



Disclosure under Basel II as on Ashad end 2079

Capital Adequacy Framework, 2007 (updated July 2008) requires making a set of disclosure on the capital adequacy & risk management framework of the bank. Disclosure requirement based on unaudited financial statement as on Ashadend 2079 are as follows.

A. Capital Structure & Capital Adequacy Tier 1 Capital and Breakdown of its Components:

S.N	Particulars	NPR in 000's
a	Paid up Equity Share Capital	37,81,009.01
b	Share Premium	55,109.61
c	Statutory General Reserves	838,832.69
d	Retained Earnings	1874.19
e	Un-audited current year cumulative profit/(loss)	470,002.66
f	Capital Redemption Reserve	
g	Capital Adjustment Reserve	
h	Dividend Equalization Reserves	
i	Other Free Reserve	
j	Less: Goodwill	
k	Less: Deferred Tax Assets	
l	Less: Fictitious Assets	
m	Less: Investment in equity in licensed Financial Institutions	
n	Less: Investment in equity of institutions with financial interests	
o	Less: Investment in equity of institutions in excess of limits	
p	Less: Investments arising out of underwriting commitments	
q	Less: Reciprocal crossholdings	
r	Less: Purchase of land & building in excess of limit and unutilized	33017.00
s	Less: Other Deductions	
	Total Tier 1 Capital	51,13,811.16

2. Tier 2 Capital and Breakdown of its Components :

S.N	Particulars	NPR in 000's
a	Cumulative and/or Redeemable Preference Share	
b	Subordinated Term Debt	
c	Hybrid Capital Instruments	
d	General loan loss provision	497,549.42
e	Exchange Equalization Reserve	218.46
f	Investment Adjustment Reserve	2,500.00
g	Asset Revaluation Reserve	
h	Other Reserves	
	Total Tier 2 Capital	500,267.88

3 Total Qualifying Capital

S.N	Particulars	NPR in 000's
i	Tier 1 Capital [Core Capital]	51,13,811.16
ii	Tier 2 Capital [Supplementary Capital]	500,267.88
Total Capital Fund		56,14,079.04

4 Capital Adequacy Ratio

S.N	Particulars	Percentage
i	Tier I Capital to RWE	13.46%
ii	Total Capital to RWE	14.78%

5. Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments.

The bank has not raised any funds through subordinate term debt including any hybrid capital instruments.

6. Summary of Bank's internal approach to assess the adequacy of capital to support current and future activities

The Bank has formulated Internal Capital Adequacy Assessment Process ('ICAAP') which has a sound and comprehensive policy and process for evaluating the Bank's capital including the overall risk profile, business projections and capital management strategies. It covers the capital management policy of the Bank, set out the process for assessment of the adequacy of capital to meet regulatory requirements, support current and future activities and meet the Pillar I and material Pillar II risks to which the bank is exposed to.

The Integrated Risk Management Policy of the Bank provides the comprehensive stress testing guidelines for credit, market, liquidity and other risk faced by the Bank. Stress testing takes into account extreme but probable scenarios to assess the bank's resilience to adverse circumstances and resultant impact on the Bank's risk profile and capital position. This ensures that the bank has robust and forward looking capital planning and risk management process. Scenario assessment such as the fall in the financial markets, a falling trend in the assets quality, volatile liquidity condition, negative changes in macro-economic factors etc., are taken into consideration while carrying out the stress testing.

B. Risk Exposures

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

S.N	Particulars	NPR in 000's
i	Risk Weighted Exposure for Credit Risk	35,775,918.94
ii	Risk Weighted Exposure for Operational Risk	22,13,294.85
iii	Risk Weighted Exposure for Market Risk	75.10
Total Risk Weighted Exposures before Pillar II adjustment		37,989,288.89



2 Risk weighted exposures under each 11 categories of Credit Risk:

S.N	Particulars	NPR in 000's
i.	Claims on Government & Central Bank	
ii.	Claims on Other Official Entities	
iii.	Claims on Banks	13,86,117.62
iv.	Claims on Corporate and Securities Firms	16,109,731.13
v.	Claims on Regulatory Retail Portfolio	74,22,154.23
vi.	Claims secured by Residential Properties	14,72,849.51
vii.	Claims secured by Commercial Real Estate	71,261.45
viii.	Past Due Claims	37,162.78
ix.	High Risk Claims	77,85,729.56
x.	Other Assets	11,90,939.08
xi.	Off Balance- Sheet Items	389,973.60
Total Credit Risk Weighted Exposures		35,775,918.94

