

Disclosures under Basel II - Asadh 2068

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)	2,377,729,027
1	Paid Up Capital	1,359,480,700
2	Irredeemable Non-cumulative preference shares	-
3	Share Premium	-
4	Proposed Bonus Shares	244,706,600
5	General Reserve Fund	585,311,890
6	Retained Earnings	13,365,464
7	Un-audited current year cumulative profit	-
8	Capital Redemption Reserve	-
9	Capital Adjustment Reserve	-
10	Dividend Equalization Reserves	-
11	Bond Redemption Reserve	165,166,341
12	Deferred Tax Reserve	9,533,957
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)	284,340,041
1	Cumulative and/or Redeemable Preference Share	-
2	Unsecured Subordinated Term Debt	200,000,000
3	Less: discounted for lesser tenure	(151,123,288)
4	Hybrid Capital Instruments	-
5	General Loan Loss Provision	178,003,500
6	Exchange Fluctuation Reserve	36,996,727
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 48,876,712**

** 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	
	Discounted for lesser tenure on unsecured subordinated term debt	151,123,288
	TOTAL	151,123,288

5. **Total Qualifying Capital**

Figures in NPR

SN	Particulars	Amount
1	Core Capital (Tier 1)	2,377,729,027
2	Supplementary Capital (Tier 2)	284,340,041
	TOTAL	2,662,069,068

6. **Capital Adequacy Ratio: 11.62%**

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	21,210,249,050
b	Risk Weighted Exposure for Operational Risk	1,660,771,213
c	Risk Weighted Exposure for Market Risk	47,279,525
Total Risk Weighted Exposures (a+b+c)		22,918,299,788

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	233,106,578
3	Claims on banks	338,035,231
4	Claims on domestic corporate and securities firms	10,328,432,612
5	Claims on regulatory retail portfolio	2,560,261,542
6	Claims secured by residential properties	857,788,960
7	Claims secured by commercial real estate	1,530,194,003
8	Past due claims	23,496,478
9	High risk claims	556,765,694
10	Other assets	1,038,354,706
11	Off balance sheet items	3,743,813,246
	TOTAL	21,210,249,050

3. Total Risk Weighted Exposures calculation table

Figures in NPR

SN	Particulars	Amount
1	Total Risk Weighted Exposure	22,918,299,788
2	Total Core Capital Fund (Tier 1)	2,377,729,027
3	Total Capital Fund (Tier 1 & Tier 2)	2,662,069,068
4	Total Core Capital to Total Risk Weighted Exposures	10.37%
5	Total Capital to Total Risk Weighted Exposures	11.62%

4. Amount of NPAs

Figures in NPR

SN	Loan Classification	Gross Amount	Provision Held	Net Amount
1	Restructured/ Rescheduled Loan	3,389,570	423,696	2,965,874
2	Substandard Loan	12,665,463	3,166,366	9,499,097
3	Doubtful Loan	6,220,630	3,110,315	3,110,315
4	Bad Loan	304,053,664	304,053,664	-
	TOTAL	326,329,327	310,754,041	15,575,286

5. NPA Ratios

Gross NPA to Gross Advances	1.82%
Net NPA to Net Advances	0.09%

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

6. Movement of Non-Performing Assets (Asadh 2067 vs Asadh 2068)

Figures in NPR

SN	Non Performing Loan	Opening Balance	Increment during the year	Reduction during the year	Closing Balance
1	Restructured/Rescheduled Loan	2,306,238	2,576,699	1,493,367	3,389,570
2	Sub-Standard Loan	11,461,259	11,578,482	10,374,278	12,665,463
3	Doubtful Loan	70,846,386	421,666	65,047,422	6,220,630
4	Bad Loan	174,909,705	159,700,304	30,556,345	304,053,664
	Total	259,523,588	174,277,151	107,471,412	326,329,327

7. Write Off of Loans & Interest Suspense (Asadh 2067 vs Asadh 2068)

Figures in NPR

SN	Name	Principal	Interest	Total
1	Manzil Footwear P Ltd.	306,795	-	306,795
2	Yamlal Bhattarai	367,853	-	367,853
	Total	674,648	-	674,648

8. Movement in Loan Loss Provision & Interest Suspense

i. Movement in Loan Loss Provision (Asadh 2067 vs Asadh 2068)

Figures in NPR

SN	Loan Loss Provision	Opening Balance	Increment during the year	Reduction during the year	Closing Balance
1	Pass Loan	167,666,914	61,622,165	51,285,579	178,003,500
2	Restructured/Rescheduled Loan	288,280	322,087	186,671	423,696
3	Sub-Standard Loan	2,865,315	2,894,620	2,593,569	3,166,366
4	Doubtful Loan	35,423,193	210,834	32,523,712	3,110,315
5	Bad Loan	173,124,842	159,700,304	28,771,482	304,053,664
	Total	379,368,543	224,750,010	115,361,013	488,757,541

ii. Movement in Interest Suspense (Asadh 2067 vs Asadh 2068)

