

Disclosures under Basel II - Asadh 2067

A. Capital Structure & Capital Adequacy as per Basel II

1. Tier 1 Capital and Breakdown of its Components :

Figures in NPR

SN	Particulars	Amount
A	Core Capital (Tier 1)	2,021,092,627
1	Paid Up Capital	1,182,157,100
2	Irredeemable Non-cumulative preference shares	-
3	Share Premium	-
4	Proposed Bonus Shares	177,323,600
5	General Reserve Fund	464,281,405
6	Retained Earnings	52,806,795
7	Un-audited current year cumulative profit	-
8	Capital Redemption Reserve	-
9	Capital Adjustment Reserve	-
10	Dividend Equalization Reserves	-
11	Bond Redemption Reserve	136,594,913
12	Deferred Tax Reserve	7,764,739
13	Other Free Reserve	164,075
14	Deductions	-

2. Tier 2 Capital and Breakdown of its Components

Figures in NPR

SN	Particulars	Amount
B	Supplementary Capital (Tier 2)	308,980,738
1	Cumulative and/or Redeemable Preference Share	-
2	Unsecured Subordinated Term Debt	200,000,000
3	Less: discounted for lesser tenure	(111,123,288)
4	Hybrid Capital Instruments	-
5	General Loan Loss Provision	167,666,914
6	Exchange Fluctuation Reserve	31,974,010
7	Investment Adjustment Reserve	463,102
8	Assets Revaluation Reserve	-
9	Other Reserves	20,000,000

3. Detail information about the Subordinated Term Debts with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds:

Bond floated as : Bank of Kathmandu Bond 2069 (BOK Bond)
 Outstanding amount : NPR 200,000,000
 Amount raised during the year : NIL
 Maturity Date : Ashwin 18, 2069 (October 04, 2012)
 Amount to be reckoned as capital : NPR 88,876,712 **

** The eligible bond amount allotted for capital has been calculated on pro rata basis.

The bank places NPR 28,571,429 annually on BOK Bond redemption reserve.

4. Total deductions from Capital

Figures in NPR

SN	Particulars	Amount
1	From Supplementary Capital	111,123,288
	Discounted for lesser tenure on unsecured subordinated term debt	
	TOTAL	111,123,288

5. Total Qualifying Capital

Figures in NPR

SN	Particulars	Amount
1	Core Capital (Tier 1)	2,021,092,627
2	Supplementary Capital (Tier 2)	308,980,738
	TOTAL	2,330,073,365

6. Capital Adequacy Ratio: 10.85%

7. Summary of the bank's internal approach to assess the adequacy of its capital to support current & future activities

- Preparation of annual budget for risk weighted assets vis-à-vis capital fund
- Monitoring of risk weighted assets and capital fund at the periodic interval
- Preparing prospective drawdown and repayment plan of loans and advances
- Revision of asset deployment strategy as per the requirement
- Reporting of capital adequacy ratios on a periodic basis to Nepal Rastra Bank (NRB)

The bank prepares annual budget plan for risk weighted assets and monitor the actual against the budget in detail with a close watch on prospective drawdown and repayment plans to track the movement in loan portfolio. Moreover, changes in business environment are monitored for strategy planning and revision in order to mitigate anticipated adverse impact on its risk assets portfolio. Capital adequacy ratios are computed on a periodic basis to ascertain the qualifying capital fund is adequate for coverage of the bank's risk assets.

Furthermore, long term capital plans are also prepared to support the bank's future activities. The capital plan is reviewed to ensure that the financial result attained is in line with the capital plan devised. Based on the actual figures, if the bank feels that the figures could deviate significantly, the bank revises its long term plan.

The bank continuously monitors its Credit Deposit ratio in order to assess sources of funds and deployment of funds.

