



RASTRIYA BANIJYA BANK LTD.
CENTRAL OFFICE
 SINGHADURBAR PLAZA, KATHMANDU NEPAL

DISCLOSURE UNDER BASEL II CAPITAL ACCORD

THIRD QUARTER OF FY 2072-73 (2015-16) ENDING ON CHAITRA END, 2072
(AS PER CLAUSE 7.4 OF THE NEW CAPITAL ACCORD OF NEPAL RASTRA BANK)

1. CAPITAL ADEQUACY RATIO:

1.1. As per prevailing calculation prescribed by Nepal Rastra Bank:

CAPITAL ADEQUACY RATIOS	Ratio in %
Core Capital (Tier 1) to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	9.28
Total Capital Fund (Tier 1 and Tier 2) to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	10.64

1.2. As per new calculation prescribe by Nepal Rastra Bank (parallel run from 2072 Poush):

SN	CAPITAL ADEQUACY RATIOS	RATIO (%)
a	Common Equity Tier I (CET I) Capital Fund Ratio	9.26
b	Additional Tier I (AT I) Capital Fund Ratio	-
c	Total Core Capital Fund (Tier I) Ratio	9.26
d	SupplimentaryCapital Fund (Tier II) Ratio	1.37
e	Total Capital Fund to Total Risk Weighted Exposures	10.63

1.3. Reasons of difference between prevailing calculation and new calculation for parallel run:

Nepal Rastra Bank requires deducting intangible assets from common equity Tier I capital in new capital adequacy reporting format effective from 2072 Poush for parallel run. Hence the bank has deducted its intangible assets Rs. 9,350,359.95 while calculating common equity Tier I capital as per new format. Due to this deduction from capital fund; Tier I Capital and Total Capital Fund has been decreased by 0.01% as per new calculation.

2. LEVERAGE RATIO (Computed as per Requirement of New Format Prescribed by Nepal Rastra Bank): 4.77% (Regulatory Requirement: >=4%)

3. Components of Capital Fund:

3.1. Computation of Capital Fund as per prevailing format prescribed by Nepal Rastra Bank:

3.1.1. Core Capital (Tier 1) Fund and breakdown of its Components:

SN	CORE CAPITAL (TIER I) FUND	AMOUNT NRs.
a	Paid-up Equity Share Capital	8,588,972,300.00
b	Irredeemable Non-cumulative Preference Shares	-
c	Share Premium	-
d	Proposed Equity Bonus Shares	-
e	Statutory General Reserves	4,454,676,625.13
f	Retained Earnings	(6,255,739,602.65)
g	Un-audited Current Year Cumulative Profit / (Loss)	1,619,616,905.48
h	Capital Redemption Reserves	-
i	Capital Adjustment Reserves	481,195,652.93
j	Dividend Equalization Reserves	-
m	Other free Reserves	(693,077,418.32)
n	Less: Goodwill	-
o	Less: Deferred Tax Assets	381,201,074.60
p	Less: Fictitious Assets	-
q	Less: Investment in Equity of Licensed Financial Institutions	-
r	Less: Investment in Equity of Institutions with Financial Interests	44,005,600.00
s	Less: Investment in Equity of Institutions in excess of the Limits	-
t	Less: Investments arising out of Underwriting Commitments	-
u	Less: Reciprocal Crossholdings	-
v	Less: Purchase of Land and Buildings in Excess of Limit and Unutilized	-
w	Less: Other Deductions	-
x	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)	100,000.00
	TOTAL	7,770,337,787.97

3.1.2. Supplementary (Tier 2) Capital and breakdown of its Components:

SN	SUPPLIMENTARY (TIER II) CAPITAL FUND	AMOUNT NRs.
a	Cumulative and/or Redeemable Preference Shares	-
b	Subordinated Term Debts	-
c	Hybrid Capital Instruments	-
d	General Loan Loss Provisions	1,047,183,973.40
e	Exchange Equalization Reserve	97,319,665.62
f	Investment Adjustment Reserve	1,625,211.63
g	Asset Revaluation Reserve	-
h	Other Reserves	-
	Total	1,146,128,850.65

3.1.3. 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

3.2. Total qualifying capital fund: NPR. 8,916,466,638.62**3.3. Computation of Capital Fund as per new format prescribed by Nepal Rastra Bank (Parallel Run from 2072 Poush):****3.3.1. Core Capital (Tier 1) Fund and breakdown of its Components:**