3 Types of eligible credit risk mitigant used and the benefits availed under CRM.

S.N	Particulars	NPR in 000's
i.	Deposits with Banks	841,979.29
ii.	Deposits with other banks/financial institutions	
iii.	Gold	
iv.	Government and NRB Securities	
v.	Guarantee of Government of Nepal	
vi.	Securities/Guarantee of other Sovereigns	
vii.	Guarantee of Domestic Banks	
viii.	Guarantee of Multilateral Development Banks	
ix.	Guarantee of Foreign Banks	
Total Credit Risk Mitigant		841,979.29

4 Total Risk Weighted Exposure calculation table:

S.N	Particulars	NPR in 000's
i.	Risk Weighted Exposure for Credit Risk	35,775,918.94
ii.	Risk Weighted Exposure for Operational Risk	22,13,294.85
iii.	Risk Weighted Exposure for Market Risk	75.10
iv.	Adjustments under Pillar II :	
	3% of gross income for Operational Risk	
	3% of RWE for risk management policies and procedures	
	1% of RWE for disclosure requirement	
Total Risk Weighted Exposure		37,989,288.89



5. Amount of Non-Performing Assets (both Gross and Net)

S.N	Particulars	Gross (in 000's)	Net (in 000's)
i	Re-structure & Reschedule	-	-
ii	Substandard	126,261.42	95,867.95
iii	Doubtful	93,272.25	47,137.87
iv	Bad	147,520.44	1,659.87
	Total Non-Performing Assets	367,053.70	144,665.70

6 NPA Ratios

S.N	Particulars	Percent
i.	Gross NPA to Gross Loan & Advances	0.96
ii.	Net NPA to Gross Loan & Advances	0.38

7 Movement of Non-Performing Assets (Gross)

NPR (000's)

S.N	Particulars	This Year	Last Year	Change
i.	Non-Performing Assets (Full Amount)	367,053.704	318,095.94	48,957.76
ii.	Non-Performing Assets (in %)	0.96	1.27	(0.31)

8 Write off of Loans and Interest Suspense

S.N	Particulars	NPR in 000's
i.	Loan written off during the reporting period	404.10
ii.	Interest written off during the reporting period	2,266.74
	Total amount written off	2,670.84

9. Movement in the Loan Loss Provisions and Interest Suspense.(NPR in 000's)

S.N	Particulars	This Year	Last Year	Change
i.	Loan Loss Provisions	719,937.43	598,745.016	121,192.41
ii.	Interest Suspense	138,613.31	115,722.15	22,891.16

10 Details of Additional Loan Loss Provisions

S.N	Particulars	NPR in 000's
i.	Provisioning for Pass Loans	471,620.91
ii.	Provisioning for Watchlist Loans	25,928.51
iii.	Provisioning for Restructured/Rescheduled Loans	
iv.	Provisioning for Sub-standard Loans	30,393.47
v.	Provisioning for Doubtful Loans	46,134.37
vi.	Provisioning for Bad Loans	145,860.16
vii.	others if any	
	Total amount of additional loan loss provision	719,937.43



