

Mega Bank Nepal Limited
Disclosure under Basel III
As at End of 3rd Quarter FY 2076/77

A) Tier 1 Capital and Breakdown of its Components

		Rs. In Millions
		12.04.2020
Core Capital (Tier 1)		12,054
a	Paid up Equity Share Capital	10,389
b	Share Premium	-
c	Proposed Bonus Equity Shares	-
d	Statutory General Reserves	1,339
e	Retained Earnings (unaudited profit up to previous year)	(15)
f	Un-audited current year cumulative profit/(Loss)	640
g	Capital Redemption Reserves	-
h	Capital Adjustment Reserves	-
i	Dividend Equalization Reserves	-
j	Bargain purchase gain	-
k	Other Free Reserves	-
l	Less: Land Purchased unutilized	-
m	Less: Investment in Financial Interests	200
n	Less: Deferred Tax Assets	99

B) Tier 2 Capital and Breakdown of its Components

		Rs. In Millions
		12.04.2020
Supplementary Capital (Tier 2)		882
a	Cumulative and/or Redeemable Preference Share	-
b	Subordinated Term Debt	-
c	Hybrid Capital Instruments	-
d	General loan loss provision	850
e	Exchange Equalization Reserves	4
f	Investment Adjustment Reserves	8
g	Assets Revaluation Reserves	18
h	Other Reserves	3

C) Subordinated Term Debts

None

D) Deductions from Capital

		Rs. In Millions
	Deferred Tax Assets	99
	Other Deductions	200

E) Total Qualifying Capital

		Rs. In Millions
1	Core Capital (Tier I)	12,054
2	Supplementary Capital (Tier II)	882
	Total Capital Fund	12,936

F) Capital Adequacy Ratio

1	Tier 1 Capital to Total Risk Weighted Exposures	11.71%
2	Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	12.56%

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

		Rs. In Millions
1	Risk Weighted Exposure for Credit Risk	93,432
2	Risk Weighted Exposure for Operational Risk	4,401
3	Risk Weighted Exposure for Market Risk	1,871
4	Add RWEE of capital charge of 3 % of gross income (SRP 6.4a (7))	1,284
5	Add 2% of RWE (SRP 6.4a (9))	1,994
	Total Risk Weighted Exposures	102,982

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

		Rs. In Millions
No.	Particulars	12.04.2020
1	Claims on govt. and central Bank	-
2	Claims on other official entities	13
3	Claims on Banks	6,178
4	Claims on corporate and securities firm	44,560
5	Claims on regulatory retail portfolio	6,651
6	Claim secured by residential properties	1,838
7	Claims secured by commercial real state	9,860
8	Past due Claims	732
9	High risk claims	13,711
10	Other Assets	6,318
11	Off Balance sheet Items	3,571
	Total	93,432

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	2,154	-	-	2,154	0%	-
Balance With Nepal Rastra Bank	2,043	-	-	2,043	0%	-
Gold	-	-	-	-	0%	-
Investment in Nepalese Government Securities	11,791	-	-	11,791	0%	-
All Claims on Government of Nepal	-	-	-	-	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 Domestic Public Sector Entities	-	-	-	-	1	-
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)	9	-	-	9	150%	13
Claims on domestic banks that meet capital adequacy requirements	4,389	-	-	4,389	20%	878
Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	625	-	-	625	20%	125
Claims on foreign bank (ECA Rating 2)	2,162	-	-	2,162	50%	1,081
Claims on foreign bank (ECA Rating 3-6)	4,078	-	-	4,078	100%	4,078
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	81	-	-	81	20%	16
Claims on Domestic Corporates	44,560	-	-	44,560	100%	44,560
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)	9,043	-	175	8,868	75%	6,651
Claims fulfilling all criterion of regularity retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	3,024	-	-	3,024	60%	1,815
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	29	6	-	23	100%	23
Claims secured by Commercial real estate	9,860	-	-	9,860	100%	9,860
Past due claims (except for claims secured by residential properties)	1,186	698	-	488	150%	732
High Risk claims	9,141	-	-	9,141	150%	13,711
Lending against securities (bonds & shares)	1,130	-	-	1,130	1	1,130
Investments in equity and other capital instruments of institutions listed in stock exchange	643	177	-	465	100%	465
Investments in equity and other capital instruments of institutions not listed in the stock exchange	263	-	-	263	150%	394
Staff loan secured by residential property	742	-	-	742	0.5	371
Interest Receivable/claim on government securities	160	-	-	160	0	-
Cash in transit and other cash items in the process of collection	-	-	-	-	0.2	-
Other Assets (as per attachment)	5,141	1,184	-	3,958	100%	3,958
TOTAL (A)	112,253	2,065	175	110,013		89,861

