

**Mega Bank Nepal Limited**  
**Disclosure under Basel III**  
As at End of 4<sup>th</sup> Quarter FY 2076/77

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

Rs. In Millions

		15.07.2020
<b>Core Capital (Tier 1)</b>		<b>16,346</b>
a	Paid up Equity Share Capital	13,139
b	Share Premium	28
c	Proposed Bonus Equity Shares	-
d	Statutory General Reserves	2,365
e	Retained Earnings (unaudited profit up to previous year)	109
f	Un-audited current year cumulative profit/(Loss)	1,008
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	103

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

Rs. In Millions

		15.07.2020
<b>Supplementary Capital (Tier 2)</b>		<b>1,167</b>
a	Cumulative and/or Redeemable Preference Share	-
b	Subordinated Term Debt	-
c	Hybrid Capital Instruments	-
d	General loan loss provision	1,132
e	Exchange Equalization Reserves	4
f	Investment Adjustment Reserves	12
g	Assets Revaluation Reserves	18
h	Other Reserves	3

**C) Subordinated Term Debts**

None

**D) Deductions from Capital**

Rs. In Millions

Deferred Tax Assets	103
Other Deductions	200

**E) Total Qualifying Capital**

Rs. In Millions

1	Core Capital (Tier I)	16,346
2	Supplementary Capital (Tier II)	1,167
	<b>Total Capital Fund</b>	<b>17,513</b>

**F) Capital Adequacy Ratio**

1	Tier 1 Capital to Total Risk Weighted Exposures	12.02%
2	Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	12.88%

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

Rs. In Millions

1	Risk Weighted Exposure for Credit Risk	127,070
2	Risk Weighted Exposure for Operational Risk	4,401
3	Risk Weighted Exposure for Market Risk	640
4	Add RWE of capital charge of 3 % of gross income (SRP 6.4a (7))	1,284
5	Add 2% of RWE (SRP 6.4a (9))	2,642
	<b>Total Risk Weighted Exposures</b>	<b>136,038</b>

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

Rs. In Millions

No.	Particulars	15.07.2020
1	Claims on govt. and central Bank	-
2	Claims on other official entities	13
3	Claims on Banks	6,220
4	Claims on corporate and securities firm	52,659
5	Claims on regulatory retail portfolio	13,349
6	Claim secured by residential properties	4,636
7	Claims secured by commercial real state	10,960
8	Past due Claims	411
9	High risk claims	26,367
10	Other Assets	7,832
11	Off Balance sheet Items	4,623
	<b>Total</b>	<b>127,070</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	4,074	-	-	4,074	0%	-
Balance With Nepal Rastra Bank	7,734	-	-	7,734	0%	-
Gold	-	-	-	-	0%	-
Investment in Nepalese Government Securities	14,285	-	-	14,285	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	4,568	-	-	4,568	20%	914
Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	592	-	-	592	20%	118
Claims on foreign bank (ECA Rating 2)	3,700	-	-	3,700	50%	1,850
Claims on foreign bank (ECA Rating 3-6)	3,298	-	-	3,298	100%	3,298
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	202	-	-	202	20%	40
Claims on Domestic Corporates	52,659	-	-	52,659	100%	52,659
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)	17,993	-	194	17,799	75%	13,349
Claims fulfilling all criterion of regularity retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	7,673	-	-	7,673	60%	4,604
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	53	21	-	32	100%	32
Claims secured by Commercial real estate	10,960	-	-	10,960	100%	10,960
Past due claims (except for claims secured by residential properties)	1,298	1,024	-	274	150%	411
High Risk claims	17,587	9	-	17,578	150%	26,367
Lending against securities (bonds & shares)	1,810	-	-	1,810	1	1,810
Investments in equity and other capital instruments of institutions listed in stock exchange	834	139	-	695	100%	695
Investments in equity and other capital instruments of institutions not listed in the stock exchange	293	-	-	293	150%	440
Staff loan secured by residential property	869	-	-	869	0.5	434
Interest Receivable/claim on government securities	181	-	-	181	0	-
Cash in transit and other cash items in the process of collection	-	-	-	-	0.2	-
Other Assets (as per attachment)	5,404	951	-	4,452	100%	4,452
<b>TOTAL (A)</b>	<b>156,076</b>	<b>2,143</b>	<b>194</b>	<b>153,739</b>		<b>122,448</b>

