

Disclosure under Basel II capital accord of Nepal Rastra Bank

(As per clause 7.4 of the New Capital Accord As at Fourth quarter FY 2068-69 (2011-12) ending Ashad 2069 (15July 2012))

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

CORE CAPITAL	NPR
Paid up Equity Share Capital	4,710,610,000
Irredeemable Non cumulative preference shares	
Statutory General Reserves	2,948,888,019
Retained earning	(13,757,340,603)
Un-audited current year cumulative profit	1,148,377,408
Capital Reserve Fund	481,195,653
Other free reserve	5,500,000
Total	(4,462,769,523)

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:

NPR

Cumulative and Irredeemable Preference Shares	787,000,000
Loan Loss Provision for Pass Loans	794,459,646
Exchange Equalization Fund	97,319,666
Investment Adjustment Reserve	238,769,976
Other reserves - (Deferred Tax Reserve)	543,720,827
Total	2,461,270,115

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 221,695,845
Investment in Companies with financial interest NPR 36,250,000
Employee related loan: NPR 16,898,758

5. Total qualifying capital: NPR (4,737,614,125.98)**6. Capital adequacy ratio:** - 9.35 %

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

RISK WEIGHTED EXPOSURES	Ashad 2069
Risk Weighted Exposure for Credit Risk	40,671,424,196
Risk Weighted Exposure for Operational Risk	6,873,685,817
Risk Weighted Exposure for Market Risk	324,850,687
Adjustment under Pillar II	
Add: 4% of the Total RWE and 2% of Gross income as per supervisory instruction	2,789,673,389.1
Add:% of Total Deposit RWE due to insufficient Liquid Assets (6.4a 6)	
Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	50,659,634,089

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

No.	Particulars	RWE in NPR
1	Claims on govt. and central Bank	-
2	Claims on other Official entities	2,457,491,917
3	Claims on Banks	2,148,335,263
4	Claims on corporate and securities firm	8,656,399,107
5	Claims on regulatory retail portfolio	10,235,990,187
6	Claim secured by residential properties	1,954,023,538
7	Claims secured by commercial real state	840,700,432
8	Past due Claims	338,808,460
9	High risk claims	2,978,716,937
10	Other Assets	6,860,256,554
11	Off Balance sheet Items	4,200,701,802
	Total	40,671,424,196

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

						in NPR
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	2,373,995,713	-	-	2,373,995,713	0%	-
Balance with Nepal Rastra Bank (NRB)	16,426,491,512	-	-	16,426,491,512	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	23,062,513,954	-	-	23,062,513,954	0%	-
All Claims on Government of Nepal	6,301,256,944	-	-	6,301,256,944	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)	1,641,342,145	3,014,200	-	1,638,327,945	150%	2,457,491,917
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	714,939,648	-	-	714,939,648	20%	142,987,930
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	254,885,186	-	-	254,885,186	100%	254,885,186
Claims on Foreign Banks (ECA rating 0-1)	1,448,268,655	-	-	1,448,268,655	20%	289,653,731
Claims on Foreign Banks (ECA rating 2)	353,546,894	-	-	353,546,894	50%	176,773,447
Claims on Foreign Banks (ECA rating 3- 6)	1,386,145,001	102,110,032	-	1,284,034,969	100%	1,284,034,969
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	8,662,749,490	-	6,350,382	8,656,399,107	100%	8,656,399,107
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)	21,151,076,584	-	7,503,089,669	13,647,986,916	75%	10,235,990,187
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,256,705,896	-	-	3,256,705,896	60%	1,954,023,538
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	19,192,164	19,192,164	-	-	100%	-
Claims Secured by Commercial Real Estate	840,700,432	-	-	840,700,432	100%	840,700,432
Past due Claims (Except for claims secured by Residetal Properties)	2,921,163,312	2,695,291,006	-	225,872,306	150%	338,808,460
High Risk Claims	1,956,625,824	-	-	1,956,625,824	150%	2,934,938,737
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	32,936,000	3,941,000	-	28,995,000	150%	43,492,500
Other Assets	18,841,929,953	11,981,673,399	-	6,860,256,554	100%	6,860,256,554
Total	111,646,751,008	14,805,221,801	7,509,440,051	89,332,089,157		36,470,722,395

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	201,076,796	-	-	201,076,796	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months - Domestic counterparty	573,503,206	-	71,065,488	502,437,718	20%	100,487,544
-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	44,794,843	-	-	44,794,843	50%	22,397,422
-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	870,483,566	-	81,005,114	789,478,452	50%	394,739,226
-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	274,419,280	-	-	274,419,280	100%	274,419,280
Financial Guarantee	65,678,360	-	-	65,678,360	100%	65,678,360
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	396,370,751	-	-	396,370,751	20%	79,274,150
Irrevocable Credit Commitments (long term)	1,479,557,342	-	-	1,479,557,342	50%	739,778,671
Other Contingent Liabilities	2,523,927,149	-	-	2,523,927,149	100%	2,523,927,149
Unpaid Guarantee Claims	-	-	-	-	-	-
Total	6,429,811,294	-	152,070,602	6,277,740,692		4,200,701,802
Total RWE for Credit Risk (A) + (B)	118,076,562,302	14,805,221,801	7,661,510,653	95,609,829,849	-	40,671,424,196
<u>Adjustments under Pillar II</u>						
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)	118,076,562,302	14,805,221,801	7,661,510,653	95,609,829,849	-	40,671,424,196

10. **Amount of NPA:** Gross: NPR 2,940,355,478 Net: NPR 225,872,306

11. **NPA ratios:** Gross: 7.27 % Net: 0.61%

12. **Movement of NPA:**

Classification of Loan	NPR		
	Ashad 2069	Chaitra 2068	Changes
	Gross	Gross	
NPA	2,940,355,476	3,955,962,148	(1,015,606,672)
Restructured Loan	693,278,458	724,933,511	(31,655,053)
Substandard loan	70,559,675	134,705,201	(64,145,526)
Doubtful Loan	124,701,207	203,180,678	(78,479,471)
Loss Loan	2,051,816,137	2,893,142,758	(841,326,621)

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

There were loan write offs of Rs: 455,378,158 up to this quarter. Interest suspense balance is NPR.14, 195,348,096

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

Decrease in Loan Loss Provision by NPR 916,275,767 compared to last quarter.

Decrease in Interest Suspense by NPR. 3,398,441,208 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. 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.

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 | - Branch Operation Manual 2064 (as updated 2069) |
| - 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.