8. Summary of terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments

The bank has issued "Bank of Kathmandu Bond, 2069" (BOK Bond) amounting to NPR 200 million as Subordinated Term Debt in Ashwin 2062. Bank has not pledged any securities while issuing BOK bond. The bond has the following features:

- Bond Validity Period : 7 year
- Bond Maturity Date : Ashwin 18, 2069 (October 04, 2012)
- Coupon Interest Rate : 6% p.a.
- Interest Payment Period : Bi-annually (in every six months of Nepali Calendar)
- Interest Payment Timing : Interest is paid on the 1st day of Magh and Shrawan.
- BOK bond can be pledged with other banks and financial institutions to avail loan facility.
- BOK bond is listed with Nepal Stock Exchange Ltd.
- BOK Bond holders will have rights of claim only after the depositors in case of liquidation.

B. Risk Exposures

1. Risk Weighted Exposures for Credit Risk, Market Risk & Operational Risks

Figures in NPR

RISK WEIGHTED EXPOSURES		Amount
a	Risk Weighted Exposure for Credit Risk	20,091,410,639
b	Risk Weighted Exposure for Operational Risk	1,326,763,975
c	Risk Weighted Exposure for Market Risk	53,490,097
Total Risk Weighted Exposures (a+b+c)		21,471,664,711

2. Risk Weighted Exposures under each of 11 categories of Credit Risk

Figures in NPR

SN	Particulars	Amount
1	Claims on government & central bank	-
2	Claims on other official entities	677,376,940
3	Claims on banks	441,574,646
4	Claims on domestic corporate and securities firms	8,727,281,771
5	Claims on regulatory retail portfolio	2,768,502,659
6	Claims secured by residential properties	927,673,870
7	Claims secured by commercial real estate	1,737,881,696
8	Past due claims	71,732,939
9	High risk claims	568,865,853
10	Other assets	923,249,730
11	Off balance sheet items	3,247,270,535
	TOTAL	20,091,410,639

3. Total Risk Weighted Exposures calculation table

Figures in NPR

SN	Particulars	Amount
1	Total Risk Weighted Exposure	21,471,664,711
2	Total Core Capital Fund (Tier 1)	2,021,092,627
3	Total Capital Fund (Tier 1 & Tier 2)	2,330,073,365
4	Total Core Capital to Total Risk Weighted Exposures	9.41%
5	Total Capital to Total Risk Weighted Exposures	10.85%

4. Amount of NPAs

Figures in NPR

SN	Loan Classification	Gross Amount	Provision Held	Net Amount
1	Restructured/ Rescheduled Loan	2,306,238	288,280	2,017,958
2	Substandard Loan	11,461,259	2,865,315	8,595,944
3	Doubtful Loan	70,846,386	35,423,193	35,423,193
4	Bad Loan	174,909,705	173,124,841	1,784,864
	TOTAL	259,523,588	211,701,629	47,821,959

5. NPA Ratios

Gross NPA to Gross Advances	1.52%
Net NPA to Net Advances	0.29%

** Restructured/Rescheduled have been treated as non-performing loans.

6. Movement of Non-Performing Assets (Asadh 2066 vs Asadh 2067)

Figures in NPR

SN	Non Performing Loan	Opening Balance	Increment during the year	Reduction during the year	Closing Balance
1	Restructured/Rescheduled Loan	8,579,067	248,098	6,520,926	2,306,238
2	Sub-Standard Loan	36,910,890	1,183,185	26,632,817	11,461,259
3	Doubtful Loan	21,086,008	60,337,769	10,577,391	70,846,386
4	Bad Loan	132,318,759	44,618,504	2,027,558	174,909,705
	Total	198,894,724	106,387,556	45,758,692	259,523,588

7. Write Off of Loans & Interest Suspense (Asadh 2066 vs Asadh 2067)

Figures in NPR

SN	Name	Principal	Interest	Total
	29 Borrowers	-	9,348	9,348
	Total	-	9,348	9,348

8. Movement in Loan Loss Provision & Interest Suspense

i. Movement in Loan Loss Provision (Asadh 2066 vs Asadh 2067)

Figures in NPR

SN	Loan Loss Provision	Opening Balance	Increment during the year	Reduction during the year	Closing Balance
1	Pass Loan	147,191,664	93,218,541	72,743,291	167,666,914
2	Restructured/Rescheduled Loan	1,072,383	31,013	815,116	288,280
3	Sub-Standard Loan	9,227,723	2,722,500	9,084,908	2,865,315
4	Doubtful Loan	10,543,004	34,628,589	9,748,400	35,423,193
5	Bad Loan	130,388,003	75,399,669	32,662,831	173,124,841
	Total	298,422,777	206,000,312	125,054,546	379,368,543

ii. Movement in Interest Suspense (Asadh 2066 vs Asadh 2067)

