

**Disclosure under Basel II capital accord of Nepal Rastra Bank**

[As per clause 7.4(b) of the New Capital Accord As at First Quarter End (Ashwin, 2070)]

**1.0 Tier 1 capital and a breakdown of its components;**

		As on 17.10.2013
<b>Core Capital (Tier 1)</b>		<b>4,580,698,605</b>
a	Paid up Equity Share Capital	2,039,290,000
b	Proposed Bonus Equity Share	-
c	Statutory General Reserves	2,113,706,954
d	Retained Earnings	31,367,725
e	Un-audited current year cumulative profit	334,205,273
f	Deferred Tax Reserve	81,397,698
f	Less : Deferred Revenue Expenses	(19,269,045)

**2.0 Tier 2 capital and a breakdown of its components;**

		As on 17.10.2013
<b>Supplementary Capital (Tier 2)</b>		<b>577,933,859</b>
a	General loan loss provision	226,122,011
b	Exchange Equalization Reserve	334,855,548
c	Investment Adjustment Reserve	16,956,300

**3.0 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

**4.0 Deductions from capital**

NPR 19,269,045

**5.0. Total qualifying capital**

NPR 5,158,632,464

**6.0. Capital adequacy ratio**

13.13%

**7.0. Risk weighted exposures for Credit Risk, Market Risk and Operational Risk**

<b>RISK WEIGHTED EXPOSURES</b>		As on 17.10.2013
A	Risk Weighted Exposure for Credit Risk	35,089,213,279
B	Risk Weighted Exposure for Operational Risk	3,941,996,068
C	Risk Weighted Exposure for Market Risk	255,196,902
<b>Total Risk Weighted Exposures (a+b+c)</b>		<b>39,286,406,249</b>

**8.0 Risk Weighted Exposures under each of 11 categories of Credit Risk**

No.	Particulars	RWE as on Ashwin 2070
1	Claims on govt. and central Bank	-
2	Claims on other official entities	-
3	Claims on Banks	8,822,104,001
4	Claims on corporate and securities firm	9,131,506,012
5	Claims on regulatory retail portfolio	2,842,088,830
6	Claim secured by residential properties	1,949,809,349
7	Claims secured by commercial real state	3,725,898,307
8	Past due Claims	271,521,808
9	High risk claims	2,708,562,189
10	Other Assets	546,670,508
11	Off Balance sheet Items	5,091,052,276
<b>Total</b>		<b>35,089,213,279</b>

**9.0 Total risk weighted exposure calculation table**

Form No. 2: Risk Weighted Exposure For Credit Risk

S.N.	A. Balance Sheet Exposures	Book Value a	Specific Provision b	Eligible CRM c	Net Value d=a-b-c	Risk Weight e	Rs.
							Risk Weighted Exposures f=d*e
1	Cash Balance	853,827,617	-	-	853,827,617	0%	-
2	Balance With Nepal Rastra Bank	8,272,336,848	-	-	8,272,336,848	0%	-
3	Gold	-	-	-	-	0%	-
4	Investment in Nepalese Government Securities	2,166,712,986	-	-	2,166,712,986	0%	-
5	All claims on Government of Nepal	138,807,033	-	-	138,807,033	0%	-
6	Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
7	All claims on Nepal Rastra Bank	-	-	-	-	0%	-
8	Claims on Foreign Government and Central Bank (ECA 0-1)	-	-	-	-	0%	-
9	Claims on Foreign Government and Central Bank (ECA - 2)	-	-	-	-	20%	-
10	Claims on Foreign Government and Central Bank (ECA - 3)	-	-	-	-	50%	-
11	Claims on Foreign Government and Central Bank (ECA 4-6)	-	-	-	-	100%	-
12	Claims on Foreign Government and Central Bank (ECA - 7)	-	-	-	-	150%	-
13	Claims On BIS, IMF, ECB, EC and on Multilateral Development Banks (M	-	-	-	-	0%	-
14	Claims on Other Multilateral Development Banks	-	-	-	-	100%	-
15	Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	20%	-
16	Claims on Public Sector Entity (ECA 2)	-	-	-	-	50%	-
17	Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	100%	-
18	Claims on Public Sector Entity (ECA 7)	53,170,000	53,170,000	-	-	150%	-
19	Claims on domestic banks that meet capital adequacy requirements	680,247,608	-	-	680,247,608	20%	136,049,522

