

Disclosure under Basel II capital accord of Nepal Rastra Bank

(As per clause 7.4 of the New Capital Accord As at First Quarter End of FY 2066-67 (2009-10))

1. Tier 1 capital and a breakdown of its components:

	Core capital	NPR
a	Paid up equity Share Capital	385,300,000
b	Irredeemable Non cumulative preference shares	787,000,000
c	Statutory General Reserves	1,996,511,271
d	Retained earning	-16,692,745,025
e	Un-audited current year cumulative profit	255,294,825
f	Other free reserve	5,500,000
	Total	-13,263,138,929

2. Tier 2 capital and a breakdown of its components: Not applicable**3. Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, and amount raised during the year and amount eligible to be reckoned as capital funds: Not applicable****4. Deductions from capital:**

Investment in equity in licensed Financial Institutions: NPR 221,463,095
Employee related loan: NPR 30,985,888

5. Total qualifying capital: NPR -13,515,587,911**6. Capital adequacy ratio: - 36.47%****7. Risk weighted exposures for Credit Risk, Market Risk and Operational Risk:**

	RISK WEIGHTED EXPOSURES (in NPR)	Aswin 2066
a	Risk Weighted Exposure for Credit Risk	31,637,038,915
b	Risk Weighted Exposure for Operational Risk	5,038,573,340
c	Risk Weighted Exposure for Market Risk	380,642,370
	Total Risk Weighted Exposures (a+b+c)	37,056,254,625

8. **Risk Weighted Exposures under each of 11 categories of Credit Risk:**

No.	Particulars	RWE (in NPR)
1	Claims on govt. and central Bank	-
2	Claims on other Official entities	2,925,592,202
3	Claims on Banks	4,047,613,822
4	Claims on corporate and securities firm	8,069,632,879
5	Claims on regulatory retail portfolio	6,917,879,272
6	Claim secured by residential properties	1,620,591,025
7	Claims secured by commercial real state	
8	Past due Claims	0
9	High risk claims	67,120,100
10	Other Assets	5,791,078,848
11	Off Balance sheet Items	2,197,530,766
	Total	31,637,038,915

9. **Total risk weighted exposure calculation table:**

A. Balance Sheet Exposures	Book Value a	Specific Provision b	Eligible CRM c	Net Value d=a-b-c	Risk Weight e	Risk Weighted Exposures f=d*e
Cash Balance	1,699,993,788	-	-	1,699,993,788	0%	-
Balance With Nepal Rastra Bank	18,130,498,119	-	-	18,130,498,119	0%	-
Gold	-	-	-			-
Investment in Nepalese Government Securities	12,099,774,825	-	-	12,099,774,825	0%	-
All other Claims on Government of Nepal	699,311,746	-	-	699,311,746	0%	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
All other 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 on Multilateral Development Banks (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)	2,045,472,321	95,077,519	-	1,950,394,802	150%	2,925,592,202
Claims on domestic banks that meet capital adequacy requirements	3,203,610,000	-	-	3,203,610,000	20%	640,722,000
Claims on domestic banks that do not meet capital adequacy requirements	136,631,999	-	-	136,631,999	100%	136,631,999
Claims on foreign bank (ECA Rating 0-1)	1,680,469,544	-	-	1,680,469,544	20%	336,093,909
Claims on foreign bank (ECA Rating 2)	227,751,388	-	-	227,751,388	50%	113,875,694
Claims on foreign bank (ECA Rating 3-6)	2,957,484,037	137,193,817	-	2,820,290,220	100%	2,820,290,220
Claims on foreign bank (ECA Rating 7)	73,171,689	73,171,689	-	-	150%	-
Claims on foreign bank incorporated in SAARC region operating with the buffer of 1% above their respective regulatory capital requirement	-	-	-	-	20%	-
Claims on Domestic Corporates	8,069,632,879	-	-	8,069,632,879	100%	8,069,632,879
Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	20%	-
Claims on Foreign Corporates (ECA 2)	-	-	-	-	50%	-
Claims on Foreign Corporates (EAC 3-6)	-	-	-	-	100%	-
Claims on Foreign Corporate (ECA 7)	-	-	-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	13,087,974,327	-	3,864,135,297	9,223,839,030	75%	6,917,879,272
Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	2,700,985,041	-	-	2,700,985,041	60%	1,620,591,025
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	372,901	372,901	-	-	100%	-
Claims secured by Commercial real estate	-	-	-	-	100%	-
Past due claims (except for claim secured by residential properties)	5,230,081,812	5,230,081,812	-	-	150%	-
High Risk claims	0	0	0	-	150%	-
Investments in equity and other capital instruments of institutions listed in the stock exchange	248,806,795	223458694.6	0	25,348,100	100%	25,348,100
Investments in equity and other capital instruments of institutions not listed in the stock exchange	29,403,000	1555000	0	27,848,000	150%	41,772,000
Other Assets (as per attachment)	25,408,128,942	19617050094	0	5,791,078,848	100%	5,791,078,848
TOTAL	97,729,555,152	25,377,961,526	3,864,135,297	68,487,458,329		29,439,508,149

	Book Value a	Specific Provision b	Eligible CRM c	Net Value d=a-b-c	Risk Weight e	Risk Weighted Exposure f=d*e
B. Off Balance Sheet Exposures						
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	547,367,091	-	-	547,367,091	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-

