

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 2067-68 (2010-11) ending 14 January 2010.

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

	CORE CAPITAL	NPR
a	Paid up equity Share Capital	385,300,000
b	Irredeemable Non cumulative preference shares	787,000,000
c	Statutory General Reserves	2,465,941,701
d	Retained earning	(14,104,228,835)
e	Un-audited current year cumulative profit	691,995,232
f	Capital Reserve Fund	481,195,653
g	Other free reserve	5,500,000
	Total	(9,287,296,250)

2. **Tier 2 capital and a breakdown of its components:** Since Tier 1 Capital is negative Tier 2 Capital is NIL. Components of Tier II capital not included in capital fund are loan loss provision for pass loans of Rs 316,760,634 and exchange fluctuation fund of Rs 95,900,084.

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 16,230,650

5. **Total qualifying capital:** NPR (9,561,239,995)

6. **Capital adequacy ratio:** - 22.90%

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

	RISK WEIGHTED EXPOSURES	Poush 2067
a	Risk Weighted Exposure for Credit Risk	34,828,018,268
b	Risk Weighted Exposure for Operational Risk	6,740,815,510
c	Risk Weighted Exposure for Market Risk	184,372,084
	Adjustment under Pillar II	
	Add: 3% of the Total RWE due to non-compliance to Disclosure Requirement (6.4a 10)	-
	Add:% of Total Deposit RWE due to insufficient Liquid Assets (6.4a 6)	-
	Total Risk Weighted Exposures (After Banks adjustment of Pillar II)	41,753,205,862

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

No.	Particulars	RWE
1	Claims on govt. and central Bank	-
2	Claims on other Official entities	1,898,049,354
3	Claims on Banks	1,478,678,133
4	Claims on corporate and securities firm	7,124,735,252
5	Claims on regulatory retail portfolio	9,021,218,101
6	Claim secured by residential properties	1,901,557,186
7	Claims secured by commercial real state	648,922,134
8	Past due Claims	335,926,658
9	High risk claims	2,694,580,592
10	Other Assets	6,415,533,082
11	Off Balance sheet Items	3,308,817,775
	Total	34,828,018,268

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

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	1,389,383,043	-	-	1,389,383,043	0%	-
Balance with Nepal Rastra Bank (NRB)	7,090,758,409	-	-	7,090,758,409	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	10,622,062,350	-	-	10,622,062,350	0%	-
All Claims on Government of Nepal	8,334,706,477	-	-	8,334,706,477	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)	1,268,380,436	3,014,200	-	1,265,366,236	150%	1,898,049,354
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	346,850,000	-	-	346,850,000	20%	69,370,000

Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	158,444,285	-	-	158,444,285	100%	158,444,285
Claims on Foreign Banks (ECA rating 0-1)	1,304,740,541	-	-	1,304,740,541	20%	260,948,108
Claims on Foreign Banks (ECA rating 2)	219,703,162	-	-	219,703,162	50%	109,851,581
Claims on Foreign Banks (ECA rating 3- 6)	1,167,074,257	287,010,099	-	880,064,159	100%	880,064,159
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	7,186,746,898	-	62,011,646	7,124,735,252	100%	7,124,735,252
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)	17,585,727,229	-	5,557,436,428	12,028,290,801	75%	9,021,218,101
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,169,261,977	-	-	3,169,261,977	60%	1,901,557,186
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	6,692,464	6,692,464	-	-	100%	-
Claims Secured by Commercial Real Estate	648,922,134	-	-	648,922,134	100%	648,922,134
Past due Claims (Except for claims secured by Residential Properties)	3,929,877,309	3,705,926,204	-	223,951,106	150%	335,926,658
High Risk Claims	1,768,701,595	-	-	1,768,701,595	150%	2,653,052,392
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	23,920,820,498	17,505,287,416	-	6,415,533,082	100%	6,415,533,082
Total	90,150,574,765	21,511,871,382	5,619,448,074	63,019,255,309		31,519,200,493

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	453,481,666	-	-	453,481,666	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months - Domestic counterparty	697,386,600	-	73,191,387	624,195,213	20%	124,839,043
-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	35,824,522	-	-	35,824,522	50%	17,912,261
-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	1,130,712,249	-	79,949,863	1,050,762,386	50%	525,381,193
-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	225,423,299	-	-	225,423,299	100%	225,423,299
Financial Guarantee	50,919,360	-	-	50,919,360	100%	50,919,360
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	221,697,331	-	-	221,697,331	20%	44,339,466
Irrevocable Credit Commitments (long term)	1,310,191,253	-	-	1,310,191,253	50%	655,095,627
Other Contingent Liabilities	1,664,907,527	-	-	1,664,907,527	100%	1,664,907,527
Unpaid Guarantee Claims	-	-	-	-	-	-
Total	5,790,543,806	-	153,141,250	5,637,402,556		3,308,817,775
Total RWE for Credit Risk (A) + (B)	95,941,118,571	21,511,871,382	5,772,589,324	68,656,657,865	-	34,828,018,268
<i>Adjustments under Pillar II</i>						
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)	95,941,118,571	21,511,871,382	5,772,589,324	68,656,657,865	-	34,828,018,268

10. **Amount of NPA:** Gross: NPR 3,936,569,773 Net: NPR 223,951,106

11. **NPA ratios:** Gross: 11.05 % Net: 0.71%

12. Movement of NPA:

Classification of Loan	Poush 2067	Aswin 2067	Changes
	Gross	Gross	
Pass Loan	31,677,047,270	29,682,074,353	1,994,972,916
Good loan	31,677,047,270	29,682,074,353	1,994,972,916
NPA	3,936,569,773	4,041,204,429	(125,698,700)
Restructure/Reschedule Loan	634,203,959	613,139,914	21,064,045
Substandard loan	66,544,615	77,529,134	(10,984,519)
Doubtful Loan	142,751,206	218,289,410	(75,538,204)
Loss Loan	3,093,069,993	3,132,245,970	(39,175,977)

13. Write off of loans & Interest suspense:

There were loan write offs of Rs.5, 331,864.96 upto this quarter. Interest suspense balance is NPR. 16,434,132,497

14. Movement in Loan loss provisions and interest suspense:

Decrease in Loan Loss Provision by NPR. 120,390,830 compared to first quarter.

Increase in Interest Suspense by NPR. 192,691,580 compared to first quarter.

15. Detail of additional Loan Loss provision: NPR 452,261,423 (Excess loan loss provision above minimum as required by NRB directives)**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 CEO, 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.

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|---|--|
| - 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 2063 | - 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.