

# Mega Bank Nepal Limited

## Disclosure under Basel II

As at End of 4th Quarter FY 2072/73

### A) Tier 1 Capital and Breakdown of its Components

		Rs. In Millions
		15.07.2016
<b>Core Capital (Tier 1)</b>		<b>4,149</b>
a	Paid up Equity Share Capital	3,241
b	Irredeemable Non-cumulative preference shares	-
c	Share Premium	1
d	Proposed Bonus Equity Shares	-
e	Statutory General Reserves	250
f	Retained Earnings (unaudited profit up to previous year)	130
g	Un-audited current year cumulative profit/(Loss)	552
h	Capital Redemption Reserves	-
i	Capital Adjustment Reserves	-
j	Dividend Equalization Reserves	-
k	Other Free Reserves	-
l	Capital Reserve	-
m	Less: Land Purchased unutilized	-
n	Less: Other Deductions	2
o	Less: Deferred Tax Reserve	22

### B) Tier 2 Capital and Breakdown of its Components

		Rs. In Millions
		15.07.2016
<b>Supplementary Capital (Tier 2)</b>		<b>337</b>
a	Cumulative and/or Redeemable Preference Share	-
b	Subordinated Term Debt	-
c	Hybrid Capital Instruments	-
d	General loan loss provision	302
e	Exchange Equalization Reserves	1
f	Investment Adjustment Reserves	3
g	Assets Revaluation Reserves	-
h	Other Reserves	31

### C) Subordinated Term Debts

None

### D) Deductions from Capital

		Rs. In Millions
	Deferred Tax Reserve	22
	Other Deductions	2

### E) Total Qualifying Capital

		Rs. In Millions
1	Core Capital (Tier I)	4,149
2	Supplementary Capital (Tier II)	337
	<b>Total Capital Fund</b>	<b>4,487</b>

### F) Capital Adequacy Ratio

1	Tier 1 Capital to Total Risk Weighted Exposures	11.99%
2	Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	12.97%

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

		Rs. In Millions
1	Risk Weighted Exposure for Credit Risk	30,187
2	Risk Weighted Exposure for Operational Risk	1,516
3	Risk Weighted Exposure for Market Risk	709
4	Adjustment under Pillar II (SRP)	2,185
	<b>Total Risk Weighted Exposures</b>	<b>34,598</b>

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

		Rs. In Millions
No.	Particulars	15.07.2016
1	Claims on govt. and central Bank	-
2	Claims on other official entities	-
3	Claims on Banks	1,262
4	Claims on corporate and securities firm	16,448
5	Claims on regulatory retail portfolio	3,987
6	Claim secured by residential properties	906
7	Claims secured by commercial real state	1,280
8	Past due Claims	172
9	High risk claims	3,578
10	Other Assets	1,008
11	Off Balance sheet Items	1,546
	<b>Total</b>	<b>30,187</b>

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	880	-	-	880	0%	-
Balance With Nepal Rastra Bank	2,808	-	-	2,808	0%	-
Gold	-	-	-	-	0%	-
Investment in Nepalese Government Securities	4,033	-	-	4,033	0%	-
All Claims on Government of Nepal	9	-	-	9	0%	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
All claims on Nepal Rastra Bank	-	-	-	-	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)	-	-	-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	2,942	-	-	2,942	20%	588
Claims on domestic banks that do not meet capital adequacy requirements	15	-	-	15	100%	15
Claims on foreign bank (ECA Rating 0-1)	214	-	-	214	20%	43
Claims on foreign bank (ECA Rating 2)	1,108	-	-	1,108	50%	554
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	308	-	-	308	20%	62
Claims on Domestic Corporates	16,448	-	-	16,448	100%	16,448
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)	5,346	-	30	5,316	75%	3,987
Claims fulfilling all criterion of regularity retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	1,472	-	-	1,472	60%	883
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	22	-	-	22	100%	22
Claims secured by Commercial real estate	1,280	-	-	1,280	100%	1,280
Past due claims (except for claims secured by residential properties)	281	166	-	115	150%	172
High Risk claims	2,385	-	-	2,385	150%	3,578
Investments in equity and other capital instruments of institutions listed in stock exchange	83	-	-	83	100%	83
Investments in equity and other capital instruments of institutions not listed in the stock	9	-	-	9	150%	14
Staff loan secured by residential property	150	-	-	150	60%	90
Interest Receivable/claim on government securities	41	-	-	41	0%	-
Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
Other Assets (as per attachment)	2,095	1,274	-	821	100%	821
<b>TOTAL (A)</b>	<b>41,930</b>	<b>1,440</b>	<b>30</b>	<b>40,460</b>		<b>28,641</b>