20	Claims on domestic banks that do not meet capital adequacy requirements	45,137,778	-	-	45,137,778	100%	45,137,778
21	Claims on foreign bank (ECA Rating 0-1)	4,294,530,218	-	-	4,294,530,218	20%	858,906,044
22	Claims on foreign bank (ECA Rating 2)	-	-	-	-	50%	-
23	Claims on foreign bank (ECA Rating 3-6)	7,776,449,000	-	-	7,776,449,000	100%	7,776,449,000
24	Claims on foreign bank (ECA Rating 7)	-	-	-	-	150%	-
25	Claims on Foreign bank incorporated in SAARC Region operating with a	27,808,291	-	-	27,808,291	20%	5,561,658
26	Claims on Domestic Corporates	9,296,575,322	1,774,129	163,295,181	9,131,506,012	100%	9,131,506,012
27	Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	20%	-
28	Claims on Foreign Corporates (ECA 2)	-	-	-	-	50%	-
29	Claims on Foreign Corporates (ECA 3-6)	-	-	-	-	100%	-
30	Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-
31	Regulatory Retail Portfolio (Not Overdue)	3,789,977,103	525,330	-	3,789,451,773	75%	2,842,088,830
32	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
33	Claims secured by residential properties	3,043,174,508	36,483	-	3,043,138,025	60%	1,825,882,815
34	Claims not fully secured by residential properties	-	-	-	-	150%	-
35	Claims secured by residential properties (Overdue)	88,661,661	32,082,727	-	56,578,935	100%	56,578,935
36	Claims secured by Commercial real estate	3,725,944,386	46,080	-	3,725,898,307	100%	3,725,898,307
37	Past due claims (except for claim secured by residential properties)	211,134,851	30,120,313	-	181,014,538	150%	271,521,808
38	High Risk claims	1,780,357,583	16,851	49,974,772	1,730,365,959	150%	2,595,548,939
39	Investment in equity and other capital instruments of institutions listed in the stock exchange	50,500,000	21,375,000	-	29,125,000	100%	29,125,000
40	Investment in equity and other capital instruments of institutions not listed in the stock exchange	58,925,500	3,000,000	-	55,925,500	150%	83,888,250
41	Staff loan secured by residential property	112,245,999	-	-	112,245,999	60%	67,347,600
42	Interest Receivable/claim on government securities	9,363,313	-	-	9,363,313	0%	-
43	Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
44	Other Assets (as per attachment)	1,249,494,814	702,824,306	-	546,670,508	100%	546,670,508
	<b>Total</b>	<b>47,725,382,421</b>	<b>844,971,220</b>	<b>213,269,953</b>	<b>46,667,141,249</b>		<b>29,998,161,003</b>

