



Disclosure Under BASEL – III

For 2nd Quarter of FY 2081-082 ending 29th Poush 2081 (FY 2024-025 ending of 13th Jan 2025)

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)	24,873,807,689
Paid up Equity Share Capital	14,694,022,928
Irredeemable Non-cumulative preference shares	-
Share Premium	-
Proposed Bonus Equity Shares	-
Statutory General Reserves	8,376,192,261
Retained Earnings	146,158,091
Un-audited current year cumulative profit/(loss)	461,017,647
Debenture Redemption Reserve	1,361,111,111
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	(15,719,334)
Less: Investment in equity in licensed Financial Institutions	-
Less: Investment in equity of institutions with financial interests	(750,000,000)
Less: Investment in equity of institutions in excess of limits	(46,578,784)
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)	7,091,054,590
Cumulative and/or Redeemable Preference Shares	-
Subordinated Term Debt	3,495,258,697
Hybrid Capital Instruments	-
General Loan Loss Provision	2,774,163,967
Exchange Equalization Reserve	87,340,885
Investment Adjustment Reserve	31,741,861
AIR of pass Loan Form Regulator Reserve	702,549,180
Other Reserves	-
Total Capital Fund (Tier 1 and Tier 2)	31,964,862,279
Risk Weighted Exposure (Assets) (After Supervisor's Adjustment)	246,841,317,763
Capital Adequacy Ratio	12.95%
Regulator Requirement (With Counter Cycle Buffer)	11.00%
Common Equity Tier 1 Capital Ratio	10.08%
Leverage Ratio (regulatory requirement >/ 4%)	5.98%

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 1,57,19,334/- for Intangible Assets.
 - NPR 75,00,00,000/- Investment in Avashar Equity Fund.
 - NPR 4,65,78,784/- for Investments in equity of Institutions with excess of Limits.
- Total Deduction NPR 81,22,98,118/-

1.4 Total Qualifying Capital:

Qualifying Capital	Amount in Full Figure
Core Capital (Tier 1 Capital)	24,873,807,689
Supplementary Capital (Tier II)	7,091,054,590
Total Capital	31,964,862,279

1.5 Capital adequacy ratio:

Particulars	Ratios
Common Equity Tier 1 Ratio	10.08%
Core Capital Ratio – Tier I	10.08%
Total Capital Ratio – Tier I + Tier II	12.95%

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 12.95%.

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	221,965,829,208
Risk Weighted Exposure for Operational Risk	13,447,927,694
Risk Weighted Exposure for Market Risk	547,344,057
Total	235,961,100,960
Supervisory Review	
Add: 4% of Gross Income (due to weak operational risk management)	3,801,383,774
Add: 3% of Total RWE (due to poor overall risk management system)	7,078,833,029
Total Supervisory Addition	10,880,216,803
Grand Total of RWEs	246,841,317,763

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	5,436,049,628	2.45%
Claims on Domestic Corporates and Securities Firms	81,425,384,171	36.68%
Claims on Regulatory Retail Portfolio	44,538,859,165	20.07%
Claims secured by residential properties	6,079,661,311	2.74%
Claims secured by Commercial real estate	1,176,132,250	0.53%
Past due claims	14,860,982,034	6.70%
High Risk claims	19,057,923,875	8.59%
Other Assets	28,015,372,656	12.62%
Off Balance Sheet Items	21,375,464,118	9.63%
Total Credit Risk Weighted Exposure	221,965,829,208	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	7,375,585,636	-	-	7,375,585,636	0%	-
Balance with Nepal Rastra Bank	16,621,399,871	-	-	16,621,399,871	0%	-
Investment in Nepalese Government Securities	76,754,031,572	-	-	76,754,031,572	0%	-
All Claims on Government of Nepal (Pension Receivable + Govt Txn)	292,333,164	-	-	292,333,164	0%	-
Claims on domestic banks that meet capital adequacy requirements	8,177,688,138	-	-	8,177,688,138	20%	1,635,537,628
Claims on Foreign Banks (ECA Rating 0-1)	1,053,638,303	-	349,328,303	704,310,000	20%	140,862,000
Claims on Foreign Banks (ECA Rating 2)	1,519,100,000	-	-	1,519,100,000	50%	759,550,000
Claims on Foreign Banks (ECA Rating 3-6)	3,948,830,345	-	1,048,730,345	2,900,100,000	100%	2,900,100,000
Claims on Domestic Corporates	81,425,384,171	-	-	81,425,384,171	100%	81,425,384,171
margin Lending<50 lakh	1,532,895,800	-	-	1,532,895,800	100%	1,532,895,800
margin Lending > 50 Lakh	5,861,887,792	-	-	5,861,887,792	125%	7,327,359,740
Regulatory Retail Portfolio (Not Overdue)	88,343,209,992	872,000,000	28,086,064,438	59,385,145,554	75%	44,538,859,165
Claims secured by residential properties	9,488,281,345	-	-	9,488,281,345	60%	5,692,968,807
Claims secured by residential properties (Overdue)	486,530,217	99,837,713	-	386,692,504	100%	386,692,504
Claims secured by Commercial real estate	1,176,132,250	-	-	1,176,132,250	100%	1,176,132,250
Past due claims (except for claim secured by residential properties)	16,946,682,985	7,039,361,629	-	9,907,321,356	150%	14,860,982,034
Personal OD	6,811,928,876	-	-	6,811,928,876	150%	10,217,893,313
Personal Hp& Auto	473,941,809	-	-	473,941,809	100%	473,941,809
TR Trading	1,691,198,534	-	-	1,691,198,534	120%	2,029,438,241
High Risk claims	946,237,892	-	-	946,237,892	150%	1,419,356,837
Credit Card Receivable	25,521,463	-	-	25,521,463	150%	38,282,194
Investment in equity and other capital instruments of institutions Non listed in the stock exchange	959,498,905	922,811,045	-	36,687,860	150%	55,031,790
Investment in equity and other capital instruments of institutions listed in the stock exchange	5,794,806,741	4,813,122,426	-	981,684,315	100%	981,684,315
Staff loan secured by residential property	5,013,138,835	-	-	5,013,138,835	50%	2,506,569,418

