

Disclosure under Basel II capital accord of Nepal Rastra Bank as at Third Quarter of FY 2071-72 (2014-15) ending on Chaitra End, 2071.

(As per clause 7.4 of the New Capital Accord)

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

| SN | 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 | 3,525,903,021 |
| f | Retained Earnings | (9,982,885,198) |
| g | Un-audited Current Year Cumulative Profit / (Loss) | 4,061,318,415 |
| h | Capital Redemption Reserves | - |
| i | Capital Adjustment Reserves | 481,195,653 |
| j | Dividend Equalization Reserves | - |
| k | Debenture Redemption Reserve | - |
| l | Deferred Tax Reserve | 386,890,076 |
| m | Other free Reserves | 5,500,000 |
| | Total | 7,066,894,267 |

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

| SN | SUPPLEMENTARY CAPITAL | AMOUNT NPR |
|----|--|--------------------|
| a | Cumulative and/or Redeemable Preference Shares | - |
| b | Subordinated Term Debts | - |
| c | Hybrid Capital Instruments | - |
| d | General Loan Loss Provisions | 894,894,556 |
| e | Exchange Equalization Reserve | 97,319,666 |
| f | Investment Adjustment Reserve | 5,480,531 |
| g | Asset Revaluation Reserve | - |
| h | Other Reserves | (721,563,453) |
| | Total | 276,131,299 |

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:

| SN | DEDUCTION FOR CORE CAPITAL | AMOUNT NPR |
|----|--|-------------------|
| a | Goodwill | - |
| b | Fictitious Assets | - |
| c | Investment in Equity of Licensed Financial Institutions | 8,974,282 |
| 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 | 2,048,782 |
| | Total | 47,273,064 |

5. Total qualifying capital fund:

NPR . 7,295,752,503

6. Capital adequacy ratios:

10.19%

| CAPITAL ADEQUACY RATIOS | Current Quarter |
|---|-----------------|
| Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II) | 9.81% |
| Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II) | 10.19% |

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

| SN | RISK WEIGHTED EXPOSURES | AMOUNT (NPR) |
|----|--|-----------------------|
| a | Credit Risk | 58,601,446,393 |
| b | Operational Risk | 8,200,140,519 |
| c | Market Risk | 190,813,045 |
| | Adjustment under Pillar II | |
| | Add : 4 % of the total Risk Weighted Exposures for unsatisfactory overall risk management policies and procedures (6.4a 9) | 2,679,695,998 |
| | Add :% of Total Deposit RWE due to insufficient Liquid Assets (6.4a 6) | - |
| | Add : 4% of Gross total Income of Previous Financial Year for Inadequate Operational Risk Management Process(6.4a 7) | 1,919,468,499 |
| | Total Risk Weighted Exposures (After Banks adjustment of Pillar II) | 71,591,564,454 |

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 | 1,435,850,651 |
| 4 | Claims on corporate and securities firm | 20,281,155,147 |
| 5 | Claims on regulatory retail portfolio | 23,519,633,275 |
| 6 | Claim secured by residential properties | 2,656,100,563 |
| 7 | Claims secured by commercial real state | 1,060,193,635 |
| 8 | Past due claims | 295,491,685 |
| 9 | High risk claims | 1,892,615,255 |
| 10 | Other assets | 5,028,195,535 |
| 11 | Off Balance sheet items | 2,432,210,648 |
| | Total | 58,601,446,393 |

9. Total risk weighted exposure calculation table:

| Assets | 2071 Chaitra | | | | | |
|--|------------------------|-----------------------|----------------------|------------------------|-------------|-------------------------|
| | 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 | 3,050,079,781 | - | - | 3,050,079,781 | 0% | - |
| Balance with Nepal Rastra Bank (NRB) | 7,816,097,899 | - | - | 7,816,097,899 | 0% | - |
| Gold | - | - | - | - | 0% | - |
| Investments in Government of Nepal Bonds | 26,390,236,313 | - | - | 26,390,236,313 | 0% | - |
| All Claims on Government of Nepal | 7,099,690,873 | - | - | 7,099,690,873 | 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) | 1,203,722,511 | 4,975,000 | - | 1,198,747,511 | 150% | 1,798,121,267 |
| Claims on Domestic Banks that fulfill Capital Adequacy Requirement | 3,012,586,906 | - | - | 3,012,586,906 | 20% | 602,517,381 |
| Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement | 479,704,876 | - | - | 479,704,876 | 100% | 479,704,876 |
| Claims on Foreign Banks (ECA rating 0-1) | 1,301,469,067 | - | - | 1,301,469,067 | 20% | 260,293,813 |
| Claims on Foreign Banks (ECA rating 2) | 10,091,770 | - | - | 10,091,770 | 50% | 5,045,885 |
| Claims on Foreign Banks (ECA rating 3- 6) | 115,368,967 | 27,080,271 | - | 88,288,696 | 100% | 88,288,696 |
| 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 | 18,486,803,679 | - | 3,769,800 | 18,483,033,880 | 100% | 18,483,033,880 |
| 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) | 40,662,067,934 | - | 9,302,556,901 | 31,359,511,033 | 75% | 23,519,633,275 |
| Regulatory Retail Portfolio Except for Granularity | - | - | - | - | 100% | - |
| Claims Secured by Residential Properties | 4,426,834,271 | - | - | 4,426,834,271 | 60% | 2,656,100,563 |
| Claims not fully Secured by Residential Properties | - | - | - | - | 150% | - |
| Claims Secured by Residential Properties (Overdue) | 49,824,362 | 49,824,362 | - | - | 100% | - |
| Claims Secured by Commercial Real Estate | 1,060,193,635 | - | - | 1,060,193,635 | 100% | 1,060,193,635 |
| Past due Claim (Except for claims secured by Residetal Properties) | 2,415,115,170 | 2,218,120,714 | - | 196,994,457 | 150% | 295,491,685 |
| High Risk Claims | 1,261,743,504 | - | - | 1,261,743,504 | 150% | 1,892,615,255 |
| Investments in Shares and Capital Instruments of company listed in Stock Exchange | 37,740,680 | - | - | 37,740,680 | 100% | 37,740,680 |
| Investments in Shares and Capital Instruments of company not listed in Stock Exchange | 11,141,000 | 13,088,000 | - | - | 150% | - |
| Employee Loans secured by residnetial properties | - | - | - | - | 60% | - |
| Interest Receivable/Claims on Government securities | 57,936,259 | - | - | 57,936,259 | 0% | - |
| Cash and Other transit items in receivable | 436,887,687 | 35,792,009 | - | 401,095,678 | 20% | 80,219,136 |
| Other Assets | 16,990,581,540 | 12,080,345,821 | - | 4,910,235,719 | 100% | 4,910,235,719 |
| Total | 136,375,918,684 | 14,429,226,176 | 9,306,326,700 | 112,642,312,808 | | 56,169,235,746 |

