

Mega Bank Nepal Limited
Disclosure under Basel III
As at End of 2nd Quarter FY 2078/79

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

Rs. In Millions

	14.01.2022
Core Capital (Tier 1)	19,887
a Paid up Equity Share Capital	16,120
b Share Premium	208
c Proposed Bonus Equity Shares	-
d Statutory General Reserves	2,842
e Retained Earnings (unaudited profit up to previous year)	3
f Un-audited current year cumulative profit/(Loss)	1,123
g Capital Redemption Reserves	-
h Capital Adjustment Reserves	-
i Dividend Equalization Reserves	-
j Other Free Reserves	-
k Less: Goodwill	208
l Less: Intangible Assets	-
m Less: Deferred Tax Assets	-
n Less: Investment in equity of institutions with financial interests	200
o Less: Investment in equity of institutions in excess of limits	2

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

Rs. In Millions

	14.01.2022
Supplementary Capital (Tier 2)	2,027
a Cumulative and/or Redeemable Preference Share	-
b Subordinated Term Debt	-
c Hybrid Capital Instruments	-
d Stock Premium	-
e General loan loss provision	1,971
f Exchange Equalization Reserves	12
g Investment Adjustment Reserves	-
h Assets Revaluation Reserves	41
i Other Reserves	3

C) **Subordinated Term Debts**

None

D) **Deductions from Capital**

Rs. In Millions

Goodwill	208
Deferred Tax Assets	-
Investment in equity of institutions with financial interests	200
Investment in equity of institutions in excess of limits	2

E) **Total Qualifying Capital**

Rs. In Millions

1 Core Capital (Tier I)	19,887
2 Supplementary Capital (Tier II)	2,027
Total Capital Fund	21,914

F) **Capital Adequacy Ratio**

1 Tier 1 Capital to Total Risk Weighted Exposures	11.64%
2 Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	12.83%

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

Rs. In Millions

1 Risk Weighted Exposure for Credit Risk	156,425
2 Risk Weighted Exposure for Operational Risk	7,737
3 Risk Weighted Exposure for Market Risk	1,384
4 Add RWE of capital charge of 3 % of gross income (SRP 6.4a (7))	1,951
5 Add 2% of RWE (SRP 6.4a (9))	3,311
Total Risk Weighted Exposures	170,808

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

Rs. In Millions

No.	Particulars	14.01.2022
1	Claims on govt. and central Bank	-
2	Claims on other official entities	9
3	Claims on Banks	7,055
4	Claims on corporate and securities firm	69,666
5	Claims on regulatory retail portfolio	31,458
6	Claim secured by residential properties	4,145
7	Claims secured by commercial real state	16,997
8	Past due Claims	1,823
9	High risk claims	2,685
10	Other Assets	11,113
11	Off Balance sheet Items	11,474
	Total	156,425

1) 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	3,099	-	-	3,099	0%	-
Balance With Nepal Rastra Bank	6,304	-	-	6,304	0%	-
Gold	-	-	-	-	0%	-
Investment in Nepalese Government Securities	20,829	-	-	20,829	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	9	-	-	9	100%	9
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	6,650	-	-	6,650	20%	1,330
Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	656	-	-	656	20%	131
Claims on foreign bank (ECA Rating 2)	6,380	-	-	6,380	50%	3,190
Claims on foreign bank (ECA Rating 3-6)	2,386	-	-	2,386	100%	2,386
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	88	-	-	88	20%	18
Claims on Domestic Corporates (Credit rating score equivalent to AAA)	-	-	-	-	80%	-
Claims on Domestic Corporates (Credit rating score equivalent to AA+ to AA-)	-	-	-	-	85%	-
Claims on Domestic Corporates (Credit rating score equivalent to A+ to A-)	548	-	-	548	90%	493
Claims on Domestic Corporates (Credit rating score equivalent to BBB+ & below)	13,164	-	-	13,164	100%	13,164
Claims on Domestic Corporates (Unrated)	56,009	-	-	56,009	100%	56,009
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)	42,398	1	454	41,944	75%	31,458
Claims fulfilling all criterion of regularity retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	6,782	-	-	6,782	60%	4,069
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	88	13	-	75	100%	75
Claims secured by Commercial real estate	16,998	0	-	16,997	100%	16,997
Past due claims (except for claims secured by residential properties)	2,313	1,097	-	1,216	150%	1,823
High Risk claims	1,790	-	-	1,790	150%	2,685
Lending against securities (bonds & shares)	3,731	-	-	3,731	100%	3,731
Investments in equity and other capital instruments of institutions listed in stock exchange	740	-	-	740	100%	740
Investments in equity and other capital instruments of institutions not listed in the stock exchange	299	-	-	299	150%	449
Staff loan secured by residential property	1,556	-	-	1,556	50%	778
Interest Receivable/claim on government securities	245	-	-	245	0%	-
Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
Other Assets (as per attachment)	6,690	1,276	-	5,414	100%	5,414
TOTAL (A)	199,752	2,387	454	196,912		144,951