SN	COMMON EQUITY TIER I (CET I) CAPITAL FUND	AMOUNT NRs.
a	Paid up Equity Share Capital	8,588,972,300.00
b	Equity Share Premium	-
c	Proposed Bonus Equity Shares	-
d	Statutory General Reserves	4,454,676,625.13
e	Retained Earnings	(6,255,739,602.65)
f	Un-audited current year cumulative profit/(loss)	1,619,616,905.48
g	Capital Redemption Reserves	-
h	Capital Adjustment Reserves(Capital Reserve Fund created as per direction of finance ministry in connection with condition related to loan waiver and reimbursement as per Small and Cottage Industries Loan Waiver Guidelines 2065)	481,195,652.93
i	Dividend Equalisation Reserves	-
j	Other free Reserves	(693,077,418.32)

k	Less: Goodwill	-
l	Less: Intangible Assets	9,350,359.95
m	Less: Deferred Tax Assets	381,201,074.60
n	Less: Fictitious Assets	-
o	Less: Investment in equity of Licensed Financial Institutions	-
p	Less: Investment in equity of institutions with Financial Interests	44,005,600.00
q	Less: Investment in equity of institutions in excess of the limits	-
r	Less: Investments arising out of Underwriting Commitments	-
s	Less: Reciprocal crossholdings	-
t	Less: Purchase of Land and Buildings in excess of limit and unutilized	-
u	Less: Cash Flow Hedge	-
v	Less: Defined Benefit Pension Assets	-
w	Less: Unrecognized Defined Benefit Pension Liabilities	-
x	Less: 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)	100,000.00
	TOTAL COMMON EQUITY TIER I (CET I) CAPITAL FUND	7,760,987,428.02

3.3.2. Additional Tier I Capital Fund and breakdown of its Components:

SN	ADDITIONAL TIER I (AT) CAPITAL FUND	AMOUNT NRs.
a	Perpetual Non-cumulative Preference Share Capital	-
b	Perpetual Debt Instruments	-
c	Stock Premium	-
	TOTAL ADDITIONAL TIER I (AT I) CAPITAL FUND	-

3.3.3. Supplementary (Tier 2) Capital and breakdown of its Components:

SN	SUPPLEMENTARY (TIER II) CAPITAL FUND	AMOUNT NRs.
a	Cumulative and/or Redeemable Preference Shares	-
b	Sub-ordinated Term Debt	-
c	Hybrid Capital Instruments	-
d	Stock Premium	-
e	General Loan Loss Provision	1,047,183,973.40
f	Exchange Equalization Reserve	97,319,665.62
g	Investment Adjustment Reserve	1,625,211.63
h	Asset Revaluation Reserve	-
i	Other Reserves	-
	TOTAL SUPPLEMENTARY (TIER II) CAPITAL FUND	1,146,128,850.65

3.3.4. Total Capital Fund (as per new format prescribed by NRB)

SN	CAPITAL FUNDS	AMOUNT NRs.
a	Common Equity Tier I Capital Fund (CET I)	7,760,987,428.02
b	Additional Tier I Capital Fund (AT I)	-
c	Total Core Capital Fund (Tier I)	7,760,987,428.02
d	Supplimentary Capital Fund (Tier II)	1,146,128,850.65
e	Total Capital Fund (Tier I + Tier II)	8,907,116,278.67

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

SN	RISK WEIGHTED EXPOSURES	AMOUNT NRs.	Previous Period Rs.
a	Credit Risk	69,734,945,258.99	63,401,056,068.44
b	Operational Risk	7,970,457,878.88	7,970,457,878.88
c	Market Risk	198,829,108.30	184,869,475.38
	<u>Adjustment under Pillar II</u>		
	Add : 4 % of the total Risk Weighted Exposures for unsatisfactory overall risk management policies and procedures (6.4a 9)	3,116,169,289.85	2,862,255,336.91
	Add :% oTotal 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)	2,754,316,336.10	2,754,316,336.10
	Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	83,774,717,872.11	77,172,955,095.70

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

SN	PARTICULARS	AMOUNT NRs.
1	Claims on govt. and central bank	-
2	Claims on other official entities	-
3	Claims on banks	2,435,875,748
4	Claims on corporate and securities firm	24,601,096,131
5	Claims on regulatory retail portfolio	26,629,751,972
6	Claim secured by residential properties	3,598,630,140
7	Claims secured by commercial real state	939,851,275
8	Past due claims	857,820,698
9	High risk claims	2,244,363,759
10	Other assets	4,650,248,093
11	Off Balance sheet items	3,777,307,444
	Total	69,734,945,259