S.N.	B. Off Balance Sheet Exposures	Gross Book Value a	Specific Provision b	Eligible CRM c	Net Value d=a-b-c	Risk Weight	RWE f=d*e
1	Revocable Commitments	892,283,593	-	-	892,283,593	0%	-
2	Bills Under Collection	205,425,325	-	-	205,425,325	0%	-
3	Forward Exchange Contract Liabilities	2,382,422,115	-	-	2,382,422,115	10%	238,242,211
4	LC Commitments With Original Maturity Up to 6 months (domestic counterparty)	2,406,588,304	-	541,477,078	1,865,111,226	20%	373,022,245
	Foreign Counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
	Foreign Counterparty (ECA Rating 2)	-	-	-	-	50%	-
	Foreign Counterparty (ECA Rating 3-6)	-	-	-	-	100%	-
	Foreign Counterparty (ECA Rating 7)	-	-	-	-	150%	-
5	LC Commitments With Original Maturity Over 6 months (domestic counterparty)	314,504,391	-	50,100,307	264,404,084	50%	132,202,042
	Foreign Counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
	Foreign Counterparty (ECA Rating 2)	-	-	-	-	50%	-
	Foreign Counterparty (ECA Rating 3-6)	-	-	-	-	100%	-
	Foreign Counterparty (ECA Rating 7)	-	-	-	-	150%	-
6	Bid Bond, Performance Bond and Counter Guarantee (domestic counterparty)	272,135,278	-	139,089,452	133,045,826	50%	66,522,913
	Foreign Counterparty (ECA Rating 0-1)	4,391,735,874	-	3,424,545,962	967,189,912	20%	193,437,982
	Foreign Counterparty (ECA Rating 2)	4,344,529,314	-	2,117,556,909	2,226,972,405	50%	1,113,486,202
	Foreign Counterparty (ECA Rating 3-6)	523,893,042	-	-	523,893,042	100%	523,893,042
	Foreign Counterparty (ECA Rating 7)	6,293,760	-	-	6,293,760	150%	9,440,640
7	Underwriting commitments	-	-	-	-	50%	-
8	Lending of Bank's Securities or Posting of Securities as collateral	-	-	-	-	100%	-
9	Repurchase Agreements, Assets sale with recourse	-	-	-	-	100%	-
10	Advance Payment Guarantee	3,037,756,368	-	2,094,232,912	943,523,457	100%	943,523,457
11	Financial Guarantee	8,000,000	-	400,000	7,600,000	100%	7,600,000
12	Acceptances and Endorsements	374,528,819	-	12,211,307	362,317,512	100%	362,317,512
13	Unpaid Portion of Partly paid shares and Securities	-	-	-	-	100%	-
14	Irrevocable credit commitments (short term)	2,969,317,940	-	84,795,861	2,884,522,079	20%	576,904,416
15	Irrevocable Credit commitments (long term)	8,460,000	-	-	8,460,000	50%	4,230,000
16	Claims on foreign bank incorporated in SAARC region operating with a buffer of	-	-	-	-	20%	-
17	Other Contingent Liabilities	836,218,402	-	289,988,790	546,229,612	100%	546,229,612
18	Unpaid Guarantee Claims	-	-	-	-	200%	-
	<b>Total</b>	<b>22,974,092,526</b>	<b>-</b>	<b>8,754,398,577</b>	<b>14,219,693,949</b>		<b>5,091,052,276</b>
	<b>Total RWE for Credit Risk Before Adjustment (A) +(B)</b>	<b>70,699,474,947</b>	<b>844,971,220</b>	<b>8,967,668,530</b>	<b>60,886,835,198</b>		<b>35,089,213,279</b>
	<b>Adjustments under Pillar-II</b>						
	Add: 10% of the loan and facilities in excess of Single Obligor Limits (6.4 a 3)	-	-	-	-	-	-
	Add: 1% of the contract (sale) value in case of the sale of credit with recourse (6.4 a 4)	-	-	-	-	-	-
	<b>Total RWE for Credit Risk (After Bank's adjustments of Pillar II)</b>	<b>70,699,474,947</b>	<b>844,971,220</b>	<b>8,967,668,530</b>	<b>60,886,835,198</b>		<b>35,089,213,279</b>

#### 10.0 Amount of NPAs (both Gross and Net)

##### 10.1 Restructure/Reschedule Loan

· Nil

##### 10.2 Substandard loan

· Gross value Rs. 85,634,246, Net values Rs. 64,225,684

##### 10.3 Doubtful Loan

· Gross value Rs. 19,168,215, Net value Rs 9,584,108

##### 10.4 Loss Loan

· Gross value Rs.85,005,115, Net value: NIL

#### 11.0 NPA Ratio

##### 11.1 Gross NPA to Gross Advances

0.83%

##### 11.2 Net NPA to Net Advances

0.33%

#### 12.0 Movement of NPA

∅ Upward movement of Rs. 12,539,377 during the quarter.

#### 13.0 Write off of loans & Interest suspense

∅ Loans Write off as of 17th Oct 2013 is Rs. 13,282,707 and interest suspense balance is Rs 143,980,984.

