

Mega Bank Nepal Limited

Disclosure under Basel II

As at End of 4th Quarter FY 2071/72

A) Tier 1 Capital and Breakdown of its Components

		Rs. In Millions
		16.07.2015
Core Capital (Tier 1)		3,062.97
a	Paid up Equity Share Capital	2,609.60
b	Irredeemable Non-cumulative preference shares	-
c	Share Premium	-
d	Proposed Bonus Equity Shares	-
e	Statutory General Reserves	184.94
f	Retained Earnings (unaudited profit up to previous year)	279.70
g	Un-audited current year cumulative profit/(Loss)	-
h	Capital Redemption Reserves	-
i	Capital Adjustment Reserves	-
j	Dividend Equalization Reserves	-
k	Deferred Tax Reserve	-
l	Other Free Reserves	-
m	Capital Reserve	-
n	Less: Deferred Tax Reserve	11.28

B) Tier 2 Capital and Breakdown of its Components

		Rs. In Millions
		16.07.2015
Supplementary Capital (Tier 2)		204.90
a	Cumulative and/or Redeemable Preference Share	-
b	Subordinated Term Debt	-
c	Hybrid Capital Instruments	-
d	General loan loss provision	191.22
e	Exchange Equalization Reserves	1.23
f	Investment Adjustment Reserves	-
g	Assets Revaluation Reserves	-
h	Other Reserves	12.45

C) Subordinated Term Debts

None

D) Deductions from Capital

		Rs. In Millions
	Deferred Tax Reserve	11.28

E) Total Qualifying Capital

		Rs. In Millions
1	Core Capital (Tier I)	3,063
2	Supplementary Capital (Tier II)	205
	Total Capital Fund	3,268

F) Capital Adequacy Ratio

1	Tier 1 Capital to Total Risk Weighted Exposures	14.05%
2	Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	14.99%

G) Risk Weighted Exposures for Credit Risk, Market Risk and Operational Risk

		Rs. In Millions
1	Risk Weighted Exposure for Credit Risk	19,364
2	Risk Weighted Exposure for Operational Risk	1,195
3	Risk Weighted Exposure for Market Risk	609
4	Adjustment under Pillar II (SRP)	634
	Total Risk Weighted Exposures	21,801

H) Risk Weighted Exposures under each of 11 categories of Credit Risk

		Rs. In Millions
No.	Particulars	16.07.2015
1	Claims on govt. and central Bank	-
2	Claims on other official entities	254
3	Claims on Banks	493
4	Claims on corporate and securities firm	11,662
5	Claims on regulatory retail portfolio	2,615
6	Claim secured by residential properties	422
7	Claims secured by commercial real state	202
8	Past due Claims	157
9	High risk claims	1,591
10	Other Assets	955
11	Off Balance sheet Items	1,012
	Total	19,364

i) Total Risk Weighted Exposure Calculation Table

I. RISK WEIGHTED EXPOSURE FOR CREDIT RISK

Rs. In Millions

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Cash Balance	539	-	-	539	0%	-
Balance With Nepal Rastra Bank	2,202	-	-	2,202	0%	-
Gold	-	-	-	-	0%	-
Investment in Nepalese Government Securities	980	-	-	980	0%	-
All Claims on Government of Nepal	-	-	-	-	0%	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
All claims on Nepal Rastra Bank	300	-	-	300	0%	-
Claims on Foreign Government and Central Bank (ECA 0-1)	-	-	-	-	0%	-
Claims on Foreign Government and Central Bank (ECA -2)	-	-	-	-	20%	-
Claims on Foreign Government and Central Bank (ECA -3)	-	-	-	-	50%	-
Claims on Foreign Government and Central Bank (ECA-4-6)	-	-	-	-	100%	-
Claims on Foreign Government and Central Bank (ECA -7)	-	-	-	-	150%	-
Claims On BIS, IMF, ECB, EC and MDB's recognized by the framework	-	-	-	-	0%	-
Claims on Other Multilateral Development Banks	-	-	-	-	100%	-
Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	20%	-
Claims on Public Sector Entity (ECA 2)	-	-	-	-	50%	-
Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	100%	-
Claims on Public Sector Entity (ECA 7)	169	-	-	169	150%	254
Claims on domestic banks that meet capital adequacy requirements	435	-	-	435	20%	87
Claims on domestic banks that do not meet capital adequacy requirements	8	-	-	8	100%	8
Claims on foreign bank (ECA Rating 0-1)	1,139	-	-	1,139	20%	228
Claims on foreign bank (ECA Rating 2)	18	-	-	18	50%	9
Claims on foreign bank (ECA Rating 3-6)	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 7)	-	-	-	-	150%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	805	-	-	805	20%	161
Claims on Domestic Corporates	11,662	-	-	11,662	100%	11,662
Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	20%	-
Claims on Foreign Corporates (ECA 2)	-	-	-	-	50%	-
Claims on Foreign Corporates (ECA 3-6)	-	-	-	-	100%	-
Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	3,511	-	25	3,486	75%	2,615
Claims fulfilling all criterion of regularity retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	698	-	-	698	60%	419
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	3	-	-	3	100%	3
Claims secured by Commercial real estate	202	-	-	202	100%	202
Past due claims (except for claims secured by residential properties)	368	263	-	105	150%	157
High Risk claims	1,061	-	-	1,061	150%	1,591
Investments in equity and other capital instruments of institutions listed in stock exchange	-	-	-	-	100%	-
Investments in equity and other capital instruments of institutions not listed in the stock	-	-	-	-	150%	-
Staff loan secured by residential property	121	-	-	121	60%	73
Interest Receivable/claim on government securities	2	-	-	2	0%	-
Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
Other Assets (as per attachment)	1,752	870	-	883	100%	883
TOTAL (A)	25,977.27	1,133	25	24,819		18,351

