667,500,000	50%	833,750,000
Claims on Foreign Banks (ECA Rating 3-6)	2,635,375,797		901,175,797	1,734,200,000	100%	1,734,200,000
Claims on Domestic Corporates	81,672,182,880		-	81,672,182,880	100%	81,672,182,880
margin Lending<50 lakh	1,377,876,464			1,377,876,464	100%	1,377,876,464
margin Lending > 50 Lakh	5,190,155,119		-	5,190,155,119	125%	6,487,693,898
Regulatory Retail Portfolio (Not Overdue)	78,701,686,625	590,000,000	23,054,070,778	55,057,615,846	75%	41,293,211,885
Claims secured by residential properties	9,518,247,406		-	9,518,247,406	60%	5,710,948,444
Claims secured by residential properties (Overdue)	546,841,949	97,456,895	-	449,385,054	100%	449,385,054
Claims secured by Commercial real estate	1,018,909,706		-	1,018,909,706	100%	1,018,909,706
Past due claims (except for claim secured by residential properties)	12,710,459,213	5,547,308,465	-	7,163,150,749	150%	10,744,726,123

Personal OD	6,468,324,820		-	6,468,324,820	150%	9,702,487,230
Personal Hp& Auto	491,438,203		-	491,438,203	100%	491,438,203
TR Trading	1,415,416,218		-	1,415,416,218	120%	1,698,499,462
High Risk claims	945,634,592		-	945,634,592	150%	1,418,451,888
Credit Card Receivable	17,499,938		-	17,499,938	150%	26,249,907
Investment in equity and other capital instruments of institutions Non-listed in the stock exchange	1,529,408,404	114,257,698	-	1,415,150,706	150%	2,122,726,059
Investment in equity and other capital instruments of institutions listed in the stock exchange	4,747,320,390	3,040,743,414	-	1,706,576,976	100%	1,706,576,976
Staff loan secured by residential property	2,057,887,088	-	-	2,057,887,088	50%	1,028,943,544
Interest Receivable/claim on government securities	643,582,135	-	-	643,582,135	0%	-
Cash in transit and other cash items in the process of collection	150,000,000	-	-	150,000,000	20%	30,000,000
Other Assets (as per attachment)	26,481,574,983	7,991,488,236	-	18,490,086,747	100%	18,490,086,747
Total	347,621,545,589	17,381,254,708	24,403,308,413	305,836,982,467	0%	189,818,200,123
B. Off Balance Sheet Exposures	Book Value (a)	Specific Provision (b)	Eligible CRM (.c)	Net Value (d=a-b-c)	Risk Weight (e)	RWE (f=d*e)
Bills Under Collection	631,459,224			631,459,224	0%	-
LC domestic counterparty Upto 6 Months	13,251,732,578		1,022,286,953	12,229,445,626	20%	2,445,889,125
LC domestic counterparty More Than 6 Months	319,802,157		24,670,704	295,131,453	50%	147,565,726
Bank Guarantee domestic counterparty	19,563,249,451		1,509,180,369	18,054,069,082	40%	7,221,627,633

Acceptances and Endorsements	21,557,607		-	21,557,607	100%	21,557,607
Irrevocable Credit Commitments (short term)	18,085,598,227		-	18,085,598,227	20%	3,617,119,645
Irrevocable Credit Commitments (long term)	9,527,733,511		-	9,527,733,511	50%	4,763,866,755
Other Contingent Liabilities	532,496,091		-	532,496,091	100%	532,496,091
Unpaid Guarantee Claims	219,632,999			219,632,999	200%	439,265,998
Total	62,153,261,846	-	2,556,138,026	59,597,123,820	0%	19,189,388,582
Total RWE for Credit Risk Before Adjustment (A) + (B)	409,774,807,434	17,381,254,708	26,959,446,439	365,434,106,287	0%	209,007,588,705
Adjustments under Pillar II	-	-	-	-	0%	-
Add: 10% of the loan and facilities in excess of Single Obligor Limits (6.4 a 3)	-	-	-	-	0%	-
Add: 1% of the contract (sale) value in case of the sale of credit with recourse (6.4 a 4)	-	-	-	-	0%	-
Total RWE for Credit Risk (After Bank's adjustments of Pillar II)	409,774,807,434	17,381,254,708	26,959,446,439	365,434,106,287		209,007,588,705