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	3,000	-	-	3,000	10%	300
LC Commitments With Original Maturity Upto 6 months domestic counterparty	4,335	-	12	4,323	20%	865
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	3,344	-	2	3,341	50%	1,671
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	3,978	-	354	3,624	40%	1,450
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	2,720	-	-	2,720	100%	2,720
Advance Payment Guarantee	186	-	2	184	100%	184
Financial Guarantee	891	-	38	853	100%	853
Acceptances and Endorsements	1,877	-	-	1,877	100%	1,877
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (short term)	7,130	-	-	7,130	20%	1,426
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	98	-	-	98	100%	98
Unpaid Guarantee Claims	-	-	-	-	200%	-
TOTAL (B)	27,566	-	408	27,157		11,447
Total RWE for credit Risk Before Adjustment (A) +(B)	227,318	2,387	862	224,069		156,398
Adjustments under Pillar II						
Answer the question SRP 6.4a (3) in SRP sheet						-
Answer the question SRP 6.4a (4) in SRP sheet						27
Total RWE for Credit Risk after Bank's adjustments under Pillar II	227,318	2,387	862	224,069		156,425

II. RISK WEIGHTED EXPOSURE FOR OPERATIONAL RISK

Rs. In Millions

Particulars	Fiscal Year		
	2075/076	2076/077	2077/078
Net Interest Income	3,796	4,171	5,793
Commission and Discount Income	531	522	674
Other Operating Income	103	140	390
Exchange Fluctuation Income	278	328	297
Addition/Deduction in Interest Suspense during the period	-	-	-
Gross income (a)	4,707	5,161	7,154
Alfa (b)	15%	15%	15%
Fixed Percentage of Gross Income [c=(axb)]	706	774	1,073
Capital Requirement for operational risk (d) (average of c)	851		
Risk Weight (reciprocal of capital requirement of 11%) in times (e)	9.09		
Equivalent Risk Weight Exposure [f=(dxe)]	7,737		

III. RISK WEIGHTED EXPOSURE FOR MARKET RISK

Rs. In Millions

Total Relevant Open Position (a)	3,045
Fixed Percentage (b)	5
Capital Charge for Market Risk [c=(axb)]	152
Risk Weight (reciprocal of capital requirement of 11%) in times (d)	9.09
Equivalent Risk Weight Exposure [e=(cxd)]	1,384

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

Rs. In Millions

Gross NPA	1,538
Restructured/Rescheduled	-
Substandard	492
Doubtful	104
Loss	942
Net NPA	421
Restructured/Rescheduled	-
Substandard	369
Doubtful	52
Loss	-

K) **NPA Ratios (%)**

Gross NPA/Gross Advances	1.05
Net NPA/Net Advances	0.29

L) **Movement of Non Performing Assets**

Rs. In Millions

Grade	This Quarter	Previous Quarter
Restructured/Rescheduled	-	-
Substandard	492	175
Doubtful	104	128
Loss	942	982
Total NPA	1,538	1,285

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

Particulars	This Quarter
Write off Loans	24.27
Write off Interest	15.27

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

Rs. In Millions

Particulars	This Quarter	Previous Quarter	Changes (%)
Loan Loss Provision	3,083	3,117	(1)
Interest Suspense	1,205	1,358	(11)

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	30,481
Available For Sale	1,040
Total	31,521

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 Treasury Mid Office within the Risk Department, to oversee various activities of treasury operations, market and liquidity 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
- Bank has separate Operation, Market and Other Risk Unit headed by CRO for reviewing, identification and reporting of all the operation related issues.
- 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 and Liquidity 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, guidelines and framework like Market Risk Management Framework, Liquidity Risk Management Framework, Market Risk Management and
- Liquidity Contingency Plan to monitor, manage and mitigate market and liquidity risk. 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.
- Bank has an independent treasury mid office under risk department for monitoring the treasury operations and market risk.

Information Security Risk:

- Bank has a separate information security unit under Risk Department for assessing, monitoring and controlling the information security risk of the Bank.
- Bank has development and implemented IT Risk Framework, IT Security Policy and Incident Response Plan for the effective risk management of information security.