LC Commitments With Original Maturity Up to 6 months domestic counterparty	134,475,984	-	117,591,329	16,884,654	20%	3,376,931
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	403,561,961	-	-	403,561,961	50%	201,780,981
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 and Performance Bond and Counter guarantee domestic counterparty	1,020,245,285	-	95,323,147	924,922,138	50%	462,461,069
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%	-
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	112,852,610	-	-	112,852,610	100%	112,852,610
Financial Guarantee	19,450,000	-	-	19,450,000	100%	19,450,000
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments	-	-	-	-	50%	-
Other Contingent Liabilities	1,397,609,176	-	-	1,397,609,176	100%	1,397,609,176
TOTAL	3,635,562,106	-	212,914,476	3,422,647,630		2,197,530,766
Total RWE for credit Risk (A) +(B)	101,365,117,258	25,377,961,526	4,077,049,773	71,910,105,958		31,637,038,915

10. **Amount of NPA:** Gross: NPR 4,800,496,597 Net: NPR 210,714,789

11. **NPA ratios:** Gross: 15.42% Net: 0.82%

12. Movement of NPA:

	17/10/2009	15/07/2009	Changes
NPA Movement	Gross	Gross	
Total	4,800,496,597	4,957,337,652	(156,841,055)
Substandard loan	52,081,077	227,989,876	(175,908,798)
Doubtful Loan	342,800,941	218,581,325	124,219,616
Loss Loan	4,405,614,579	4,510,766,451	(105,151,872)

13. Write off of loans & Interest suspense:

There is no loan write off during the quarter and interest suspense balance is NPR. 18,346,761,534

14. Movement in Loan loss provisions and interest suspense:

Decrease in Loan Loss Provision by NPR. 77,013,647 compared to fourth quarter of FY 2008/09.

Increase in Interest Suspense by NPR. 426,090,788 compared to fourth quarter of FY 2008/09.

15. Detail of additional Loan Loss provision: NPR 344,303,801.06

16. Segregation of investment portfolio into Held for trading, Held to maturity and Available for sale category:

All the investments are classified as held to maturity category except holding in Banks and financial Institution which are categorized as available for sale.

17. Risk Management System:

The Bank is fully owned by the Government of Nepal. It has recently submitted a new capital plan requiring capital adequacy to the government. The Board of Directors and the Management of the Bank are responsible for implementing and strengthening Risk Management Systems.

Credit risk management system:

- Director's credit committee, Central Credit Committee chaired by CEO, Credit committee at department level, Regional office Credit Committee, Branch office Credit Committee and Credit Chief are responsible at different level to identify and implement tools to mitigate credit risk.
- Credit is approved, disbursed, monitored and reviewed following credit approval, disbursement, monitoring and review procedures described in the "Credit Manual 2060" and internal circular issued by the management from time to time.
- Director's credit committee and Loan Recovery and Debt Restructuring Committee is responsible to identify large and problematic loans and to recovery/write off of such loan.
- Credit concentration is monitored periodically and the bank bears a highly diverse credit portfolio with large number of borrowers.
- The responsibility for review of investment on half yearly basis has been vested to internal Audit Department by the Treasury and Investment Manual of the Bank. The investment review report is submitted to Board by the Internal Audit Department on half yearly basis.

Market Risk Management Systems:

- The Bank uses the liquidity table and gap analysis for management of market risk. The Bank has its own Investment and Treasury Operations Manual as a guiding document for the management of market risk.
- Assets and Liabilities Committee (ALCO) has been established to review the interest rate exposures at periodic intervals and suggest corrective measures to the management. The ALCO also reviews liquidity risk on monthly basis.

Operational Risk Management System:

- Different aspects of operational risks are addressed by in various policies, manuals, circulars and instructions of the Bank. The following policies, procedures and guidelines are implemented by the Bank, which contains relative controls to address different aspects of risks associated with the operations.
 - Functional Organizational Structure
 - Investment and Treasury Operations Manual
 - Collateral Security Valuation Directives 2064
 - Financial Bye-Rules 2063
 - Budget Manual 2060
 - Procurement Manual 2061
 - IT Manual
 - Branch Operation Manual 2064
 - Credit Manual 2060
 - Accounting Manual 2061
 - RBBL Loan Write Off Bye-Rules 2062
 - Audit Manual 2060
 - Loan Recovery and Debt Restructuring Directives 2061
 - Departmental Operating Instructions and manual for various departments
- The Branch Operation Department is responsible to oversee the overall functioning of the bank branches. A separate legal department headed by a legal office, as also by professional lawyers on retainer basis whose services are available on call and as and when required is in place to minimize the legal risk.

Internal Control Systems:

- The effectiveness of the internal control system of the bank is reviewed regularly by the Board, its Committees, Management Committee, Compliance unit and Internal Audit department.
- In conformity with the NRB directives, the bank has constituted a four member- Audit Committee consisting 2 non executive directors. The committee reviews periodic reports and investigation reports submitted by the Internal Audit Department and Regional Audit Units and give suggestions /directions to the management as required.
- The Internal Audit monitors compliance with policies and standards and the effectiveness of internal control system throughout the organization.
- Compliance Unit ensures compliance with code of ethics and good corporate governance.