

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 2068-69 (2011-12) ending 17 October 2011.

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

CORE CAPITAL	NPR
Paid up equity Share Capital	385,300,000
Irredeemable Non cumulative preference shares	
Statutory General Reserves	2,689,707,801
Retained earning	(13,718,115,557)
Un-audited current year cumulative profit	85,933,635
Capital Reserve Fund	481,195,653
Other free reserve	5,500,000
Total	(10,070,478,468)

2. Tier 2 capital and a breakdown of its components: Since Tier 1 Capital is negative Tier 2 Capital is taken as NIL.

Components of Tier II capital not included in capital fund are as follows.

Cumulative and Irredeemable Preference Shares	787,000,000
Loan Loss Provision for Pass Loans	334,232,057
Exchange Equalization Fund	95,900,084
Investment Adjustment Reserve	238,769,976
Other reserves - (Deferred Tax Reserve)	850,955,269
Total	2,306,857,387

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
Investment in Companies with financial interest NPR 36,250,000
Employee related loan: NPR 16,898,758

5. Total qualifying capital: NPR (10,345,090,320)**6. Capital adequacy ratio:** - 22.94%

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

RISK WEIGHTED EXPOSURES	Ashad 2068
Risk Weighted Exposure for Credit Risk	35,945,567,335
Risk Weighted Exposure for Operational Risk	7,164,456,732
Risk Weighted Exposure for Market Risk	253,790,970
<i>Adjustment under Pillar II</i>	
Add: 3% of the Total RWE due to non-compliance to Disclosure Requirement (6.4a 10)	1,734,552,602
Add:% of Total Deposit RWE due to insufficient Liquid Assets (6.4a 6)	
Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	45,098,367,639

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

Particulars	RWE in Rs
Claims on govt. and central Bank	-
Claims on other Official entities	1,896,610,577
Claims on Banks	1,753,795,754
Claims on corporate and securities firm	7,207,242,101
Claims on regulatory retail portfolio	8,451,353,135
Claim secured by residential properties	1,879,943,675
Claims secured by commercial real state	748,181,034
Past due Claims	688,414,219
High risk claims	2,638,594,121
Other Assets	7,381,954,728
Off Balance sheet Items	3,299,477,990
Total	35,945,567,335

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

in Rs

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	1,798,741,353	-	-	1,798,741,353	0%	-
Balance with Nepal Rastra Bank (NRB)	9,334,281,538	-	-	9,334,281,538	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	12,618,686,211	-	-	12,618,686,211	0%	-
All Claims on Government of Nepal	8,773,288,717	-	-	8,773,288,717	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)	1,267,421,251	3,014,200	-	1,264,407,051	150%	1,896,610,577
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	302,502,500	-	-	302,502,500	20%	60,500,500
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	129,909,086	-	-	129,909,086	100%	129,909,086
Claims on Foreign Banks (ECA rating 0-1)	1,361,260,200	-	-	1,361,260,200	20%	272,252,040
Claims on Foreign Banks (ECA rating 2)	113,714,672	-	-	113,714,672	50%	56,857,336
Claims on Foreign Banks (ECA rating 3- 6)	1,379,963,690	145,686,898	-	1,234,276,792	100%	1,234,276,792
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	7,214,301,439	-	7,059,338	7,207,242,101	100%	7,207,242,101
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)	17,238,119,703	-	5,969,648,856	11,268,470,846	75%	8,451,353,135
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,133,239,458	-	-	3,133,239,458	60%	1,879,943,675
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	7,044,368	7,044,368	-	-	100%	-
Claims Secured by Commercial Real Estate	748,181,034	-	-	748,181,034	100%	748,181,034
Past due Claims (Except for claims secured by Residential Properties)	4,049,371,027	3,590,428,214	-	458,942,813	150%	688,414,219
High Risk Claims	1,731,377,281	-	-	1,731,377,281	150%	2,597,065,921
Investments in Shares and Capital Instruments of company listed in Stock Exchange	285,700	-	-	285,700	100%	285,700
Investments in Shares and Capital Instruments of company not listed in Stock Exchange	31,436,000	3,941,000	-	27,495,000	150%	41,242,500
Other Assets	24,041,615,715	16,659,660,987	-	7,381,954,728	100%	7,381,954,728
Total	95,274,740,944	20,409,775,667	5,976,708,194	68,888,257,083		32,646,089,345

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposure
	a	b	c	d=a-b-c	e	f=d*e
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	515,213,600	-	-	515,213,600	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months- Domestic counterparty	606,412,203	-	76,347,409	530,064,794	20%	106,012,959
-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	39,881,947	-	-	39,881,947	50%	19,940,973
-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	955,685,563	-	70,468,615	885,216,948	50%	442,608,474
-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	234,099,207	-	-	234,099,207	100%	234,099,207
Financial Guarantee	50,533,360	-	-	50,533,360	100%	50,533,360
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	297,115,862	-	-	297,115,862	20%	59,423,172
Irrevocable Credit Commitments (long term)	1,476,452,059	-	-	1,476,452,059	50%	738,226,030
Other Contingent Liabilities	1,648,633,815	-	-	1,648,633,815	100%	1,648,633,815
Unpaid Guarantee Claims	-	-	-	-	-	-
Total	5,824,027,616	-	146,816,024	5,677,211,592		3,299,477,990
Total RWE for Credit Risk (A) + (B)	101,098,768,560	20,409,775,667	6,123,524,218	74,565,468,675	-	35,945,567,335
<i>Adjustments under Pillar II</i>						
Add: 10 % of the Loan and Facilities in Excess of Single Obligor Limits (6.4a 3)	-	-	-	-	-	-
Add: 1% of the Contract (sale) value in case of sale of credit with recourse (6.4a 4)	-	-	-	-	-	-
Total RWE for Credit Risk (After Banks Adjustment for Pillar II)	101,098,768,560	20,409,775,667	6,123,524,218	74,565,468,675	-	35,945,567,335

10. **Amount of NPA:** Gross: NPR 4,056,415,395 Net: NPR 458,942,813

11. **NPA ratios:** Gross: 10.92 % Net: 1.49 %

12. **Movement of NPA:**

Classification of Loan	Aswin 2068	Ashad 2068	Changes
	Gross	Gross	
NPA	4,056,415,395	4,024,644,698	31,770,697
Restructured Loan	643,832,565	564,821,015	79,011,550
Substandard loan	381,966,780	471,121,871	(89,155,091)
Doubtful Loan	344,935,455	241,162,189	103,773,266
Loss Loan	2,685,680,595	2,747,539,623	(61,859,028)

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

There were loan write offs of Rs. 4,698,069 during the quarter. Interest suspense balance is NPR.15, 558,289,109

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

Increase in Loan Loss Provision by NPR 70,424,889 compared to last quarter.

Increase in Interest Suspense by NPR. 532,802,483 compared to last quarter.

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.

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:

- Risk Management Committee, Director's Credit Committee, Central Credit Committee chaired by CMD, 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 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.

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.

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|---|--|
| - 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 2068 | - 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, 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.