Figures in NPR

Particulars	Opening Balance	Increment during the year	Reduction during the year	Closing Balance
Interest Suspense	11,866,987	6,180,336	4,782,781	13,264,542

9. Details of Additional Loan Loss Provisions (Asadh 2067 vs Asadh 2066)

SN	Loan Classification	Balance as on Asadh 2067	Balance as on Asadh 2066	Increment/decrease during the year
1	Pass Loan	167,666,914	147,191,664	20,475,250
2	Restructured/Rescheduled Loan	288,280	1,072,383	(784,103)
3	Sub-Standard Loan	2,865,315	9,227,723	(6,362,408)
4	Doubtful Loan	35,423,193	10,543,004	24,880,189
5	Bad Loan	173,124,841	130,388,003	42,736,839
		379,368,543	298,422,777	80,945,767

10. Segregation of Investment Portfolio

SN	Investment Category	Amount as on Asadh end 2067
1	Held for Trading	-
2	Held to Maturity	3,246,049,531
3	Available for Sale	23,155,100
		3,269,204,631

11. Types of eligible Credit Risk Mitigants (CRM) used and the benefits availed under CRM

SN	Particulars	Amount in NPR
1	Deposits with Bank	482,364,727
2	Deposits with other Banks/Financial institutions	-
3	Govt. & NRB Securities	28,875,288
4	Guarantee of Foreign Banks	1,385,285,543
	TOTAL	1,896,525,558

C. Risk Management Functions

Risk Management process involves identification, measurement, monitoring and controlling risk. In the current scenario the bank has perceived three major risks: credit risk, market risk and operational risk. The bank has been at its best effort managing credit risk, market risk and operational risk. In order to address risks effectively and on timely manner the bank has this year established an independent unit "Integrated Risk Management and Compliance Department" (IRMC) in order to manage risk in consolidation.

Integrated Risk Management and Compliance (IRMC)

Credit risk is one of the major risks of the bank that arises from either inability or unwillingness of the borrower to service loan facilities extended to them. The bank has established Central Credit Risk Unit, Central Credit Operations Unit and Central Credit Administration and Central Credit Monitoring and Supervision Department under IRMC to ensure bank's credit risk exposure at prudent level. The bank also has developed "BOK Credit Policy" which is reviewed on periodic basis to incorporate any changes required for effective management of credit risk. A proper lending authority structure has been devised to delegate credit approval authority to senior management and credit committees. The main objective of IRMC is to optimize return while adjusting risks within pre-determined limit.

Functions of CRM

- i) **Managing Risk:** The Risk Managers have been appointed to ensure in-house policies, product papers and NRB directives and circulars have been duly complied with while processing credit application by relationship managers and the risks identified are properly addressed and appropriate risk control mechanism has been adopted to mitigate such risk.
- ii) **Identifying and Quantifying Risk:** The bank adopts Internal Risk Rating technique that helps to identify and quantify risk in relation to Industry Risk, Business Risk, Financial Risk and Account Performance Risk. Every borrower new/existing relationship is measured against this risk rating technique which facilitates to establish a Credit Grade (CG) based on the matrix result. In addition to CG, a second way out assessment is also carried out to check the Security Coverage (SC) of the concerned borrower. A combination of both results to a risk category that helps the bank to:
 - Identify key credit risk areas of a particular borrower

- Record changes in credit risk of an existing relationship
- Develop proper strategy to address the risk identified
- Closely monitor relationship where the significant risk identified
- Apply logical pricing based on risk perceived as far as possible
- Adopt appropriate risk control mechanism

iii) Credit Processing and Reporting: The Central Credit Operation unit is responsible for credit disbursement and settlement. It also prepares and furnishes various credit reports such as sector-wise distribution of loan portfolio, list of delinquent customers, large borrowers (availing funded facility of more than NPR 10 million), top 25 borrowers and other related reports that are deemed necessary on periodic basis that enables bank's management to monitor quality of credit portfolio, take proactive measures as well as remedial measures as and when deterioration occurs.