#### 14.0 Movement in Loan loss provisions and interest suspense

Upward movement in Loan Loss Provisions of Rs. 34,362,053 during the quarter.

Upward movement in Interest suspense of Rs. 250,999 during the quarter.

#### 15.0 Detail of additional Loan Loss provision

- Provisions due to growth in the volume have been added. No major additional provisions have been made.

#### 16.0 Segregation of investment portfolio into Held for trading, Held to maturity and Available for sale category

Investment Portfolio	Net Amount (NPR)
Held For Trading	NIL
Held To Maturity	12,650,092,740
Available For Sale	103,425,500

## **17.0 Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable; and**

### **Board and Senior Management Oversight**

Bank management is responsible for understanding the nature and level of risk taken by the Bank and relating the risk to the capital adequacy level. The Country Risk Committee (CRC) reviews the Credit Risk, Operational Risk, Market Risk and Reputational Risk; analyzes the trend, assesses the exposure impact on capital and provides a summary report to the Management Committee.

In respect of operational risk it is managed by CRC, which exercises oversight of the Bank's operational risk exposures to ensure that it is managed in a manner consistent with the Risk Management Framework. The responsibility for daily management of Operational Risk exposures rests with Consumer Banking (CB) and Wholesale Banking (WB). Head of Operational risk have been appointed in both the business to ensure that the Operation Risk (OR) framework is implemented and that OR exposures are effectively controlled. Finance checks the capital charge on Operational Risk.

With regard to Market Risk, the Financial Markets Operations maintains net open position of all currencies on a daily basis and provides data to Head WB who reviews and analyzes the trend, assesses the exposure impact on capital and provides a summary report to the Management Committee. The net open position report is also discussed at the ALCO.

Management Committee reviews the inputs received from CRC and ALCO and provides a synopsis to the Board along with its view on the risks exposure and the adequacy of capital, for review and noting.

### **Sound Capital Assessment**

In order to ensure a sound capital assessment process, all three risks that have direct impact on the capital adequacy level are managed in a structured manner with clear roles and responsibilities.

Risk Management Framework (RMF) sets out the bank's approach to risk management and the control framework. Through our Risk Management Framework, we manage enterprise-wide risks with the objective of maximizing risk-adjusted returns while remaining within our risk appetite. Roles and responsibilities for risk management are defined under a 'three lines of defense' model. Each 'line of defense' describes a specific set of responsibilities for risk management and control.

- The First Line of defense is that all employees are required to ensure the effective management of risks within the scope of their direct organizational responsibilities.
- The Second Line of defense comprises the Risk Control Owners, supported by their respective control functions. The Second Line is independent of the origination, trading and sales functions to ensure that the necessary balance and perspective is brought to risk/return decisions.
- The Third Line of defense comprises the independent assurance provided by the Group Internal Audit (GIA) function, which has no responsibilities for any of the activities it examines. GIA provides independent assurance of the effectiveness of management's control of its own business activities (the First Line) and of the processes maintained by the Risk Control Functions (the Second Line). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework. The findings from GIA's audits are reported to all relevant management and governance bodies – accountable line managers, relevant oversight function or committee and committees of the Board.

Credit Risk is managed through a framework that sets out policies, procedures and standards covering the measurement and management of credit risk. Credit policies and standards are considered and approved by the Board. Any exception to the credit policies and standards get escalated and approved by the appropriate authorities as stipulated in the policies and standards.

Operational Risk is managed through Operational Risk Framework (ORF).

The Market Risk is managed in line with the Bank's market risk and other related policies, giving due consideration to the prevalent market conditions.

### **Comprehensive assessment of risks**

The Country Risk Committee is responsible for overseeing the effective implementation of the Risk Management Framework, including the clear assignment of the roles and responsibilities of Risk Control Owners for the effective management of risk throughout the Bank.

