

Disclosure under Basel II capital accord of Nepal Rastra Bank

(As per clause 7.4(b) of the New Capital Accord As at Second Quarter End (Poush, 2068))

1.0 Tier 1 capital and a breakdown of its components;

		As on 13.01.2012
Core Capital (Tier 1)		3,872,598,759
a	Paid up Equity Share Capital	1,610,168,000
b	Proposed Bonus Equity Share	-
c	Statutory General Reserves	1,636,325,305
d	Retained Earnings	96,657,112
e	Un-audited current year cumulative profit	555,170,962
f	Less : Deferred Revenue Expenses	(26,687,398)

2.0 Tier 2 capital and a breakdown of its components;

		As on 13.01.2012
Supplementary Capital (Tier 2)		523,840,899
a	General loan loss provision	189,214,254
b	Exchange Equalization Reserve	259,193,885
c	Investment Adjustment Reserve	522,500
d	Other Reserve (Deferred Tax Reserve)	74,910,260

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 25,722,620

5.0. Total qualifying capital

➤ NRs 4,396,439,658

6.0. Capital adequacy ratio

➤ 13.81%

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

RISK WEIGHTED EXPOSURES		As on 13.01.2012
A	Risk Weighted Exposure for Credit Risk	28,087,166,097
B	Risk Weighted Exposure for Operational Risk	3,461,856,844
C	Risk Weighted Exposure for Market Risk	279,878,336
	Total Risk Weighted Exposures (a+b+c)	31,828,901,277

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

No.	Particulars	RWE as on Poush 2068
1	Claims on govt. and central Bank	-
2	Claims on other official entities	1,628,725,067
3	Claims on Banks	7,088,294,212
4	Claims on corporate and securities firm	4,326,938,080
5	Claims on regulatory retail portfolio	3,451,325,223
6	Claim secured by residential properties	1,739,353,993
7	Claims secured by commercial real state	3,289,336,795
8	Past due Claims	352,614,110
9	High risk claims	1,396,474,288
10	Other Assets	570,275,766
11	Off Balance sheet Items	4,243,828,564
	Total	28,087,166,097

9.0 Total risk weighted exposure calculation table

Form No. 2: Risk Weighted Exposure For Credit Risk

Rs.

S. N.	A. Balance Sheet Exposures	Book Value a	Specific Provision b	Eligible CRM c	Net Value d=a-b-c	Risk Weight e	Risk Weighted Exposures f=d*e
1	Cash Balance	513,825,949	-	-	513,825,949	0%	-
2	Balance With Nepal Rastra Bank	2,337,727,059	-	-	2,337,727,059	0%	-
3	Gold	-	-	-	-	0%	-
4	Investment in Nepal Government Securities	11,600,251,212	-	-	11,600,251,212	0%	-
5	All claims on Government of Nepal	361,504,453	-	-	361,504,453	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 Rating 0-1)	-	-	-	-	0%	-
9	Claims on Foreign Government and Central Bank (ECA Rating 2)	-	-	-	-	20%	-
10	Claims on Foreign Government and Central Bank (ECA Rating 3)	-	-	-	-	50%	-
11	Claims on Foreign Government and Central Bank (ECA Rating 4-6)	-	-	-	-	100%	-
12	Claims on Foreign Government and Central Bank (ECA Rating 7)	-	-	-	-	150%	-
13	Claims On BIS, IMF, ECB, EC and on Multilateral Development Banks (MDBs) recognised by the framework.	-	-	-	-	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)	1,085,816,711	-	-	1,085,816,711	150%	1,628,725,067
19	Claims on domestic banks that meet capital adequacy requirements	8,487,341	-	-	8,487,341	20%	1,697,468
20	Claims on domestic banks that do not meet capital adequacy requirements	43,554,208	-	-	43,554,208	100%	43,554,208
21	Claims on foreign bank (ECA Rating 0-1)	1,643,237,938	-	-	1,643,237,938	20%	328,647,588
22	Claims on foreign bank (ECA Rating 2)	-	-	-	-	50%	-
23	Claims on foreign bank (ECA Rating 3-6)	6,622,959,000	-	-	6,622,959,000	100%	6,622,959,000
24	Claims on foreign bank (ECA Rating 7)	-	-	-	-	150%	-
25	Claims on Foreign bank incorporated in SAARC Region operating with a buffer of 1% above their respective regulatory capital requirement	457,179,741	-	-	457,179,741	20%	91,435,948
26	Claims on Domestic Corporates	5,897,759,702	-	1,570,821,622	4,326,938,080	100%	4,326,938,080
27	Investment on Foreign Corporates (ECA rating 0-1)	-	-	-	-	20%	-
28	Investment on Foreign Corporates (ECA rating 2)	-	-	-	-	50%	-
29	Investment on Foreign Corporates (ECA rating 3-6)	-	-	-	-	100%	-
30	Investment on Foreign Corporates (ECA rating 7)	-	-	-	-	150%	-
31	Regulatory Retail Portfolio (Not Overdue)	4,601,766,965	-	-	4,601,766,965	75%	3,451,325,223
32	Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-