Capital Adequacy Report as per Basel II

Third Quarter of F/Y 2071-72(2014-15)

| Assets | 2071 Chaitra | | | | | |
|---|----------------------|--------------------|--------------------|----------------------|-------------|-------------------------|
| | 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 | 168,553,913 | - | - | 168,553,913 | 0% | - |
| Forward Exchange Contract Liabilities | - | - | - | - | 10% | - |
| LC Commitments with Original Maturity Upto 6 months- Domestic counterparty | 793,565,451 | - | 66,322,691 | 727,242,761 | 20% | 145,448,552 |
| -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 | 80,393,633 | - | - | 80,393,633 | 50% | 40,196,817 |
| -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 | 1,493,351,326 | - | 81,672,629 | 1,411,678,697 | 50% | 705,839,348 |
| -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 | 145,550,599 | - | - | 145,550,599 | 100% | 145,550,599 |
| Financial Guarantee | - | - | - | - | 100% | - |
| Acceptances and Endorsements | - | - | - | - | 100% | - |
| Unpaid Portion of Partly paid shares and securities | - | - | - | - | 100% | - |
| Irrevocable Credit Commitments (short term) | 3,783,026,729 | - | - | 3,783,026,729 | 20% | 756,605,346 |
| Irrevocable Credit Commitments (long term) | - | - | - | - | 50% | - |
| Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement | - | - | - | - | 20% | - |
| Other Contingent Liabilities | 638,569,986 | - | - | 638,569,986 | 100% | 638,569,986 |
| Unpaid Guarantee Claims | - | - | - | - | 200% | - |
| Total | 7,103,011,638 | - | 147,995,320 | 6,955,016,318 | | 2,432,210,648 |

10. **Amount of NPA:** Gross: NPR 2,464,939,532 Net: NPR 196,994,457

11. **NPA ratios:** Gross: 3.53% Net: 0.30%

12. **Movement of NPA:**

AMOUNT (NPR)

| Non-performing Loans | Chaitra 2071 | Poush 2071 | Changes |
|----------------------|---------------|---------------|---------|
| | Gross | Gross | |
| | 2,464,939,532 | 2,464,939,532 | - |
| Restructured Loan | 215,544,814 | 215,544,814 | - |
| Substandard loan | 255,994,376 | 255,994,376 | - |
| Doubtful Loan | 157,039,875 | 157,039,875 | - |
| Loss Loan | 1,836,360,467 | 1,836,360,467 | - |

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. 11,195,151,255.

| Particulars | Chaitra 2071 | Poush 2071 | Changes |
|-------------------|----------------|----------------|---------------|
| Interest Suspense | 11,195,151,255 | 11,519,280,822 | (324,129,567) |

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

Loan Loss Provision as on end of this quarter is NPR. 3,325,913,320. It has been increased by NPR 193,616,549 in this quarter as compared to last quarter.

| Particulars | Chaitra 2071 | Poush 2071 | Changes |
|---------------------------|---------------|---------------|-------------|
| Total Loan Loss provision | 3,325,913,320 | 3,132,296,771 | 193,616,549 |

15. Detail of additional Loan Loss provision:

Additional loan loss provision of Rs. 384,838,339.33 has been provided above minimum requirement of NRB directives on pass loan category.

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. The Capitalization Plan of the bank has been successfully implemented increasing its capital base. 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.

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
 - Employee Service Bye Rule 2070
 - 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
- Information and Communication Technology (ICT) Policy and Guidelines-2012

- 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 Department monitors compliance with policies and standards and the effectiveness of internal control system throughout the organization.