### **Credit risk**

The credit risk of individual counterparties or groups of connected counterparties as well as at the portfolios of retail customers is assessed and reviewed. The credit risk management covers credit rating and measurement, credit approval, large exposures and credit risk concentration, credit monitoring, and portfolio analysis. All Corporate and Institutional borrowers including SME borrowers, at individual and group level, are assigned internal credit rating that supports identification and measurement of risk and integrated into overall credit risk analysis.

### **Operational Risk**

Operational Risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. We seek to minimize our exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment and measurement, acceptance and monitoring.

Operational Risk Framework (ORF) adopted by the bank provides comprehensive risk management tools for managing operational risk. The Operational Risk Framework (ORF) defines how risks are managed, how Operational Risk policies and controls are assured, how effective governance is exercised as well as the key roles required to manage the underlying processes.

The governance structure of OR is as follows:

- Operational Risk governance ensures consistent oversight across all levels regarding the execution and effectiveness of Operational Risk Framework (ORF).
- Operational risks are identified and graded at the business/unit level. Mitigating controls are put in place and mitigation progress is monitored. These risks are reported in phoenix and tabled in Business/Function Operational Risk Committee (BORC/FORC).
- Business/Function Operational Risk Committees (BORC/FORC) and the risk control owners ensure the effective management of Operational Risk throughout the business/ functions in the country in support of the Group's strategy and in accordance with the Risk Management Framework.
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- BORC/FORC (as a committee) assign ownership, require actions to be taken and monitor progress of risks identified, in addition to confirming the risk grading provided at the business/unit level.
- Country Risk Committee (CRC) ensures the effective management of Operational Risk throughout the country in support of the Group's strategy and in accordance with the Risk Management Framework.
- Country Risk Committee (CRC) accepts operational risks arising in the country that have residual risk ratings which are above 'Low' on the country materiality scale, provided the residual risk rating is low on the Group materiality scale. Risks categorized as Medium, High or Very High on the Group materiality scale are reported to the Country Risk Committee (CRC) for endorsement and escalated to Group Business Operational Risk Committees (BORCs) and Group Operational Risk Committee (GORC) for acceptance.
- The Business / Function Operational Risk Committees (ORCs) at Regional level oversee operational risks within businesses and functions across the Region.
- The Group Operational Risk Committee (GORC) oversees operational risks at Group level.
- Process Governance Committee (PGC) provides global oversight of all material operational risk arising from a given end-to-end product, client or control processes to ensure that they are identified and controlled.

### **Market Risk**

Risks arising out of adverse movements in exchange rates, interest rates, liquidity and equity are covered under market risk management. In line with capital framework prescribed by NRB, the bank focuses on exchange risk management for managing/computing the capital charge on market risk. In addition the interest rate risk, liquidity risk and equity risk are assessed at a regular interval to strengthen market risk management. The market risk is managed within the tolerance limit set by the Board.

### **Other risks**

In addition to the credit, operational, market and liquidity risk, the bank identifies, assesses and monitors strategic and reputational risks at a regular interval. The Board maintains the primary responsibility to establish the strategic direction of the Bank. The Country Risk Committee and MANCO are also responsible for the management of reputational risk.

### **Monitoring and Reporting**

All risks, including credit, operational and market risks are identified, escalated, monitored and mitigated to the satisfaction of the Risk Type Owner. The Risk Type Owner is responsible for ensuring that risks are adequately identified, escalated monitored and mitigated. The bank has adequate system for monitoring and reporting risk exposures and assessing how the changing risk profile affects the need for capital. The Country Risk Committee reviews and assesses the credit risk, operational risk, reputational risk, market risk, etc and provides a report to the Management Committee.

### **Internal Control Review**

The Bank is committed to managing risk and controlling its business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations and enhance resilience to external events.

The effectiveness of the Bank's internal control system is reviewed regularly by the Board, its committees, Management and Internal Audit. The Audit Committee has reviewed the effectiveness of the internal control system during the FY 2068/69 and reported on its review to the Board. The Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Bank through its program of business/unit audits. The Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. Internal Audit reports regularly to the Audit Committee. The findings of all adverse audits are also notified to the Chief Executive Officer and Business Heads for immediate corrective actions.