<b>B. Off Balance Sheet Exposures</b>	<b>Book Value</b>	<b>Specific Provision</b>	<b>Eligible CRM</b>	<b>Net Value</b>	<b>Risk Weight</b>	<b>Risk Weighted Exposures</b>
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	0	-	-	0	0%	-
Forward Exchange Contract Liabilities	4,701	-	-	4,701	10%	470
LC Commitments With Original Maturity Upto 6 months domestic counterparty	1,409	-	77	1,332	20%	266
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	295	-	5	290	50%	145
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	3,241	-	427	2,814	50%	1,407
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	6	-	-	6	100%	6
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	155	-	3	152	100%	152
Financial Guarantee	473	-	34	439	100%	439
Acceptances and Endorsements	402	-	-	402	100%	402
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (short term)	6,471	-	-	6,471	20%	1,294
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%	-
<b>TOTAL (B)</b>	<b>17,194</b>	<b>-</b>	<b>546</b>	<b>16,648</b>		<b>4,623</b>
<b>Total RWE for credit Risk Before Adjustment (A) +(B)</b>	<b>173,270</b>	<b>2,143</b>	<b>739</b>	<b>170,387</b>		<b>127,070</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						-
Total RWE for Credit Risk after Bank's adjustments under Pillar II	<b>173,270</b>	<b>2,143</b>	<b>739</b>	<b>170,387</b>		<b>127,070</b>

## 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)	<b>2,079</b>	<b>2,898</b>	<b>4,707</b>
Alfa (b)	<b>15%</b>	<b>15%</b>	<b>15%</b>
Fixed Percentage of Gross Income [c=(a×b)]	<b>312</b>	<b>435</b>	<b>706</b>
Capital Requirement for operational risk (d) (average of c)	<b>484</b>		
Risk Weight (reciprocal of capital requirement of 11%) in times (e)	<b>9.09</b>		
<b>Equivalent Risk Weight Exposure [f=(d×e)]</b>	<b>4,402</b>		

## III. RISK WEIGHTED EXPOSURE FOR MARKET RISK

Rs. In Millions

<b>Total Relevant Open Position (a)</b>	<b>1,408</b>
Fixed Percentage (b)	5
Capital Charge for Market Risk [c=(a×b)]	70
Risk Weight (reciprocal of capital requirement of 11%) in times (d)	9.09
<b>Equivalent Risk Weight Exposure [e=(c×d)]</b>	<b>640</b>

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

Rs. In Millions

<b>Gross NPA</b>	<b>1,433</b>
Restructured/Rescheduled	71
Substandard	229
Doubtful	292
Loss	842
<b>Net NPA</b>	<b>379</b>
Restructured/Rescheduled	62
Substandard	171
Doubtful	146
Loss	-

K) **NPA Ratios (%)**

Gross NPA/Gross Advances	1.26
Net NPA/Net Advances	0.34

L) **Movement of Non Performing Assets**

Rs. In Millions

Grade	This Quarter	Previous Quarter
Restructured/Rescheduled	71	-
Substandard	229	254
Doubtful	292	351
Loss	842	465
<b>Total NPA</b>	<b>1,433</b>	<b>1,070</b>

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

Particulars	This Quarter
Write off Loans	4.29
Write off Interest	3.48

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

Rs. In Millions

Particulars	This Quarter	Previous Quarter	Changes (%)
Loan Loss Provision	2,708	1,554	74
Interest Suspense	1,424	1,735	(18)

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	14,881
Available For Sale	1,299
<b>Total</b>	<b>16,206</b>

**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.