Disclosure under Basel II capital accord of Nepal Rastra Bank
(As per clause 7.4 of the New Capital Accord As at Second 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	2,168,980,854
d	Retained earning	(16,692,745,025)
e	Un-audited current year cumulative profit	930,835,136
f	Other free reserve	5,500,000
	Total	(12,415,129,036)

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 27,603,036

5. **Total qualifying capital:** NPR (12,664,195,166)

6. **Capital adequacy ratio**: **-** 31.86%

7. **Risk weighted exposures for Credit Risk, Market Risk and Operational Risk:**

	RISK WEIGHTED EXPOSURES	Poush 2066
a	Risk Weighted Exposure for Credit Risk	34,634,277,287
b	Risk Weighted Exposure for Operational Risk	5,038,573,340
c	Risk Weighted Exposure for Market Risk	80,725,401
Adjustments under Pillar II		
	Add: 3% of the total RWE due to non compliance to Disclosure Requirement (6.4 a 10)	
	Add: ….% of the total deposit due to insufficient Liquid Assets (6.4 a 6)	
	Total Risk Weighted Exposures (a+b+c)	**39,753,576,028**

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

No.	Particulars	RWE
1	Claims on govt. and central Bank	-
2	Claims on other Official entities	2,919,004,648
3	Claims on Banks	4,203,707,631
4	Claims on corporate and securities firm	5,827,424,367
5	Claims on regulatory retail portfolio	8,651,940,905
6	Claim secured by residential properties	1,735,687,218
7	Claims secured by commercial real state	646,230,850
8	Past due Claims	366,719,888
9	High risk claims	2,657,612,820
10	Other Assets	5,259,594,712
11	Off Balance sheet Items	2,366,354,248
	Total	**34,634,277,287**

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	2,081,548,720	-	-	2,081,548,720	0%	-
Balance With Nepal Rastra Bank	6,246,430,773	-	-	6,246,430,773	0%	-
Gold	-	-	-			-
Investment in Nepalese Government Securities	9,980,345,335	-	-	9,980,345,335	0%	-
All other Claims on Government of Nepal	3,556,894,931	-	-	3,556,894,931	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)	2,044,043,218	98,040,119	-	1,946,003,099	150%	2,919,004,648
Claims on domestic banks that meet capital adequacy requirements	3,475,561,500	-	-	3,475,561,500	20%	695,112,300
Claims on domestic banks that do not meet capital adequacy requirements	103,414,199	-	-	103,414,199	100%	103,414,199
Claims on foreign bank (ECA Rating 0-1)	1,432,442,076	-	-	1,432,442,076	20%	286,488,415
Claims on foreign bank (ECA Rating 2)	3,202,239	-	-	3,202,239	50%	1,601,119
Claims on foreign bank (ECA Rating 3-6)	3,320,152,211	203,060,614	-	3,117,091,597	100%	3,117,091,597
Claims on foreign bank (ECA Rating 7)	83,568,266	83,568,266	-	-	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 Corporate	5,827,424,367	-	-	5,827,424,367	100%	5,827,424,367
Claims on Foreign Corporate (ECA 0-1)	-	-	-	-	20%	-
Claims on Foreign Corporate (ECA 2)	-	-	-	-	50%	-
Claims on Foreign Corporate (E CA 3-6)	-	-	-	-	100%	-
Claims on Foreign Corporate (ECA 7)	-	-	-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	15,427,053,440	-	3,891,132,233	11,535,921,206	75%	8,651,940,905

Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	2,892,812,030	-	-	2,892,812,030	60%	1,735,687,218
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	2,768,534	2,768,534	-	-	100%	-
Claims secured by Commercial real estate	646,230,850	-	-	646,230,850	100%	646,230,850
Past due claims (except for claim secured by residential properties)	4,905,560,688	4,661,080,763	-	244,479,926	150%	366,719,888
High Risk claims	1755154204	26817457.95	0	1,728,336,747	150%	2,592,505,120
Investments in equity and other capital instruments of institutions listed in the stock exchange	23,335,700	0	0	23,335,700	100%	23,335,700
Investments in equity and other capital instruments of institutions not listed in the stock exchange	28,436,000	588000	0	27,848,000	150%	41,772,000
Other Assets (as per attachment)	24,403,151,965	19143557253	0	5,259,594,712	100%	5,259,594,712
TOTAL	**88,239,531,246**	**24,219,481,007**	**3,891,132,233**	**60,128,918,006**		**32,267,923,039**

B. Off Balance Sheet Exposures	**Book Value a**	**Specific Provision b**	**Eligible CRM c**	**Net Value d=a-b-c**	**Risk Weight e**	**Risk Weighted Exposure f=d*e**
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	489,991,550	-	-	489,991,550	0%	-
Forward Exchange Contract Liabilites	-	-	-	-	10%	-
LC Commitments With Original Maturity Up to 6 months domestic counterparty	141,893,920	-	85,828,033	56,065,887	20%	11,213,177
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	585,278,723	-	-	585,278,723	50%	292,639,361
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	1,141,927,273	-	117,986,142	1,023,941,130	50%	511,970,565
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	121,634,894	-	-	121,634,894	100%	121,634,894
Financial Guarantee	27,800,000	-	-	27,800,000	100%	27,800,000
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments	-	-	-	-	50%	-
Other Contingent Liabilities	1,401,096,250	-	-	1,401,096,250	100%	1,401,096,250
TOTAL	**3,909,622,609**	**-**	**203,814,175**	**3,705,808,434**		**2,366,354,248**
Total RWE for credit Risk before adjustments (A) +(B)	**92,149,153,855**	**24,219,481,007**	**4,094,946,408**	**63,834,726,441**		**34,634,277,287**
Adjustments under Pillar II						
Add: 10% of the loan and facilities in excess of Single Obligor Limits (6.4 a 3)						
Add: 1% of the contract (sale) value in case of the sale of credit with recourse (6.4 a 4)						
Total RWE for credit Risk (After Bank's adjustments of Pillar II)	**92,149,153,855**	**24,219,481,007**	**4,094,946,408**	**63,834,726,441**		**34,634,277,287**

10. <u>Amount of NPA:</u> **Gross**: NPR 4,349,298,603 **Net**: NPR 142,195,979

11. <u>NPA ratios:</u> **Gross**: 12.98% **Net**: 0.50%

12. <u>Movement of NPA:</u>

NPA Movement	Poush 2066 Gross	Ashwin 2066 Gross	Changes
Total	**4,349,298,603**	**4,800,496,597**	**(451,197,994)**
Substandard loan	30,319,572	52,081,077	(21,761,505)
Doubtful Loan	242,564,825	342,800,941	(100,236,116)
Loss Loan	4,076,414,206	4,405,614,579	(329,200,373)

13. Write off of loans & Interest suspense:

There is no loan write off during the quarter and interest suspense balance is NPR. 18,097,818,257.64

14. Movement in Loan loss provisions and interest suspense:

Decrease in Loan Loss Provision by NPR. 418,710,566 compared to first quarter of FY 2009/10.
Decrease in Interest Suspense by NPR. 289,013,196 compared to first quarter of FY 2009/10.

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 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 Nepal Rastra Bank and Treasury Department 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	- Branch Operation Manual 2064
- Investment and Treasury Operations Manual	- Credit Manual 2060
- Collateral Security Valuation Directives 2064	- Accounting Manual 2061
- Financial Bye-Rules 2063	- RBBL Loan Write Off Bye-Rules 2062
- Budget Manual 2060	- Audit Manual 2060
- Procurement Manual 2061	- Loan Recovery and Debt Restructuring Directives 2061
- IT Manual	- 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 of two 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.