33	Claims secured by residential properties	2,795,362,826	-	-	2,795,362,826	60%	1,677,217,696
34	Claims not fully secured by residential properties	-	-	-	-	150%	-
35	Claims secured by residential properties (Overdue)	62,136,299	1	-	62,136,298	100%	62,136,298
36	Claims secured by Commercial real estate	3,303,586,795	14,250,000	-	3,289,336,795	100%	3,289,336,795
37	Past due claims (except for claim secured by residential properties)	242,974,730	7,898,657	-	235,076,073	150%	352,614,110
38	High Risk claims	1,003,757,737	52,135,737	95,981,308	855,640,692	150%	1,283,461,038
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	Other Assets (as per attachment)	1,657,044,605	1,086,768,839	-	570,275,766	100%	570,275,766
Total		44,348,358,771	1,185,428,234	1,666,802,930	41,496,127,606		23,843,337,534

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	-	-		-	0%	-
2	Bills Under Collection	250,769,800	-		250,769,800	0%	-
3	Forward Exchange Contract Liabilities	2,818,375,886	-		2,818,375,886	10%	281,837,589
4	LC Commitments With Original Maturity Up to 6 months (domestic counterparty)	2,317,654,094	-	533,450,700	1,784,203,395	20%	356,840,679
	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	L C Commitments With Original Maturity Over 6 months (domestic counterparty)	219,673,094	-	147,121,290	72,551,805	50%	36,275,902
	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)	247,928,783	-	17,570,037	230,358,746	50%	115,179,373
	Foreign Counterparty ECA Rating 0-1	1,262,276,439	-	827,857,971	434,418,469	20%	86,883,694
	Foreign Counterparty ECA Rating 2	2,553,183,425	-	1,276,591,713	1,276,591,713	50%	638,295,856
	Foreign Counterparty ECA Rating 3-6					100%	

		17,215,526	-	-	17,215,526		17,215,526
	Foreign Counterparty ECA Rating 7	3,264,778	-	-	3,264,778	150%	4,897,167
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	592,653,409	-	359,930,132	232,723,278	100%	232,723,278
11	Financial Guarantee	-	-	-	-	100%	-
12	Acceptances and Endorsements	1,373,240,554	-	11,268,501	1,361,972,053	100%	1,361,972,053
13	Unpaid Portion of Partly paid shares and Securities	-	-	-	-	100%	-
14	Irevocable credit commitments (short term)	1,745,242,226	-	181,038,888	1,564,203,337	20%	312,840,667
15	Irrevocable Credit commitments (Long Term)	-	-	-	-	50%	-
16	Other Contingent Liabilities	944,144,675	-	145,277,894	798,866,780	100%	798,866,780
17	Unpaid Guarantee Claims	-	-	-	-	200%	-
	Total	14,345,622,689	-	3,500,107,125	10,845,515,564		4,243,828,564
	Total RWE for Credit Risk Before Adjustment (A) +(B)	58,693,981,460	1,185,428,234	5,166,910,056	52,341,643,171		28,087,166,097
	Adjustments under Pillar-II						
	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)	-	-	-	-	-	-
	Total RWE for Credit Risk (After Bank's adjustments of Pillar II)	58,693,981,460	1,185,428,234	5,166,910,056	52,341,643,171	-	28,087,166,097

