

**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 2066-67 (2009-10) ending 16 July 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	2,313,115,647
d	Retained earning	(15,626,767,239)
e	Un-audited current year cumulative profit	1,604,066,176
f	Capital Reserve Fund	481,195,653
g	Other free reserve	5,500,000
	<b>Total</b>	<b>(10,050,589,763)</b>

**2. Tier 2 capital and a breakdown of its components:** Not applicable**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  
Employee related loan: NPR 27,603,036

**5. Total qualifying capital:** NPR (10,299,655,893)**6. Capital adequacy ratio:** - 25.48 %**7. Risk weighted exposures for Credit Risk, Market Risk and Operational Risk:**

	RISK WEIGHTED EXPOSURES	Ashad 2067
a	Risk Weighted Exposure for Credit Risk	35,084,886,301
b	Risk Weighted Exposure for Operational Risk	5,072,378,301
c	Risk Weighted Exposure for Market Risk	267,088,148
	<u>Adjustment under Pillar II</u>	
	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)	-
	<b>Total Risk Weighted Exposures (After Banks adjustment of Pillar II)</b>	<b>40,424,352,751</b>

**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	1,944,697,110
3	Claims on Banks	2,566,341,954
4	Claims on corporate and securities firm	7,418,511,663
5	Claims on regulatory retail portfolio	8,489,157,398
6	Claim secured by residential properties	1,864,626,817
7	Claims secured by commercial real state	783,903,972
8	Past due Claims	251,102,672
9	High risk claims	3,131,440,170
10	Other Assets	5,141,227,793
11	Off Balance sheet Items	3,493,876,752
	<b>Total</b>	<b>35,084,886,301</b>

**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	1,674,649,722	-	-	1,674,649,722	0%	-
Balance with Nepal Rastra Bank (NRB)	8,264,579,952	-	-	8,264,579,952	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	9,363,963,074	-	-	9,363,963,074	0%	-
All Claims on Government of Nepal	8,596,846,567	-	-	8,596,846,567	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 )	2,001,439,740	4,975,000	700,000,000	1,296,464,740	150%	1,944,697,110
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	464,800,000	-	-	464,800,000	20%	92,960,000
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	158,460,597	-	-	158,460,597	100%	158,460,597
Claims on Foreign Banks ( ECA rating 0-1 )	1,419,391,047	-	-	1,419,391,047	20%	283,878,209
Claims on Foreign Banks ( ECA rating 2 )	221,602,680	-	-	221,602,680	50%	110,801,340
Claims on Foreign Banks ( ECA rating 3- 6 )	2,207,251,907	287,010,099	-	1,920,241,808	100%	1,920,241,808
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	7,418,511,663	-	-	7,418,511,663	100%	7,418,511,663
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 )	16,270,822,042	-	4,951,945,512	11,318,876,530	75%	8,489,157,398
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,107,711,361	-	-	3,107,711,361	60%	1,864,626,817
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties ( Overdue)	3,249,953	3,249,953	-	-	100%	-
Claims Secured by Commercial Real Estate	783,903,972	-	-	783,903,972	100%	783,903,972

Past due Claims ( Except for claims secured by Residential Properties)	4,072,146,429	3,904,744,648	-	167,401,781	150%	251,102,672
High Risk Claims	2,035,421,647	-	-	2,035,421,647	150%	3,053,132,470
Investments in Shares and Capital Instruments of company <b>listed</b> in Stock Exchange	36,535,700	-	-	36,535,700	100%	36,535,700
Investments in Shares and Capital Instruments of company <b>not listed</b> in Stock Exchange	28,436,000	588,000	-	27,848,000	150%	41,772,000
Other Assets	22,045,014,879	16,903,787,086	-	5,141,227,793	100%	5,141,227,793
<b>Total</b>	<b>90,174,738,932</b>	<b>21,104,354,785</b>	<b>5,651,945,512</b>	<b>63,418,438,635</b>		<b>31,591,009,549</b>

<b>B. Off Balance Sheet Exposures</b>	<b>Book Value</b>	<b>Specific Provision</b>	<b>Eligible CRM</b>	<b>Net Value</b>	<b>Risk Weight</b>	<b>Risk Weighted Exposure</b>
	<b>a</b>	<b>b</b>	<b>c</b>	<b>d=a-b-c</b>	<b>e</b>	<b>f=d*e</b>
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	574,164,949	-	-	574,164,949	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity <b>Upto 6 months</b> - Domestic counterparty	85,328,477	-	74,215,489	11,112,988	20%	2,222,598
-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 <b>Over 6 months</b> - Domestic counterparty	564,768,365	-	-	564,768,365	50%	282,384,183
-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	1,094,161,702	-	84,402,767	1,009,758,935	50%	504,879,468
-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	217,767,057	-	-	217,767,057	100%	217,767,057
Financial Guarantee	43,439,360	-	-	43,439,360	100%	43,439,360
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments ( short term )	416,000,300	-	-	416,000,300	20%	83,200,060
Irrevocable Credit Commitments ( long term )	1,917,737,546	-	-	1,917,737,546	50%	958,868,773
Other Contingent Liabilities	1,401,115,254	-	-	1,401,115,254	100%	1,401,115,254
<b>Total</b>	<b>6,314,483,010</b>	<b>-</b>	<b>158,618,256</b>	<b>6,155,864,755</b>		<b>3,493,876,752</b>
<b>Total RWE for Credit Risk (A) + ( B)</b>	<b>96,489,221,943</b>	<b>21,104,354,785</b>	<b>5,810,563,768</b>	<b>69,574,303,390</b>	<b>-</b>	<b>35,084,886,301</b>
<b><u>Adjustments under Pillar II</u></b>						
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)	-	-	-	-	-	-
<b>Total RWE for Credit Risk (After Banks Adjustment for Pillar II)</b>	<b>96,489,221,943</b>	<b>21,104,354,785</b>	<b>5,810,563,768</b>	<b>69,574,303,390</b>	<b>-</b>	<b>35,084,886,301</b>

10. **Amount of NPA:** Gross: NPR 3,501,619,315 Net: NPR103,959,416

11. **NPA ratios:** Gross: 9.81 % Net: 0.33%

12. **Movement of NPA:**

Classification of Loan	Ashad 2067	Chaitra 2066	Changes
	Gross	Gross	
<b>NPA</b>	<b>3,501,619,315</b>	<b>4,365,855,681</b>	<b>(864,236,366)</b>
Substandard loan	14,842,003	242,646,194	(227,804,191)
Doubtful Loan	182,754,293	168,338,487	14,415,806
Loss Loan	3,304,023,019	3,954,871,000	(650,847,981)

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

Unrecoverable bad loans of Rs 355,056,191 were written off during the quarter. Interest suspense balance is NPR. 15,782,265,572.92

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

Decrease in Loan Loss Provision by NPR. 710,505,835 compared to third quarter of FY 2009/10.

Decrease in Interest Suspense by NPR. 2,614,047,944 compared to third quarter of FY 2009/10.

**15. Detail of additional Loan Loss provision: NPR 439,596,938 (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 and financial Institution 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:**

- 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 is 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 Bye-Rules 2063
  - Budget Manual 2060
  - Procurement Manual 2061
  - IT Manual
  - Branch Operation Manual 2064
  - Credit Manual 2060
  - Accounting Manual 2061
  - 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, Compliance unit 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.
- Compliance Unit ensures compliance with code of ethics and good corporate governance.