

Disclosure under Basel II capital accord of Nepal Rastra Bank

(As per clause 7.4 of the New Capital Accord As at Fourth Quarter End of FY 2067-68 (2010-11) ending 16 July 2011.

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

CORE CAPITAL	NPR
Paid up equity Share Capital	385,300,000
Irredeemable Non cumulative preference shares	
Statutory General Reserves	2,668,224,393
Retained earning	(15,117,815,574)
Un-audited current year cumulative profit	1,399,700,017
Capital Reserve Fund	481,195,653
Other free reserve	5,500,000
Total	(10,177,895,511)

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.

Cumulative and Irredeemable Preference Shares	787,000,000
Loan Loss Provision for Pass Loans	328,414,596
Exchange Equalization Fund	95,900,084
Investment Adjustment Reserve	238,769,976
Other reserves - (Deferred Tax Reserve)	850,955,269
Total	2,301,039,925

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

Investment in Companies with financial interest NPR 36,250,000

Employee related loan: NPR 16,898,758

5. Total qualifying capital: NPR (10,452,507,364)**6. Capital adequacy ratio:** - 22.52%

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

RISK WEIGHTED EXPOSURES	Ashad 2068
Risk Weighted Exposure for Credit Risk	36,351,923,211
Risk Weighted Exposure for Operational Risk	8,089,488,098
Risk Weighted Exposure for Market Risk	185,938,055
<i>Adjustment under Pillar II</i>	
Add: 3% of the Total RWE due to non-compliance to Disclosure Requirement (6.4a 10)	1,785,093,975
Add:% oTotal Deposit RWE due to insufficient Liquid Assets (6.4a 6)	
Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	46,412,443,338

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

Particulars	RWE
Claims on govt. and central Bank	-
Claims on other Official entities	1,477,977,847
Claims on Banks	1,711,323,238
Claims on corporate and securities firm	8,452,698,512
Claims on regulatory retail portfolio	8,689,710,140
Claim secured by residential properties	1,872,114,591
Claims secured by commercial real state	685,881,025
Past due Claims	737,669,315
High risk claims	2,999,566,505
Other Assets	6,355,182,612
Off Balance sheet Items	3,369,799,426
Total	36,351,923,211

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

in Rs

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	1,760,510,666	-	-	1,760,510,666	0%	-
Balance with Nepal Rastra Bank (NRB)	4,813,547,713	-	-	4,813,547,713	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	12,364,123,015	-	-	12,364,123,015	0%	-
All Claims on Government of Nepal	15,074,932,825	-	-	15,074,932,825	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)	988,332,765	3,014,200	-	985,318,565	150%	1,477,977,847
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	305,883,000	-	-	305,883,000	20%	61,176,600
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	210,154,627	-	-	210,154,627	100%	210,154,627
Claims on Foreign Banks (ECA rating 0-1)	1,106,095,208	-	-	1,106,095,208	20%	221,219,042
Claims on Foreign Banks (ECA rating 2)	114,219,585	-	-	114,219,585	50%	57,109,792
Claims on Foreign Banks (ECA rating 3- 6)	1,307,350,075	145,686,898	-	1,161,663,177	100%	1,161,663,177
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	8,459,959,413	-	7,260,902	8,452,698,512	100%	8,452,698,512
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)	17,615,762,849	-	6,029,482,662	11,586,280,187	75%	8,689,710,140
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-

Claims Secured by Residential Properties	3,120,190,985	-	-	3,120,190,985	60%	1,872,114,591
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	31,420,668	31,420,668	-	-	100%	-
Claims Secured by Commercial Real Estate	685,881,025	-	-	685,881,025	100%	685,881,025
Past due Claims (Except for claims secured by Residetal Properties)	3,993,224,030	3,501,444,486	-	491,779,543	150%	737,669,315
High Risk Claims	1,972,025,536	-	-	1,972,025,536	150%	2,958,038,305
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	31,436,000	3,941,000	-	27,495,000	150%	41,242,500
Other Assets	22,549,568,462	16,194,385,849	-	6,355,182,612	100%	6,355,182,612
Total	96,504,904,146	19,879,893,102	6,036,743,564	70,588,267,481		32,982,123,785

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	476,658,083	-	-	476,658,083	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months- Domestic counterparty	440,878,007	-	63,250,426	377,627,581	20%	75,525,516
-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	35,531,654	-	-	35,531,654	50%	17,765,827
-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	990,018,650	-	83,564,059	906,454,592	50%	453,227,296
-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	262,847,907	-	-	262,847,907	100%	262,847,907
Financial Guarantee	44,834,360	-	-	44,834,360	100%	44,834,360
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	512,761,559	-	-	512,761,559	20%	102,552,312
Irrevocable Credit Commitments (long term)	1,587,843,531	-	-	1,587,843,531	50%	793,921,765
Other Contingent Liabilities	1,619,124,443	-	-	1,619,124,443	100%	1,619,124,443
Unpaid Guarantee Claims	-	-	-	-		-
Total	5,970,498,195	-	146,814,485	5,823,683,710		3,369,799,426
Total RWE for Credit Risk (A) + (B)	102,475,402,341	19,879,893,102	6,183,558,048	76,411,951,190	-	36,351,923,211
Adjustments under Pillar II						
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)	102,475,402,341	19,879,893,102	6,183,558,048	76,411,951,190	-	36,351,923,211

10. **Amount of NPA:** Gross: NPR 4,024,644,698 Net: NPR 491,779,543

11. **NPA ratios:** Gross: 10.92 % Net: 1.49 %

12. **Movement of NPA:**

Classification of Loan	Ashad 2068	Chaitra 2067	Changes
	Gross	Gross	
NPA	4,024,644,698	3,936,569,773	46,575,749
Restructured Loan	564,821,015	605,360,313	(40,539,299)
Substandard loan	471,121,871	266,366,992	204,754,879
Doubtful Loan	241,162,189	133,416,317	107,745,873
Loss Loan	2,747,539,623	3,013,464,625	(265,925,002)

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

There were loan write offs of Rs.80, 257,916 during the year. Interest suspense balance is NPR.15, 025,486,626

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

Decrease in Loan Loss Provision by NPR 171,722,120 compared to third quarter.

Decrease in Interest Suspense by NPR 1, 546,304,566 compared to third 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. 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:

- Risk Management Committee, Director's Credit Committee, Central Credit Committee chaired by CMD, 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 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

- Investment and Treasury Operations Manual

- Credit Manual 2060

- Collateral Security Valuation Directives 2064

- Accounting Manual 2061

- Financial Bye-Rules 2068

- Budget Manual 2060

- Procurement Manual 2061

- IT Manual

- 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, 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.