



Nepal Rastra Bank,
Assets and Service Management Department
Baluwatar, Kathmandu

Clarification Notice

Date of publication: 2081/09/18

This is to notify all concerned that Nepal Rastra Bank, Baluwatar, Kathmandu, Nepal, has made following clarification on the queries raised by the Consultants on Request for Expression of Interest for **Procurement of Extensive Asset Quality Review (Loan Portfolio Review-LPR) of 10 Commercial Banks of Nepal** (EOI No.: NRB/ASMD/LPR/EOI/01/2081/82) published on www.bolpatra.gov.np/egp dated December 20, 2024 and “The Rising Nepal” dated December 21, 2024.

SN	Page No. in EOI	Clause No.	Clause	Queries raised	Clarification
1.	N/A	N/A	N/A	<p>General Query pertaining to scope of work: As per the EOI issued by NRB we understand that this is a 'consulting engagement' and not an 'audit engagement' and no Assurance/audit opinion is sought from the consultants. As part of this engagement we would primarily deliver the following:</p> <ol style="list-style-type: none">1.) We will study the current policies / procedures of the banks2.) We will review and conduct our analysis taking into consideration the NRB guidelines/ NFRS 9 requirements. (Analysis will be primarily taking into consideration the sampling done/mentioned as part of the engagement).3.) We will provide our observations on the above. <p>Our detailed Report will document the above, it</p>	<p>Please refer to Section C. Objective of Consultancy Services or Brief TOR.</p>

				shall not comment on the accurateness or preciseness of the findings as it will be based on sample selected nor it will provide any assurance of any kind.	
2.	9	Clause C.3	The scope of LPR is to make assessment of loan quality on the basis of NRB's prudential regulations and NFRS/IFRS 9 (NFRS/IFRS if possible subject to data availability) in accordance with international auditing standards.	<p>a) Request to clarify that the Consultant is not to provide audit/assurance but consultancy services. Accordingly, Request to remove the reference to 'in accordance with international auditing standards' in EOI as IAS is relevant for audit/assurance services.</p> <p>b) We also request you to confirm that the expectation in terms of LPR assessment is only to assess and provide consultancy in context of NRB guidelines/NFRS/IFRS 9 and that the consultant is not required to carry out the role of the management.</p> <p>c) No form of Assurance / audit opinion is expected from the consultant.</p>	<p>a), b) Please refer to Section C. Objective of Consultancy Services or Brief TOR, Point No. B and C.</p> <p>c) No Assurance / audit opinion is expected from the consultant neither consultant is required to carry out the role of the management.</p>
3.	9	Clause C.3	The scope of LPR is to make assessment of loan quality on the basis of NRB's prudential regulations and NFRS/IFRS 9 (NFRS/IFRS if possible subject to data availability)	Please confirm which of the participant banks have computed expected credit losses under NFRS 9. This will help in assessing the efforts required for assessment of loan.	All the participants banks are expected to compute the Expected Credit Losses under NFRS 9.
4.	9	Clause B.2.2	Issuance of an overall combined report including overall assessment of impact on banking and financial system of Nepal, along with recommendations	Request to clarify that overall assessment means would be done basis methodology prescribed by NRB.	Overall assessment methodologies is determined by the consultant in consultation with the Client.
5.	10	E.11	Where the Consultants identify, or suspect, violations of law or NRB regulations to have occurred, such violations should be promptly reported to the NRB.	Request you to clarify which laws and regulations are you referring to for identification of frauds, violations etc. Otherwise it would become subjective hence request you to please provide reference of the relevant regulations.	Consultant should report violations of all applicable Nepalese laws and regulations.