iv) Credit Administration: The Central Credit Administration unit performs the function of credit documentation, preparation and revision of legal and security documents. The unit is responsible to ensure that all legal documents are valid, complete, properly documented, obtained and updated on time. The unit is also responsible for safety of legal and security documents for which register has been maintained to keep proper track of their movement. It also facilitates relationship managers with comprehensive credit information report of a borrower regarding security documentation for prudent decision making.

v) Central Credit Monitoring and Supervision: The Central Credit Monitoring and Supervision unit performs the function of collecting financial statements, stock statement and conducting physical inspection of project financed and stock at regular interval. It generates and furnishes Irregularity Return Report (IRR) on periodic basis. The report depicts the status of credit relationship in relation to expired/expiring annual review and insurance policy, net current asset position, financial statements, stock inspection report and account overdrawn.

Apart from above, the bank has a separate Recovery Unit to manage problematic credit accounts separately. The unit mainly focuses on determining action plan and recovery strategy.

Market Risk Management

Market risk arises due to change in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates and other variables. The major source of market risk for any bank is the interest rate risk. In addition to interest rate risk, we are exposed to other market risk such as liquidity risk, exchange rate risk on foreign currency positions. In order to tackle with these risks, the bank has devised and implemented necessary policies, guidelines, and procedures in accordance with Nepal Rastra Bank requirements.

The bank has asset and liability committee (ALCO) and Pricing committee which meets on stipulated time span to monitor interest rate fluctuations, liquidity gap positions, formulates views on interest rates, sets benchmark lending rates and determines the asset liability management strategy in light of the current and upcoming financial environment. The bank also applies several methods by which the foreign currency positions can be hedged. Few mediums which are used by the bank are:

- Hedging open foreign currency positions by use of plain derivatives products.
- Use of stop loss limit to minimize risk on intraday trading.
- Concurrent reporting mechanism of foreign currency positions on daily basis.
- Managing foreign currency portfolio in view of the duration of such portfolio which avoids mismatch in during the maturity period.

Banks asset and liability committee (ALCO) meets on regular basis to manage interest rate risk with the help of asset and liability management guidelines. The prime concentration area's are:

- Monitoring of market interest rates and revision of strategies adopted.
- Management of investment portfolio based on the requirement of funds on various time intervals.
- Maintaining adequate level of liquid assets.

Apart from liquidity risk, bank also needs to manage risk associated with commodities. Price of commodities by nature is highly volatile and holds distinct features of its own. The bank does not hold any open positions in trade related with commodity.

Investment in equity of financial institutions is not allowed and the fact that our share market predominantly operates in trading of shares of financial institutions, bank holds insignificant portfolio in equity investments.

Operational Risk Management

In order to mitigate risks related to banking operations, the bank has been continuously putting efforts to strengthen the internal control mechanisms. The bank has formulated and implemented operating procedures for all operating functions. Internal Audit unit carries out test at regular intervals to check that all policies and guidelines are complied with. Apart from regular internal audit and compliance checks, Branch Operations cell carries out an independent checks and reviews in all the branches to ensure that standard procedures at all levels are implemented and no breaches of compliance are in existence across the branches as the Bank is firmly committed to the highest standards of governance and compliance.

The bank has also been conducting various trainings/skill enhancement processes for the staffs at all levels in all the branches on an on-going basis to keep the operational risks at the lowest level possible by upgrading the level of skills of the employees. The Bank has formulated and implemented its own Know Your Customer (KYC) standard & Anti Money Laundering (AML) policies based on the industry practice, prevailing laws and Nepal Rastra Bank Directives.

The bank has adopted the centralization policy to ensure the consistency and accuracy in processing transactions and/or flow of information across the branches. In order to have complete management Information System (MIS), necessary system parameterization and enhancement of the existing reports has been done and MIS automation process has been started. The bank has also formulated and implemented comprehensive IT policies to ensure and strengthen data & network security.

In order to have complete management Information System (MIS), necessary system parameterization and enhancement of the existing reports has been done and MIS automation process has been carried out on continuous basis.