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	0	-	-	0	0%	-
Forward Exchange Contract Liabilities	3,667	-	-	3,667	10%	367
LC Commitments With Original Maturity Upto 6 months domestic counterparty	1,461	-	86	1,375	20%	275
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	150	-	0	150	50%	75
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	3,046	-	416	2,631	50%	1,315
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	5	-	-	5	100%	5
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	121	-	3	119	100%	119
Financial Guarantee	480	-	35	445	100%	445
Acceptances and Endorsements	116	-	-	116	100%	116
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (short term)	4,063	-	-	4,063	20%	813
Irrevocable Credit commitments (long term)	-	-	-	-	50%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	-	-	-	-	20%	-
Other Contingent Liabilities	41	-	-	41	100%	41
Unpaid Guarantee Claims	-	-	-	-	200%	-
TOTAL (B)	13,151	-	539	12,612		3,571
Total RWE for credit Risk Before Adjustment (A) +(B)	125,404	2,065	714	122,625		93,432
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	125,404	2,065	714	122,625		93,432

II. RISK WEIGHTED EXPOSURE FOR OPERATIONAL RISK

Rs. In Millions

Particulars	Fiscal Year		
	2073/074	2074/075	2075/076
Net Interest Income	1,724	2,374	3,796
Commission and Discount Income	70	320	531
Other Operating Income	180	52	103
Exchange Fluctuation Income	122	152	278
Addition/Deduction in Interest Suspense during the period	(17)	-	-
Gross income (a)	2,079	2,898	4,707
Alfa (b)	15%	15%	15%
Fixed Percentage of Gross Income [c=(a×b)]	312	435	706
Capital Requirement for operational risk (d) (average of c)	484		
Risk Weight (reciprocal of capital requirement of 11%) in times (e)	9.09		
Equivalent Risk Weight Exposure [f=(d×e)]	4,402		

III. RISK WEIGHTED EXPOSURE FOR MARKET RISK

Rs. In Millions

Total Relevant Open Position (a)	4,116
Fixed Percentage (b)	5
Capital Charge for Market Risk [c=(a×b)]	206
Risk Weight (reciprocal of capital requirement of 11%) in times (d)	9.09
Equivalent Risk Weight Exposure [e=(c×d)]	1,871

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

Rs. In Millions

Gross NPA	1,070
Restructured/Rescheduled	-
Substandard	254
Doubtful	351
Loss	465
Net NPA	486
Restructured/Rescheduled	-
Substandard	144
Doubtful	204
Loss	138

K) **NPA Ratios (%)**

Gross NPA/Gross Advances	1.32
Net NPA/Net Advances	0.61

L) **Movement of Non Performing Assets**

Rs. In Millions

Grade	This Quarter	Previous Quarter
Restructured/Rescheduled	-	-
Substandard	254	408
Doubtful	351	361
Loss	465	398
Total NPA	1,070	1,166

M) **Write off of Loans & Interest Suspense**

Particulars	This Quarter
Write off Loans	4.94
Write off Interest	2.83

N) **Movements in Loan Loss Provisions and Interest Suspense**

Rs. In Millions

Particulars	This Quarter	Previous Quarter	Changes (%)
Loan Loss Provision	1,554	1,508	3
Interest Suspense	1,735	416	317

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	27
Held To Maturity	14,159
Available For Sale	1,104
Total	15,289

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

The Bank prepares long term strategic and annual 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 Ratio is computed on a regular 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.

Risk Management Function:

The Board of Directors and the management realize the importance of effective risk management and are keen towards continuous improvement in its risk management function. Risk unit has been placed independent from other business functions with direct reporting to the Risk Management Committee. The Unit is adequately manned and oversees all risk aspects including but not limited to Credit, Operational, Market and other risks. The Bank has formed a Middle Office Unit, within the Risk Department, to oversee various activities of credit portfolio risk, operations and other risks. The Unit is guided by risk management frameworks and guidelines to monitor various risks in different departments. The Bank has also formulated Credit Risk Management Committee and Operation Risk Management Committee whose reports are further escalated to Risk Management Committee through Management Risk Monitoring Committee.

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 and further deliberated in the Board. The Internal Capital Adequacy Assessment Process (ICAAP) policy, a comprehensive risk/capital management document, Risk Management Guidelines and various risk frameworks act as guiding tools 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 Policy, Credit Risk Management Framework, Credit Risk Strategy Paper are formulated to monitor and manage risk pertinent to credit.
- Risk Management Committee comprising of Non-Executive Directors has been enacted, which reviews various risk factors on a periodic basis. In addition to reviewing of associated risks, reports generated and discussed on Credit Risk Management Committee is escalated to Risk Management Committee through Management Risk Monitoring Committee.
- 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 joint approval of the Risk Unit along with Business 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 as Credit Risk Management Committee, Management Risk Monitoring Committee, 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.
- Middle Office unit within Risk Department 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 formulated Operation Risk Management Framework and IT Risk Management Framework to monitor the risk pertinent to Operations and IT 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 the Bank's 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 like Market Risk Management Framework, Liquidity Risk Management Framework, Liquidity Contingency Funding Plan to monitor, manage and mitigate these risks.
- Bank has an Assets Liability Committee and Investment Management Committee which meets regularly to identify and manage these risks as per the laid down policies and procedures.