

Disclosure under Basel II capital accord of Nepal Rastra Bank

(As per clause 7.4 of the New Capital Accord As at Third Quarter End of FY 2066-67 (2009-10) ending 13 April 2010.

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	2,163,660,804
d	Retained earning	(15,137,590,279)
e	Un-audited current year cumulative profit	1,002,748,742
f	Other free reserve	5,500,000
	Total	(10,793,380,733)

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 (11,042,446,863)**6. Capital adequacy ratio:** - 28.13%**7. Risk weighted exposures for Credit Risk, Market Risk and Operational Risk:**

	RISK WEIGHTED EXPOSURES	Chaitra 2066
a	Risk Weighted Exposure for Credit Risk	33,916,383,490
b	Risk Weighted Exposure for Operational Risk	5,071,755,683
c	Risk Weighted Exposure for Market Risk	264,853,959
	<u>Adjustment under Pillar II</u>	
	Add: 3% of the Total RWE due to non-compliance to Disclosure Requirement (6.4a 10)	-
	Add:% oTotal Deposit RWE due to insufficient Liquid Assets (6.4a 6)	-
	Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	39,252,993,132

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	1,959,203,239
3	Claims on Banks	3,120,239,736
4	Claims on corporate and securities firm	6,559,484,150
5	Claims on regulatory retail portfolio	8,783,625,922
6	Claim secured by residential properties	1,808,594,854
7	Claims secured by commercial real state	722,213,294
8	Past due Claims	483,955,350
9	High risk claims	2,728,009,099
10	Other Assets	5,313,426,925
11	Off Balance sheet Items	2,437,630,920
	Total	33,916,383,490

9. Total risk weighted exposure calculation table:

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	1,447,481,263	-	-	1,447,481,263	0%	-
Balance with Nepal Rastra Bank (NRB)	7,226,034,231	-	-	7,226,034,231	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	9,406,208,345	-	-	9,406,208,345	0%	-
All Claims on Government of Nepal	3,960,935,096	-	-	3,960,935,096	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)	2,309,098,093	2,962,600	1,000,000,000	1,306,135,493	150%	1,959,203,239
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	2,078,482,500	-	-	2,078,482,500	20%	415,696,500
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	83,119,406	-	-	83,119,406	100%	83,119,406
Claims on Foreign Banks (ECA rating 0-1)	1,488,652,927	-	-	1,488,652,927	20%	297,730,585
Claims on Foreign Banks (ECA rating 2)	3,517,505	-	-	3,517,505	50%	1,758,752
Claims on Foreign Banks (ECA rating 3- 6)	2,608,944,591	287,010,099	-	2,321,934,492	100%	2,321,934,492
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	6,559,484,150	-	-	6,559,484,150	100%	6,559,484,150
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)	16,662,711,074	-	4,951,209,845	11,711,501,229	75%	8,783,625,922
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,014,324,757	-	-	3,014,324,757	60%	1,808,594,854
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	11,193,298	11,193,298	-	-	100%	-
Claims Secured by Commercial Real Estate	722,213,294	-	-	722,213,294	100%	722,213,294
Past due Claims (Except for claims secured by Residential Properties)	4,938,126,291	4,615,489,391	-	322,636,900	150%	483,955,350
High Risk Claims	1,775,267,599	-	-	1,775,267,599	150%	2,662,901,399
Investments in Shares and Capital Instruments of company listed in Stock Exchange	23,335,700	-	-	23,335,700	100%	23,335,700
Investments in Shares and Capital Instruments of company not listed in Stock Exchange	28,436,000	588,000	-	27,848,000	150%	41,772,000
Other Assets	24,721,375,579	19,407,948,653	-	5,313,426,925	100%	5,313,426,925
Total	89,068,941,699	24,325,192,041	5,951,209,845	58,792,539,813		31,478,752,570

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	568,385,825	-	-	568,385,825	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months- Domestic counterparty	91,481,220	-	79,275,449	12,205,771	20%	2,441,154

-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	754,669,697	-	-	754,669,697	50%	377,334,849
-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	1,086,344,043	-	74,877,123	1,011,466,921	50%	505,733,460
-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	124,174,894	-	-	124,174,894	100%	124,174,894
Financial Guarantee	30,290,000	-	-	30,290,000	100%	30,290,000
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	-	-	-	-	20%	-
Irrevocable Credit Commitments (long term)	-	-	-	-	50%	-
Other Contingent Liabilities	1,397,656,563	-	-	1,397,656,563	100%	1,397,656,563
Total	4,053,002,242	-	154,152,572	3,898,849,670		2,437,630,920
Total RWE for Credit Risk (A) + (B)	93,121,943,941	24,325,192,041	6,105,362,417	62,691,389,483		33,916,383,490
<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)	93,121,943,941	24,325,192,041	6,105,362,417	62,691,389,483		33,916,383,490

10. **Amount of NPA:** Gross: NPR 4,365,855,681 Net: NPR 227,907,643

11. **NPA ratios:** Gross: 12.13% Net: 0.73%

12. Movement of NPA:

Classification of Loan	Chaitra 2066	Poush 2066	Changes
	Gross	Gross	
NPA	4,365,855,681	4,349,298,603	16,557,078
Substandard loan	242,646,194	30,319,572	212,326,622
Doubtful Loan	168,338,487	242,564,825	(74,226,338)
Loss Loan	3,954,871,000	4,076,414,206	(121,543,205)

13. Write off of loans & Interest suspense:

There is no loan write off during the quarter and interest suspense balance is NPR. 18,396,313,516

14. Movement in Loan loss provisions and interest suspense:

Decrease in Loan Loss Provision by NPR. 19,480,258 compared to second quarter of FY 2009/10.

Increase in Interest Suspense by NPR. 403,722,693 compared to second quarter of FY 2009/10.

15. Detail of additional Loan Loss provision: NPR 454,047,907 (Excess loan loss provision above minimum as required by NRB directives)

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
 - 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 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.