Interest Receivable/claim on government securities	681,755,550	-	-	681,755,550	0%	-
Cash in transit and other cash items in the process of collection	4,100,000,000	-	-	4,100,000,000	20%	820,000,000
Other Assets (as per attachment)	27,414,434,393	7,743,591,321	-	19,670,843,072	100%	19,670,843,072
Total	374,916,074,580	21,490,724,133	29,484,123,087	323,941,227,360	0%	200,590,365,091
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	1,021,386,201	-	-	1,021,386,201	0%	-
LC domestic counterparty Upto 6 Months	5,741,936,236	-	404,401,319	5,337,534,917	20%	1,067,506,983
LC domestic counterparty More Than 6 Months	7,420,243,838	-	522,603,573	6,897,640,265	50%	3,448,820,132
Bank Guarantee domestic counterparty	21,010,042,325	-	1,479,725,387	19,530,316,938	40%	7,812,126,775
Acceptances and Endorsements	9,856,785	-	-	9,856,785	100%	9,856,785
Irrevocable Credit Commitments (short term)	18,668,681,579	-	-	18,668,681,579	20%	3,733,736,316
Irrevocable Credit Commitments (long term)	8,785,289,504	-	-	8,785,289,504	50%	4,392,644,752
Other Contingent Liabilities	532,496,091	-	-	532,496,091	100%	532,496,091
Unpaid Guarantee Claims	189,138,141	-	-	189,138,141	200%	378,276,282
Total	63,379,070,701	-	2,406,730,279	60,972,340,423	0%	21,375,464,118
Total RWE for Credit Risk Before Adjustment (A) + (B)	438,295,145,281	21,490,724,133	31,890,853,365	384,913,567,782	0%	221,965,829,208
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)	438,295,145,281	21,490,724,133	31,890,853,365.04	384,913,567,782		221,965,829,208

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	4,344,759,661	1,349,049,219	2,995,710,442
Doubtful	2,019,863,706	1,030,348,101	989,515,605
Loss	4,764,224,827	4,759,802,021	4,422,806
Total	11,128,848,194	7,139,199,342	3,989,648,852

3.2 NPA Ratios:

NPA Ratios	Ratios
Gross NPA to Gross Advances	4.99%
Net NPA to Net Advances	1.88%

*The Bank has Total loan loss provision of NPR 10,78,53,63,308/- of which NPR 3,64,61,63,967/- is on account of general loan loss provision and NPR 7,13,91,99,342/- is on specific loan loss provision against NPAs.

3.3 Movement of Non-Performing Assets:

Particulars	This Quarter	Previous Quarter	Changes %
Non-Performing Assets	11,128,848,194	8,478,092,537	31.27%
Non-Performing Asset (%)	4.99%	3.95%	1.04%

3.4 Write off of Loans and Interest Suspense

Particulars	Amount
Loan written off this year	0
Interest Suspense written off this year	0

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

Particulars	This Period	Previous Period	Changes
Total Loan Loss Provision	10,785,363,308	8,947,117,985	1,838,245,323
Interest Suspense	6,228,843,503	6,365,918,144	-137,074,640

3.6 Details of Additional Loan Loss Provision

Particulars	Amount
Provisioning for Pass Loans	487,409,014.47
Provisioning for Watch List Loans	90,474,676.60
Provisioning for Restructured/Rescheduled Loans	-
Provisioning for Sub-Standard Loans	262,859,303.90
Provisioning for Doubtful Loans	20,416,248.24
Provisioning for Loss Loans	(4,422,806.12)
Total additional provisioning this Quarter	856,736,437.09

3.7 Segregation of Investment Portfolio:

Investment Category	Amount Full Figure
Held for Trading	162,103,177
Held to Maturity (Government Securities)	76,754,031,572
Available for Sale (Equity)	4,740,667,506
Investment in Associates	2,338,491,051
Investment in Venture Capital Fund	750,000,000
Total	83,833,190,128

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. 31,89,08,53,365.04 has been deducted from total credit risk as CRM.