6. Credit Risk Exposure Calculation Table:

Capital Adequacy Report as per Basel II

Third Quarter of F/Y 2072-73(2015-16)

Assets	2072 Chaitra End					
	Book Value	Specific Provision	Eligible CRM	Net Amount	Risk Weight	Risk Weighted Exposures
	(a)	(b)	(c)	(d)=(a) - (b) - (c)	(e)	(f) = (d)*(e)
On Balance Sheet Transactions						
Cash Balance	4,033,967,569.04	-	-	4,033,967,569.04	0%	-
Balance with Nepal Rastra Bank (NRB)	12,752,401,159.25	-	-	12,752,401,159.25	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	36,937,823,382.18	-	-	36,937,823,382.18	0%	-
All Claims on Government of Nepal	6,839,164,700.17	-	-	6,839,164,700.17	0%	-
Investments in NRB Bonds	-	-	-	-	0%	-
All Claims on Nepal Rastra Bank	-	-	-	-	0%	-
Claims on Foreign Government and Central Banks (ECA rating 0	-	-	-	-	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	-	-	-	-	100%	-
Claims on Foreign Government and Central Banks (ECA rating 7	-	-	-	-	150%	-
Claims on BIS, IMF, ECB,EC and Multilateral Development Ba	-	-	-	-	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)	1,226,178,868.26	-	-	1,226,178,868.26	150%	1,839,268,302.39
Claims on Domestic Banks that fulfill Capital Adequacy Requirem	7,634,672,027.77	-	-	7,634,672,027.77	20%	1,526,934,405.55
Requirement	422,658,465.68	-	-	422,658,465.68	100%	422,658,465.68
Claims on Foreign Banks (ECA rating 0-1)	1,310,529,108.61	-	-	1,310,529,108.61	20%	262,105,821.72
Claims on Foreign Banks (ECA rating 2)	16,448,103.62	-	-	16,448,103.62	50%	8,224,051.81
Claims on Foreign Banks (ECA rating 3- 6)	110,581,393.17	27,080,270.77	-	83,501,122.40	100%	83,501,122.40
Claims on Foreign Banks (ECA rating 7)	88,301,253.60	-	-	88,301,253.60	150%	132,451,880.40
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	22,767,594,691.26	-	5,766,862.90	22,761,827,828.36	100%	22,761,827,828.36
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)	43,858,507,381.02	-	8,352,171,418.98	35,506,335,962.05	75%	26,629,751,971.54
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	5,997,716,899.95	-	-	5,997,716,899.95	60%	3,598,630,139.97
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	267,756.75	267,756.75	-	-	100%	-
Claims Secured by Commercial Real Estate	939,851,275.11	-	-	939,851,275.11	100%	939,851,275.11
Past due Claim (Except for claims secured by Residietal Properties)	2,792,122,637.70	2,220,242,172.38	-	571,880,465.33	150%	857,820,697.99
High Risk Claims	1,496,242,505.69	-	-	1,496,242,505.69	150%	2,244,363,758.54
Investments in Shares and Capital Instruments of company listed in Stock Exchange	52,473,580.00	-	-	52,473,580.00	100%	52,473,580.00
Investments in Shares and Capital Instruments of company not listed in Stock Exchange	25,622,800.00	16,088,000.00	-	9,534,800.00	150%	14,302,200.00
Employee Loans secured by residnetial properties	2,367,282,240.00	-	-	2,367,282,240.00	60%	1,420,369,344.00
Interest Receivable/Claims on Government securities	53,931,412.79	-	-	53,931,412.79	0%	-
Cash and Other transit items in receivable	837,583,806.85	35,792,008.94	-	801,791,797.91	20%	160,358,359.58
Other Assets	14,333,459,200.25	11,330,714,590.35	-	3,002,744,609.90	100%	3,002,744,609.90
Total	166,895,382,219	13,630,184,799	8,357,938,282	144,907,259,138		65,957,637,814.94

Capital Adequacy Report as per Basel II

Third Quarter of F/Y 2072-73(2015-16)

