

Capital Adequacy Report as per Basel II

Disclosure under Basel II capital accord of Nepal Rastra Bank as at First Quarter of FY 2070-71(2013-14) ending on Ashwin End, 2070.

(As per clause 7.4 of the New Capital Accord)

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

	CORE CAPITAL	AMOUNT NPR
a	Paid-up Equity Share Capital	8,588,972,300
b	Irredeemable Non-cumulative Preference Shares	-
c	Share Premium	-
d	Proposed Equity Bonus Shares	-
e	Statutory General Reserves	3,200,047,014
f	Retained Earnings	(11,412,350,408)
g	Un-audited Current Year Cumulative Profit / (Loss)	259,275,768
h	Capital Redemption Reserves	-
i	Capital Adjustment Reserves	481,195,653
j	Dividend Equalization Reserves	-
k	Deferred Tax Reserve	511,456,214
l	Other free Reserves	5,500,000
	Total	1,634,096,541

2. Tier 2 capital and a breakdown of its components:

	SUPPLEMENTARY CAPITAL	AMOUNT NPR
a	Cumulative and/or Redeemable Preference Shares	-
b	Subordinated Term Debts	-
c	Hybrid Capital Instruments	-
d	General Loan Loss Provisions	731,533,686
e	Exchange Equalization Reserve	97,319,666
f	Investment Adjustment Reserve	10,186,807
g	Asset Revaluation Reserve	-
h	Other Reserves	-
	Total	839,040,159

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

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4. Deductions from capital:

	DEDUCTION FOR CORE CAPITAL	AMOUNT NPR
a	Goodwill	-
b	Fictitious Assets	-
c	Investment in Equity of Licensed Financial Institutions	221,344,461
d	Investment in Equity of Institutions with Financial Interests	36,250,000
e	Investment in Equity of Institutions in excess of the Limits	-
f	Investments arising out of Underwriting Commitments	-
g	Reciprocal Crossholdings	-
h	Purchase of Land and Buildings in Excess of Limit and Unutilized	-
i	Other Deductions	-
	Adjustment under Pillar II	-
	Less: Shortfall in Provision (6.4a 1)	-
	Less: Loans and Facilities extended to Related Parties and Restricted Lendings (6.4a 2)	2,191,025
	Total	259,785,486

5. Total qualifying capital fund:

NPR . 2,213,351,214

6. Capital adequacy ratios:

CAPITAL ADEQUACY RATIOS	Ashwin 2070	Ashad 2070
Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	2.35%	1.89%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)	3.78%	3.33%

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

	RISK WEIGHTED EXPOSURES	AMOUNT (NPR)
a	Credit Risk	47,340,807,906
b	Operational Risk	7,805,839,091
c	Market Risk	307,206,916
	Adjustment under Pillar II	
	Add: 4 % of the total Risk Weighted Exposures for unsatisfactory overall risk management policies and procedures (6.4a 9)	2,218,154,157
	Add:% of Total Deposit RWE due to insufficient Liquid Assets (6.4a 6)	-
	Add: 2% of Gross total Income of Previous Financial Year for Inadequate Operational Risk Management Process(6.4a 7)	850,686,822
	Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	58,522,694,891

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

SN	Particulars	AMOUNT (NPR)
1	Claims on govt. and central Bank	-
2	Claims on other Official entities	-
3	Claims on Banks	548,209,694
4	Claims on corporate and securities firm	12,499,268,177
5	Claims on regulatory retail portfolio	14,524,828,304
6	Claim secured by residential properties	2,286,666,201
7	Claims secured by commercial real state	1,092,814,780
8	Past due Claims	321,720,907
9	High risk claims	3,162,673,203
10	Other Assets	7,729,203,361
11	Off Balance sheet Items	5,175,423,280
	Total	47,340,807,906