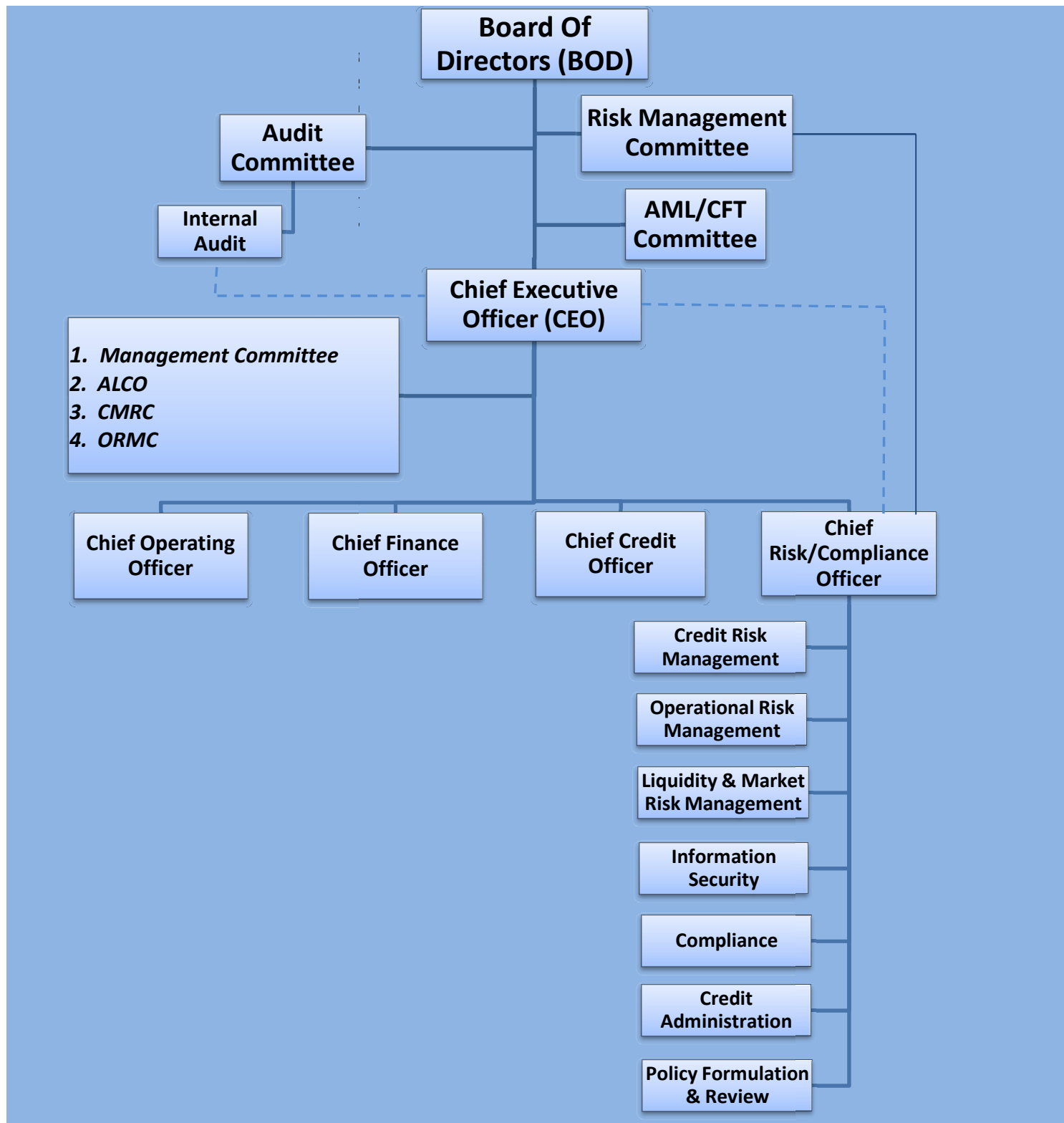
11. Segregation of Investment Portfolio into held for trading, Held to Maturity & Available for Sale.

S.N	Particulars	NPR in 000's
i.	Held for Trading	
ii.	Held to Maturity	627,7095.91
iii.	Available for sale	232,058.05
	Total Investment	6,509,153.96

C. Risk Management Function

1. Risk management in the bank includes risk identification, measurement and assessment, and its objective is to minimize negative effects that risks can have on the financial result and capital of a Bank. Risk management strategies include the transfer of risk, avoidance of risk, reduction of the negative effect of the risk and acceptance of the consequences of a particular risk. The design of a risk management system depends among other things, onitssize, capital structure, complexity of functions, technical expertise and quality of Management Information System(MIS) and is structured to address both banking as well as nonbanking risks to maximize shareholders' value.

The Bank follows the following internal structure for effective Risk Management:



i. Credit Risk

The Bank exercises the following techniques in assessing the credit risk:

- Strict adherence to Board approved policies
- Independent review of credit proposals by Business Development Officers and Risk Management Department
- Well-defined delegated authority levels.
- Effective observance to post disbursal credit risk management techniques.

ii. Operational Risk

The Bank has developed a framework for managing operational risk and evaluating the adequacy of capital covering the bank's appetite and tolerance for operational risk, as specified through the policies for managing this risk, including the extent and manner in which operational risk is transferred outside the bank. It also includes policies outlining the bank's approach to identifying, assessing, monitoring and controlling/mitigating the risk.

iii. Liquidity Risk

The objective of liquidity management is to ensure that bank has sufficient funds to meet its contractual and regulatory financial obligations at all times. Basically the Bank adopts the following norms for liquidity risk management.

- Strict adherence to Basel III and NRB requirement to maintain the liquidity ratios
- Keeping the close eye on the banking and economic scenario.

iv. Foreign Exchange Rate Risk

The following norms are adopted by the bank to manage the exchange rate risk:

- Maintenance of the Net Open Position within the threshold expressed by the Liquidity Management Framework.
- Frequent monitoring of Open positions basis and analysis of the gains/losses.

v. Interest Rate Risk

The following norms are adopted by the bank to manage the interest rate risk:

- Effective cost benefit analysis for the product development
- Regular Net Interest Margin and Credit to Deposit Ratio monitoring
- Gap analysis to check the measures for the mismatches between rate sensitive liabilities and rate sensitive assets.

vi. Capital Risk

The following norms are adopted by the bank to manage the capital risk:

- Meeting the regulatory capital requirements
- Monthly computation of Capital Adequacy Ratios under normal and stress conditions.