Assets	2072 Chaitra End					
	Book Value	Specific Provision	Eligible CRM	Net Amount	Risk Weight	Risk Weighted Exposures
	(a)	(b)	(c)	(d)= (a) - (b) - (c)	(e)	(f) = (d)*(e)
Off Balance Sheet Transactions						
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	153,472,463.00	-	-	153,472,463.00	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months- Domestic counterparty	660,900,933.43	-	69,939,787.90	590,961,145.53	20%	118,192,229.11
-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	48,471,453.82	-	-	48,471,453.82	50%	24,235,726.91
-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	1,513,348,986.56	-	87,439,949.10	1,425,909,037.46	50%	712,954,518.73
-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	215,763,195.39	-	-	215,763,195.39	100%	215,763,195.39
Financial Guarantee	-	-	-	-	100%	-
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	3,290,539,226.75	-	-	3,290,539,226.75	20%	658,107,845.35
Irrevocable Credit Commitments (long term)	2,974,216,523.40	-	-	2,974,216,523.40	50%	1,487,108,261.70
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	-	-	-	-	20%	-
Other Contingent Liabilities	560,945,666.87	-	-	560,945,666.87	100%	560,945,666.87
Unpaid Guarantee Claims	-	-	-	-	200%	-
Total	9,417,658,449.22	-	157,379,737.01	9,260,278,712.21		3,777,307,444.05

7. **Amount of NPA:** Gross: NPR 2,792,390,394 Net: NPR 571,880,465

8. **NPA ratios:** Gross: 3.52% Net: 0.72%

9. **Movement of NPA:** AMOUNT (NPR)

Non-performing Loans	2072 Chaitra End	2072 Ashwin	Changes
	Gross	Gross	
	2,792,390,394	2,624,697,067	167,693,327
Restructured Loan	247,312,516	205,820,467	41,492,048
Substandard loan	352,927,155	323,508,728	29,418,427
Doubtful Loan	227,890,063	380,125,951	(152,235,888)
Loss Loan	1,964,260,661	1,715,241,921	249,018,740

10. **Write off of Loans & Interest suspense:**

10.1. Bank has not written of any loan during this quarter.

10.2. Balance of Interest suspense account as on this quarter end is NPR. 10,315,407,627.66

Particulars	2072 Chaitra End	2072 Poush End	Changes
Interest Suspense	10,315,407,627.66	10,179,738,135.79	135,669,492

11. **Movement in Loan Loss Provisions:**

Loan Loss Provision as on end of this quarter is NPR. 3,865,622,581. It has been increased by NPR 423,741,423.05 in this quarter as compared to last quarter.

Particulars	2072 Chaitra End	2072 Poush End	Changes
Total Loan Loss provision	3,865,622,581	3,851,800,816	13,821,764.53

12. **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.

13. **Internal Capital Adequacy Assessment Process (ICAAP) Policy:**

Bank has formulated ICAAP Policy, 2015 in compliance to Nepal Rastra Bank's Internal Capital Adequacy Assessment Process (ICAAP) Guidelines 2012 (updated 2013), in order to provide a framework for ensuring setting up of systematic Internal Capital Adequacy Assessment Process of the Bank. The Bank firmly believes that capital of the bank is a cushion that protects the depositors and other stakeholders in case of any adverse eventuality. The capital of the bank should be linked to the level of risk of loss that the bank faces. Thus, capital buffers should be placed for all the material risks rather than mere Credit, Market and Operational risk as specified by the Pillar -1 of the Capital Adequacy Framework under the Basel II norms. RBBL hopes that the "ICAAP Policy 2015" will lay a foundation stone in measurement and monitoring of Economic Capital of

the bank. Besides, the bank is committed to ensure that sufficient capital is always maintained to cover up for the risk of losses arising from all the material risks.

Major areas of coverage of ICAAP Policy of the Bank are Board and Senior Management Oversight, Sound Capital Assessment, Comprehensive assessment of risks, Stress Testing, Monitoring and Reporting and Internal Control and Review.

14. 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, 2005 (as amended 2014)
 - Collateral Security Valuation Directives 2064
 - Financial Administration Bye-Rules 2068
 - Budget Manual 2060
 - Agricultural Loan Policy and Manual 2069
 - Employee Service Bye Rule 2070
 - Departmental Operating Instructions and manual for various departments
 - Information and Communication Technology (ICT) Policy and Guidelines-2012
 - ICAAP Policy, 2015
 - 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
- 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.

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