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	2	-	-	2	0%	-
Forward Exchange Contract Liabilities	1,008	-	-	1,008	10%	101
LC Commitments With Original Maturity Upto 6 months domestic counterparty	615	-	40	576	20%	115
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	-	-	-	-	100%	-
Foreign counterparty (ECA Rating 7)	-	-	-	-	150%	-
LC Commitments With Original Maturity Over 6 months domestic counterparty	42	-	7	34	50%	17
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	-	-	-	-	100%	-
Foreign counterparty (ECA Rating 7)	-	-	-	-	150%	-
Bid Bond, Performance Bond and Counter guarantee domestic counterparty	392	-	57	335	50%	167
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	2	-	-	2	100%	2
Foreign counterparty (ECA Rating 7)	-	-	-	-	150%	-
Underwriting commitments	-	-	-	-	50%	-
Lending of Bank's Securities or Posting of Securities as collateral	-	-	-	-	100%	-
Repurchase Agreements, Assets sale with recourse	-	-	-	-	100%	-
Advance Payment Guarantee	11	-	0	11	100%	11
Financial Guarantee	249	-	-	249	100%	249
Acceptances and Endorsements	172	-	12	159	100%	159
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (short term)	903	-	-	903	20%	181
Irrevocable Credit commitments (long term)	-	-	-	-	50%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above	-	-	-	-	20%	-
Other Contingent Liabilities	10	-	-	10	100%	10
Unpaid Guarantee Claims	-	-	-	-	200%	-
TOTAL (B)	3,405	-	117	3,289		1,012
Total RWE for credit Risk Before Adjustment (A) +(B)	29,383	1,133	142	28,107		19,364
Adjustments under Pillar II						
Answer the question SRP 6.4a (3) in SRP sheet						-
Answer the question SRP 6.4a (4) in SRP sheet						-
Total RWE for Credit Risk after Bank's adjustments under Pillar II	29,383	1,133	142	28,107		19,364

II. RISK WEIGHTED EXPOSURE FOR OPERATIONAL RISK

Rs. In Millions

Particulars	Fiscal Year		
	2068/069	2069/070	2070/071
Net Interest Income	391	680	821
Commission and Discount Income	18	24	27
Other Operating Income	34	41	82
Exchange Fluctuation Income	28	59	95
Addition/Deduction in Interest Suspense during the period	17	47	26
Gross Income (a)	487	851	1,052
Alfa (b)	15%	15%	15%
Fixed Percentage of Gross Income [c=(a×b)]	73	128	158
Capital Requirement for operational risk (d) (average of c)	120		
Risk Weight (reciprocal of capital requirement of 10%) in times (e)	10		
Equivalent Risk Weight Exposure [f=(d×e)]	1,195		

III. RISK WEIGHTED EXPOSURE FOR MARKET RISK

Rs. In Millions

Total Relevant Open Position (a)	1,217
Fixed Percentage (b)	5
Capital Charge for Market Risk [c=(a×b)]	61
Risk Weight (reciprocal of capital requirement of 10%) in times (d)	10
Equivalent Risk Weight Exposure [e=(c×d)]	609

J) Amount of NPAs (both Gross and Net)

Rs. In Millions

Gross	316
Net	52

K) NPA Ratios (%)

Gross	1.75
Net	0.30

L) Movement of Non Performing Assets

Rs. In Millions

Grade	This Quarter	Previous Quarter
Restructured/Rescheduled		
Substandard	20	66
Doubtful	75	40
Loss	221	195
Total NPA	316	302