3 Details of Non-Performing Loan

3.1 Amount of Non-Performing Assets (Both Gross and Net) Amount In Full Figure

Non-Performing Loans	Gross Amount	Loss Provision	Net Amount
Restructured and rescheduled	-	-	-
Sub-Standard	758,934,542	188,581,128	570,353,414
Doubtful	1,187,331,762	590,649,653	596,682,109
Loss	4,883,089,713	4,865,534,579	17,555,134
Total	6,829,356,017	5,644,765,360	1,184,590,657

3.2 NPA Ratios:

NPA Ratios	Ratios
Gross NPA to Gross Advances	3.28%
Net NPA to Net Advances	0.59%

*The Bank has Total loan loss provision of NPR 8,84,60,87,971/- of which NPR 3,20,13,22,611/- is on account of general loan loss provision and NPR 5,64,47,65,360/- is on specific loan loss provision against NPAs.

3.3 Movement of Non-Performing Assets:

Particulars	This Quarter	Previous Quarter	Changes %
Non-Performing Assets	6,829,356,017	9,577,261,028	-28.69%
Non-Performing Asset (%)	3.28%	4.85%	-1.57%

3.4 Write off of Loans and Interest Suspense

Particulars	Amount
Loan written off this year	45,186,930.42
Interest Suspense written off this year	1,983,819,404.2

3.5 Loan Loss provision and interest suspense movement: Amount in Full Figure:

Particulars	Loan Loss Provision	Interest Suspense
Opening balance	9,946,901,664	7,848,513,999
Write Back/off in the years	-1,100,813,694	1,894,884,950
Addition in the year		
Balance as at 15th July 2024	8,846,087,971	5,953,629,050

3.6 Details of Additional Loan Loss Provision

Particulars	Amount
Provisioning for Pass Loans	68,802,332.47
Provisioning for Watch List Loans	79,243,960.36
Provisioning for Restructured/Rescheduled Loans	-
Provisioning for Sub-Standard Loans	(1,152,507.57)
Provisioning for Doubtful Loans	(3,016,228.08)
Provisioning for Loss Loans	(17,555,133.88)
Total additional provisioning this year	126,322,423.30

3.7 Segregation of Investment Portfolio:

Investment Category	Amount Full Figure
Held for Trading	-
Held to Maturity (Government Securities)	69,722,447,646
Available for Sale (Equity)	4,082,532,910
Investment in Associates	2,194,195,884
Total	75,999,176,440

4 Risk Management Function

The Bank is exposed to various types of material 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 guidelines established to address these risks are strictly adhered to.

The Board of Directors has oversight on all the risks assumed by the bank. The Risk Management Committee a board level sub-committee has been established to facilitate & focused oversight of various risks. The said committee reviews the risk management policies and guidelines, the bank's compliance with risk management guidelines issued by NRB and status of implemented BASEL - III 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 Department 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 Unified NRB Directives, 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 MSME credit. Different limits of lending power have been assigned at branch level, division, department head level and the credit committee level. Every aspect relating to credit such as procedure and 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 Department 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 for business lending and 20 sub parameters for retail lending under each of these categories. Credit thresholds have been set for forwarding the credit files for risk rating before they are submitted for approval in the credit committee by the concerned credit units.

Post Sanction Monitoring/ Follow up:

Concerned branches 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 committees that undertake 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. Inspection and 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 – All types of back up of all balances and head office are taken at the end of the day. The bank has developed back up guidelines to manage the various types back up system.
- b. Disaster Recovery Site – The bank has established a disaster recovery site at Bhairahawa, which is 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 procedure for each banking products and services in the Operation Manuals 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. The bank has established a Governance Unit to manage corporate governance related issues.

C. Market Risk:**a. Investments**

Currently, Bank 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 Mitigation 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. 26,959,446,438.98 has been deducted from total credit risk as CRM.