Figures in NPR

Particulars	Opening Balance	Increment during the year	Reduction during the year	Closing Balance
Interest Suspense	13,264,542	1,793,314	1,801,885	13,255,971

9. Details of Additional Loan Loss Provisions

N/A

10. Segregation of Investment Portfolio

SN	Investment Category	Amount as on Asadh end 2068
1	Held for Trading	-
2	Held to Maturity	4,263,444,357
3	Available for Sale	23,155,100
		4,286,599,457

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

SN	Particulars	Amount in NPR
1	Deposits with Bank	431,449,482
2	Deposits with other Banks/Financial institutions	-
3	Govt. & NRB Securities	27,421,405
4	Guarantee of Foreign Banks	1,563,444,466
	TOTAL	2,022,315,353

C. Risk Management Functions

Risk Management process involves identification, measurement, monitoring and controlling risk. As per BASEL II framework, banks should hold capital for the major risks they face. As per the framework, the general capital requirements are for credit, market and operational risk. The bank at its best has been managing credit risk, market risk and operational risk. In order to address risks effectively and on timely manner the bank has been continuously putting efforts to strengthen its processes and the internal control mechanisms.

➤ **Credit Risk Management**

Credit risk is one of the major risks of the bank. The main function of Credit Risk Management is to optimize return while adjusting risks within pre-determined limit. For effective management of credit risk the bank has developed BOK Credit Policy, various internal credit circulars and product papers, credit authority structure to delegate credit approval authority properly; which are reviewed on periodic basis to incorporate required changes. Credit risk is managed by various units at different levels (pre and post credit disbursement) in order to address and report perceived and anticipated credit risk at various levels:

- i) **Central Credit Risk** : The risk officers ensure that in-house policies, product papers, NRB directives and circulars have been duly complied with while processing credit application by relationship managers and the risks identified are properly dealt with and appropriate risk control mechanism has been adopted to mitigate such risk.
- ii) **Central Credit Operations** : The unit is responsible for credit disbursement and settlement. It also prepares and furnishes various credit reports that enable bank's management to monitor quality of credit portfolio, take proactive measures as well as remedial measures promptly.
- iii) **Central Credit Administration** : The 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 records the detail of legal documents in Security Register Maintenance (SRM), an inbuilt database. 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 for prudent decision making.
- iv) **Central Credit Monitoring and Supervision** : The unit performs the function of collecting financial statements, stock statement, insurance policies and conducting physical inspection of project financed and stock at regular intervals. It generates and furnishes Irregularity Return Report (IRR) on monthly basis that 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 position.

Despite several efforts to manage credit risk it is likely that some of the relationship turns out to be unproductive hence in order to diligently handle such problematic relationship, the bank has a separate

Recovery Unit to manage such credit accounts which mainly focuses on determining action plan and recovery strategy.

➤ **Operational Risk Management**

In order to mitigate risks arising from banking operations, the bank has formulated and implemented operating procedures for all operating functions. The Bank has formulated Anti Money Laundering (AML) policies based on prevailing laws and Nepal Rastra Bank Directives. The bank has also implemented Know Your Customer (KYC) standard for update of data base on regular intervals. The bank has also been conducting various trainings and 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 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 effective Management Information System (MIS), necessary system parameterization has been done and MIS automation process has been started. Various existing and new reports have been designed on MIS platform for easy and immediate access. Operation Irregularity Report has been initiated to report the irregularities observed in operation.

Apart from developing processes and procedures, Internal Audit unit carries out inspection at regular intervals to check that all policies and guidelines are complied with. In addition to regular internal audit and compliance checks, Branch Operations cell also carries out an independent checks and reviews in the branches to ensure that standard procedures at all levels are implemented.

➤ **Market Risk Management**

The major component of market risk for banks in Nepal is the interest rate risk and foreign exchange risk mainly arising on foreign currency positions. In order to manage these risks, the bank has devised and implemented necessary policies, guidelines and procedures along with Dealing Authorities which includes Foreign Currency Trading Limits.

The bank has Asset and Liability Management Committee (ALCO) and Pricing Committee to monitor interest rate fluctuations, gap positions, formulate views on interest rates, set benchmark lending rates and determine the asset liability management strategy in light of the current and upcoming financial environment.

Apart from interest rate risk and foreign exchange risk, market risk also has commodity risk and equity risk element. Commodity Risk arises to some extent in Gold trade of the bank but the associated risk level are of small magnitude because the bank generally does not hold any open position in Gold. Likewise since 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.