

Disclosure under Basel II capital accord of Nepal Rastra Bank as at Second Quarter of FY 2069-70 (2012-13) ending on Poush End 2069.

(As per clause 7.4 of the New Capital Accord)

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

CORE CAPITAL	AMOUNT NPR
Paid up Capital	7,715,402,357
Irredeemable Preference Shares	-
Share Premium	-
Proposed Bonus Shares	-
General Reserve Fund	2,896,541,122
Accumulated Profit /(Loss) up to Previous Year	(12,838,764,778)
Current Years Profit / (Loss)	609,881,728
Capital Redemption Adjustment Fund	-
Capital Adjustment Fund (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)	481,195,653
Dividend Equalisation Fund	-
Debenture Redemption Reserve	-
Other free Reserves	5,500,000
Total	(1,130,243,918)

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:

SUPPLEMENTARY CAPITAL	AMOUNT NPR
Cumulative and Non - Redeemable 1% Preference Shares	787,000,000
Unsecured Sub-ordinate Term Debt	-
Hybrid Capital Instruments	-
Loan Loss Provision for Pass Loans	1,028,559,601
Exchange Equalization Fund	97,319,666
Investment Adjustment Reserve	222,504,807
Asset Revaluation Reserve	-
Other reserves - (Deferred Tax Reserve)	511,456,214
Total	2,646,840,287

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:

	DEDUCTION FOR CORE CAPITAL	AMOUNT NPR
a	Book value of Goodwill	-
b	Miscellaneous assets not written off	-
c	Share Investments in Licensed Intitutions	221,695,845
d	Investment in companies with Financial Interests	36,250,000
e	Investment in excess of the limit	-
f	Underwriting Investments	-
g	Mutual Cross Holdings	-
h	Others	-
	Adjustment under Pillar II	-
	Less: Shortfall in Provision (6.4a 1)	-
	Less: Loans and Facilities extended to related parties and restricted lending	4,204,544
	Total	262,150,388

5. Total qualifying capital fund: NPR (1,392,394,306)

6. Capital adequacy ratio: - 2.44 %

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

RISK WEIGHTED EXPOSURES	AMOUNT (NPR)
Credit Risk	43,156,704,357
Operational Risk	8,563,349,060
Market Risk	1,823,062,736
<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)	2,141,724,646
Add:% oTotal Deposit RWE due to insufficient Liquid Assets (6.4a 6)	-
Add: 2% of Gross total Income of Previous Financial Year for Inadequate Operational Risk Management Process(6.4a 7)	1,469,031,224
Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	57,153,872,023

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

Particulars	AMOUNT (NPR)
Claims on govt. and central Bank	-
Claims on other Official entities	-
Claims on Banks	2,059,583,496
Claims on corporate and securities firm	9,950,788,902
Claims on regulatory retail portfolio	12,764,280,577
Claim secured by residential properties	2,032,462,256
Claims secured by commercial real state	1,049,901,277
Past due Claims	381,702,613
High risk claims	2,837,920,150
Other Assets	7,095,219,547
Off Balance sheet Items	4,984,845,537
Total	43,156,704,357

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

Assets	2069 Poush					
	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	1,985,772,317	-	-	1,985,772,317	0%	-
Balance with Nepal Rastra Bank (NRB)	7,064,423,308	-	-	7,064,423,308	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	27,026,166,049	-	-	27,026,166,049	0%	-
All Claims on Government of Nepal	3,360,860,698	-	-	3,360,860,698	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)	884,072,713	3,014,200	-	881,058,513	150%	1,321,587,770
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	1,327,679,585	-	-	1,327,679,585	20%	265,535,917
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	106,469,664	-	-	106,469,664	100%	106,469,664
Claims on Foreign Banks (ECA rating 0-1)	1,787,570,263	-	-	1,787,570,263	20%	357,514,053
Claims on Foreign Banks (ECA rating 2)	186,760,602	-	-	186,760,602	50%	93,380,301
Claims on Foreign Banks (ECA rating 3- 6)	1,338,793,593	102,110,032	-	1,236,683,561	100%	1,236,683,561
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	8,631,224,905	-	2,023,773	8,629,201,133	100%	8,629,201,133
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)	24,539,182,646	-	7,520,141,877	17,019,040,769	75%	12,764,280,577
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,387,437,094	-	-	3,387,437,094	60%	2,032,462,256
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	15,300,857	15,300,857	-	-	100%	-
Claims Secured by Commercial Real Estate	1,049,901,277	-	-	1,049,901,277	100%	1,049,901,277
Past due Claim (Except for claims secured by Residetal Properties)	2,806,874,156	2,552,405,747	-	254,468,409	150%	381,702,613
High Risk Claims	1,891,946,767	-	-	1,891,946,767	150%	2,837,920,150
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	588,000	-	32,348,000	150%	48,522,000
Employee Loans secured by residnetial properties	-	-	-	-	60%	-
Interest Receivable/Claims on Government securities	118,158,738	-	-	118,158,738	0%	-
Cash and Other transit items in receivable	853,312,593	42,936,933	-	810,375,660	20%	162,075,132
Other Assets	19,389,334,900	12,504,998,185	-	6,884,336,715	100%	6,884,336,715
Total	107,784,464,424	15,221,353,954	7,522,165,650	85,040,944,821		38,171,858,819

Assets	2069 Poush					
	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	128,354,417	-	-	128,354,417	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months- Domestic counterparty	40,340,399	-	82,642,031	(42,301,632)	20%	(8,460,326)
-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	820,275,652	-	-	820,275,652	50%	410,137,826
-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	916,142,102	-	72,587,777	843,554,325	50%	421,777,162
-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	238,261,368	-	-	238,261,368	100%	238,261,368
Financial Guarantee	72,711,106	-	-	72,711,106	100%	72,711,106
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	2,157,281,662	-	-	2,157,281,662	20%	431,456,332
Irrevocable Credit Commitments (long term)	1,820,715,273	-	-	1,820,715,273	50%	910,357,637
Other Contingent Liabilities	2,508,604,432	-	-	2,508,604,432	100%	2,508,604,432
Unpaid Guarantee Claims	-	-	-	-	200%	-
Total	8,702,686,411	-	155,229,808	8,547,456,603		4,984,845,537

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
 - 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

- IT Manual

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