

Disclosure under Basel II capital accord of Nepal Rastra Bank as at Third Quarter of FY 2069-70 (2012-13) ending on Chaitra 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	7,715,402,300
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)	1,031,508,496
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	(708,617,208)

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	1,108,519,587
Exchange Equalization Fund	97,319,666
Investment Adjustment Reserve	222,504,807
Asset Revaluation Reserve	-
Other reserves - (Deferred Tax Reserve)	511,456,214
Total	2,726,800,273

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:**

RISK WEIGHTED EXPOSURES	AMOUNT (NPR)
Credit Risk	44,786,487,186
Operational Risk	8,563,349,060
Market Risk	957,888,542
<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)	2,172,308,992
Add:% of Total 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)	57,949,065,005

5. **Total qualifying capital fund:** (NPR . 97,07,67,596)

6. **Capital adequacy ratio:** - 1.68 %

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

RISK WEIGHTED EXPOSURES	AMOUNT (NPR)
Credit Risk	44,786,487,186
Operational Risk	8,563,349,060
Market Risk	957,888,542
<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)	2,172,308,992
Add:% of Total 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)	57,949,065,005

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	1,868,890,536
Claims on corporate and securities firm	11,750,621,841
Claims on regulatory retail portfolio	12,273,074,164
Claim secured by residential properties	2,101,908,749
Claims secured by commercial real state	1,030,268,886
Past due Claims	380,762,345
High risk claims	3,210,900,106
Other Assets	7,526,440,695
Off Balance sheet Items	4,643,619,864
Total	44,786,487,186

9. Total risk weighted exposure calculation table:

Assets	2069 Chaitra					
	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	1,987,525,974	-	-	1,987,525,974	0%	-
Balance with Nepal Rastra Bank (NRB)	5,827,672,359	-	-	5,827,672,359	0%	-
Gold	-	-	-	-	0%	-
Investments in Government of Nepal Bonds	26,742,813,522	-	-	26,742,813,522	0%	-
All Claims on Government of Nepal	2,132,849,205	-	-	2,132,849,205	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)	1,024,331,697	3,014,200	-	1,021,317,497	150%	1,531,976,246
Claims on Domestic Banks that fulfill Capital Adequacy Requirement	2,615,870,075	-	-	2,615,870,075	20%	523,174,015
Claims on Domestic Banks that do not fulfill Capital Adequacy Requirement	323,602,048	-	-	323,602,048	100%	323,602,048
Claims on Foreign Banks (ECA rating 0-1)	2,604,758,042	-	-	2,604,758,042	20%	520,951,608
Claims on Foreign Banks (ECA rating 2)	4,573,541	-	-	4,573,541	50%	2,286,771
Claims on Foreign Banks (ECA rating 3- 6)	600,986,126	102,110,032	-	498,876,094	100%	498,876,094
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	10,220,725,328	-	2,079,733	10,218,645,595	100%	10,218,645,595
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)	24,285,048,962	-	7,920,950,076	16,364,098,886	75%	12,273,074,164
Regulatory Retail Portfolio Except for Granularity	-	-	-	-	100%	-
Claims Secured by Residential Properties	3,503,181,249	-	-	3,503,181,249	60%	2,101,908,749
Claims not fully Secured by Residential Properties	-	-	-	-	150%	-
Claims Secured by Residential Properties (Overdue)	17,027,045	17,027,045	-	-	100%	-
Claims Secured by Commercial Real Estate	1,030,268,886	-	-	1,030,268,886	100%	1,030,268,886
Past due Claim (Except for claims secured by Residential Properties)	2,664,066,820	2,410,225,257	-	253,841,563	150%	380,762,345
High Risk Claims	2,140,600,071	-	-	2,140,600,071	150%	3,210,900,106
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 residential properties	-	-	-	-	60%	-
Interest Receivable/Claims on Government securities	203,268,923	-	-	203,268,923	0%	-
Cash and Other transit items in receivable	1,347,256,994	42,936,933	-	1,304,320,061	20%	260,864,012
Other Assets	19,493,552,286	12,276,783,303	-	7,216,768,982	100%	7,216,768,982
Total	108,803,200,854	14,852,684,770	7,923,029,809	86,027,486,275		40,142,867,323

Assets	2069 Chaitra					
	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	486,331,671	-	-	486,331,671	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	10%	-
LC Commitments with Original Maturity Upto 6 months- Domestic counterparty	649,650,664	-	70,186,891	579,463,773	20%	115,892,755
-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	39,679,445	-	-	39,679,445	50%	19,839,723
-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	982,549,932	-	74,059,472	908,490,460	50%	454,245,230
-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	275,910,473	-	-	275,910,473	100%	275,910,473
Financial Guarantee	82,718,172	-	-	82,718,172	100%	82,718,172
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid Portion of Partly paid shares and securities	-	-	-	-	100%	-
Irrevocable Credit Commitments (short term)	1,207,253,434	-	-	1,207,253,434	20%	241,450,687
Irrevocable Credit Commitments (long term)	1,993,791,928	-	-	1,993,791,928	50%	996,895,964
Other Contingent Liabilities	2,456,666,861	-	-	2,456,666,861	100%	2,456,666,861
Unpaid Guarantee Claims	-	-	-	-	200%	-
Total	8,174,552,580	-	144,246,363	8,030,306,217		4,643,619,864

10. Amount of NPA: Gross: NPR 2,681,093,865 Net: NPR 253,841,563

11. NPA ratios: Gross: 5.95% Net: 0.61%

12. Movement of NPA: AMOUNT (NPR)

Classification of Loan	Chaitra 2069	Poush 2069	Changes
	Gross	Gross	
NPA	2,681,093,865	2,822,175,013	(141,081,148)
Restructured Loan	635,760,513	680,781,889	(45,021,375)
Substandard loan	89,630,956	104,206,189	(14,575,233)
Doubtful Loan	56,047,704	47,930,861	8,116,843
Loss Loan	1,899,654,692	1,989,256,074	(89,601,383)

13. Write off of loans & Interest suspense:

Loans were not written off during this quarter. Balance of Interest suspense account as on this quarter end is NPR. 11,213,791,618.38

14. Movement in Loan loss provisions and interest suspense:

Loan Loss Provision has been increased by NPR 60,494,316 in this quarter as compared to last quarter.

Amount of Interest Suspense has been decreased by NPR 127,086,045 in this quarter as 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. The Capitalization Plan submitted by the bank in March 2012 has been approved by Nepal Rastra Bank and the Nepal Government. The plan implementation is underway. 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, 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
 - Branch Operation Manual 2064 (as updated 2069)
 - Credit Manual 2060
 - Accounting Manual 2061

- Financial Administration Bye-Rules 2068
- Budget Manual 2060
- Agricultural Loan Policy and Manual 2069
- IT Manual
- Information and Communication Technology (ICT) Policy and Guidelines-2012
- 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.