6.	9	Clause 5	Qualitative assessment	Please clarify that the term "review" across the EOI does not involve providing any form of assurance or audit opinion. The expectation is only to provide consultancy- assess and provide observations in context of NRB guidelines. (General comment/suggestion for the entire scope mentioned in the EOI).	The requirement of this Loan Portfolio Review is of Consulting Service.
7.	11	Clause G.15	<p>Para G - Review of policies and procedures</p> <p>Consultants, in coordination with NRB, shall provide a comprehensive evaluation of participant banks' capabilities to assess, administer, supervise and control, enforce and recover credit exposures (on-balance sheet and off-balance sheet), as well as participant banks' current credit procedures and organization, including:</p>	<p>We understand that the consultant is not expected to evaluate bank's capabilities but to 'review and provide observations'.</p> <p>Accordingly, this may be substituted as below "In coordination with NRB, the consultant shall review and provide observations on the participant banks' process (based on sample testing) to assess, administer, supervise and control, enforce and recover credit exposures (on-balance sheet and off-balance sheet), as well as participant banks' current credit procedures and organization, including:....."</p> <p>All the requirements in points no 13.1 to 13.16 need to be performed by referring to relevant NRB guidelines only.</p> <p>Please clarify all activities (unless specifically mentioned) need to be performed based on sample testing (sample size to be specified)</p>	Please refer to Section C. Objective of Consultancy Services or Brief TOR, Point No. G. Review of policies and procedures and Point No. H (20).
8.	12	Clause 16	Point no 16 - The Consultant shall analyze and assess the banks' system of assessing the borrower's solvency	We request you to clarify that the consultant is required to 'review and provide observations' for point 14.1 and 14.2 based on sample testing and in accordance with NRB guidelines.	Please refer to Section C. Objective of Consultancy Services or Brief TOR, Point No. G. Review of policies and procedures

9.	16	Clause I	<p>"Para I - Collateral valuation and enforcement Point 27.6- The Consultant should assess and document the quality of appraisal reports (whether prepared internally or by an independent appraiser) and the function/appraiser organization considering.</p> <p>27.3 The Consultant will conduct reappraisals (directly, or by requesting the concerned banks to conduct such reappraisals through independent accredited local valuator) on all individually material exposures. The appraisals of at least one fifth of the sampled collateralized loan files should be reviewed, to ensure that any bias or inaccuracies that may exist in current valuation practices are eliminated. Full reappraisals should be undertaken in cases where material shortfalls have been found in the bank appraisal and Adjusted values should be extrapolated back to the unsampled population. "</p>	<p>We request you to clarify that the consultant is not required to carry out any valuation of collateral; the expectation here would be to review and provide suggestions on the collateral valuation process and methodology taking into consideration the NRB guidelines.</p>	<p>Please refer to Section C. Objective of Consultancy Services or Brief TOR, Point No. I. Collateral valuation and enforcement: 27.3, 27.4, 27.6</p>
10.	18	Clause K.41.5	<p>"Deliverables: Specification of all adjustments deemed necessary by the Consultant(s) based both on local standards as well as international standards, accompanied by brief explanation (i.e. adjustments to asset classifications, accounting and regulatory provisions, collateral</p>	<p>Request you to please clarify which international standards (for e.g. BASEL etc)are you referring to.F12 Also please clarify that the deliverables to be issued, the reporting format for the points mentioned in the deliverables section would be in the consulting format report and not any assurance from the procedures carried out.</p>	<p>Please refer to Section C. Objective of Consultancy Services or Brief TOR, Point No. E. Diagnostic Standards</p>

			appraisals and interest accrual on exposures that are reclassified as non-performing) including a specification of additional adjustments—and associated implications for capital adequacy—that would be required;		
11.	19	Clause K.41.7	Deliverables: an electronic template with (i) standard prudential indicators (e.g. capital adequacy incorporating adjustments suggested by the Consultant, liquidity ratio, NPLs, open net FX position), (ii) template on non performing exposures, and (iii) data on largest exposures, Including exposures to connected clients.	Please clarify whether a excel based spreadsheet/checklist summarizing all the indicators / limits/ thresholds will be sufficient.	Yes
12.	19	Clause K.47	Consultant should prepare and submit single consolidated signed report covering the major findings and issues of all 10 largest banks and policy recommendations on the relevant areas.	The report will be in the form of summarising As-Is situation, identifying the Gaps and providing observations. There will be no form of assurance / advise / accounting opinion.	Please refer to Section C. Objective of Consultancy Services or Brief TOR, Point No. B. Deliverables of the LPR (Point No. 2) Consultant is required to provide policy recommendations on the relevant areas as per point no. 47.
13.	17	Clause J	The proposed composition of each bank's Loan Portfolio Review team responsible for conducting the assessment will be as follows: NRB Team – 2 members	a) Please elaborate on how the joint team of Consultant and NRB is expected to work? b) Will there be allocation of work between the two teams with each team responsible for allocated work? C) What will be precise role of	a)The Joint team comprising of NRB Team and Consultant team will conduct assessment as per the

