

Disclosure under Basel II capital accord of Nepal Rastra Bank

(As per clause 7.4 of the New Capital Accord As at Second Quarter End of FY 2068-69 (2011-12) ending 14 January 2012.

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	2,784,141,395
Retained earning	(13,718,115,564)
Un-audited current year cumulative profit	460,172,816
Capital Reserve Fund	481,195,653
Other free reserve	5,500,000
Total	(9,601,805,701)

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	325,063,539
Exchange Equalization Fund	95,900,084
Investment Adjustment Reserve	238,769,976
Other reserves - (Deferred Tax Reserve)	396,814,026
Total	1,843,547,625

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 (9,876,650,303)**6. Capital adequacy ratio:** - 21.77%

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

RISK WEIGHTED EXPOSURES	Poush 2068
Risk Weighted Exposure for Credit Risk	35,759,209,200
Risk Weighted Exposure for Operational Risk	7,546,111,836
Risk Weighted Exposure for Market Risk	313,080,749
<i>Adjustment under Pillar II</i>	
Add: 4% of the Total RWE as per supervisory instruction	1,744,736,071
Add:% of Total Deposit RWE due to insufficient Liquid Assets (6.4a 6)	
Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	45,363,137,857

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

Particulars	RWE in Rs
Claims on govt. and central Bank	-
Claims on other Official entities	1,966,485,643
Claims on Banks	1,779,434,972
Claims on corporate and securities firm	7,185,785,919
Claims on regulatory retail portfolio	8,770,444,370
Claim secured by residential properties	1,879,267,452
Claims secured by commercial real state	746,837,939
Past due Claims	429,351,112
High risk claims	2,697,871,983
Other Assets	6,501,152,089
Off Balance sheet Items	3,802,577,721
Total	35,759,209,200

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	1,626,859,352	-	-	1,626,859,352	0%	-
Balance with Nepal Rastra Bank (NRB)	11,695,816,333	-	-	11,695,816,333	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	18,382,589,374	-	-	18,382,589,374	0%	-
All Claims on Government of Nepal	4,872,794,025	-	-	4,872,794,025	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)	1,314,004,628	3,014,200	-	1,310,990,428	150%	1,966,485,643
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	485,875,000	-	-	485,875,000	20%	97,175,000
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	103,135,082	-	-	103,135,082	100%	103,135,082
Claims on Foreign Banks (ECA rating 0-1)	1,509,364,913	-	-	1,509,364,913	20%	301,872,983
Claims on Foreign Banks (ECA rating 2)	117,185,302	-	-	117,185,302	50%	58,592,651
Claims on Foreign Banks (ECA rating 3- 6)	1,364,346,154	145,686,898	-	1,218,659,256	100%	1,218,659,256
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	7,192,843,257	-	7,057,338	7,185,785,919	100%	7,185,785,919
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)	18,349,802,038	-	6,655,876,211	11,693,925,827	75%	8,770,444,370
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,132,112,420	-	-	3,132,112,420	60%	1,879,267,452
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	9,234,464	9,234,464	-	-	100%	-
Claims Secured by Commercial Real Estate	746,837,939	-	-	746,837,939	100%	746,837,939
Past due Claims (Except for claims secured by Residetal Properties)	3,948,748,311	3,662,514,236	-	286,234,074	150%	429,351,112
High Risk Claims	1,770,895,856	-	-	1,770,895,856	150%	2,656,343,783
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	21,867,938,412	15,366,786,324	-	6,501,152,089	100%	6,501,152,089
Total	98,522,104,559	19,191,177,121	6,662,933,549	72,667,993,889		31,956,631,479

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	322,188,368	-	-	322,188,368	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months - Domestic counterparty	624,870,127	-	80,854,107	544,016,020	20%	108,803,204
-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	41,141,961	-	-	41,141,961	50%	20,570,980
-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	1,016,978,064	-	73,157,645	943,820,419	50%	471,910,209
-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	227,753,952	-	-	227,753,952	100%	227,753,952
Financial Guarantee	64,760,721	-	-	64,760,721	100%	64,760,721
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	424,312,438	-	-	424,312,438	20%	84,862,488
Irrevocable Credit Commitments (long term)	1,578,258,517	-	-	1,578,258,517	50%	789,129,259
Other Contingent Liabilities	2,034,786,908	-	-	2,034,786,908	100%	2,034,786,908
Unpaid Guarantee Claims	-	-	-	-	-	-
Total	6,335,051,056	-	154,011,752	6,181,039,303		3,802,577,721
Total RWE for Credit Risk (A) + (B)	104,857,155,615	19,191,177,121	6,816,945,301	78,849,033,192	-	35,759,209,200
<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)	104,857,155,615	19,191,177,121	6,816,945,301	78,849,033,192	-	35,759,209,200

10. **Amount of NPA:** Gross: NPR 3,957,982,774 Net: NPR 286,234,074

11. **NPA ratios:** Gross: 10.85 % Net: 0.88%

12. **Movement of NPA:**

Classification of Loan	Poush 2068	Aswin 2068	Changes
	Gross	Gross	
NPA	3,957,982,774	4,056,415,395	(98,432,621)
Restructured Loan	728,866,547	643,832,565	85,033,983
Substandard loan	85,595,658	381,966,780	(296,371,123)
Doubtful Loan	225,400,408	344,935,455	(119,535,047)
Loss Loan	2,918,120,161	2,685,680,595	232,439,567

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

There were loan write offs of Rs: 4,698,069 upto this quarter. Interest suspense balance is NPR.14, 235,282,784

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

Increase in Loan Loss Provision by NPR 65,107,599 compared to last quarter.

Decrease in Interest Suspense by NPR. 1,323,006,326 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. 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 | - 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.