10.0 Amount of NPAs (both Gross and Net)

10.1 Restructure/Reschedule Loan

- Nil

10.2 Substandard loan

- Gross value Rs. 164,358,089, Net values Rs. 123,268,567

10.3 Doubtful Loan

- Gross value Rs. 8,994,939, Net value Rs 4,497,470

10.4 Loss Loan

- Gross value Rs. 28,697,403, Net value: NIL

11.0 NPA Ratio

11.1 Gross NPA to Gross Advances

- 1.06%

11.2 Net NPA to Net Advances

- 0.68%

12.0 Movement of NPA

- Upward movement of Rs. 61,918,908 during the quarter.

13.0 Write off of loans & Interest suspense

➤ Loans Write off during the quarter is Rs. 37,875,619 and interest suspense balance as on quarter end is Rs 184,722,492.

14.0 Movement in Loan loss provisions and interest suspense

Upward movement in Loan Loss Provisions of Rs.27,598,053 during the quarter.

Downward movement in Interest suspense of Rs. 15,706,371 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	15,957,051,612
Available For Sale	85,050,500

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 Credit Risk Committee reviews the Credit Risk, analyzes the trend, assesses the exposure impact on capital and provides a summary report to the Management Committee.

In respect of operational risk, the Consumer Banking, Wholesale Banking and each Support Function Operational Risk Officer provide operational loss data to Country Operational Risk Officer who in turn analyzes the trend and provides a summary report to the Country Operational Risk Committee (CORC) & the Management Committee. Finance & Strategic Planning 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 summary reports received from CRC, CORC and the HWB 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. For managing the Credit Risk the Country Underwriting Standards, Country Credit Policy, Credit Policy Manual, and Credit Approval Documents have been prepared and implemented. Any exception to the standards get escalated and approved by the appropriate authorities as stipulated in the standards, policy manual and the PDD, with audit trail.

Operational Risk Management & Assurance Framework (ORMAF) has been implemented for managing operational risks. In line with ORMAF, the 3 lines of defense ensure effective management of all operational risks. In the 3 lines of defense, business and functions are the first line which is primarily responsible for managing the risk whilst Risk Control Function (Risk Control Owner and Operational Risk) is the second line to ensure, challenge and validate operational risk management and Group Internal Audit occupy the third line of defense to ensure an independent assurance to the Board and Senior Management on the effectiveness of the risk management.

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 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 borrowers or counterparties as well as at the portfolio level is assessed. The credit review assessment cover risk rating systems, portfolio analysis, large exposures and the risk concentrations. 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, control and monitoring.

Operational Risk Management and Assurance Framework (ORMAF) adopted by the bank provide comprehensive risk management tools for managing operational risk. The Operational Risk Management and Assurance Framework (ORMAF) 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 ORMAF.
- Operational risks are identified and graded at the unit level. Mitigating controls are put in place and mitigation progress is monitored. These risks are reported to the Business Operational Risk Committee (BORC).
- BORC (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 unit level and accept Medium Risk. Risks categorized as High or Very High are reported to the Country Operational Risk Committee (CORC) for endorsement and escalated to Group Business Operational Risk Committees (ORCs) for acceptance of High Risk and Group Operational Risk Committee (GORC) for acceptance of Very High Risk.

- Business Operational Risk Committee (BORC) ensures the effective management of Operational Risk throughout the business in country in support of the Group's strategy and in accordance with the Risk Management Framework.
- Country Operational Risk Committee (CORC) 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.
- The Business / Function Operational Risk Committees (ORCs) at Regional level oversee operational risks within businesses and functions across the Region.
- The GORC oversees operational risks at Group level with the support of the GORA team. The team assesses risks escalated by CORCs and Business / Function ORCs.
- 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 and market risk, the bank identifies, assesses and monitors strategic and reputational risks at a regular interval. While strategic risk is managed by the CEO, the Risk Committee is 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 Risk Committee reviews and assesses the credit risk, operational risk, reputational risk, market risk, etc and provides a report to the Management Committee. Similarly, the CORC also provides Country Operational Risk profile to the Management Committee. All other risks are identified and reported by the respective risk type owner.

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 2067/68 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 reported to the Chief Executive Officer and Business Heads for immediate corrective actions.