9. Total risk weighted exposure calculation table:

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Assets	2070 Ashad					
	Book Value	Specific Provision	Eligible CRM	Net Amount	Risk Weight	Risk Weighted Exposures
On Balance Sheet Transactions	(a)	(b)	(c)	(d)= (a) - (b) - (c)	(e)	(f) = (d)*(e)
Cash Balance	2,488,935,686	-	-	2,488,935,686	0%	-
Balance with Nepal Rastra Bank (NRB)	8,481,786,967	-	-	8,481,786,967	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	33,342,887,341	-	-	33,342,887,341	0%	-
All Claims on Government of Nepal	2,562,541,449	-	-	2,562,541,449	0%	-
Investments in NRB Bonds	-	-	-	-	0%	-
All Claims on Nepal Rastra Bank	-	-	-	-	0%	-
Claims on Foreign Government and Central Banks (ECA rating 0-1)	-	-	-	-	0%	-
Claims on Foreign Government and Central Banks (ECA rating 2)	-	-	-	-	20%	-
Claims on Foreign Government and Central Banks (ECA rating 3)	-	-	-	-	50%	-
Claims on Foreign Government and Central Banks (ECA rating 4 - 6)	-	-	-	-	100%	-
Claims on Foreign Government and Central Banks (ECA rating 7)	-	-	-	-	150%	-
Claims on BIS, IMF, ECB,EC and Multilateral Development Banks	-	-	-	-	0%	-
Claims on Other Multilateral Development Banks	-	-	-	-	100%	-
Claims on Public Sector Entities (ECA rating 0-1)	-	-	-	-	20%	-
Claims on Public Sector Entities (ECA rating 2)	-	-	-	-	50%	-
Claims on Public Sector Entities (ECA rating 3- 6)	-	-	-	-	100%	-
Claims on Public Sector Entities (ECA rating 7)	1,312,507,494	4,975,000	-	1,307,532,494	150%	1,961,298,741
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	844,500,631	-	-	844,500,631	20%	168,900,126
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	122,920,371	-	-	122,920,371	100%	122,920,371
Claims on Foreign Banks (ECA rating 0-1)	1,265,493,683	-	-	1,265,493,683	20%	253,098,737
Claims on Foreign Banks (ECA rating 2)	5,235,304	-	-	5,235,304	50%	2,617,652
Claims on Foreign Banks (ECA rating 3- 6)	102,782,840	102,110,032	-	672,808	100%	672,808
Claims on Foreign Banks (ECA rating 7)	-	-	-	-	150%	-
Claims on Foreign Banks established in SAARC Region with buffer capital of 1% over the regulatory requirement of their country	-	-	-	-	20%	-
Claims on Domestic Corporates	10,541,691,348	-	3,721,912	10,537,969,436	100%	10,537,969,436
Claims on Foreign Corporates (ECA rating 0-1)	-	-	-	-	20%	-
Claims on Foreign Corporates (ECA rating 2)	-	-	-	-	50%	-
Claims on Foreign Corporates (ECA rating 3 -6)	-	-	-	-	100%	-
Claims on Foreign Corporates (ECA rating 7)	-	-	-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	26,878,005,456	-	7,511,567,717	19,366,437,739	75%	14,524,828,304
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,811,110,335	-	-	3,811,110,335	60%	2,286,666,201
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	23,089,884	23,089,884	-	-	100%	-
Claims Secured by Commercial Real Estate	1,092,814,780	-	-	1,092,814,780	100%	1,092,814,780
Past due Claim (Except for claims secured by Residential Properties)	2,676,797,476	2,462,316,871	-	214,480,605	150%	321,720,907
High Risk Claims	2,108,448,802	-	-	2,108,448,802	150%	3,162,673,203
Investments in Shares and Capital Instruments of company listed in Stock Exchange	285,700	285,700	-	-	100%	-
Investments in Shares and Capital Instruments of company not listed in Stock Exchange	32,936,000	10,393,000	-	22,543,000	150%	33,814,500
Employee Loans secured by residential properties	-	-	-	-	60%	-
Interest Receivable/Claims on Government securities	228,943,978	-	-	228,943,978	0%	-
Cash and Other transit items in receivable	751,537,840	42,936,933	-	708,600,907	20%	141,720,181
Other Assets	19,938,556,794	12,384,888,115	-	7,553,668,679	100%	7,553,668,679
Total	118,613,810,159	15,030,995,535	7,515,289,629	96,067,524,995		42,165,384,626