M) Write off of Loans & Interest Suspense

None

N) Movement in Loan Loss Provisions and Interest Suspense

Rs. In Millions

Particulars	This Quarter	Previous Quarter	Changes (%)
Loan Loss Provision	455	418	8.80
Interest Suspense	112	96	17.12

O) Detail of Additional Loan Loss provision

None

**P) Segregation of Investment Portfolio into
Held for Trading, Held to Maturity and
Available for Sale Category**

Investment Portfolio	Amount (Rs. In Millions)
Held For Trading	
Held To Maturity	3,058
Available For Sale	2
Total	3,061

Q) Summary of the Bank's internal approach to assess the adequacy of its capital to support current & future activities:

The Bank has in place a five year strategic plan which is supplemented by annual budget. These are strategic documents and provide guidance on the future business prospects of the Bank. These documents establish the desired nature and size of the business portfolio at a future period. While preparing these documents, capital assessment is taken as one of the most important factors. Bank understands the various forms of risks associated with the business and the importance of capital in mitigating these risks. Hence, the present as well as future capital requirements of the Bank are thoroughly assessed to ensure that it is more than adequate to support the business needs of the Bank.

The changes in the business environment bring about changes in the risk profile of the bank. Hence, periodic reviews are conducted to assess the impact of any such changes in the environment. Capital Adequacy Ratios are also computed on a daily basis to ascertain its adequacy in terms of the associated risks. Furthermore, other quantitative and indicative tools are also studied and discussed amongst the Management and the Board. Various tools and indicators have been put into practice for analysis to support the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank. Moreover, an ICAAP policy has been devised and put into practice for a systematic process of identifying, measuring, monitoring and controlling various risk aspects as to further put in place a sound capital assessment and management system.

Risk Management Function:

The Board of Directors and the management realize the importance of effective risk management and are keen to the continuous improvement in its risk management function. Hence, the organizational structure has placed a Risk unit independent from other business functions with direct reporting to the CEO. The unit is adequately manned and oversees all risk aspects including but not limited to Credit, Operational and Market risks. Besides this the Bank has an Internal Audit Department to conduct audit & inspection of various activities of the Bank and directly reports to the Audit Committee. The Management on regular intervals studies and makes analysis to identify various inherent risks based on indicative facts, figures and statistics which is further presented and rigorously discussed in the Risk Management Committee headed by a non executive member of the Board, which is further deliberated in the Board. The Internal Capital Adequacy Assessment Process (ICAAP) policy, a comprehensive risk/capital management document, acts as a guiding tool for the Bank to effectively manage various associated risks with the business. With the regular use of various measurement tools, risk management function has been brought and put into effective practice in the Bank.

Credit Risk:

- Bank has placed Credit Risk independent of the business generating units.
- Risk Management Committee comprising of non executive directors has been enacted, which reviews various risk factors on a periodic basis.
- Credit Policy guides all underwriting activities, which is periodically revised to ensure that all immediate and potential risks are addressed.
- Loans and facilities are only sanctioned after the approval of the risk units.
- Lending authority is transparently and clearly disseminated to the lending officials.
- Review of concentrations and identification of potential as well problematic sectors for lending are discussed at various committees such Risk Management Committee (RMC), Asset Liability Management Committee (ALCO).
- Credit manuals and product papers are developed and implemented which guides the entire credit related activities.
- Investment portfolio is guided by the Investment policy of the Bank.

Operation Risk:

- Bank is committed to continuous strengthening of internal controls.
- Standard Operating Procedures for all areas of bank operations have been formulated and implemented.
- Bank has a centralized Operations unit to ensure the consistency and accuracy in processing transactions as well as to review and identify any potential risk.
- Independent Operation Risk unit has been set up which reviews the operations of the Bank in terms of compliance of internal/external rules and procedures.
- Bank has formulated and implemented a comprehensive IT policy to ensure and strengthen data and network security.
- Bank has adopted an internationally acclaimed Flexcube as the core banking software, which has excellent inbuilt control features. The software has been thoroughly tested and customized as per our requirements; balancing both the business requirements and its control features. Large extent of the MIS requirements has been automated and efforts are always underway for further development/enhancement.
- In order to continuously improve the capabilities of the employees, training calendars are developed and implemented based on their need assessments.

Market Risk:

- The major sources of market risk for the bank are interest rate risk, exchange rate risk and liquidity risk.
- Bank has developed and implemented policies and guidelines to mitigate these risks.
- Bank has an Assets Liability Committee which meets regularly to identify and manage these risks as per the laid down policies and procedures.