			Consultant Team – 2 members (1 Team Leader and 1 Team Member)	NRB team - execution of allocated area or review of consultant's work or co-ordination with participant banks?	work plan and methodology of Inception Report prepared in mutual understanding. b) and c) NRB team members will coordinate and assist the Consultant team. The primary responsibility for LPR solely lies upon the Consultant.
14.	20	Clause N	Minimum seven years of international experience of statutory audits or Consultancy services. . (International experience means experiences in all eligible countries apart from Nepal)	a) Request to clarify which all countries are excluded from 'eligible countries' for the purpose of international experience for the consultants. Please provide list of eligible countries. b) Also request if auditing/consulting international entities from India would be considered as international experience?	For the purpose of International Shortlisting eligible countries include: “all Countries.
15.	18	Clause J	For each participant bank, total 120 man days is allocated for a team of 4 members as outlined in point 38. Out of these 120 man days, 80 man days is allocated for quantitative assessment and 40 man days for qualitative assessment of each participant bank. So, approximately 60 man days (one third for qualitative assessment and two third for quantitative assessment) is required from the external consultant for one participant bank for both qualitative and quantitative analysis. Qualitative analysis can be performed by the consultant remotely via an online	Please clarify whether time overruns, if any, will be billable separately? As mentioned in EOI, '(one third for qualitative assessment and two third for quantitative assessment)', which is 66 man days, however it is mentioned 60 man days which does not add up to this calculations. Please clarify the same.	If time overruns, it will not be billable separately. Total Mandays in one participant bank is 120 man days. For consultant team (2 team members), in each participant banks 60 man days is allocated (Qualitative = one third i.e. 20 man days and Quantitative = two third i.e. 40 man days).

			<p>platform or remote workplace.</p> <p>Quantitative assessment of 10 participant banks will be conducted onsite (in the premises of the participant bank), in a single lot, for 10 participant banks simultaneously.</p>		
16.	18	Clause J	<p>For each participant bank, total 120 man days is allocated for a team of 4 members as outlined in point 38. Out of these 120 man days, 80 man days is allocated for quantitative assessment and 40 man days for qualitative assessment of each participant bank. So, approximately 60 man days (one third for qualitative assessment and two third for quantitative assessment) is required from the external consultant for one participant bank for both qualitative and quantitative analysis. Qualitative analysis can be performed by the consultant remotely via an online platform or remote workplace.</p> <p>Quantitative assessment of 10 participant banks will be conducted onsite (in the premises of the participant bank), in a single lot, for 10 participant banks simultaneously.</p>	<p>As per out estimate, expected time on the engagement would be more than 60 mandays per participant bank mentioned in EOI. We understand that the requirement of 60 Man days mentioned in EOI is minimum and the consultant may estimate higher number of hours / man-days and may prepare its budget accordingly. As long as consultant does not exceed 5 months in total for the engagement it should be acceptable. Please confirm.</p>	<p>Please refer to Section C. Objective of Consultancy Services or Brief TOR, Point No. J. Cooperation: Consultant and NRB and Point No. P. Indicative timetable.</p>
17.	31	Clause E	Form 3A and 3B	<p>Request clarity on EOI Form 3(A) and 3(B), whether different assignments are to be entered in 3(A) and 3(B). Please confirm</p>	<p>Please refer to TOR, Evaluation criteria point no. B. The assignments in form 3(A) and 3(B) should indicate the experiences as per the</p>

					experience in the TOR and may overlap.
18.	31	Clause E	Form 5	In case of EOI Form 5 - Qualification of Key Experts, request clarity on details of how many experts are expected in order to obtain full scope as per the EOI Evaluation criteria specified in the EOI.	Please refer to Section C. Objective of Consultancy Services or Brief TOR, Point No. J. Cooperation: Consultant and NRB