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Assets	2070 Ashad					
	Book Value	Specific Provision	Eligible CRM	Net Amount	Risk Weight	Risk Weighted Exposures
Off Balance Sheet Transactions	(a)	(b)	(c)	(d)= (a) - (b) - (c)	(e)	(f) = (d)*(e)
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	158,923,328	-	-	158,923,328	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months- Domestic counterparty	880,245,080	-	118,841,177	761,403,904	20%	152,280,781
-Foreign Counterparty (ECA 0-1)	-	-	-	-	20%	-
-Foreign Counterparty (ECA 2)	-	-	-	-	50%	-
-Foreign Counterparty (ECA 3 -6)	-	-	-	-	100%	-
-Foreign Counterparty (ECA 7)	-	-	-	-	150%	-
LC Commitments with Original Maturity Over 6 months - Domestic counterparty	29,215,928	-	-	29,215,928	50%	14,607,964
-Foreign Counterparty (ECA 0-1)	-	-	-	-	20%	-
-Foreign Counterparty (ECA 2)	-	-	-	-	50%	-
-Foreign Counterparty (ECA 3 -6)	-	-	-	-	100%	-
-Foreign Counterparty (ECA 7)	-	-	-	-	150%	-
Bid Bod, Performance Bond and Counter Guarantee - Domestic Counterparty	866,250,243	-	75,643,360	790,606,883	50%	395,303,442
-Foreign Counterparty (ECA 0-1)	-	-	-	-	20%	-
-Foreign Counterparty (ECA 2)	-	-	-	-	50%	-
-Foreign Counterparty (ECA 3 -6)	-	-	-	-	100%	-
-Foreign Counterparty (ECA 7)	-	-	-	-	150%	-
Underwriting Commitments	-	-	-	-	50%	-
Lending of Banks Securities or Posting of Securities as Collateral	-	-	-	-	100%	-
Repurchase agreements, assets sale with recourse	-	-	-	-	100%	-
Advance Payment Guarantee	255,019,559	-	-	255,019,559	100%	255,019,559
Financial Guarantee	76,648,292	-	-	76,648,292	100%	76,648,292
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	1,599,959,460	-	-	1,599,959,460	20%	319,991,892
Irrevocable Credit Commitments (long term)	2,845,960,140	-	-	2,845,960,140	50%	1,422,980,070
Other Contingent Liabilities	2,538,591,281	-	-	2,538,591,281	100%	2,538,591,281
Unpaid Guarantee Claims	-	-	-	-	200%	-
Total	9,250,813,311	-	194,484,537	9,056,328,775		5,175,423,280

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10. **Amount of NPA:** Gross: NPR 2,699,887,360

Net: NPR 214,480,605

11. **NPA ratios:** Gross: 5.55%

Net: 0.48%

12. **Movement of NPA:**

AMOUNT (NPR)

Non-performing Loans	Ashwin 2070	Ashad 2070	Changes
	Gross	Gross	
	2,699,887,360	2,604,812,669	95,074,690
Restructured Loan	615,449,123	637,407,631	(21,958,508)
Substandard loan	139,414,429	53,907,881	85,506,548
Doubtful Loan	29,279,988	31,522,504	(2,242,516)
Loss Loan	1,915,743,820	1,881,974,654	33,769,166

13. **Write off of loans & Interest suspense:**

Loans were not written off during this quarter. Balance of Interest suspense account as on this quarter end is NPR. 11,453,702,211

Particulars	Ashwin 2070	Ashad 2070	Changes
Interest Suspense	11,453,702,211	11,015,245,297	438,456,914

14. **Movement in Loan loss provisions and interest suspense:**

Loan Loss Provision as on end of this quarter is NPR. 3,583,602,297. It has been increased by NPR 40,350,054 in this quarter as compared to last quarter.

Particulars	Ashwin 2070	Ashad 2070	Changes
Total Loan Loss provision	3,583,602,297	3,543,252,244	40,350,054

15. **Detail of additional Loan Loss provision:** Not Applicable

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, financial Institution and organized bodies which are categorized as available for sale.

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17. Risk Management System:

The Bank is fully owned by the Government of Nepal. The Capitalization Plan submitted by the bank in March 2012 has been approved by Nepal Rastra Bank and the Nepal Government. The plan implementation is underway. The Board of Directors and the Management of the Bank are responsible for implementing and strengthening Risk Management Systems.

Credit risk management system:

- Risk Management Committee, Central Credit Committee chaired by CEO, DGM level Credit Committee, 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.
- Risk Management Committee and Loan Recovery and Debt Restructuring Committee are 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.

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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 Administration Bye-Rules 2068
 - Budget Manual 2060
 - Agricultural Loan Policy and Manual 2069
 - IT Manual
 - Information and Communication Technology (ICT) Policy and Guidelines-2012
 - Branch Operation Manual 2064 (as updated 2069)
 - 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, 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.