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	1,357	-	-	1,357	10%	136
LC Commitments With Original Maturity Upto 6 months domestic counterparty	775	-	56	718	20%	144
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	80	-	4	77	50%	38
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	701	-	70	631	50%	315
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	3	-	-	3	100%	3
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	31	-	6	26	100%	26
Financial Guarantee	295	-	12	283	100%	283
Acceptances and Endorsements	217	-	25	192	100%	192
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (short term)	1,979	-	-	1,979	20%	396
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	14	-	-	14	100%	14
Unpaid Guarantee Claims	-	-	-	-	200%	-
<b>TOTAL (B)</b>	<b>5,454</b>	<b>-</b>	<b>173</b>	<b>5,281</b>		<b>1,546</b>
<b>Total RWE for credit Risk Before Adjustment (A) +(B)</b>	<b>47,384</b>	<b>1,440</b>	<b>203</b>	<b>10,562</b>		<b>30,187</b>
<b>Adjustments under Pillar II</b>						
Answer the question SRP 6.4a (3) in SRP sheet						-
Answer the question SRP 6.4a (4) in SRP sheet						-
<b>Total RWE for Credit Risk after Bank's adjustments under Pillar II</b>	<b>47,384</b>	<b>1,440</b>	<b>203</b>	<b>10,562</b>		<b>30,187</b>

## II. RISK WEIGHTED EXPOSURE FOR OPERATIONAL RISK

Rs. In Millions

Particulars	Fiscal Year		
	2069/070	2070/071	2071/072
Net Interest Income	680	821	891
Commission and Discount Income	24	27	35
Other Operating Income	41	82	109
Exchange Fluctuation Income	59	95	102
Addition/Deduction in Interest Suspense during the period	47	26	(8)
Gross Income (a)	851	1,052	1,130
Alfa (b)	15%	15%	15%
Fixed Percentage of Gross Income [c=(a×b)]	128	158	169
Capital Requirement for operational risk (d) (average of c)	152		
Risk Weight (reciprocal of capital requirement of 10%) in times (e)	10		
<b>Equivalent Risk Weight Exposure [f=(d×e)]</b>	<b>1,516</b>		

## III. RISK WEIGHTED EXPOSURE FOR MARKET RISK

Rs. In Millions

<b>Total Relevant Open Position (a)</b>	<b>1,418</b>
Fixed Percentage (b)	5
Capital Charge for Market Risk [c=(a×b)]	71
Risk Weight (reciprocal of capital requirement of 10%) in times (d)	10
<b>Equivalent Risk Weight Exposure [e=(c×d)]</b>	<b>709</b>

**J) Amount of NPAs (both Gross and Net)**

Rs. In Millions

Gross	219
Net	61

**K) NPA Ratios (%)**

Gross	0.79
Net	0.22

**L) Movement of Non Performing Assets**

Rs. In Millions

Grade	This Quarter	Previous Quarter
Restructured/Rescheduled		
Substandard	68	36
Doubtful	21	63
Loss	131	181
<b>Total NPA</b>	<b>219</b>	<b>279</b>

Note: Restructured/Rescheduled loans as per NRB circular No. 7/072/73 & 12/072/73 have not been reported above

**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	468	466	0.55
Interest Suspense	113	125	(9.29)

**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	7,574
Available For Sale	92
<b>Total</b>	<b>7,666</b>

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

The Bank prepares annual strategic plans which 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 practiced 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.

The Bank has also prepared a Capital Plan in line with NRB Directive to enhance minimum capital to Rs. 8 billion by Asar end 2074 (Mid July 2017).

**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. IS Audit is also conducted separately.
- 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.